

Developments In Canada Licensing Law

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*Update on developments in new
Canadian laws relating to
licensing*

The number of decided cases relating to licensing in Canada is very small relative to the United States and other jurisdictions and in the past year there were very few judicial decisions of significance that bear directly or indirectly on the question of licensing in Canada.

But we have seen a number of Canadian statutes enacted or proclaimed in force in the past year that impact on intellectual property generally and licensing in particular. Further, many state legislatures has been introduced that will impact on intellectual property and licensing in general, if passed.

The following is a summary of the legislative and judicial developments impacting licensing in Canada in the last year, including the impact of the recent Free Trade Agreement between Canada and the United States.

PATENTS

Compulsory Licensing for Medicines

A number of Canadian Government proposals initiated in June 1986 made fundamental amendments to the Canadian Patent Act. The first group of the changes will, when proclaimed in force, make Canada a "first-to-file" system and implement in Canada the provisions of the Patent Cooperation Treaty. The second batch of the amendments, which are already operative, has completely overhauled the compulsory licensing provisions for patents related to "medicines."

The following is a summary of the compulsory licensing aspects of the new legislation proclaimed in

force on December 7, 1987:

1. **Exclusivity for 20 years.** The new legislation stipulates a 20-year period of exclusivity against compulsory licensing commencing from the date that the patentee receives approval to market the medicine in Canada, provided that the patentee commences to "completely" or "substantially" supply the Canadian market for that medicine within seven years of receipt of the Notice of Compliance from Health and Welfare Canada, failing which compulsory licensees to manufacture the medicine in Canada would then be available.

2. **Transitional provisions.** The new legislation gives medicines patented as of June 27, 1986, a phased-in period of market exclusivity depending on whether a compulsory license had been granted and the licensee had received a Notice of Compliance at that date. Compulsory license applications filed after June 27, 1986, but before the new legislation was proclaimed in force, would be governed by the transitional provisions in the new legislation.

3. **Patented Medicine Prices Review Board.** To protect Canadian consumers from excessive medicine prices, the new legislation established the Patented Medicine Prices Review Board (Board). The Board can establish price ceilings, if it can be shown that the price of a particular medicine is too high. The failure of a patentee to roll back the price to the set price ceiling may result in revocation of the patent for the invention pertaining to the medicine or any other patent of the patentee that pertains to a medicine, whether granted before or after an order to roll back the price.

4. **Patented Medicine Regula-**

tions regarding the reporting of information relating to medicines and the extent to which patented medicines are imported and developed in Canada took effect on September 27, 1988. The Regulations set out in detail what information must be filed with the newly created Patented Medicine Prices Review Board. The Regulations require filings by all "patentees," which is defined in the Act to include anyone exercising rights under the patent. The definition therefore includes any subsidiaries and licensees who may be manufacturing or selling the patented medicine.

Patentees must file comprehensive data with respect to the prices at which they sell or have sold patented medicines in Canada or in specified other countries since 1985. All patentees are required to file information relating to the amount of their total gross sales of medicines, both patented and unpatented, having a drug identification number (DIN) under the Food and Drug Regulations. Patentees must also report expenditures on research and development carried on by or on behalf of the patentee, together with particulars of the nature and location of these activities.

The Regulations also specify the information to be provided by patentees to establish that any medicine is "invented and developed" in Canada and therefore eligible for exemption from compulsory licensing.

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Compulsory Licensing

There were several cases of interest relating to the compulsory licensing of patents for medicines. In two cases, *American Home Products Corp. v. ICM Canada Ltd.* (1988), 19 C.P.R. (2d) 387, and *Amgen Home Products Corp. v. Amgenchem Ltd.* (1988), 19 C.P.R. (2d) 279, *Takeda Chemical Industries Ltd. v. Amgenchem Ltd.* (1988), 19 C.P.R. (2d) 276, and *Upjohn Co. v. Amgenchem Ltd.* (1988), 19 C.P.R. (2d) 274, it was held that the rule that a 4% royalty rate of 4% for patented medicine licenses cannot be applied arbitrarily. The Commissioner of Patents had to consider all available evidence before setting any royalty rate. However, in another case, *Otsuka Pharmaceutical Co. Ltd. v. Takeda Chemical Inc.*, April 20, 1988, unreported, the Federal Court of Appeal declined to interfere with the usual royalty award of the Commissioner.

The Commissioner cannot terminate or alter a compulsory license arrangement. The Commissioner can only set the royalty rate and establish a license. In *Smith, Kline and French Laboratories Ltd. v. Apotex Inc.*, (1987), 27 C.P.R. (2d) 449, and *Upjohn Co. v. Nicoprine Limited*, supra, it was held that the patentee and licensee arbitrarily are bound by a private agreement with conditions of termination, and the Commissioner cannot interfere with the agreement. However, the Commissioner was free to place conditions on the granting of a new license subject to the termination of the old license.

In *Aktabaghi-Basile v. Apotex Inc.*, (1987), 27 C.P.R. (2d) 298, it was held that the Federal Court has no jurisdiction to enforce remedies for unpaid royalties between two parties pursuant to a compulsory license granted by the Commissioner of Patents. The Court held that the issue was enforcement of a contract and dealt only incidentally with matters under the Patent Act.

Voluntary Licenses

An exclusive licensee cannot be granted an injunction against a patent infringer if irreparable damage cannot be established. In *Institut de Recherche en Génétique Humaine v. Re Algen Ltd.*, (1987), 17 C.P.R.

(2d) 377, the alleged irreparable harm included the loss of a number of employees and the impossibility of convincing subcontractors to pay the royalty, which would ultimately put the plaintiff out of business. The court held that irreparable harm could not be established and that the plaintiff's loss was fixed by a license agreement. Therefore, an injunction was refused.

COPYRIGHT AND INDUSTRIAL DESIGN

In June 1988, the Federal government enacted legislation to amend the existing Copyright Act. The major changes to the legislation are as follows:

1. Criminal penalties for copyright infringement were substantially increased.

2. The new legislation clarified that, with certain exceptions, copyright does not extend to industrial designs copying artistic works applied to useful articles where the article is reproduced in more than 50 copies.

3. The new legislation retroactively provides that copyright is not and was not infringed by the application to a useful article of features that are dictated solely by a utilitarian function of an article.

4. Copyright protection was extended to computer programs and a literary work is now defined to include a set of instructions or statements, similar to the definitions used in the United States.

5. The new legislation allows for creation of private collections in the area outside of traditionally sanctioned music collections. The collection and operation of the Copyright Appeal Board has been allowed. The Competition Act was also amended to permit such collective licensing.

6. The current compulsory license provisions for mechanical reproduction rights have been expanded.

7. The new legislation has significantly extended the scope of moral rights.

With the exception of the amendments dealing with the private collections and related changes to the Copyright Appeal Board, all the amendments have been proclai-

red in force. The following is a summary of the changes that are most relevant to licensing.

Collective

Although the new legislation amending the Copyright Act has been passed, the sections dealing with collective licensing have not been proclaimed in force. Canada and most other countries of the world presently have statutes for the collective enforcement of copyright in musical works. These collective societies are known as "performing rights societies" and are expressly provided for by the present Copyright Act. These societies obtain ownership or licenses of copyright from authors and publishers of musical works and grant blanket licenses to radio and television stations, disco jukebars, motion picture theatres, restaurants and others who publicly perform such music. Until now, collectives for works other than musical works have been considered illegal in light of the Copyright Act. The new legislation allows for the collective enforcement of copyright in literary and artistic works.

These collectives, or "licensing bodies" as they are called in the new legislation, are expected to acquire experience of works from owners of copyright, particularly in the publishing industry and to license others to reproduce the copyrighted material.

The collectives are expected to impact the area of literary works, in particular photocopying in schools, libraries, government institutions and commercial enterprises. The licensing bodies can set a fee and the institution of business would then receive the right to photocopy for its own use any of the works which copyright is owned or licensed by the licensing body. The collective society can allocate the royalties back to the publisher and authors in accordance with a formula established by the agreement between the licensing body and the publisher and authors.

Licensing bodies will be responsible for negotiating their own agreements with the owners of copyright and such agreements will be filed with the Copyright Board in order

to be exempt from the provisions of the Competition Act. The Board will be able to approve or alter the tariff agreed to between the copyright owners and the users and after the terms of the license.

A "licensing body" is defined as an association that grants licenses for a repertoire of works. Presumably, individual work licenses are not to be regulated by the Copyright Board.

Competition Act

The new legislation specifically exempts collectives from Section 32 of the Competition Act where an agreement has been filed with the Copyright Board. Section 32 of the Competition Act is the provision that governs conspiracies, cartels, agreements and arrangements that restrain or injure competition, usually, and has been considered the law to collectives in areas other than music.

The new legislation also amends the Competition Act to allow the Federal Court of Canada, inter alia, to declare a license agreement void or alter the grant of an additional license, if a copyright owner uses its exclusive rights granted by copyright to unreasonably restrain, prevent, limit or lessen, the supply of an article in the competition in such an article. This amendment has yet to be proclaimed in law.

Mechanical Reproduction Rights

The new legislation repealed Section 19 of the Copyright Act. Section 19 was a competition limiting provision enabling a person to make a recording of a musical work that has previously been recorded. Each person gave notice at his intention to do so and then paid the owner of the copyright two cents for each such contribution sold. The rights to make such contributions were called "mechanical rights."

It is anticipated that the new legislation on collectives will fill any void created by the repeal of the old mechanical reproduction licenses. Writers will probably either grant their mechanical rights to their works to their publishers who would be members of a collective or directly grant their rights to such a collec-

tive, which would then license others to record their works in accordance with a negotiated tariff.

Copyright Board

This portion of the new legislation, which has yet to be proclaimed in force, will introduce substantive changes regarding the jurisdiction, composition and powers of the current Copyright Appeal Board (Board).

Moral Rights

Moral rights are more expansively defined under the new legislation. An author of a work has the right, where reasonable, to be associated with the work as its author or to remain anonymous. The author has "the right to the integrity of the work." The "right to the integrity of the work" is infringed only if the work, to the prejudice of the honor or reputation of the author, is distorted, mutilated or otherwise modified or used in association with a product, service, cause or institution.

Moral rights cannot be assigned but may be waived in whole or in part. An assignment or license of copyright does not by that act alone, constitute a waiver of any moral rights. The new legislation clarifies that moral rights can be bequeathed and that a violation of the moral rights of an author would not give rights to take proceedings for conversion or give rise to criminal sanctions.

Industrials Design Rights

Reference should be made to the Free Trade Agreement below.

There was no case of interest on the subject of industrial design licensing, but there were two cases of particular interest in the field of copyright licensing last year.

In *Tai-Mitropols Inc. v. Bishop*, (1987), 17 C.P.R. (2d) 207, the Federal Court of Appeal held that the grant of a license to broadcast live does not automatically extend to making any recordings of the work.

In *Performing Rights Organization of Canada (PR) v. Lion D'Or* (1987) Ltd., (1987), 17 C.P.R. (2d) 282, it was held that, in the absence of a contractual arrangement, perform-

ing rights collectives must establish rights in copyright in order to sue for infringement.

TOPOGRAPHIES

Last year, I reported that the Federal government withdrew a discussion paper entitled *Semi-Conductor Chip Protection in Canada: Proposals for Legislation*, containing a number of recommendations to protect a "topography," the original three-dimensional pattern embodied in a silicon chip. A draft of the legislation has been prepared but not yet introduced in Parliament.

TRADEMARKS

Last year, I reported the Canadian Government was considering legislation to abolish the registered user scheme and replace it with a provision that permits use of registered and unregistered trademarks by related companies and by controlled licensees in circumstances where there is no deception of the public. No bill has yet been introduced.

Interpretation

In *Healds Co. v. M-Corp. Inc.*, (1987), 17 C.P.R. 44, a declaration was sought with respect to a territorial license agreement. The agreement provided that the licensee would not use the licensed marks in connection with the sale of the licensed product in the licensee's territory. Advertising flyers from another licensee were distributed in the licensee's territory. The Quebec Superior Court held that, on the interpretation of the licensing agreement, the licensee, and therefore other licensees, could not use flyers to advertise in the restricted area. The court also recognized it may be impossible to prohibit advertising by radio and television in a defined territory and said that where a licensee and other licensees are restricted from using marks in an area, and the parties do not intend to prevent advertising in the area, the agreement should clearly so state.

TOBACCO PRODUCTS CONTROL ACT

On June 28, 1989, Royal Assent was given to the Tobacco Products Control Act, effective January 1, 1989. There is no direct impact on trademarking per se. However, the new legislation is far-reaching.

The purpose of the legislation, as it relates to trademarks, is to restrict the use of tobacco-related trademarks to tobacco products. The Act prescribes criminal sanctions only. Tobacco manufacturers or importers who are entitled to use any trademark in association with tobacco products must not apply the trademark, in any form in which it appears on packages of the product that are sold in Canada, to any article other than a tobacco product or package, or to use the trademark for the purpose of advertising anything. The Act also restricts the distribution or sale by anyone of anything bearing a trademark of a tobacco product in any form in which such trademark appears on tobacco product packages.

A narrow defense is available, if the trademark was used in 1988 on both tobacco and non-tobacco products and the retail value of the non-tobacco products was greater than 20% of the total value of the tobacco product; the restriction would not apply to that trademark. Furthermore, an exception to the rule will be made until 1993 for goods manufactured or ordered before April 30, 1987, unless such orders require confirmation or are subject to cancellation.

FRANCHISING

Telephone numbers may be considered inseparable from a trademark and trade name used pursuant to a license agreement. Termination of the license agreement would also terminate the permission to use the telephone number. *Collyer's Travel Ltd. v. Collyer Maritime Ltd.*, (1987), 17 C.P.R. (2d) 380, the plaintiff entered into a franchise agreement with the franchisee. The franchisee sold the business to another person who was in direct competition with the plaintiff. The plaintiff then termin-

ated the franchise. The new owner carried on business under its own name and mark, but continued to use the same telephone number. The Nova Scotia Supreme Court held that the telephone number was so identified with the plaintiff's trademark and business, as to be part of it that use of it would amount to passing off.

TRADE SECRETS

Last year, I reported that a Federal/Provincial working party, released a report recommending the common law of trade secrets. The report concluded that there is a need for enactment of a statute by each of the Canadian provinces to assist business in protecting its trade secrets and confidential information. The report has not yet been endorsed by any government and no new legislation has been introduced.

Interpretation

Two very significant cases relating to confidential information were decided in the past year. Last year, it was reported that *Baroness, R.V. Orlby*, (1988), 11 C.P.R. (2d) 208, 10 Alta C.A. and *R.V. Stewart*, (1987) 78 C.P.R. (2d) 1, (987 C.A.) were appealed to the Supreme Court of Canada. In *Orlby*, the Alberta Court of Appeal rejected the view of the majority of the Ontario Court of Appeal in *Stewart* that information is "property" for the purposes of the theft provisions of the Criminal Code. Leave to appeal *Orlby* was not granted. However, leave to appeal was granted in *Stewart* and a decision has been rendered.

In *Stewart*, the accused was hired to obtain the names, addresses and telephone numbers of the hotel's employees by someone that he assumed was associated with a union seeking to organize the employees of that hotel. The accused obtained a security guard at the hotel and offered him money for the information. According to the agreed statement of facts, had the scheme been carried out, no physical object could have been taken. The accused was charged with conspiring a hotel employee to commit fraud and theft

of information. The issue was whether confidential information per se, a pure intangible, could be the subject of theft under the Criminal Code.

It was held by the Supreme Court of Canada that "anything" in section 283 of the Criminal Code, the provisions under which the accused was charged, is restricted in two ways. First, "anything" must be of a nature that can be subject to a proprietary right. Second, the property must be capable of being taken or converted in a manner that results in the deprivation of the victim. Confidential information does not fall within that definition. Information per se cannot be the subject of a taking. Where confidential information is misappropriated, without the taking of a physical object embodying it, the alleged owner is not deprived of the use or possession of the information, but only of the confidentiality, there is no deprivation and therefore, no conversion.

With respect to the first issue, the Supreme Court of Canada held that confidential information is clearly not money or valuable security, and therefore is not property within the meaning of Section 283(1) of the Criminal Code.

The effect of this decision must be restricted to the criminal law. Confidential information, even if not "property," may still be protected and its misappropriation sanctioned through civil remedies.

In *International Corona Resources v. Lar Minerals*, (1987), 52 O.R. (2d) 1, the Ontario Court of Appeal affirmed the trial decision that held *Lar* to have breached confidence owed to *Corona* and ordered *Lar* to transfer to *Corona* a gold mine developed by *Lar*, then valued at more than \$700 million. The gold mine is now expected to be Canada's biggest. Leave to appeal to the Supreme Court of Canada was recently granted.

Corona had discussed with *Lar* the possibility of entering into some form of joint venture to develop *Corona's* gold mine. In the course of negotiations information was exchanged between the two parties. *Corona* indicated to *Lar* that it was interested in purchasing certain property contiguous to its own (the

"Williams property". Without telling Cornea, Lac bought out the Williams property and purchased it for less than Cornea had offered.

At trial, it was found that confidential information was obtained by Lac that was of assistance in assessing Cornea's property and in making the decision to acquire the Williams property. It was also held that the application of the doctrine of confidential information does not depend upon any special relationship between the parties, but rather upon application of the following principles:

1. Whether the information has the necessary quality of confidence (i.e. must not be public knowledge);
2. Whether the information is communicated in circumstances which an obligation of confidence arises (i.e. where information of commercial or industrial value is given on a business-like basis); and
3. Whether the information is used without permission to the approval party's detriment.

To assess damages, Lac's obligations were held to be analogous to those of a defrauding trustee. It therefore had to return the Williams property. On appeal, the court agreed with the findings of fact and the interpretation of the law.

TAX

The annual amendments to tax legislation are beyond the scope of this paper. Therefore, I will not address the issues of tax reform.

There was one tax case of particular interest to those in the housing field. In *Dies Investments Limited v. The Minister of National Revenue*, (1987), 87 D.T.C. 218, the Tax Court of Canada held that royalties payable for a license agreement that were held back for negotiation purposes can be considered as expense in the year in which they were supposed to be incurred.

FREE TRADE AGREEMENT

On January 2, 1988, Canada and the United States signed the Canada-United States Free Trade Agreement. After many months of negotiation, the executive levels of government in both countries con-

ceded themselves to implement the provisions of the Agreement. This will require legislation at the Federal level in both countries and at the Provincial level in Canada. Of interest here is the impact of the Agreement on housing.

The two governments had attempted to establish an overall framework for the protection of intellectual property rights, including patents, trademarks, copyrights, industrial designs and trade secrets in both countries, but this was not achieved.

Only the right to compensation for retransmitting broadcast programming has been dealt with in any substantial way. Under present Canadian copyright law, the cable retransmission of broadcast signals incorporating copyright works does not infringe copyright. As a result, cable and satellite retransmission systems do not pay royalties for retransmitted broadcast works to owners of copyright, many of whom are located in the United States.

The Agreement attempts to remove this irritant. It requires each country's copyright law to provide for advanced authorization by copyright holders for the retransmission of program signals not intended for live over-the-air reception by the general public and alteration or non-simultaneous retransmission of altered signals intended for such reception. Canada will be entitled to maintain its existing measures, such as simultaneous substitution and commercial deletion.

Implementation

In order to implement the provisions of the Agreement, Canada must pass the Canada-United States Free Trade Agreement Implementation Bill. This paper will address only the proposed amendments to the Copyright Act.

The amendments would expand the bundle of rights comprised within copyright, to include the right to communicate a literary, dramatic, musical or artistic work to the "public" by "telecommunication". "Telecommunication" is defined to mean any transmission of signs, signals, writing, images or sounds or intelligence of any nature by wire, radio, visual, optical or

other electromagnetic system. This provision is substantially broader than the present one, which is restricted to "audio communication".

The telecommunication by a part of a network whose object is to communicate works to the public, constitutes a single communication to the public for which all persons forming part of the network are jointly and severally liable.

The Bill provides specifically for retransmission. A "retransmitter" does not include a person who uses Herston waves to retransmit a signal but does not perform a function comparable to that of a cable retransmission system. The definition of "retransmitter" is derived at the cable system.

The rules differ, depending on whether the retransmitted signal is "local" or "distant". The Bill provides that it is not an infringement of copyright to communicate to the public by telecommunication a work if the communication is a retransmission of a local signal, the retransmitter proves that the retransmission is lawful, and that the signal is retransmitted simultaneously and in its entirety except as otherwise required by law. With respect to distant signals, it will not be an infringement of copyright to communicate to the public by telecommunication any work if the communication is a retransmission and the retransmitter establishes that the retransmission is lawful, that the signal is retransmitted simultaneously and in its entirety, and that the retransmitter has paid any royalties and complied with any terms or conditions imposed by the Copyright Act.

The Bill goes on to provide for the responsibilities and duties of the Copyright Appeal Board (Board) in setting and monitoring royalties for retransmission.

The Federal Cabinet is empowered to pass regulations setting out criteria to govern the Board's establishment of a fair and equitable manner of determining royalties and may vary the manner established by the Board.

The Bill commences on January 1, 1990.