

property including patents, trademarks, trade names, copyright or industrial designs, and any right, license or privilege to use such property.

Only supplies of intellectual property made in Canada are subject to GST. Pursuant to Section 44 of the Act, a supply of intellectual property is deemed to be made in Canada if:

1. The recipient of the supply is resident in Canada or is resident outside Canada and is registered to collect GST, and the property may be used in Canada; or

2. The intellectual property being supplied relates to real property or tangible personal property situated in Canada or relates to a service to be performed in Canada.

Intellectual property that is supplied by a nonresident who does not carry on business in Canada and who is not a GST registrant is deemed to be a supply made outside Canada and thus is not subject to GST.

Import of Intellectual Property

The legislation provides that every recipient of an "imported taxable supply" shall pay to Her Majesty GST at the rate of 7% of the value of the consideration for such imported taxable supply. The term "imported taxable supply" is defined in part, as a supply of property other than goods (i.e. intellectual property) made outside Canada to a person resident in Canada and that "may reasonably be regarded as having been received by the recipient (i.e. the Canadian resident) for use in Canada otherwise than exclusively in a commercial activity." "Commercial activity" is a business or undertaking involving the making of taxable or zero-rated supplies.

Thus, no GST is payable on the importation of intellectual property provided that the property is used by the recipient exclusively 90% or more in the recipient's commercial activity. Where such property is used less than 90% in commercial activity, the supply is an "imported taxable supply" and subject to GST, and the recipient is required to self-assess and remit any tax payable on importation directly to the Receiver

General.

Export of Intellectual Property

One of the key reasons for the introduction of the GST is to ensure that property destined for export from Canada is free of domestic consumption taxes. Accordingly, exported property is generally exempted. Such property will not be subject to GST and exporters will be allowed to claim input tax credits in respect of any GST incurred on purchases of goods and services for use in the conduct of their commercial activity.

Supplies of intellectual property rights which are destined for use outside Canada are zero-rated (i.e. tax-free), provided the intended user is not a GST registrant.

Registration

Persons engaged in a commercial activity in Canada (i.e. those who make taxable supplies in Canada) are, with certain exceptions, required to register with the Federal Government as GST registrants. Since the definition of "commercial activity" includes the carrying-on of business, the registration obligation extends to nonresidents carrying on business in Canada, whether or not such business is carried on through a permanent establishment in Canada. The provisions of the Excise Tax Act (Canada) are not subject to the terms of any tax conventions or treaty and, thus, those nonresidents who carry on business in Canada who may be able to avoid Canadian income tax because of a lack of a permanent establishment, may nevertheless still be required to register for the GST.

PLANT BREEDERS' RIGHTS

Legislation

The Plant Breeders' Rights Act, S.C., 1990, c.28 received royal assent on June 18, 1990. The Act will not come into force in Canada until regulations are in place. Regulations were published in the Canada Gazette on July 20, 1990. It is expected that the regulations will be finalized soon. The legislation will be administered by a new Plant Breeders' Rights Office under the Federal Department of Agriculture.

The holder of a Plant Breeders' Right (PBR) in a plant variety is granted, for a period of 18 years from the date of grant, the exclusive right to (a) sell or produce in Canada for the purpose of selling, propagating material of the variety; (b) reproduce or propagate material of the variety for commercial purposes; (c) make repeated use of the propagating material in the production of ornamental plants or cut flowers; and (d) authorize others to do the same.

There are important limits in respect of the above exclusive rights. Use of propagating material of a protected variety for experimental purposes is not prohibited by the legislation. Propagating material of a protected variety may be imported into Canada free from infringement; however, infringement may occur as soon as the material is used in propagation. Growers are free to save their own seeds from protected varieties for replanting or for re-planting with such as milling. Finally a PBR does not preclude the use of propagating material of a protected variety as a source of genetic variation in breeding new varieties.

The physical criteria set out for a new plant variety entitled to protection are distinguishability, stability and homogeneity. There is presently a short list of plant types which will be entitled to protection by PBR in Canada. Included on the list are cereals, roses, potatoes, soybeans, wheat, and ornamental forms. Expanding the list will be a priority in future amendments.

Two imposed licensing schemes are provided for in the legislation. Automatic licenses may be imposed on the holder by the Office as a condition of granting a PBR. Although the legislation does not state where automatic licenses are to be imposed, Agriculture Canada indicates that they may be used in circumstances in which it can be shown that the plant variety is in great demand in Canada. The terms and conditions of automatic licenses are set by the holder. Compulsory licenses may be granted by the Commissioner on application by any person. Grant of a compulsory license will be based on whether the plant variety is made available to

the public at a reasonable price, whether it is widely distributed and whether it is maintained in quantity.

International Convention for the Protection of New Varieties of Plants

Canada deposited its instrument of ratification of the International Convention for the Protection of New Varieties of Plants on February 4, 1990, and the ratification became effective on March 4, 1991. Canada is now a member of the International Union for the Protection of New Varieties of Plants (UPOV).

UPOV is an intergovernmental organization that cooperates in administrative matters with the World Intellectual Property Organization (WIPO) and has its headquarters in Geneva, Switzerland.

The International Convention for the Protection of New Varieties of Plants requires the granting of rights to the breeder of a new plant variety. The member States of UPOV grant such rights in their national legislations, in accordance with the provisions of the Convention. To be eligible for protection, varieties have to belong to one of the botanical genera or species on the national list of those eligible for protection, be distinct from previously known varieties and be sufficiently homogeneous and stable.

It is important to note that Canada ratified the Convention at the 1978 level. At the Diplomatic Conference convened by UPOV in Geneva in 1991, certain revisions to the Convention were adopted. Briefly, the revisions include an increase in the scope and terms of protection, an extension of the rights granted, and the deletion of the prohibition against double protection of plant varieties.

It is not yet known whether Canada will adopt this revised version of the Convention. Canada's present IPR legislation does not provide operation of the Patent Act, however, adherence to the 1978 level of the Convention imposes a prohibition against having more than one form of protection for new plant varieties.

Integrated Circuit Topographies

The Integrated Circuit Topography Act was enacted on June 27, 1990.

Commerce and Corporate Affairs Canada (CCAC) in consultation with the Intellectual Property Advisory Committee (IPAC) is presently drafting Regulations. It is expected that the Regulations will be promulgated, and the Act proclaimed, on July 1, 1991.

The purpose of the Act is to provide exclusive rights in the topography of integrated circuits. The legislation establishes a system for registering topographies provided that the topography is (I) original, (II) filed within two years of its commercial exploitation, and (III) the creator is a national of Canada or other country extended protection by convention or designation or an individual or legal entity that has in Canada or such country a real and effective establishment for the creation of topographies or the manufacture of integrated circuit products.

The draft Regulations prescribes the communications with the Registrar of Topographies, the form and content of applications for registration, and the content of certificates of registration. The draft Regulations permit attachments to applications, prior to registration that do not materially alter the topography that is the subject of the application. In addition to the drawing, photograph or overlay depicting the layers of the topography required to be deposited with an application, the draft Regulations permit the applicant to deposit the integrated circuit product and printed topography design data.

The draft Regulations recognize that some of the material required to be deposited in support of ap-

plications may be confidential and provide for restricted deposits. The degree of restriction permitted varies depending on the number of layers of the topography and whether or not the topography has been commercially exploited at the time of application. Although applications and topographies are open for inspection after a number has been allotted to the application, no one will be permitted to copy any of the material deposited without the written consent of the applicant or the owner of the topography.

Interim Protection in the United States

Under Section 904 of the Semiconductor Chip Protection Act (SCPA) (17 USC 904) the U.S. Commissioner of Patents and Trademarks has been delegated the responsibility to determine when and under what conditions foreign mask works topographies will be eligible for interim protection in the United States. To be eligible for interim protection, the foreign government must demonstrate that it is making good faith efforts toward establishing a regime of protection similar to that provided under the SCPA.

The U.S. Patent and Trademark Office (PTO) has extended interim protection pursuant to Section 904 to 19 countries including Canada, most of which have enacted legislation substantially similar to the SCPA. In November, 1990, the PTO extended the existing interim orders until July 1, 1991, on which date the statutory authority to grant such orders was to have expired. That authority was extended for two more years, until July 1, 1991, under legislation signed into law in late 1990. As a result of a July 15, 1991 notice, interim mask work protection will be continued for Canada, Japan, Sweden, Australia and 12 member states of the European Community, Switzerland, Finland, and Austria until December 31, 1992.

COPYRIGHTS

Office Practice

The Copyright Office anticipates "going live" with its automated

1. One of the primary mechanisms for registration are intellectual property rights and application materials issued by the Intellectual Property Advisory Committee (IPAC), which was created in 1987 and is chaired by the Deputy Minister of CCAC. The main IPAC committee has 10 intergovernmental members representing a wide range of countries and also grants interim-level protection and non-legal Advisory Opinions which function as if traditional property rights. A number of working level subcommittees have formed and/or recently (including advice on such issues as copyright, patent practice, trademark law, fair trade, patent reform, and patent reform) have been formed to study and report on such issues as patent, patent law reform, WIPO Patent Law harmonization, trademark law reform, differences arising from the relationship between trademarks and trade names, and PTO trademark law harmonization.

registration system by early 1993. Machine access for search purposes will be introduced later that year. However, as there are no current plans for entering data concerning existing registrations onto the new system, the search feature of the system will be of limited utility for the foreseeable future. In anticipation of the changes to the new system, the Office has changed from the use of an embossed seal to a stamp seal. Where the changeover occurs, certificates will be issued without stamps or signatures. The forthcoming Intellectual Property Improvement Bill detailed in section 6 of this report will include amendments necessary to support this change.

Key Issues

Two issues of importance were reported during the period of this report relating to the situation available to copyright owners.

In the case of *Reipen v. Stephens* (1990, 72 D.L.R. (4th) 97 (S.C.C.)), the Supreme Court of Canada upheld s.21 (now s.26) of the Copyright Act as a valid provision incidental to the Federal Government's jurisdiction in copyright matters. Section 26 denies that plates used to make infringing copies are the property of the owner of the copyright to take proceedings to recover the plates as though they were the property of the owner. The section was challenged on the basis that it denied or abridged property rights, a matter within provincial jurisdiction.

In *Planet Earth Productions Inc. v. Rostand* (1990, 67 D.L.R. (4th) 761 (Ont. H.C.)), Carter, D.C.J. found copyright in fall within the category of "other choses in action" under 5.1(3) of the *Intersections Act of Ontario* with the consequence that copyright is eligible in Ontario at the instance of a judgment debtor.

FORTHCOMING INTELLECTUAL PROPERTY IMPROVEMENT BILL

Consumer and Corporate Affairs Canada (CCAC) is working in conjunction with the Intellectual Property Advisory Committee (IPAC) to develop an Intellectual Property Improvement Bill. The purpose is to

introduce amendments to the Patent Act, Trademarks Act, Copyright Act, and Industrial Design Act in respect of which there is a general consensus. On April 25, 1990 the IPAC produced a list of amendments agreed in principle and these have been submitted to the government.

Among the suggested amendments some of the more important include: (i) under the Patent Act, permitting the deposit of biological material, and establishing a statutory limitation period for patent infringement actions; (ii) under the Trademarks Act, abolishing the requirement to record licenses as registered users; (iii) under the Copyright Act, provisions to improve the operation and administration of the Copyright Office; and (iv) implementing a revised Industrial Design Act in accordance with the proposed draft legislation commissioned by the government and prepared by William Hayhurst.

The Henderson Report on Intellectual Property and the Litigation System

In November 1989 the Intellectual Property Review Branch of CCAC commissioned Gordon F. Henderson, Q.C., to prepare a report on intellectual property and the litigation system in Canada. The portfolio used for this study resulted from the then recently completed Pro-Victoria survey that indicated widespread concern about the litigation system by large and small businesses.

CCAC has now released the "Henderson Report." It is entitled "Intellectual Property: Litigation, Legislation, and Education - A Study of the Canadian Intellectual Property and Litigation System." It is a very lengthy and comprehensive document covering issues ranging from the proposal for a new Federal Intellectual Property Tribunal to alternative dispute resolution as well as dealing with legislative removal of various intellectual property statutes. It contains over 70 specific recommendations.

A new IPAC sub-group has been formed to examine the Report and make recommendations to the Minister of Consumer and Corporate Affairs.

TRADEMARKS AND UNFAIR COMPETITION

Grey Market Goods

Two judicial decisions of note were rendered during the period covered by this report. The first was the decision of the Federal Court of Canada in *HJ Moore Company of Canada v. Egan Food Sales* (1991, 35 C.P.R. (3d) 213).

The plaintiff was the owner of the trademark HEINZ well known for use in association with ketchup and other wares in Canada. The defendant had imported into Canada HEINZ ketchup manufactured by the United States parent of the plaintiff. The plaintiff requested an interlocutory injunction to restrain the use of the trademark HEINZ on ketchup imported from the United States. The imported United States ketchup used a different recipe than that used in Canada. The court granted the interlocutory injunction.

It should be noted that in this case the trademark in Canada was owned by a legal entity other than the owner of the identical trademark in the United States, the country of origin of the grey market goods. Furthermore, the Canadian importer adulterated the product upon its entry into Canada so as to market the product in conformity with Canadian labelling requirements. As well, this decision is stated to be on "all issues" with the *Rompage Band Ltd. v. Sunworld Metal Co. case* (1989, 53 C.P.R. 99, where Thibault J. granted an interlocutory injunction restraining the importation and sale of the defendant's wares.

What is of interest is the Court's conclusion that the mere infringement of a proprietary right in a trademark, constituting impermissible harm not compensable by damages. In *The Federal Court of Appeal in Neoprene Ltd. v. Syntex Inc.* (1990, 5 May 8, 1990), suggested that if the defendant challenges the validity of the trademark during the interlocutory injunction proceedings the Court should not rely on the validity of the challenged mark.

This case illustrates that the courts are prepared to recognize the rights of Canadian owners of trademarks to control parallel importation from

related companies, particularly in situations where the Canadian trademark owner has held the trademark for some time and has established local manufacturing and distribution within Canada.

In the case of *Heinz Cereals (Int'l) v. John Foods Sales Inc.*, just set reported the plaintiff had requested an interlocutory injunction against the defendant for selling U.S.-made NESTLE coffee in Canada. The court refused the application for interlocutory injunctive relief.

The facts in this case differ from those in the *Heinz* case referred to above in that Heinz Canada (plaintiff) owned its trademark in Canada and claimed trademark infringement. As well, the Heinz Canada product was distinguishable only through its taste but its appearance was identical to that of the grey market goods. In the subject case, Nestle did not own the Canadian NESTLE trademark, of which it was a registered user. As well, the grey market goods were visually different from the plaintiff's product. The plaintiff did not allege trademark infringement but rather only passing-off under Section 704 of the *Trade Marks Act*.

The court decided that the plaintiff had not proved that it would suffer irreparable injury not compensable in damages should the injunction not be granted and, furthermore, the plaintiff Nestle had known of the grey market goods for a period of seven months prior to its application for interlocutory injunctive relief.

Finally, while this decision does not bring the importation of grey market goods into Canada, it clearly points out that interlocutory injunctives will not automatically be granted against such importation and sale.

United Corporation — the Nutrasweet Case

In the *Nutrasweet* case Canada's Competition Tribunal has interpreted sections 75-78 of the *Competition Act*. The issue before the Court was whether the Nutrasweet Company's (NSC) branded ingredient strategy resulted in unfair trade practices.

NSC had obtained patent protection for the use of aspartame. During this time, it conceived the idea of promoting the ingredient by granting price reductions (in order of 40%) for displaying the word logo and promoting the Nutrasweet name on the product. Patents on aspartame existed in 1987 but NSC continued to have 80% of the aspartame market. This was due in part to its restrictive contractual provisions with its customers. Customers saved 40% if they purchased the aspartame from Nutrasweet and used the logo. If a customer decided it did not want to display this logo on all of its products, it would have to pay full price for all the aspartame it needed. In its decision, the Tribunal found that this practice created an anti-competitive choice for customers.

The Tribunal also found that NSC committed an anti-competitive act by using its monopoly position with respect to the U.S. patent to obtain advantage for itself in Canada (where the patent had expired).

Another point of interest in the decision was that while the list of acts committed by NSC did not represent specific anti-competitive acts as set out in s.78, the Tribunal concluded that this was not an exhaustive list of anti-competitive acts. Therefore, despite the fact that these activities were not specifically mentioned, they were still considered to have an exclusionary purpose under s.78.

The Tribunal also found the exclusive dealing provisions under s.77 were contravened by using the same analysis as under s.78. The Tribunal concluded that the tied selling provisions of s.77 were not contravened. It indicated that in appropriate circumstances a trademark might be the subject of a tying arrangement.

The Tribunal ordered NSC not to enter into or enforce any form of an agreement for the supply of aspartame that: (a) required a Canadian customer to buy all of its aspartame requirements from NSC or (b) to use NSC's aspartame primarily as a sweetener in some or all of its products. The Tribunal lifted NSC's offering of a discount or allowance in exchange for use of its logo and

its use of multi-release claims.

PATENTS

The new Canadian Patent Act has been in place for about two years. A few recent cases are of interest.

In *Energy Absorption Systems, Inc. v. T. Technosonic City Inc.*, 20 C.P.R. (3d) 420, the Federal Court determined that the personal defendant had involved himself in the carrying out of infringing activities of the corporate defendants and, accordingly, judgment was rendered against him and the corporation collectively.

In *Milliken Enterprises Ltd. v. Aquas Inc.*, 22 C.P.R. (3d) 380 and 381, the Court ruled that when the defendant did not have a compulsory licence under the patents, importation by the defendant of a machine for the purpose of developing information for submission to the Health Protection Branch for the further purpose of obtaining a notice of compliance was infringement of the patents. This judgment has been appealed.

In *Laird Corp. v. Imperial Oil Ltd.*, 22 C.P.R. (3d) 3, the Justice Chief made the interesting comment that when a defendant is sued for infringement and that defendant is a sophisticated party, it is not enough for that defendant simply to leave the burden of proof of infringement on the plaintiff. Instead, the defendant has to take some active steps in testing its own product to show that it is outside the parameters of the claim, rather than simply argue the plaintiff has failed to prove that it is within the parameters of the claim.

The Federal Court of Appeal in *Distilled Products Corp. v. T-88 Corp.*, 28 C.P.R. (3d) 380 considered the presumption of the validity of a patent and the changes made in the 1985 revision to the Patent Act to Section 47 from Section 45) that amended the words "prima facie". It held that the presumption of validity is simply an evidentiary presumption and does not create any kind of higher form of burden of proof that is in any other civil action. *Decary, J.*, discussed the *Reeves* case, which had long been used by the court to set out a series of trials

in anticipation, he pointed out that the intent of tests is simply a collection taken from earlier cases and does not represent a cumulative set of tests but rather a series of individual tests, any one of which would be sufficient to satisfy the question of anticipation. On the question of obviousness, Marzani and Paine, BA stated that invention is indeed a requirement of a valid patent and that no invention lies simply in an idea but rather must be in an idea manifested in the form of a machine, method or composition of matter. They went on to explain that there is still invention even if, once the idea is invented, anyone could put it in practice.

PROTECTION FOR UNPATENTABLE FUNCTIONAL OBJECTS

The Canadian Government has recently released a document entitled "Report on the Appropriateness of Legislation Protecting Functional Objects." The Report concludes that there is no need to adopt legislation that would protect the shape and design of products that are essentially functional as opposed to aesthetic in nature.

The Report addresses whether improvements in functional objects should be protected where the improvements contribute to society but do not meet the standard of patentability. The United Kingdom affords this protection but the United States does not. The Report concludes that although there may be an advantage in protecting only the aesthetic, the Copyright Act of 1988 had this as its intention. Furthermore, there are no treaty obligations in effect on this matter and there seems to be a lack of international consensus on the issue. The Report's authors therefore state that they are unable to conclude that this form of protection would stimulate additional creative activity and therefore recommend against it.

CANADIAN GOVERNMENT LICENSING, PROCUREMENT AND INTELLECTUAL PROPERTY PRACTICES

Intellectual Property Policy Changes
The Government of Canada has

consistently taken the position, at least since 1984, that title to all intellectual property arising from any contract containing elements of research and development must rest with the Crown. Under a new approach, the presumption is that ownership of intellectual property developed under government contracts will rest with the contractor instead of the government. On September 28, 1991, the Treasury Board approved the policy on ownership of intellectual property (IP) under Crown contracts that states:

1. Intellectual property issues are to be addressed prior to the award of a contract and contractors are to have a clear understanding and certainty regarding the nature of, and conditions regarding their rights to, IP arising under the contract.

2. Departments are to state with the presumption that contractors will take title to IP. Circumstances where this presumption is not applicable are to be determined and justified.

3. Where the IP is to rest with the Crown, the Deputy Minister of the Department sponsoring the contract shall be accountable to proper and valid justifications supporting the decision.

This policy change is expected to produce significant benefits to Canada by maximizing the exploitation of inventions and know-how arising from government contracts. To facilitate the implementation of the new policy and its integration into current contracting procedures, the proposal was approved with the following conditions:

1. The policy applies to all departments and agencies subject to the government contract regulations.

2. A three-month implementation period is to be allowed where either the old or the new policies may be applied to government contracts.

Further major change is expected in the management of government-developed and owned intellectual property. Canadian Patents and Development Limited (CPDL), a Crown corporation with a mandate to commercialize government-owned technology is being phased out.

Bill C-112 (Act to provide for the

disposal or transfer of certain Crown corporations and to amend certain Acts in consequence thereof) is before the Senate and should see passage shortly. Accordingly, science-based departments and agencies (SBDAs) will be responsible for the handling of their own intellectual property management, including technology transfer activities. Some departments have managed quickly to set up new intellectual property policies and even establish their own technology transfer centers. For example, CANMET, a sector of Energy, Mines and Resources Canada, has established the Intellectual Property Management office and National Research Council (NRC) has established the Intellectual Property Service Office (IPSO). IPSO is divided into two parts, an internal service unit to NRC, and a second part (known as IP/INCO) which performs liaison to other government departments (DND) and offers complete intellectual property management services to departments including patenting services, administrative services and licensing, all on a cost recovery basis.

An initiative is also underway to create a Special Operating Agency for the Patents Office and other related offices previously set up as part of the Department of Consumer and Corporate Affairs.

Other innovative projects have also been recently developed. Environment Canada, for example, has just implemented the Government-Owned/Contractor-Operated Lab (GOOCOP) project, in which a government-owned facility for water-water treatment in Burlington, Ontario, together with government research staff is now being operated on a purely private sector basis. Approval for these types of new contracts reflects the government's willingness to consider new approaches to risk sharing with the private sector.

New Organizational Approaches

The impetus for these changes has been coming through a number of formal and informal bodies that assist the government in developing its legislative and policy initiatives. The Intellectual Property Advi-

ary Committee (IPAC) formed in June of 1988 has already been discussed.

The Interdepartmental Group on Intellectual Property Management (I.P. Group) is an internal government working group formed in 1988. It provides leadership and facilitates communication, harmonization and cooperation among science-based departments and

agencies on science and technology policy and operational issues. This group has 42 members and represents 22 departments and agencies. In its recent publication, "Framework for Technology Transfer from Government Laboratories for Commercial Applications" (March 1990), the beginnings of a new approach promoting technology transfer is set

out. Various subcommittees and shadow committees operate under the aegis of this Intellectual Property group (also known as the Bellinda Committee). It has its work plans approved by the Interdepartmental Steering Committee on the Management of Science and Technology whose members include senior Assistant Deputy Ministers of affiliated government departments.