

# Patent Law Reform in Canada

*Changes proposed by Minister of Consumer and Corporate Affairs stirs controversy, but they are long way from becoming law*

BY DAVID J. FRENCH\*

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Last October 19th marked the end of a one and one half year silence on the part of the Canadian government on the highly contentious issue of reform of the patent law. At that time, the Minister of the Department of Consumer and Corporate Affairs Canada (charged with administering intellectual property legislation) chose the occasion of the annual meeting of the Patent and Trade Mark Institute of Canada (PTIC) in Bermuda to disclose his personal views on the appropriate direction for revision of Canada's patent laws. Unlike the statement released by his predecessor on February 28, 1977, Warren Allmand's address to the PTIC did much more than disclaim aspects of the department's "Working Paper on Patent Law Revision" released June, 1976. Instead, the Bermuda address set out the highlights for total revision of the patent statute. (A copy of that speech follows, beginning on Page 116.

The working paper, along with the "Proposed Patent Law" that accompanied it, raised a storm of protest upon its release. Following largely the views expressed by the Economic Council of Canada in its 1971 "Report on Intellectual and Industrial Property," the Working Paper proposed adoption of a new law that would have provided patentees with a bare minimum of patent protection.

Besides shifting the commencement of the patent term to run from filing, the term would have been shortened to nine years plus a five-year extension for those patentees who arranged for manufacturing (local working) of their invention in Canada. The scope of the right itself would also have been limited.

## Resident Companies

Canadian resident companies would have been free to manufacture for export; the concept of exhaustion of rights by first sale would have been enlarged to permit free importation of goods acquired from affiliates and licensees abroad; patents would no longer apply to the product of a patented process (except to the extent of prohibiting imports to protect local manufacturing in the manner of section 337 of the U.S. Tariff Act); persons holding improvement patents would be entitled to

obtain compulsory licenses under dominant patents; the grounds for compulsory licensing would have been enlarged to cover cases where Canadian licensees were paying higher discriminatory royalties than licensees elsewhere; and high royalties on inventions that had been more than "paid-for." These proposals, along with numerous other provisions gave rise to a continuous stream of protest from patent agents, corporations and trade associations. In all, over 250 letters, briefs, telegrams and submissions were received by the department in response to the working paper.

Prime among the targets for criticism was a proposal that the new patent act would be subject to parliamentary review 10 years after it had come into force. To ensure that such a review would take place the proposed law, in a manner similar to other Canadian statutes, would have suspended the granting of patents after 10 years unless parliament extended or renewed the act. This proposal, along with an opening skeptical 100-page analysis of the function and worth of the patent system to Canada, convinced critics that, in the spirit of the Economic Council report of five years earlier, an attempt was being made to dismantle the patent system in Canada.

## Defuse Statement

The February 24, 1977, statement released by the Minister was primarily directed to defusing this concern. It emphasized that the working paper was an exploratory document, intended to raise issues and focus commentary on revision to the law. The Minister affirmed his personal belief that a "well-designed . . . patent law can and will continue to serve Canada's national interests," and disowned the 10-year review clause, provisions that would have given employees an interest in their inventions, tort liability for false representation in patent disclosures, and the discrimination and "paid-for" grounds for obtaining compulsory licenses. He also announced that his department would make available a 65-page summary of the comments that had been made in respect of the "Proposed Patent Law."

The October statement by Warren Allmand adopted a substantially different tone. The Minister, speaking in his own behalf, positively endorsed a progressive program for revision of Canada's patent laws, outlining the scheme that he intends to take to the Canadian Cabinet for approval as draft legislation. It is apparent from his outline that much of the working paper and Proposed Patent Law has survived, albeit somewhat modified in view of the response thereto.

In outlining the objectives for this law, he cited the five-point summary of the Economic Council, emphasizing that the law should support technology transfer

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in Canada and should not provide for more than a fair Canadian contribution to worldwide research and innovation. In this vein, he endorsed the concept of a split-term patent, allowing that the initial term should be for 14 years running from filing with a six-year extension in cases where the patentee arranges for local working in Canada. The advantage of this concept would be that the onus to arrange for local working would be placed on the patentee.

In Canada's situation, with 95% foreign participation under its patent law, this would provide an incentive for foreign patentees, who presumably have in the first 8 to 10 years acquired some commercial experience in exploiting their technology abroad, to arrange for the transfer of technological know-how to a Canadian user in order to meet the local working requirement and obtain the benefit of a six-year extension to the patent term.

The system would not depend on bureaucratic discretion or the granting of extensions by some tribunal. It would simply require patentees seeking to assert rights after the 14th year to demonstrate the existence of the requisite degree of local working. By way of example, the working paper proposed that regulations would establish that 50% value added in Canada could be presumed to be adequate local working.

In the case of pharmaceuticals, pesticides, herbicides and other controlled products subject to government approval as a precondition to sale, the extension would be granted automatically if approval is obtained within the initial term.

#### Major Initiative

Another major initiative would be the adoption *verbatim* of the criteria for granting a patent established under the European Patent Convention (EPC). This would put the Canadian law on a first-to-file basis, with early publication of applications at 18 months and the right to collect compensation for pregnant use of any invention. Since the technical requirements for documentation established under EPC are compatible with those established for filing under the Patent Cooperation Treaty (PCT), filings in Canada by applicants using PCT for filing elsewhere would be virtually *pro forma*. This increase in convenience for foreign applicants would exist even though Canada does adhere to PCT (unlikely in any event for a number of years).

The advantages of conforming Canadian patenting criteria to EPC and PCT were recited as including convenience to foreigners, the benefit of European jurisprudence and the future possibility of waiving entirely the need for a separate Canadian examination of applications which have been accepted and approved by the European Patent Office. The working paper, which examined this option in detail, pointed out that deferred examination ideally complimented such an arrangement. Parties involved in extended opposition proceedings before the European Patent Office could eventually amend corresponding Canadian applications to conform with the results settled abroad. This would not only reduce the need for expensive patent office examination resources (now running at \$10

million/year) but also likely reduce the extent of litigation in Canada.

Another major proposal would lead to the introduction, in part at least, of the concept of worldwide exhaustion of patent rights. Sales by foreign affiliates of the Canadian patentee would be deemed to have exhausted patent rights in Canada in respect of the specific goods that had been sold. This narrowing of the proposal contained in the working paper (which would have extended exhaustion to sales of goods by arms-length licensees and assignors) was declared to be focused on price discrimination practices by MNEs. The Minister indicated that he did not expect a large inflow of goods under this provision. Instead, it would serve to deter MNEs from setting prices in Canada above the point where the potential for arbitrage would arise. This would allow prices in Canada to exceed foreign prices by the amount of transportation, tariff and distribution costs, but no more.

#### Echoes Proposal

Faintly echoing the 10-year review proposal of the working paper, the Minister indicated that he intended to provide for the collection of essential information on the extent to which patents are being exploited. This data would be gathered at three-year intervals on a sampling basis in conjunction with the payment of constant renewal fees. Data on local working, apart from royalty figures, would be a matter of public record. The data would be collected in the form of punch-card questionnaires and patentees would be urged to comply by the threat of suspension of their rights during any period of default.

A number of other policy initiatives were disclosed. To assuage the drug companies whose patents have been subjected to compulsory licenses to import at an arbitrary 4% royalty (net wholesale price in packaged form), the Commissioner of Patents would be directed to take into consideration the amount of research being carried on in Canada by the patentee, the percentage of development costs that can be directly ascribed to Canadian activity, the level of local manufacturing and extent of exports of the patentee. These considerations would enable the royalty rate to rise toward the ceiling of the amount that would be accepted between a willing licensor and willing licensee.

While this speech sketched out the overall form of a revised patent law for Canada, it left untouched many issues addressed in the working paper. Among these are the proposals respecting:

- Manufacture for export.
- Rights respecting products made by patented processes.
- Compulsory licenses for "complementary technology" in the case of improvement inventions.
- Adoption of the wording of the Community Patent Convention (apart from products of processes) as governing the scope of rights, including rights to restrain contributory infringement.
- The scope of privilege associated with pregrant (prepublication) use under the doctrine of intervening rights.
- The right of infringers to receive notice as a precondition to liability to damages.
- The privileged disposition of infringing wares in the

hands of innocent infringers, either by export or under compulsory license.

-Rendering patent unimpeachable on ground of lack of novelty during the extended term.

-The abolition of licensee Estoppel against challenging patent validity.

-The right to raise a defense based on ancillary violation of competition (antitrust) laws.

-Prohibition of export restraints contained in voluntary licenses.

-Enlargement of the status and role of patent agents to include licensing.

How many of these and other more detailed issues will survive to appear in bill-form before parliament is a question that is being anxiously awaited by the patent profession in Canada. If fully implemented, these proposals could have a devastating effect on the volume of billings of patent agents.

Looking down the line to the day when applications lie unprosecuted in the Canadian Patent Office pending results of proceedings before the EPO, a thoughtful agent with a willingness to learn should look seriously at the prospects for shifting toward the licensing field.

If the split-term proposal becomes law, it is estimated that several thousand foreign patentees

annually will be interested in contacting a prospective licensee in Canada. In view of the technical expertise and extensive commercial contacts maintained by patent agents, they are in an ideal position to provide a new and useful service of benefit to foreign clients and Canadian industry alike.

While the October speech in Bermuda outlined the personal views of a Minister of the present government, these proposals are still a long way from becoming law in Canada. Not only must Mr. Allmand convince his Cabinet colleagues (and Ministers from other departments are subject to significant pressures from groups opposed to these reforms) but the Trudeau government must survive the election that will take place this year. If a Conservative government should replace the Liberals, it is highly uncertain whether the policies developed to date will survive.

Tinkering with the patent law is like amending the Income Tax Act. Both, in their way, affect the extent to which a large number of interested parties are able to pocket profits. It will take a courageous initiative on the part of whichever government ends up in power to go forward with revisions that have significant impact on those interested parties.

**Notes for an Address by  
THE HON. WARREN ALLMAND  
Minister of Consumer and Corporate Affairs Canada  
To the Patent and Trademark Institute of Canada  
Hamilton, Bermuda  
October 19, 1978**

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*Following is the first affirmative statement at Ministerial level on the issue of patent law reform in Canada. A press release in February 1977 specifically disclaimed the proposals in the Patent Working Paper of 1976 to operate a revised law for a test period of 10 years, to allow employees some control over their own inventions, and to base compulsory licenses on a MFL principle.*

*This speech endorses conforming patentability criteria in Canada to those of the European Patent Convention. The term would run from filing for an initial 14-year period, with an extension of six years for patents worked in Canada, either directly or under license. Imports of "genuine" products sold by affiliates anywhere in the world would be free of patent restraints.*

*This is only a ministerial viewpoint. The government has yet to decide whether to prepare legislation on this basis. If it does, it will be at least another year before it will be publicly announced and would not be in effect for at least three years.*  
**DAVID J. FRENCH**

As you know, the process of revising the Patent Act has been evolving for more than three years and I hope finally, it will be introduced into Parliament sometime during the next legislative year.

At the outset, I want to say that the revisions are in line with our desire to build a stronger Canadian economy while at the same time keeping expenditures to a minimum.

The working paper which we published a couple of years ago was intended as a discussion document. To that end it was successful, but in the interim, much debate, compromise and meetings of minds has produced a framework which I feel is legitimate in the context of world patent activity and recognizes the unique features of Canada's economy.

In approaching the question of Patent Law Revision, I bore in mind the five basic criteria outlined by the Economic Council in its Report on Intellectual Property: first, that the Canadian Patent System should encourage invention and other steps in the total innovative process within Canada; second, that it should encourage rapid and effective dissemination of technological information and other technological transfer both within Canada and between the rest of the

world; third, that it should facilitate the making of a fair Canadian contribution, *but no more than that*, to the economic cost of providing appropriate special incentives to research and innovation the world over; fourth, that it should be compatible with Canada's broader strategy of economic development in science policy; and fifth, that the Reformed Patent System should be more efficient while at the same time stabilizing existing overheads.

I firmly believe this revised system would provide ample incentive for patentees who wish to invest in Canada's future. As food for thought, to provide a handy reference in addressing the problem of Patent Law Revision, I have divided the system into two main courses of direction: who can get what patent and for what, and what rights, privileges and obligations are granted to the patentee.

#### Conformity

Essentially what I'm recommending to my Cabinet colleagues is conformity with the European Patent Convention which means, among other things, that the patent would date from the day of application and would be awarded on a first-to-file basis. Applications would be published at 18 months from the priority date or date of application, whichever comes first. There would be an absolute novelty requirement and there would be a statutory definition of non-patentable material including computer programs. There would also be a compulsory system of registration of transfers of title and licensing agreements.

There are really no surprise packages in any of these provisions. As a matter of fact, they were recommended as far back as 1935 by the Royal Commission headed by Mr. Justice Ilesley and by the Economic Council. By adopting the provisions of the European Patent Convention, Canada would essentially be brought into line with that convention and with the Patent Cooperation Treaty. I think that this is a worthwhile step since it would facilitate access by foreigners to our system and allow Canadians to have easier access to foreign systems. We would also be able to gain in the future the benefit of foreign jurisprudence.

Traditionally, the British courts have been the source of much of the legal precedents used in arguing patent cases in Canada. Now that Great Britain has joined the Common Market and adhered to the European Patent Convention with the realignment of its Act in 1977, it is imperative that we bring our act into line so that we can continue to benefit from the jurisprudence in the U.K. Finally, this change in

the "front end" would provide possibilities for economies within the internal operation of the Patent Office, by the enactment on a standby basis of the power to accept foreign searches and foreign examination results.

While I have not decided whether Canada should ratify the Patent Cooperative Treaty, it's important the act be put into position whereby ratification would be facilitated with minimal disruption to our domestic legislation. Now, in approaching the question of rights, privileges and obligations imposed upon patentees who are successful in application for patent protection, I made a conscious decision to deviate from some of the provisions of the European Patent Convention. I did this, mindful of the fact that Canada is in many aspects different from most European countries.

There is an unusually heavy foreign utilization of our patent system, perhaps the highest in the world. And this is matched with an unusually heavy dominance of foreign control over industrial sectors. This, combined with the comment of the Economic Council that the existing act has been a failure in promoting technological transfer, encouraged me to look at the process of revising the Patent Act in an effort to stimulate technological transfer.

Essentially, what I will be proposing is the following: the patent term will be for 14 years with a six-year extension in the cases of local working.

### Comparison

Thus for individual patentees who see fit to invest in plants and equipment in Canada while at the same time utilizing the latest Canadian technology, the strong protection granted by our Patent Act will be equal to or greater than any other jurisdiction. However, for the firm that does not see fit to invest in Canada, that sees the Canadian market as an exclusive export market, the protection of 14 years will be an adequate, fair and just return of contribution by Canada for the development of technology throughout the world.

I think there are three things worth noting with respect to this proposal of 14 plus 6 term of the patent.

First, the Canadian inventor who is probably going to work his invention first in Canada would gain the maximum protection possible. Given the fact that we are constrained by the International Treaty to provide for national treatment, I am assuming that Canadian inventors would be the primary beneficiaries of the six-year extension. Second, the onus would be placed upon the patentee to arrange for local working either by himself or by some Canadian enterprise.

This means that patentees who do not wish to establish their own manufacturing facilities in Canada would be actively looking in the market for Canadian enterprises that can use their patents. It should mean a substantial increase in the marketing of licensing agreements and an expanded area of endeavor for both patent agents and lawyers.

Third, the question of the extension for the additional six years would not require a large bureaucratic establishment as exists in those jurisdictions that do provide extensions. Rather, in Canada after the 14th year and only in those cases where patent rights have to be enforced, the patentee would have to file proof of working before anything can be done by way of enforcement. If, and only if, the court is satisfied as to the evidence of local working, would the matter of possible infringement be settled.

### Renewal Fees

Other changes to this aspect will include a system of constant renewal fees payable every three years. The winners, that is those with the worthwhile patents would continue to pay fees. Thus, more of the burden of running the patent system will be placed on those that benefit the most from the existence of a system. Also failure to renew their patent by payment of fees would give us some indication of which patents are worthwhile and which are not. The deadwood patents would be cleared out and made available to the public.

Logistically, each renewal notice would be accompanied by a simple punch card-size questionnaire asking whether the

patent is being worked, whether it has been licenced, at what royalty and for how long. All of this information (with the exception of the royalty rate which is needed by the commissioner to provide some guidance in determining rates of compulsory licenses) would be part of a public register.

We are using the patent system to collect this information rather than some other data gathering device since so many of the patents granted in Canada are owned or controlled by someone from abroad. To encourage compliance, patent rights would not be enforceable until the fees are paid.

On the other hand, the commissioner would be mandated to pursue a policy of active dissemination of information contained in the Patent Library. He would not be doing novelty searches but rather technology searches — such as informing business what technology is available that might be applied to their particular technology problems.

This system has already been tried out in Sweden and we are presently conducting an experiment of a similar nature in the Prairie provinces. We are hopeful that this would provide easier access to the vast technology which is contained within the patent system.

### Discrimination

Finally, there would be a modification of the privileges accorded a patentee in cases where the owner of a patent is in a position to practice price discrimination against Canadian business and consumers. The patent right of exclusivity would be modified so that when the patented product is bought in normal markets abroad from a firm directly related or controlled by the patentee in Canada, the product may be brought into Canada and not considered to be an infringement.

I do not expect that this fair pricing provision would lead to a vast flow of goods. Goods would only be imported into Canada in those instances where the Canadian price differs by an amount which cannot be shown to be related to the basic foreign price (which already includes the patentee's profit) plus the cost of transportation to Canada, all the relevant tariffs and taxes, and the cost of distribution to Canada. This provision, I think, would mitigate the possibility of price discrimination against Canadian business and consumers.

The fact that such price discrimination could exist was, I think, amply demonstrated in the pharmaceutical industry prior to the 1969 passage of the amendments to the Patent Act.

There are two final points I want to cover in this basic outline of patent revision. First, in the case of some patented goods (pharmaceuticals, pesticides and herbicides), the patent may be of little use until the product is licensed for sale by another government agency. I am proposing that once the product has been so licensed that this be deemed to be local working. In the case of pesticides, herbicides and pharmaceuticals the objective is to get as wide a use of the patented product as possible.

Second, to encourage local manufacturing, research and exportation by the pharmaceutical industry, instructions would be sent to the Commissioner of Patents that when he establishes royalty rates on compulsory licenses, the amount of research carried on in Canada, the percentage of the development cost that can be directly ascribed to Canadian activity, the level of manufacturing and the amount of exports by the patentee should be considered.

In the ideal case the patentee with substantial R&D manufacturing and exports from Canada would receive a royalty rate equivalent to the royalty that will exist in the case of the willing-licensee/willing-licensor. But the basic provisions of the Patent Act as they now exist in relation to pharmaceuticals would continue to remain in force.

At last, these revisions would put Canada into step with international palleets.

### Economies

Domestically, it would permit economies in the operation of both the government and private sector, and it would encourage local working and investment. It would permit a more accurate and continuous evaluation of the system by

both government and nongovernment parties. It would also encourage the dissemination of technological information and indicate Canada's support and belief in the patent system. It would provide a just reward for those that find it worthwhile to invest in Canada.

The revisions mark a substantial modification from the proposals contained in the working paper and have been brought about in large measure by the extensive degree of

consultation that has taken place between the officials in our department and members of the private sector and in particular this institution.

That's important, as was the momentous work performed by Arthur Brook's committee. This dialogue demonstrates clearly that business and government, given mutual problems, will strive to resolve differences in an effort to achieve better results for our country. I sincerely look forward to your continued contribution and positive participation.

## Draft Revisions—Canadian Trademarks Statute

The following are major changes proposed for the Canadian Trade Marks Act, as set out in a bill tabled in the Senate on February 6th, 1979.

The definition of a trademark will no longer be restricted to indicate the manufacturing or selling source of goods or services. Instead, any kind of association, e.g. by way of endorsement, would qualify a symbol as a trademark.

All acts of unfair competition (e.g. trade libel, passing-off, misrepresentations) will only be subject to statutory civil restraint when done in association with a trademark. Common law remedies and criminal prohibitions would remain.

The bill will delete existing provisions that allow registration of a distinguishing guise. Parties wishing to restrain persons imitating a guise would hereafter have to establish a reputation in the guise as under common law.

Registrations may no longer be maintained on the basis of "making known" in Canada, in the absence of use in Canada.

Persons whose marks are well known may, however, oppose registration or seek cancellation of registration for their marks when used by others.

### Comparative Advertising

The statute will clearly permit use of trademarks for comparative advertising, as long as no deceptions or false representations are involved.

Trademarks will no longer be available to block parallel imports from foreign affiliates. Thus, the policy effect of the "exhaustion" principle will be adopted for goods sold by MNEs.

Certification marks will be subject to compulsory licensing as of right for all parties meeting certification standards.

Appellations of origin will be registerable as certification marks. Where appellations are semi-descriptive or generic,

they will be subject to compulsory licensing if standards are met and the use is nondeceptive.

The time for filing oppositions will be enlarged to two months. Costs will also be awarded at the Registrar's discretion.

Registered marks which are confusing with prior registered marks will be cancelable only on the instance of the owner of the prior mark. This will narrow the grounds for expungement available to third parties and infringers.

The term of registrations will be reduced to ten years with renewal based on continuing use.

### Invalidation

Licensing will no longer require the approval of the Registrar under registered-user procedures. A registration will, however, be subject to invalidation if an owner allows his mark to be used under license without adequate quality control. Marks will also be unenforceable for the period of default in filing "particulars" of licensing arrangements.

Use of a trademark by a licensee as part of a corporate name will no longer be grounds for invalidating a registration.

This bill was introduced in the Senate, with the possibility that there would be hearings before a Senate committee. Now that an election has been called, Parliamentary proceedings have ceased. The Department of Consumer and Corporate Affairs, Canada, however, invited written comments on the detailed provisions of this bill by May 31, 1979. It is likely a revised version of this bill may form one of the early pieces of legislation introduced in the fall with the next Parliament, depending on the outcome of the election. The earliest that it could come into effect would be 1980.—  
DAVID J. FRENCH