FASKEN MARTINEAU

# The Year 2006 in Review
# INTELLECTUAL PROPERTY

The year 2006 can be regarded as a landmark year in Canadian intellectual property (IP) law, due to the breadth and scope of the decisions and legislative changes affecting rights holders in the field of patent, trade-mark and copyright law. Many of these changes reflect the international scope and the prevailing influence of the Internet and other electronic media on IP protection and enforcement. As these developments will continue to have an impact on IP rights holders in 2007 and beyond, Fasken Martineau's Intellectual Property Group is pleased to provide a synopsis of the significant changes involving IP law for the past year.

## PATENTS



## TRADE-MARKS



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## KEY CANADIAN DEVELOPMENTS IN PATENTS

Legislative changes relevant to patents in 2006 provided a much needed solution for the correction of potential errors and omissions claims arising from the inability to retroactively top-up payments from small entity to large entity rates, resulting in deficient fee payments and potential loss of patent rights. As well, important amendments to the *Patented Medicines (Notice of Compliance) Regulations (the NOC Regulations)* came into force. The Canadian Intellectual Property Office (CIPO) also issued a statement regarding its position on the patentability of stem cells and engineered tissues. While judicial activity focused mostly on pharmaceutical patent disputes under the *NOC Regulations*, there were also a number of interesting cases involving other technologies and dealing with particular aspects of Canadian patent law.

## IMPORTANT AMENDMENTS TO THE PATENT ACT AND RULES

**CORRECTING "SMALL" ERRORS** To the surprise of many, the Federal Court of Appeal held in the 2003 *Dutch Industries*[1] case that there was no statutory basis for CIPO accepting retroactive top-up payments to correct deficiencies in past patent fee payments, reversing a well-established practice. The ruling created significant uncertainty about the status and enforceability of many Canadian patents and patent applications. To address concerns raised by patent stakeholders in Canada and provide relief from the effects of the *Dutch Industries* decision, Parliament amended the *Patent Act* to add section 78.6.

***"...patentees and applicants are encouraged to top-up past patent fee payments before the deadline of February 1, 2007..."***

Section 78.6 of the *Patent Act* came into force on February 1, 2006 and provides a 12-month window in which any deficiencies in past patent fee payments can be retroactively corrected. Patent fee payments that had been made at a "small entity" rate should be carefully reviewed by patentees and applicants to ensure that all such payments were properly made at the right entity rate before the expiry of the 12 month grace period. If one or more past patent fee payments were underpaid, such deficiencies must be corrected on or before February 1, 2007. If deficiencies in past patent fee payments remain uncorrected, Canadian patent rights may be irretrievably lost.

Section 78.6 applies only to deficient fee payments made before February 1, 2006. Fees paid after this date cannot be corrected under this provision, and instead must be corrected with payment of the proper fee together with a reinstatement fee, if applicable.

Out of an abundance of caution, and particularly where there is any doubt about whether payments on the basis of "small entity" were properly made, patentees and applicants are encouraged to top-up past patent fee payments before the deadline of February 1, 2007 and pay all future patent fees at the large entity rate.

**AMENDMENTS TO THE NOC REGULATIONS** On October 5, 2006, amendments to the *NOC Regulations* came into force.[2] As was recently noted by the Supreme Court of Canada in *AstraZeneca Canada Inc. v. Canada (Minister of Health)*[3], one of the purposes of the *NOC Regulations* is to prevent the abuse of the early working provisions of the *Patent Act* and the *Rules* under which a manufacturer can work the patented invention within the period of monopoly to the extent necessary to obtain regulatory approval. Under the *NOC Regulations*, a manufacturer that makes use of this early working exception and compares its drug with a patented drug must either await patent expiry before obtaining its NOC or make an allegation justifying immediate market entry that is either accepted by the patentee or upheld by the Federal Court.

In keeping with the purpose of the *NOC Regulations*, the 2006 amendments impose timing, relevance and subject-matter requirements for patents to be added to a patent list maintained on the Patent Register. Essentially, there must now be a link between the subject-matter of a patent on a patent list and the content of the submission. Patents must be relevant to the strength, dosage form or route of administration of the drug that the innovator is approved to sell. Patents can be listed in relation to supplemental new drug submissions only if its purpose is to obtain

approval for a change in use, formulation or dosage form and the patent contains a claim thereto.

The amendments also change the requirements governing when listed patents must be addressed. A generic manufacturer need only address the patents on the register as of the filing of its abbreviated new drug submission (ANDS). Patents added to the register thereafter will not give rise to any such requirement. As a corollary, manufacturers will no longer be allowed to send a notice of allegation before the filing of their submission. Finally, a manufacturer will have to retract its notice of allegation in the event that its submission is either withdrawn by the Minister for non-compliance or cancelled by the manufacturer.

The 2006 amendments signal a further attempt by the Canadian government to strike a balance between ensuring effective patent protection over new and innovative drugs while permitting timely market entry of generic competitors.

**DATA PROTECTION** While not specifically relevant to patent matters, the *Regulations* under the Canadian *Food & Drug Act* were amended concurrently with the *NOC Regulations* to provide increased "data protection" for information submitted pursuant to regulatory approval.[4] The purpose of these amendments is to provide an eight-year term of data protection for innovative drugs. These amendments also prohibit a generic manufacturer, seeking to copy an innovative drug, from filing a new drug submission (NDS) or an ANDS for a six-year period (within the eight-year term). A little more than one month after the amended regulations were enacted, Canada's generic pharmaceutical industry launched a legal action in the Federal Court of Canada challenging these amendments, alleging that the amended regulations exceed what is necessary for Canada to comply with its obligations under the *North American Free Trade Agreement* and the *Agreement on Trade Related Aspects of Intellectual Property Rights.* No decision has yet to be issued on the validity of the amendments.

***"The 2006 amendments signal a further attempt...to strike a balance between ensuring effective patent protection while permitting timely market entry of generic competitors."***

**STEMMING THE TIDE** This summer CIPO issued a cryptic practice notice[5] stating that animals, at any stage of development, including stem cells, are not considered patentable. Until 2002, it was unclear whether "higher life forms", such as animals and plants, were patentable in Canada. In *Commissioner of Patents v. President and Fellows of Harvard College*[6], the Canadian Supreme Court held that "lower life forms" (e.g. bacteria, algae, viruses, etc.) were patentable, but higher life forms *per se* were not. Expanding on the Supreme Court's reasoning in the *Harvard Mouse* case, CIPO took the position that totipotent stem cells are to be considered higher life forms and thus not patentable since they have the potential to give rise to a complete animal. Those stem cells that cannot develop into a complete animal, such as embryonic, multipotent, and pluripotent stem cells, are considered to be patentable.

***"...totipotent stem cells are to be considered higher life forms and thus not patentable..."***

In addition to stem cells, CIPO's practice notice clarifies that organs and tissues are also not patentable. According to CIPO, "[o]rgans and tissues are created by complex processes, elements of which require no human intervention, and do not consist of ingredients or substances that have been combined or mixed together by a person." In contrast, "[a]rtificial organ-like or tissue-like structures, generated substantially through the hand-of-man by combining various cellular components and/or inert components, may be considered … to be compositions of matter and therefore patentable subject-matter."

## NOTEWORTHY PATENT DECISIONS

**NO "EVERGREENING" UNDER THE NOC REGULATIONS** *In AstraZeneca Canada Inc. v. Canada (Minister of Health)*[7], a very recent case dealing with the *NOC Regulations*, the Supreme Court of Canada rendered a unanimous decision against the practice of patent "evergreening".

The facts of the *AstraZeneca* case are as follows: In 1996, Apotex filed an ANDS comparing its omeprazole capsules to AstraZeneca's omeprazole capsules. AstraZeneca's capsules had been marketed in Canada from 1989 to 1996 when they were taken off the market and replaced by omeprazole magnesium tablets. In 1999, AstraZeneca listed two additional patents on the register pertaining to its withdrawn omeprazole capsules. In January 2004, Apotex obtained its NOC without having to address these two additional patents. AstraZeneca immediately moved to quash the NOC granted to Apotex. Apotex argued that the two patents had nothing to do with AstraZeneca's withdrawn version of omeprazole which did not, and could not, have incorporated the technology claimed in the two additional patents.

The Supreme Court agreed with Apotex, and stated that the *NOC Regulations* were only concerned with patents relevant to the product actually copied, not with subsequently listed patents from which a generic manufacturer could receive no benefit. As stated by the Court, the purpose of the *NOC Regulations* is to prevent the abuse of the early working exception under which the generic manufacturer can work the patented invention within the period of monopoly to the extent necessary to obtain a NOC at the time the patent expires. The patents that must be addressed are thus only those that

the generic manufacturer has relied upon in making its product, as deciding otherwise would allow innovative companies to "evergreen" their products indefinitely by adding new patents of marginal significance to the register, regardless of their relevance to the issue of early working and bioequivalence.

This case was decided under the *NOC Regulations* prior to the coming into force of the 2006 amendments. As discussed above, the amended *NOC Regulations* provide that listed patents must be relevant to the strength, dosage form or route of administration of the drug the innovator is approved to sell, therefore addressing the issue before the Supreme Court. Nevertheless, this case may be important in that it reaffirms the purpose of the *NOC Regulations*, which may be useful in interpreting the balance of the 2006 amendments.

***"the mere sale by a generic pharmaceutical drug producer of a medicine subject to a "use" patent is insufficient to constitute infringement"***

**WHAT'S THE "USE"?** With respect to many drugs, "use" claims are commonly employed to overcome or avoid objections based on methods of medical treatment, which are not patentable in Canada. What happens, however, when there are multiple uses, some of which are patented and others are not? The Federal Court of Appeal had two occasions in 2006 to address this issue in the context of the *NOC Regulations*, holding that the mere sale of a product subject to a use patent does not amount to infringement without some further inducement or procurement.

*In Pharmascience v. Sanofi-Aventis Canada Inc.*[8], Aventis produced and marketed ramipril capsules approved for use in the treatment of both hypertension and cardiac insufficiency. In 2001, Pharmascience filed an ANDS for its ramipril capsules comparing its product to that of Aventis. Although the Pharmascience ramipril capsules were therapeutically equivalent to Aventis' product, Pharmascience sought approval for use *only* in the treatment of hypertension and alleged that the patent covering the use of ramipril for cardiac insufficiency would not be infringed. At the trial level, Aventis successfully obtained an order prohibiting the Minister from issuing a NOC to Pharmascience for its ramipril product, on the basis that there would be infringement of the relevant patent by patients if it were issued. Pharmascience then appealed to have the prohibition order set aside.

On appeal, Pharmascience conceded that it was inevitable that patients would take its ramipril capsules for cardiac insufficiency. Aventis argued that, on the basis of this infringement, it should be entitled to the lower Court's prohibition order. The Court of Appeal, however, held that the *NOC Regulations* are not intended to prevent all infringement, only infringement by, or induced or procured by, generic drug manufacturers. As there was no evidence that Pharmascience *per se* would infringe or induce infringement of the use patent, the lower Court's order should be overturned. An application for leave to appeal to the Supreme Court of Canada was filed on September 20, 2006.

In a subsequent decision in November, the Court of Appeal held that the *Pharmascience* case squarely put to rest any issues with regard to inducing or procuring infringement under the *NOC Regulations*. Like the *Pharmascience* case, *Sanofi-Aventis Pharma Inc. v. Apotex*,[9] involved ramipril and its use for cardiac insufficiency and vascular hypertrophy. The Court of Appeal found that the mere sale by a generic pharmaceutical drug producer of a medicine subject to a "use" patent is insufficient to constitute infringement under the *NOC Regulations*. Something more was needed in the way of conduct to make a manufacturer liable in an action for infringement, such as procuring or inducing others to infringe. It was held that there was no such evidence in this case.

The recently enacted amendments to the *NOC Regulations* also attempt to clarify the scope of protection with respect to "use" patents in an effort to resolve any perceived conflicts between the *Pharmascience*[10] case and earlier decisions of the Federal Court of Appeal.[11] More specifically, the 2006 amendments make it clear that a Court should limit its inquiry to acts of infringement that will occur by or at the prompting of the generic manufacturer.

**PATENT ABUSE IN CANADA** The Canadian *Patent Act* includes a regime against abuse of patent rights, in which one of the remedies is the grant of a compulsory license. This regime, however, has only been invoked on rare occasions. In *Brantford Chemicals Inc. v. Canada (Commissioner of Patents)*[12], an appeal of a decision of the Commissioner of Patents, the Federal Court provided further guidance in the interpretation of section 65 (i.e. patent abuse).

After Merck & Co., Inc. had refused to grant Brantford Chemicals Inc., a subsidiary of Apotex Inc., a license to manufacture and sell sodium enalapril-sodium iodide complex, Brantford filed applications under section 65(2)(c) and (d) to obtain a compulsory license from Merck on the basis that: (1) the demand for the patented article was not being met in Canada (i.e. sections 65(2)(c)); and (2) by reason of its refusal to grant a license on reasonable terms, a trade or industry was prejudiced and it was in the public interest that a license be granted (i.e. section 65(2)(d)). While both applications were dismissed by the Commissioner, only the dismissal of the second application was the subject of an appeal to the Federal Court.

The Federal Court held that the first step in establishing abuse of patent rights under section 65(2)(c), is to determine whether there is an actual demand for the patented article. Such demand is not limited to that of a single trader but rather extends to the general demand of the marketplace. This demand must also exist at the time of the application for a compulsory license. If there is such a demand, then the Court must consider whether such demand has

been met to an adequate degree and on reasonable terms.

The Federal Court also highlighted the three elements to be demonstrated in order to establish patent abuse under section 65(2)(d). First, there must be a refusal by the patentee to grant a licence on reasonable terms. Second, there has to be prejudice to the trade or industry in Canada, or the trade of any person or class of persons trading in Canada or the establishment of any new trade or industry in Canada. Finally, it has to be in the public interest that the licence be granted. Of these elements, the Court considered how to interpret the refusal by Merck to grant a license to Brantford. More specifically, the Court found that to recognize such a refusal, Merck must have been provided with sufficient information with respect to licensing conditions and sufficient time to assess whether to grant a voluntary license. In the result, the Federal Court found no abuse because the offer made by Brantford did not meet the requirements of section 65. There was no need to address Brantford's arguments relating to the issues of prejudice to trade or industry, and where the public interest might lie, as these considerations are only engaged once it is established that there has been a refusal to grant a licence.

***"...the appellate court was not prepared to preclude the possibility that obviousness-type double patenting could be applied in circumstances involving multiple inventors..."***

**OBVIOUSNESS-TYPE DOUBLE PATENTING** The *Pharmascience*[13] case, cited above, is also an important decision on the issue of double patenting. Obviousness-type double patenting is often asserted as a ground of invalidity in order to attack a later issued patent where both the earlier and later patents are issued to the same applicant. This judge-made doctrine was developed to discourage the "evergreening" of patents. Evergreening occurs when a patentee attempts to unduly extend the statutory monopoly accorded to a particular invention by having separate patents issued to it for the same invention with different issue dates. To establish obviousness-type double patenting, it must be shown that the claims of the later issued patent are not obviously distinct from the claims of an earlier issued patent. But can obviousness-type double patenting be asserted where the inventors or applicants named in the impugned patent are different from those named in the earlier patent(s)?

In the *Pharmascience* case, the Court of Appeal reviewed the trial judge's finding that the doctrine of obviousness-type double patenting is not limited to cases involving a single inventor. Aventis argued that the doctrine could not apply unless there were multiple patents by the same inventor. In the case at hand, the later issued impugned patent had a different inventor from that of the earlier patents. The lower court found that the inventors of the earlier patents had worked independently of the inventor of the impugned patent. As such, it could not reasonably be inferred that the impugned patent was an attempt to extend unduly the term of the earlier patents. While the appellate court was not prepared to preclude the possibility that obviousness-type double patenting could be applied in circumstances involving multiple inventors, the court had difficulty envisioning such a case. It will be interesting to see whether such a case presents itself before the courts.

***"This Federal Court of Appeal decision will no doubt be cited as authority to permit defendants to assert invalidity of a patent on the basis of withholding prior art from the Patent Office..."***

**PATENT FRAUD NOW AVAILABLE IN CANADA?** Allegations of "Fraud on the Patent Office" have long been a staple of U.S. patent litigation, often relating to a patentee's failure to disclose relevant art to the Patent Office. While Canadian patent law does not impose a similar duty, the Canadian *Patent Rules* do allow a Canadian Examiner to requisition prior art cited in corresponding foreign applications.

Section 73(1)(a) of the *Patent Act* states that an application will become abandoned should an applicant not reply in good faith to any requisition made by an Examiner. The Federal Court of Appeal in *Pason Systems Corp. v. Varco Canada Limited*[14] considered whether the failure to respond to the Examiner's prior art requisition could fall under section 73(1)(a). Pason alleged that Varco's Canadian patent was invalid, as Varco did not respond in good faith to an Examiner's request for art cited in corresponding foreign applications. The trial judge found that Pason's invalidity claim was not proper and ordered the allegation struck.

The Federal Court of Appeal, however, noted that since the enactment of section 73, there have been at least two cases where, after the issuance of a patent, a party successfully argued that the statutory conditions for its issuance had not been met because the applicant had not complied with this section (one of which was *Dutch Industries*[15]). The Court of Appeal decided that the trial judge had erred and that the allegation should remain in the counterclaim.

This Federal Court of Appeal decision will no doubt be cited as authority to permit defendants to assert invalidity of a patent on the basis of withholding prior art from the Patent Office following an Examiner's requisition.

**RELEVANCY OF AN INVENTOR'S NOTES** A recent ruling makes it clear that an inventor's notes are discoverable in certain circumstances. In *Eli Lilly v. Apotex*[16], *Apotex* moved to compel production of inventors' laboratory notebooks in order to facilitate examination of the inventors in a patent infringement action. In the

underlying infringement action, the patentees claimed that Apotex had infringed its patents through the manufacture and sale of the drug nizatidine. Apotex had defended the claim with allegations of non-infringement and counterclaimed that the patents were invalid on various grounds. Apotex requested the inventors' laboratory notebooks in advance of the examination of the inventors and the patentees refused to produce them. On a motion to compel production, the Court found that where the identity of the inventors or the assignment of the patents is contested, the inventors' notebooks can be relevant and must be produced for purposes of discovery.

**CORRECTING INVENTORSHIP** A recent Federal Court decision underscores the importance of correctly determining inventorship while a Canadian patent application is still pending. In *Micromass U.K. Limited v. The Commissioner of Patents*[17], a co-inventor was inadvertently omitted when the Canadian application was filed. The error was discovered during a review of the corresponding U.S. application, but not until after the Canadian patent had issued. There was no issue as to proper inventorship or chain of title since the originally-listed inventor confirmed the inventive contributions of the second and agreed to his addition as a listed inventor. Both inventors also agreed to assign their rights in the patent to Micromass.

Under the *Patent Act*, it is possible to amend inventorship while the patent application is pending provided the Commissioner of Patents is satisfied that the omission was due to inadvertence or mistake. The Commissioner does not, however, have the power to amend inventorship after issuance. As only the Federal Court can do so pursuant to the *Patent Act*, any correction of inventorship after issuance requires a Court order. Fortunately in this case, the Court was satisfied on the basis of the evidence before it that the inventorship should be corrected as requested.

**WHEN IS A PREDICTION SOUND?** It is common for pharmaceutical inventions to rely on the doctrine of "sound prediction" as a basis for establishing utility. This doctrine provides that utility need not be based on actual utility if the following 3 elements are present: (1) a factual basis for the prediction of utility; (2) at the date of the patent application, an articulate and "sound" line of reasoning from which the desired result can be inferred from the factual basis; and (3) a full, clear and exact description of the nature of the invention and the manner in which it can be practised. In 2005, two Federal Court cases reviewed the doctrine of sound prediction but each applied a different "date of the patent", creating uncertainty as to the proper test. Both cases were appealed.

In the lower Court decision of *Aventis Pharma Inc. v. Canada (The Minister Of Health)*[18], the Federal Court considered whether the Canadian filing date or the priority date was the "date of the patent application". According to the *Aventis* case, the doctrine contemplated the use of the Canadian *filing* date for the purposes of assessing the soundness of the prediction. However, in *Pfizer Canada Inc. v. Canada (The Minister Of Health)*[19], the relevant date was held to be the priority date of the Canadian patent.

The 2006 appeal decision in the *Aventis* case[20], held that the date to assess the soundness of the prediction was correctly found to be the Canadian filing date. The *Pfizer* case is still under appeal.

**CAN A "SELECTION" BE PATENTABLE?** A selection patent can be sought where there has been a selection of one or more compounds from a previously discovered group of compounds. In Canada, there has been little jurisprudence on the subject, and the few Canadian cases have relied heavily on more developed U.K. law in the narrow field of selection patents.

Before the lower Court in *Pfizer v. Ratiopharm*,[21] Pfizer attempted to stop the issuance of a NOC for Ratiopharm's amlodipine besylate formulation on the basis of Pfizer's "selection" patent to this salt of amlodipine. Ratiopharm countered that Pfizer's patent was invalid on the basis that the invention was "mere validation", and the trial judge concurred. At issue was whether Pfizer's research was "mere verification" of the properties of the new salt or whether it amounted to an invention entitling Pfizer to a selection patent.

In overturning the trial judge's ruling, the Federal Court of Appeal found that the selection of one specific compound from a larger number of possible compounds and the determination of that specific compound's characteristics is not mere verification. While the Court held that no one is entitled to a selection patent merely by ascertaining the properties of a known substance, investigations involving the discovery of previously unknown qualities of a specific compound that are not attributable to it by virtue of that compound belonging to the larger group qualify for selection patent protection. The Court of Appeal found that Pfizer's new salt of amlodipine besylate was not known and its properties needed to be established.

To meet the statutory utility requirement under the *Patent Act*, the selected compound must also have an advantage over the larger group or class of compounds as a whole. According to the Court of Appeal, the claimed salt had both a special advantage and quality of a special character, in terms of its stability, solubility, non-hygroscopicity and processability that gave rise to a valid selection patent claim. As such, the validity of Pfizer's selection patent was restored on appeal. An application for leave to appeal this decision was filed on September 8, 2006.

## KEY CANADIAN DEVELOPMENTS IN TRADE-MARKS

The Supreme Court of Canada was very active in the trade-mark field, releasing both the *Mattel* and the *Veuve Clicquot* decisions, which at first blush appeared to deal a blow to the protection afforded famous brands, as well as the *Pro Swing* case, a decision on the enforcement of foreign non-monetary judgments. There were also a number of noteworthy 2006 Federal Court cases, including a case involving the ability of a foreign mark to challenge use of a confusingly similar mark in Canada.

## NOTEWORTHY TRADE-MARK DECISIONS

**PROTECTING FAMOUS MARKS** In two ground-breaking trade-mark cases, the Supreme Court of Canada has given new vitality to the protection of famous brands in Canada. It is ironic that, based on the facts, both the producer of the sophisticated VEUVE CLICQUOT™ champagne and the manufacturer of the ubiquitous BARBIE™ doll were unsuccessful in their respective claims.

***"...with enough fame, a brand's footprint could truly extend across vast expanses of product and service categories."***

In *Mattel, Inc. v. 3894207 Canada Inc.,*[22] Mattel sought to prevent the registration of a design mark incorporating the word BARBIE'S in association with restaurant services. Its statement of opposition alleged that the fame of its BARBIE trade-mark, developed essentially through the sale of dolls, was such that consumers would likely be confused into thinking that it was extending its activities to the restaurant business. In *Veuve Clicquot Ponsardin v. Boutique Cliquot Ltee.,*[23] Veuve Clicquot Ponsardin attacked the defendant's trade-mark registration for a clothing boutique on the basis that: (1) the fame developed by its brand in connection with the sale of champagne was such that consumers would either likely be confused into thinking that the defendant's CLIQUOT mark (without the "c" found in Veuve Clicquot's mark) in association with a women's garment store would be related to them; or (2) that the connection created in the minds of consumers was such that depreciation of the substantial goodwill in the VEUVE CLICQUOT trade-mark would result.

In the *Mattel* case, the Supreme Court of Canada first addressed a tangent taken by the Federal Court of Appeal in assessing the likelihood of confusion that had a significant impact on claims made by owners of famous brands. Previous case law appeared to require that a "connection" be established between the products and services of the respective parties, absent which no degree of fame could establish a likelihood of confusion. The Supreme Court acknowledged that the remoteness of the respective products and services of the parties was an important factor to be assessed, however, the Court held that with enough fame, a brand's footprint could truly extend across vast expanses of product and service categories. Nevertheless on the facts before the Court, it was held that the BARBIE mark was not famous enough for patrons of the restaurant services to likely believe that such services were offered by Mattel. In *obiter*, the Court suggested that evidence of diversification of products and services sold with significant success would have been persuasive in altering the verdict. The extensive period of peaceful coexistence of the BARBIE'S™ restaurant and BARBIE™ dolls in the Canadian marketplace without any shred of evidence of actual confusion also influenced the outcome.

Similar reasoning was applied in the *Veuve Clicquot* case to dismiss allegations of likelihood of confusion. The Court, however, also considered whether the defendant boutique's use of the CLIQUOT trade-mark "depreciated the goodwill" of VEUVE CLICQUOT™ under section 22 of the *Trade-Marks Act*. The muddled fifty-year history of this section and the resulting uncertainty as to its true purpose and scope made it dubious terrain for owners of famous brands. The Supreme Court clarified that the concept of depreciation of goodwill was similar to trade-mark dilution claims made in the United States and Europe. Dilution claims typically protect a famous brand against the whittling away of its unique character by third party use in situations where confusion as to source is not in issue. Canadian trade-mark law does not restrict the ability to assert a claim of depreciation of goodwill to owners of famous or even well-known trade-marks, but the Supreme Court pointed out that this claim would give little benefit to owners of brands having developed only modest goodwill because their scope of protection would likely be no

greater than under a likelihood of confusion analysis. The Court also held that depreciation of goodwill can be alleged even if the mark used by the defendant is not identical to the plaintiff's mark. It is sufficient that the distinguishing features of the mark be appropriated. A single letter difference in spelling (in this case the missing "c") was not accepted as a defence. Veuve Clicquot Ponsardin's claim ultimately failed, however, because the evidence did not establish that consumers would make a connection between the CLIQUOT mark displayed in a garment store and the famous VEUVE CLICQUOT mark used in association with champagne. Even if such a connection could be shown, the Court stated that it still would have required evidence of the "depreciation" that Veuve Clicquot Ponsardin claimed would occur because of this association.

***"For foreign injunctive relief to be enforceable in Canada, the territorial scope must be specific and clear..."***

**GETTING INTO THE SWING OF THINGS** The Supreme Court of Canada recently reviewed the enforceability of foreign judgments in *Pro Swing Inc. v. Elta Golf Inc.*[24] Pro Swing Inc. manufactured and sold customized gold clubs and golf club heads under the TRIDENT trade-mark in the United States. Elta Golf Inc. carried on business in Ontario, and offered for sale on its website goods bearing the mark TRIDENT™. Pro Swing filed a complaint in Ohio for trade-mark infringement and the parties entered into a settlement agreement and consent decree. In 2002, Pro Swing brought a motion for contempt of court alleging that Elta Golf had violated the previous U.S. District Court consent decree. Pro Swing then filed to enforce the decree in Ontario. One of the main issues before the Court was whether foreign non-money judgments can be recognized and enforced by Canadian Courts.

The Supreme Court of Canada held that the consent decree and contempt order at issue were not enforceable in Ontario. According to Deschamps J. "… the time is ripe to revise the traditional common law rule that limits the recognition and enforcement of foreign orders to final money judgments. However, such a change must be accompanied by a judicial discretion enabling the domestic court to consider relevant factors so as to ensure that the orders do not disturb the structure and integrity of the Canadian legal system." For foreign injunctive relief to be enforceable in Canada, the territorial scope must be specific and clear, which was found lacking in this case. Since the undertaking was not expressly "worldwide", the consent decree could not be said to clearly apply outside the territory. To interpret the contempt order as applying outside the U.S. would offend the principle of territoriality. According to the Court, "[e]xtraterritoriality and comity cannot serve as a substitute for a lack of worldwide trade-mark protection."

**CAN A MARK KNOWN OUTSIDE CANADA NEGATE DISTINCTIVENESS IN CANADA?** In *Bojangles' International, LLC and Bojangles' Restaurants, Inc. v. Bojangles Café Ltd.*,[25] the Federal Court reviewed the evidentiary threshold necessary to successfully oppose a Canadian trade-mark application on the grounds that it lacks distinctiveness in view of another mark that is not registered or used in Canada. Bojangles' International, LLC and Bojangles' Restaurants, Inc. appealed a 2004 decision of the Trade-Marks Opposition Board rejecting the opposition. The Opponents operated several hundred restaurants under the BOJANGLES trade-mark in the United States but none in Canada and had not registered the mark BOJANGLES here. Bojangles Café Ltd. managed two cafes in Vancouver and had applied to register the trade-mark BOJANGLES CAFÉ in Canada, in association with a variety of food products and restaurant services.

***"...the Opponents had failed to establish that their mark was "significantly", "substantially" or "sufficiently" known "to some extent at least" in Canada, so as to negate the distinctiveness of the applied-for mark."***

The main issue on appeal was whether the Opponents' mark had met the standard of being well-known in at least one area of Canada or widely-known in Canada so as to negate the distinctiveness of the Applicant's mark. The Board dismissed the opposition, holding that the evidence adduced did not support a finding that the Opponents' mark had met this standard.

In support of the appeal, the Opponents filed fresh evidence on the number of visits by Canadians to their website, spillover advertising in magazines circulated in Canada carrying advertisements of the BOJANGLES mark, pictures of highway advertisement signs in the United States featuring the BOJANGLES mark, as well as affidavits and a survey aimed at demonstrating the awareness and reputation of their mark in Canada.

The Federal Court, in upholding the Board's decision, stated that the Opponents had failed to establish that their mark was "significantly", "substantially" or "sufficiently" known "to some extent at least" in Canada, so as to negate the distinctiveness of the applied-for mark. The decision is currently under appeal.

**"CONFUSING" DEVELOPMENTS** In *H-D Michigan, Inc. v. The MPH Group Inc.*,[26] H-D appealed the decision of the Registrar of Trade-marks dismissing its opposition to the MPH Group's trade-mark HARLEYWOOD for use with clothing and restaurant/bar services since, in the Registrar's opinion, it was not confusing with H-D's very well known HARLEY-DAVIDSON and HARLEY trade-marks.

H-D had licensed its marks in Canada to one company, which in turn sub-licensed to other companies for a variety of wares and services, including a license for clothing and another for the operation of restaurant/bars. The Registrar was not persuaded that the licensor had exercised the direct or indirect control of the character or quality of the services provided by the sub-licensees and therefore found that the marks were non-distinctive of H-D with respect to services. The Registrar conceded that if he were wrong on this point he would have found a likelihood of confusion between the marks. Further, the Registrar refused to acknowledge evidence of use by H-D of HARLEYWOOD in its U.S. restaurants, because no reference to this mark was made in the Statement of Opposition.

On appeal, H-D filed fresh evidence of use with respect to restaurant services and the distribution of clothing. H-D further argued that the Registrar could have considered the existence of a U.S. mark as one of the "surrounding circumstances" enumerated on section 6(5) of the *Trade-marks Act*, even though it was not specifically pleaded in the Statement of Opposition. The Federal Court acknowledged the strength of the HARLEY mark as being dominant. The Court also found that there is a marked degree of resemblance between the marks, since H-D's HARLEY mark is entirely contained within MPH's mark HARLEYWOOD. In the result, the Registrar's decision was set aside as the Court did not believe MPH met the onus of demonstrating no likelihood of any confusion with the H-D mark.

**COLOUR AND SHAPE MARKS ARE "ESSENTIALLY WEAK"** Brand name and generic pharmaceutical companies have continued to aggressively litigate rights to the colour and shape of pills as trade-marks. In *Eli Lilly and Company v. Novopharm Limited and the Registrar of Trade-marks*,[27] there was an appeal to the Federal Court from a decision of the Registrar to refuse to register a trade-mark for Eli Lilly's 20 mg PROZAC capsule consisting of pale green and whitish yellow colours applied to the visible surface of the capsule. In the opposition, the Registrar found that Eli Lilly's colour/shape mark was "essentially weak" and that Eli Lilly had failed to discharge the heavy burden of establishing distinctiveness. Eli Lilly appealed to the Federal Court but the appeal was dismissed because the Court found that the Registrar had reached a reasonable decision on the basis of the evidence before it. Since no significant new evidence was introduced, there was nothing to support Eli Lilly's appeal for a *de novo* review.

## KEY CANADIAN DEVELOPMENTS IN COPYRIGHT

Similarly to patents and trade-marks, 2006 saw several important developments in Canadian copyright law. Of particular note, the Supreme Court of Canada addressed the issue of reproduction of freelance newspaper articles in electronic databases, while the Canadian Copyright Board established royalties for ringtones. In addition, the Federal Court reviewed statutory damage claims under the *Copyright Act* and jurisdictional issues involving the Internet.

## NOTEWORTHY COPYRIGHT DECISIONS

***"...the Supreme Court of Canada in Robertson v. Thompson Corporation found that the right to reproduce a collective work...under the Copyright Act does not carry with it the right to republish freelance articles as part of an entirely different collective work such as those found in an electronic database."***

**DECONTEXTUALIZATION IN ELECTRONIC DATABASES** In a case that may have a far reaching impact on the way news is disseminated in this information age, the Supreme Court of Canada in *Robertson v. Thompson Corporation*[28] found that the right to reproduce a collective work, such as a newspaper, under the Copyright Act does not carry with it the right to republish freelance articles as part of an entirely different collective work such as those found in an electronic database.

Ms. Robertson initiated a class action against the publishers of the Globe & Mail on the grounds that they had authorized the electronic reproduction of her two articles without her written consent. The central issue before the Supreme Court was whether newspaper publishers who have received licenses to reproduce freelance articles in their papers are entitled to reproduce the same freelance articles in electronic databases without the consent of and without compensation to the authors.

The Canadian *Copyright Act* establishes two separate but co-existing rights: (1) the copyright that freelance authors hold over their articles; and (2) the copyright of the newspaper publishers who reproduce these articles in a compilation (i.e. the newspaper). Under the provisions of the *Copyright Act*, therefore, a freelancer owns the copyright in his or her own work and a newspaper publisher owns copyright in the compilation of articles presented in the newspaper itself.

According to the Court, the main issue was whether the electronic databases containing the newspaper articles reproduced the newspaper itself, or a substantial part of it, or whether they simply reproduced the original articles in a "decontextualized format". If the database was considered to be a reproduction of a substantial part of the newspaper *per se*, then the copyright held by the publisher would entitle the publisher to make such a reproduction. If, however, the electronic databases reproduced the articles in a way that decontextualized them from the newspaper, and did so without the consent of the authors, then this would constitute copyright infringement by the publisher. To determine whether a substantial part of the protected work was reproduced, the Court found that it is not the quantity but rather the quality and nature of what was reproduced that is to be considered; the essence and originality must be preserved.

By a narrow 5-4 majority, the Court ruled that the decontextualization of the newspaper articles as they appeared in the databases was such that it was not the newspapers that were reproduced but the articles themselves. The electronic databases at issue were viewed as compilations of individual articles presented outside of the context of the collective work from which they originated. The Court therefore concluded that the newspaper publisher needed the consent of the work's author for the electronic reproduction of these articles.

Unfortunately, the Supreme Court's decision did not conclusively address the issues. The newspaper publishers had asserted that there was an implied license to reproduce the articles. Robertson countered that for such an implied license to be valid, it had to be in writing. In considering this, the Supreme Court made a distinction between exclusive licenses and ordinary licenses. The first amounts to an assignment of copyright or of the attributes of copyright and must be set down in writing under the terms of the *Copyright Act*, however, an ordinary license

that is non-exclusive, like that in the present case, can be granted *verbally* and can even be implied, depending on the particular circumstances of each case. The Court found that there was conflicting evidence before the motions judge regarding the scope of such an alleged implied license. As the content of such implied licenses was still a "live issue", the case was sent back for trial to determine whether the freelance authors granted an implied license to the publishers to republish their articles in electronic form.

***"...the Copyright Board determined that ringtones are a "substantial part" of the musical work reproduced since the distinctive elements of a song are used in their creation..."***

**RINGTONES CASH-IN** In a ground-breaking decision, the Copyright Board of Canada recognized the right of the Society of Composers, Authors and Music Publishers of Canada (SOCAN) to collect royalties for the transmission of ringtones.[29] The objectors to SOCAN's proposed tariff had argued that transmitting ringtones does not involve a communication "to the public" within the meaning of the Canadian *Copyright Act*.

First, the Copyright Board determined that ringtones are a "substantial part" of the musical work reproduced since the distinctive elements of a song are used in their creation and stated that an average thirty-second ringtone taken from a two or more minute long melody is a substantial part of the musical work. Second, the Copyright Board established that the transmission of a ringtone constitutes a communication by telecommunication "to the public", holding that the offer to sell musical ringtones to subscribers is no different than an Internet subscription service accessible to a member of the public. The fact that the purchaser receives the ringtone in a private setting does not turn the communication into a private transaction. In this case, communications with identical content sent to different individuals sequentially or repeatedly were found to amount to communications "to the public".

In establishing a royalty rate of 6% of the price paid by the ringtone subscriber, the Copyright Board broke new ground by holding that the value of the communication right should be set at half that of the reproduction right. Further, it established a quarterly royalty cap of $7,500 per license for 2003, and a minimum royalty of 6¢ per ringtone for the years 2004 and 2005. The most astonishing aspect of the decision is that the Copyright Board recognized that, in awarding this royalty, compensation to rights holders for the use of ringtones in Canada would be among the highest in the world. In doing so, the Copyright Board explicitly rejected concerns raised that Canadian suppliers of ringtones would be at a competitive disadvantage in the global marketplace for new media.

**NO PERSONAL LIABILITY FOR NON-PAYMENT OF LEVIES** In the Federal Court decision of *Canadian Private Copying Collective v. 9087-0718 Québec Inc.*,[30] the directors of a closely held company were absolved from liability for non-payment of copyright tariff levies despite a finding that the company's conduct was inexcusable. The directors were the sole shareholders and directors of the defendant company that imported and sold blank CDs. The sale of blank CDs in Canada is subject to the payment of a royalty under the private copy tariff established by the Copyright Board. The Canadian Private Copying Collective filed a claim against the directors and the company for the non-payment of the levies and for the failure to report sales activity in accordance with the tariffs and the *Copyright Act*.

***"...there should be some correlation between actual damages and statutory damages..."***

With regard to the liability of the directors, the Federal Court found no provision in the *Copyright Act* that would enable the Court to hold them personally liable for the payment of the statutorily imposed levy. Any liability of the directors must therefore be based on applicable principles of corporate law that recognize that control in itself is not sufficient to give rise to personal liability. This principle applies equally to closely held corporations. While chastising the company for its "inexcusable" failure to pay the applicable fine, the Court held that personal liability only arises where the director makes a tortious act through his own personal involvement. This was not the case here, where the company failed to pay a debt owed or to file legally required reports with no other facts supporting involvement of the directors. In the end, the Court ordered the Company to pay the levies pursuant to the *Copyright Act* and costs, based on the fact that it had admitted liability and the fact that its failure to pay was inexcusable.

**STATUTORY DAMAGES UNDER THE COPYRIGHT ACT** The Federal Court was given the opportunity to provide guidance on damages under section 38.1 of the *Copyright Act*, a provision that has rarely been considered since its adoption in 1997. Section 38.1 provides for "statutory damages" of not less than $500 or more than $20,000. Where there is more than one work or other subject-matter in a single medium, however, the courts may apply lower amounts if awarding the minimum would result in an amount "grossly out of proportion to the infringement". In *Telewizja Polsat S.A. and Telewizja Polska Canada Inc. v. Jaroslaw Bucholc and Radiopol Inc.*[31], the plaintiffs, who produced and broadcast programming from Poland via satellite in an encrypted form, claimed that the defendants decoded the signal without authorization and made it available in a video-on-demand format for a fee via the Internet. The plaintiffs claimed the maximum statutory damages of $20,000 for each of the 2,009 program clips decoded and made available by the defendants.

Noting a similarity to U.S. law and a lack of jurisprudence to date regarding section 38.1, the Court acknowledged the following principles in assessing statutory damages: (1) there should be some correlation between actual damages and statutory damages; (2) a plaintiff is entitled to statutory damages for each work infringed; and (3) statutory damages are not a bar to punitive damages but punitive damages should not be awarded if deterrence has already been factored in.

***"...the Ontario Court found that either the country of transmission or the country of reception may assume jurisdiction over a transmission linked to its territory."***

The Court found that applying the statutory maximum to each infringed work would yield an "unjust result", as the plaintiffs' loss of revenue was minimal. The need for deterrence was evident, however, and the Court considered evidence of bad faith and the reprehensible conduct of the defendants, as provided by section 38.1(5). The Court awarded $150 per infringed work but declined to allow a further award for punitive damages.

**THE INTERNET AND THE JURISDICTION OF CANADIAN COURTS** In *Disney Enterprises Inc. v. Click Enterprises Inc.*,[32] the Ontario Superior Court considered the issue of when to enforce a foreign judgment awarding damages for copyright infringement and unfair competition. The facts were as follows: Click Enterprises Inc., located in Ontario, operated websites that distributed films to members, some of whom were U.S. residents. As a result, Disney Enterprises Inc. had applied for and been awarded an order from a New York Court. Click Enterprises then challenged the jurisdiction of the U.S. Court.

The Ontario Court applied conflicts of law principles established by Supreme Court of Canada decisions requiring "order and fairness" and a "real and substantial connection" to either the subject matter of the action or the defendant. In this case, the Ontario Court found that either the country of transmission or the country of reception may assume jurisdiction over a transmission linked to its territory. There were reasonable grounds, therefore, for the U.S. Court to accept jurisdiction on the basis of a "real and substantial connection". This connection was further bolstered by Click Enterprise's commercial relationship with the residents of New York. While the Court reviewed the three possible defences available to Click Enterprise, including fraud, failure of natural justice and public policy, it ultimately enforced the award.

## OUR INTELLECTUAL PROPERTY GROUP

**THE FASKEN MARTINEAU INTELLECTUAL PROPERTY GROUP IS GROWING!** Earlier this year, we increased our patent bench strength by adding two patent practitioners to the group: Mark D. Penner and Daniel Polonenko. Mark is a partner in our group with expertise in the acquisition, protection and enforcement of intellectual property rights in the chemical, pharmaceutical and biotechnology areas. Dan is a registered patent agent with 20 years experience in the Canadian biotechnology industry.

Leanne Shaughnessy has also joined the group as an associate, focusing on all aspects of intellectual property prosecution and enforcement.

We have also added Mathieu Gagné, a doctor of laws and lawyer who advises and represents various clients in the health and life sciences sector.

**THINK OF US FOR IP** Comprised of a specialized group of lawyers, patent agents and trade-mark agents, our multidisciplinary group advises clients on all aspects of intellectual property and is dedicated to understanding the technology and business environment of our clients.

Our combined technical training and experience offer a breadth of patent expertise in the life sciences, physical and logical systems, software, business methods, mechanical and electromechanical devices as well as manufacturing systems, methods and processes.

We also have trade-mark lawyers, registered agents and clerks who file and prosecute trade-mark applications in Canada and internationally through an established network of associate law firms. Our trade-mark professionals are also experienced in validity/infringement opinions, availability/clearance reports, litigation and commercial transactions. Professionals in our Intellectual Property Group are active committee members of various legal and industry associations, and frequently present and publish on topics of interest in the field of intellectual property law.

Our IP litigators have extensive tribunal and litigation expertise having litigated on both the provincial and federal levels, and are experienced with all Courts at all levels of common law and civil law, including Quebec, in a wide range of intellectual property disputes.

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## ABOUT FASKEN MARTINEAU

**OVERVIEW** Fasken Martineau is one of Canada's leading national business law and litigation firms. Internationally, our New York and London locations make Fasken Martineau a leader among Canadian firms with an established presence in the two major financial centres of the world and our Johannesburg office makes Fasken Martineau unique, as the only Canadian law firm with an office on the African continent.

Our Mining Group has been ranked Number One globally for two years in a row by Who's Who Legal; the International Who's Who of Business Lawyers. Many of the firm's lawyers are acknowledged leaders in their fields of expertise. Seventy-five of our lawyers are recognized in the Canadian Legal Lexpert Directory. Nineteen are ranked among the 500 leading lawyers in Canada. Fourteen of the firm's partners are cited in the prestigious Chambers Global "The World's Leading Lawyers" Directory. Fasken Martineau is acknowledged for its particular experience in cross-border M&A and securities work, banking and financial services, information technology law and intellectual property, insolvency and restructuring, tax, litigation, labour, estates and trusts, and arbitrations.

**A QUANTUM LEAP ABOVE OUR COMPETITORS** In December 2006, we announced Fasken Martineau's upcoming merge on February 1, 2007 with U.K.'s Stringer Saul LLP, a London-based firm with 37 lawyers that specialize in listing companies on the Alternative Investment Market (AIM), the junior listing arm of the London Stock Exchange. The combined expertise of the two firms in the high technology and life science sectors, as well as AIM, moves Fasken Martineau a "quantum leap" above our Canadian competitors both locally and internationally in the breadth and depth of services we can provide our clients.

Once the merger is complete, Fasken Martineau will have 650 lawyers in Canada, Britain, the U.S. and Africa. The firm provides services in virtually all areas of Canadian law to clients located within Canada and internationally, and in almost all industry sectors. Fasken Martineau also has expertise in both of Canada's legal systems, common law and civil law, and offers services in both English and French.

## ENDNOTES

[1]Barton No-Till Disk Inc. v. Dutch Industries Ltd., 2003 FCA 121. Leave to appeal dismissed.
[2]Canada Gazette
[3]2006 SCC 49
[4]Canada Gazette
[5]Office Practice Regarding Fertilized Eggs, Stem Cells, Organs and Tissues, June 20, 2006.
[6]2002 SCC 76
[7]See Note 3.
[8]2006 FCA 229
[9]2006 FCA 357
[10]See Note 8.
[11]See Procter & Gamble Pharmaceuticals Canada, Inc. v. Canada (Minister of Health), 2002 FCA 290 and AB Hassle v. Canada (Minister of National Health and Welfare), 2002 FCA 421.
[12]2006 FC 1341
[13]See Note 8.
[14]2006 FCA 100
[15]See Note 1.
[16]2006 FC 282
[17]2006 FC 117
[18]2005 FC 1283
[19]2005 FC 1205
[20]2006 FCA 64
[21]2006 FCA 214
[22]2006 SCC 22
[23]2006 SCC 23
[24]2006 SCC 52
[25]2006 FC 657
[26]2006 FC 538
[27]2006 FC 843
[28]2006 SCC 43
[29]Copyright Board of Canada (Ottawa, August 18, 2006).
[30]2006 FC 283
[31]2006 FC 584
[32][2006] O.J. No. 1308

**CO-EDITORS** Mark D. Penner and Leanne Shaughnessy. Any questions or comments regarding this publication as well as requests for reproductions should be directed to the editors.