



IP CONNECTIONS

CANADIAN INTELLECTUAL PROPERTY & TECHNOLOGY LAW NEWSLETTER

July/August 2007

- 1 Are you missing the boat to China?
- 3 Preventing the importation of grey market goods – when trade-mark rights aren't enough
- 4 The patent landscape goes green
- 5 Don't forget industrial design registration as a tool for intellectual property protection
- 6 Licensing basics: part 1
- 7 Recent developments in brief

Are you missing the boat to China?

China is becoming a global IP superpower. It's time to get on board.

In 2005, The Globe and Mail published a special edition entitled "China Rising – Are We Missing the Boat?" which concluded that while Canada's trade and investment in China was booming, we were falling behind our competitors and badly lagging our potential. Today, not a lot has changed, although China's fast-growing economic power and vast market potential have become well recognized. Many Canadian businesses are slow to get on the boat because they remain skeptical and concerned about protecting their intellectual property in China. They fail to realize that IP protection in China has greatly improved and is far better than commonly recognized in the west.

It has long been accepted that the underlying IP laws of China are generally of a high standard. IP enforcement in China, a major concern in the past, has also been much improved in recent years. The current IP environment in China in fact quite favors the rights owners, as illustrated by the following facts (please note that all dollar amounts that follow are in Canadian currency):

- China now has more than 300 specialized IP courts or panels, with 1,600 specially trained IP judges.

- From 2002 to 2006, the number of civil IP cases filed in the courts grew by 17.1% annually (on average). About 5 to 6% of these cases involve foreign parties and most foreign litigants won. For instance, over 90% of foreign litigants won their patent cases.
- The damages awarded by the courts have also increased. In a recent case, a Beijing IP court awarded a U.S. plaintiff about \$1,390,000 in damages in a trade-mark and copyright infringement case.

Unlike in Canada, where IP enforcement is primarily a private effort, the public authorities in China play a very proactive and important role in enforcement of IP rights (IPR). Various administrative agencies, the Public Security Bureau (police), Customs, People's Procuratorates (prosecutors), and People's Courts, all have mandates and powers to investigate, stop and punish infringement activities. An infringer can face not only civil suits, but also criminal prosecutions (fines and imprisonment), administrative sanctions (fines, seizure of goods, revoking of licenses, etc.), and customs seizures. The Ministry of Commerce has established a nationwide IPR Protection Network, which has service centres in 50 major



cities. Both a designated toll-free number and a website are provided for the public to report infringement activities. The received reports and complaints are forwarded to the relevant administrative agencies for investigation and possible action. The public authorities also act on their own initiatives and organize campaigns against IP infringement. In 2007, 14 such national campaigns have been planned.

The following are official statistics for IP-related cases for 2006, which provide a glimpse of the current level of IP enforcement activities in China:

- Over 14,000 civil cases were filed and decided in the trial courts.
- Over 2,200 criminal cases were concluded, involving 3,508 suspects, of which 3,507 were convicted.
- Close to 1,400 administrative cases were also filed in the courts.
- The administrative agencies dealt with over 60,000 trade-mark or copyright infringement cases, of which 487 cases were transferred for criminal prosecution.
- The trade-mark administrative agencies confiscated about 30 million items bearing infringing marks, and issued fines totaling about \$56,000,000.
- Nearly 2,000 new IP files were registered with China Customs, about 50% more than in 2005.
- China Customs intercepted close to 200 million infringing products in 2,473 cases, worth about \$28,000,000.
- In seven nationwide campaigns, the Public Security units arrested 988 suspects for criminal prosecution, and the administrative agencies investigated over 17,000 infringement cases, involving goods worth about \$139,000,000.

When all the avenues available in China are efficiently utilized, IP enforcement there can be inexpensive, swift and effective.

The Chinese society as a whole has also significantly changed its attitude towards IP. The current Chinese leaders have repeatedly emphasized the importance of IP for the future of China. IP protection has become one of China's national strategies and China's first "National IP Strategy" is expected to be finalized this year. The national IP effort is guided and coordinated by a National Working Group for IPR Protection, led by Vice Premier Wu Yi. The members of the Working Group are the heads of 17 national ministries and

government agencies related to various aspects of IP. The Working Group recently released the 2007 China's Action Plan on IPR Protection, which includes 438 specific measures for improving the IP environment in China.

Extensive IP awareness and education programs have been instituted at all levels of government and in state-owned enterprises. Even members of the Politburo of the Chinese Communist Party, the highest political body of power in China, held a "study session" on the topic of "IP Protection in China and Around the World" last year. The moderator of the session was none other than President Hu Jintao himself, who is also the Party's General Secretary. IP disputes are headline news and are hotly discussed and debated in the media, on the Internet, and at dining tables.

The change is also reflected in the sharp increase in IP procurement filings by both domestic and foreign applicants in China:

- China has been ranked number one in the world in trade-mark registration filings for the last five years. In 2006, close to one million trade-mark applications were filed in China, an increase of 18.8% over 2005.
- China is also one of the top five patent filing jurisdictions in the world. By the end of 2006, the Chinese Patent Office had received 3,330,000 patent applications, about 90% of which had been filed since 1993, and about 30% (1 million) in the last two years.

Chinese businesses and enterprises have also started to adopt a more active IP strategy abroad in terms of both procurement filings and litigation.

Clearly, China has now realized, as Premier Wen Jiabao aptly put it, "competition in the future is competition in IP." China is well on its way to becoming an economic superpower. It is also perfecting its IP strategy and making long strides toward becoming an IP powerhouse.

If competition in the future is competition in IP, and China is both a major battleground and a major competitor, you are well advised to formulate your own IP strategy in China soon if you do not already have one. Even if you do not intend to do business in China in the near future, the China factor still needs to be carefully considered. Obtaining IP in China not only provides a competitive advantage there, but can also help with protecting your rights here at home, such as from infringing imports originating from China (China is expected to export goods of value in excess of one trillion dollars in 2008). A Chinese IP registration may

allow you to stop infringing goods at the source in China, which can be cheaper, and in some cases easier, than enforcing your rights here.

To formulate a China IP strategy, it is necessary to first understand the IP system in China. As the infamous Chinese military strategist Sun Tsu said, “know your opponent and know yourself, you shall not fail; if you know yourself

but not your opponent, you will suffer a defeat for every victory you win” (in *The Art of War*, Chapter 3). Without a good understanding of the current Chinese IP practices, it would be difficult to form a winning China strategy. Without such a strategy, you may well suffer defeat, or miss the boat altogether.

James J. Pan, Toronto
jjpan@smart-biggar.ca

Preventing the importation of grey market goods – when trade-mark rights aren’t enough

Copyright protection can be an effective countermeasure against importers of counterfeit products.

Trade-mark rights are often a very effective tool to help brand owners to prevent the importation and sale of counterfeit goods in Canada. However, unfortunately, trade-mark rights are not effective at preventing the importation of grey market or “parallel import” goods, that is, genuine products that are imported into Canada without the authority of the Canadian intellectual property owner.

The problem is that once the goods have been sold by the trade-mark owner or an authorized licensee anywhere in the world, the “first sale,” or exhaustion doctrine, applies. That doctrine states that these goods are not infringing simply because they arrive in a country where the owner does not want them to be distributed. Therefore, the use of trade-mark rights to prevent the importation of grey

market goods into Canada is quite limited. However, unlike trade mark rights, to date Canadian courts have held that copyright, if owned by separate rights holders’ in various jurisdictions, can be used to limit the right of entry of goods into those jurisdictions if not authorized by the domestic copyright owner. In *Kraft Canada Inc. v. Euro Excellence Inc.*, [2005 FCA 427](#), the Federal Court of Appeal confirmed this principle.

Kraft Canada, along with two European chocolate manufacturers, sued a former Canadian distributor for infringement of copyright in artistic works in the form of logos appearing on the packaging of genuine chocolate bars obtained by the defendant from an unnamed source in Europe. Kraft Canada had an exclusive license for the copyright in the logos that appeared on the labels of its chocolate bars. The defendant, despite having knowledge of Kraft Canada’s exclusive license, imported chocolate bars into Canada that were not intended for the Canadian market. The Court found secondary infringement by commercial importation and distribution of works in Canada, in contravention of section 27(2) of the *Copyright Act*. Copyright thus provides a possible alternative for brand owners to address the importation of grey market goods into Canada.

The Supreme Court of Canada granted leave to appeal on May 18, 2006 and the appeal was heard in January 2007. A decision from the Supreme Court of Canada has yet to be handed down. We will keep you posted.

Stacey E. Grubb, Vancouver
segrubb@smart-biggar.ca



The patent landscape goes green

Finding creative ways to protect your environmentally-friendly IP in a rapidly expanding marketplace is becoming increasingly important.

From the gradual appearance of reserved parking spaces for hybrid vehicles to Canada's anticipated outright ban on incandescent lightbulbs, the current trend in environmental sustainability has clearly taken the direction of increased regulation by governments at all levels and increased competition for market share among the purveyors of "green" products and services. As a result, companies are finding the need to be innovative while they seek out IP, particularly patents, to protect their effort and investment.

Technology developers on the front line. For businesses that produce a technology perceived by the market as environmentally "friendly" (or "friendlier"), patent protection and an understanding of the boundaries created by patents held by others are vital. In an increasingly competitive marketplace, the exclusivity provided by patents has many benefits, not the least of which is to allow the patent owner to charge a premium price for the product. The regulatory backdrop also needs to be taken into consideration as it can be a key or a bar to success. Government regulations can have a significant influence on the supply/demand equation by forcing consumers to make certain "choices" sooner than if open market tendencies were left unfettered. The ideal scenario for a patent holder is when the patented technology becomes approved, endorsed or even required by a regulatory authority. For example, consider the advantageous market position of a company that develops and patents a lawn irrigation system that is adopted as a standard by numerous municipalities, and which consists of underground sprinklers requiring activation by the municipal authorities, in order to reduce water consumption. On the other hand, it would be a questionable business decision to

make a heavy investment in patent protection for an alternative to, say, incandescent bulbs that uses a cheap but imminently blacklisted chemical.

Corporate citizens. Some companies may not be as concerned with developing environmentally friendly technology, as they are with minimizing the impact of their operations on the environment while preserving, or even improving, their bottom line. For industries that are heavy consumers of fuel (such as transportation), economies in fuel consumption lead directly to environmental benefits while reducing costs. Computer software developed to assist in optimizing route selection, for example, can be a highly valuable corporate asset. Efficiencies in consumer product packaging also tend to translate into a favourable impact on both public and profit. While innovations of this nature are generally patentable, the question of whether it is better to protect them by way of a patent or a trade secret needs to be carefully considered in view of the company's business objectives and competitive position.

New services. Yet a third class of companies or, more precisely, business models, has arisen as a direct result of the public's concern for the environment. These include services consistent with an environmentally friendly value system, such as eco-conscious investment strategies, carbon offset purchasing and trading schemes, and novel recycling programs. Perhaps somewhat surprisingly, some of these innovations, if truly new and non-obvious, may also be patentable as "business methods" in some jurisdictions, notably in the United States.

Regardless of which of the above categories best characterizes a given business, product or project, it is important to realize that as environmental sustainability acquires an increasingly mature role on the corporate agenda, the effect of our society's intellectual property laws will become more evident in this arena. The best-in-class companies will use patent and other IP rights to their advantage. The alternative is that, despite a company's laudable intentions towards the environment, it may be left to suffer the fate of the old lightbulb.

Sanro Zlobec, Montreal
szlobec@smart-biggar.ca



Don't forget industrial design registration as a tool for intellectual property protection

Industrial designs can complement patents and trade-marks to give you the most thorough protection possible for your invention.

Industrial design registration is a too-often overlooked tool for protecting intellectual property. An industrial design registration can cover any of the features of an article that are visual, such as the shape, a pattern or ornamentation. Recent registrations have covered such diverse items as an electronic icon, the sole of a shoe, a faucet, a cell phone, a golf club head, and an electrical connector.

An industrial design registration can be tailored to protect only the features of an article that are important. A cell phone provides a great example of different options that can be protected. When a cell phone is closed, the sleek outer shape is visible. This outer shape of the cell phone is an industrial design. When the cell phone is opened, the numerical keypad and the screen are visible. The shape and configuration of the keypad is an industrial design. When the cell phone is used, electronic icons appear on the screen corresponding to menu options. The ornament of each electronic icon is an industrial design. These three industrial designs – the outer shape, the shape and configuration of the keypad, and the ornament of each electronic icon – can be separately registered or registered in any combination.

In addition to the merits of registering industrial designs in their own right, an industrial design registration can complement other forms of intellectual property protection such as patent and trade-mark protection.

Patents. In general terms, a patent can be used to protect the function of an article, whereas an industrial design registration protects the appearance. For quick-to-market items, such as consumer gadgets, the patent process may seem slow and expensive. Also, the appearance of such gadgets can play as important a role in sales as their function. Obtaining an industrial design registration is typically much less expensive and quicker than obtaining a patent. Filing an industrial design application concurrently with a patent application can put a form of protection in place faster. An industrial design registration alone may even be sufficient to provide the level of protection needed. Remember, even items such as the electrical connector noted above, which may at first instance appear purely functional, will usually have some aspects of appearance that



are not purely functional and so can be protected by an industrial design registration.

Trade-marks. One key area in which an industrial design registration can complement trade-mark registration is in the protection of the shape of a container or packaging for an article. Suppose your company has developed a new bottled water which will be sold in a uniquely-shaped bottle. You can register the brand and the label design as trade-marks, but what about the shape of the bottle? Under the *Trade-marks Act*, the shape of the bottle will be considered a “distinguishing guise”. For a “distinguishing guise” to be registered under the *Trade-marks Act*, it must have been on the market long enough for the distinguishing guise to be recognized as identifying your bottled water. There is no such requirement in the *Industrial Design Act*. An industrial design application can be filed immediately. Later, once the required distinctiveness has been acquired, a distinguishing guise registration can be obtained under the *Trade-marks Act*.

When evaluating intellectual property protection options, remember the option of an industrial design registration.

Christine N. Genge, Ottawa
cngenge@smart-bigger.ca

Licensing basics: part 1

This is the first part in a series of short articles by Alistair Simpson addressing important issues in licensing intellectual property.

To license or not to license? In simple terms, an IP license is the permission granted by an Owner of IP rights (known as a “Licensor”) relating to some type of subject matter (eg. a trade mark, an invention etc.), to a Third Party (known as a “Licensee”). The permission allows the Third Party to use and/or otherwise exploit the IP in a particular manner.

The Owner and the Third Party must first grapple with the issue of whether a license is the most appropriate mechanism to achieve the business objective.

For example, instead of licensing the IP, the Owner may be better off selling the IP to the Third Party. A Third Party may also be better suited by such an arrangement.

Alternatively, a joint ownership arrangement might in some circumstances be more advantageous for the parties.

The Owner should also consider whether a different type of arrangement altogether would be best suited to the particular situation. For example, would it be better to transfer the IP rights into a Joint Venture or similar vehicle, which can exploit specific IP rights in a particular way on behalf of the Owner and Third Party?

Who is being licensed? Once it is determined that a license is the most appropriate arrangement, the Licensor and Licensee need to precisely determine the parties that will be licensed. The Licensor should, of course, have a sufficient degree of comfort and trust in the party or parties he is licensing.

Aside from the specific party named as Licensee, other related parties may acquire rights under the license. For example the Licensee may wish for “subsidiaries” and possibly “affiliates” to also be licensed. The Licensor must be careful to consider how far the rights could flow in relation to such related parties. It is probably trite to state that it is usually important for the Licensor to maintain a level of control over who is exploiting the IP rights.

Another issue arises in a patent and/or technology license, where the Licensee may wish for a “have made right” enabling the Licensee to have the technology made by another party. The Licensor, may however, have

good reason to be concerned if certain third parties can gain access to the technology because they are contracted to make licensed products for the Licensee.

Additionally, it must be recognized that a Licensee may often wish to be able to sub-license others. It is simply noted here, that sub-licensing to third parties raises a myriad of additional issues the need to be addressed in the written agreement.

Finally, while it's another topic to be dealt with in detail elsewhere, the Licensor also needs to consider issues relating to assignment and devolution of Licensee's rights under the contract by the Licensee.

Alistair G. Simpson, Toronto
agsimpson@smart-biggar.ca



Recent developments in brief

2005 – 2004 = One abandoned patent. Federal Court, April 23, 2007. Attention to detail, time limits and the letter of the law are all important when dealing with patents. A patent applicant mistakenly thought that the deadline to pay a maintenance fee was August 2, 2005 instead of August 2, 2004. By the time the company attempted to pay the fee, on July 15, 2005, the patent was already deemed abandoned. The attempt to pay the fee did fall within the 12-month grace period provided to reinstate patents, but the applicant failed to make an explicit request for reinstatement, as required by the Patent Rules. The applicant argued that the request for reinstatement was implied by the submission of the fee, but both the Commissioner of Patents and the Federal Court disagreed and the applicant was unable to revive the application.

See you in Vancouver? Federal Court, April 18, 2007. The Canadian Athletes Fund Corporation administers the SYI Fund, raising money to support Canadian athletes in international competitions. Since 1977, it has raised more than \$2 million through campaigns such as “See you in Torino”, “See you in Beijing” and now “See you in Vancouver”. The Canadian Olympic Committee (“COC”) challenged the right of the SYI Fund to register these “See you in...” marks on the basis of their prior use of the marks, but the Federal Court found that whatever use of the marks had occurred by the COC was internal, non-commercial and insufficient. The SYI is, therefore, permitted to continue with its applications. The COC, not known to shy away from controversy, is expected to appeal.

Boy Scouts take on Benny the Beaver. Trade-Mark Opposition Board, March 21, 2007. If challenged on opposition, it's up to the applicant to convince the Hearing Office that the proposed mark is not confusing with marks that are already registered. In this case, the owner of The Big Beaver Outpost filed an application to register the trade-mark BENNY THE BEAVER for a variety of items including t-shirts, CDs, children's books and board games, as well as a variety of services including entertainment and club membership. The Boy Scouts of Canada opposed on the basis that they were concerned that there would be confusion with their Beavers section, which began in 1971. After assessing the whole situation, including the type of books, magazines, clothing and activities that were provided by each party, the Hearing Office refused the application for BENNY THE BEAVER on the basis that he had not been



convinced that the mark would not be confused with Boy Scout Beavers.

Parents venture into FACEBOOK and find IP issues everywhere. Until recently, FACEBOOK was the favoured domain of the younger set and a mystery to their parents. However, that has changed and on Tuesday June 12, the Globe & Mail made it official, leading the Greater Toronto Edition with advice on “What to do when Mom joins FACEBOOK”, thereby undoubtedly sealing the fate of the site, previously the domain of teenagers, and now taken by storm by the older crowd. Most readers will be aware that FACEBOOK is a social networking site, but many don't know a lot more about it. A quick search, however, will show that issues relating to copyright and confidentiality of information about on websites such as FACEBOOK, MYSPACE and YOUTUBE. With new technology arriving on the scene almost daily, copyright, patent, trade-mark and other intellectual property issues, once the domain of engineers and IP lawyers, are now part of everyday life. We hope that *IP Connections* will help you increase your understanding of our increasingly complex world.

SMART & BIGGAR FETHERSTONHAUGH

Barristers & Solicitors • Patent & Trade-mark Agents

OTTAWA

55 Metcalfe Street, Suite 900
P.O. Box 2999, Station D
Ottawa, Ontario Canada
K1P 5Y6
t. 613.232.2486
f. 613.232.8440
ottawa@smart-biggarr.ca

TORONTO

438 University Avenue
Suite 1500, Box 111
Toronto, Ontario Canada
M5G 2K8
t. 416.593.5514
f. 416.591.1690
toronto@smart-biggarr.ca

MONTREAL

1000 de La Gauchetière St. W.
Suite 3300
Montreal, Québec Canada
H3B 4W5
t. 514.954.1500
f. 514.954.1396
montreal@smart-biggarr.ca

VANCOUVER

650 West Georgia Street
Suite 2200
Box 11560, Vancouver Centre
Vancouver, B.C. Canada
V6B 4N8
t. 604.682.7780
f. 604.682.0274
vancouver@smart-biggarr.ca

www.smart-biggarr.ca

Smart & Biggar has been honoured by a survey conducted by the leading publication *Best Lawyers In Canada*.

The 2007 survey, which was conducted of fellow intellectual property lawyers throughout North America, recognized that no firm in Canada has more leading IP lawyers than Smart & Biggar.

With approximately 100 professionals in four offices, Smart & Biggar is Canada's largest firm practising exclusively in intellectual property and technology law. Related to the patent and trade-mark agency firm Fetherstonhaugh through common partners, offices, and personnel, we have been leaders in our field for over a century.

Virtually every member of our firm has an engineering or scientific educational background and many also have post-graduate degrees. More than two-thirds of our firm members, including most of our lawyers, are registered patent agents.

This technical depth and record of superior service are the reasons Canada's most innovative corporations and law firms look to Smart & Biggar/Fetherstonhaugh for a full range of intellectual property and technology law services including:

- Patent and trade-mark protection worldwide
- Trade secrets and confidentiality
- Strategic IP audits
- Anti-counterfeiting
- Licensing
- Litigation
- IP valuation
- Technology commercialization agreements
- IP management and strategic counselling
- Domain names
- E-commerce

To offer your feedback on this newsletter or any of its articles, please contact:

Keltie R. Sim (Editor)
krsim@smart-biggarr.ca

Geneviève M. Prévost (Co-editor)
gmprevost@smart-biggarr.ca

Emma Start (Co-editor)
emstart@smart-biggarr.ca

Disclaimer

The preceding is intended as a timely update on Canadian intellectual property law. In order to request a copy of any decision, paper or legislative document, or for more detailed information or suggestions, kindly contact an author of the relevant article, or the editor, Keltie R. Sim. The contents of our newsletter are informational only, and do not constitute legal or professional advice. To obtain such advice, please communicate with our offices directly. To be put on the *IP Connections* mailing list, or to amend address information, please call (416) 593-5514 (ext. 318).