



IP CONNECTIONS

CANADIAN INTELLECTUAL PROPERTY & TECHNOLOGY LAW NEWSLETTER

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Bettering your business position using IP assets

Many business organizations look at patents from the narrow perspective of obtaining protection against copying. However, patents can be advantageous in many additional ways that extend well beyond preventing competitors from copying innovative technology. In the specific commercial scenario of a supplier to an OEM (original equipment manufacturer), patents can be leveraged advantageously by the supplier to negotiate a more favourable business relationship.

Typically, OEMs purchase individual components from a plurality of different suppliers (such as tire manufacturers, engine manufacturers, etc.) and combine these components, as well as some of the OEM's own components, into an overall product (such as an automobile) that is sold under the OEM's name or brand. There is a delicate balance in any business relationship between a supplier and an OEM since the two parties often have diverging commercial interests. What is beneficial for one party usually comes at the expense of the other.

When negotiating with one or more suppliers, OEMs generally want to be able to strictly control the terms of the supply arrangement such that they can obtain the supplied parts at the cheapest possible price, ensure the

availability of parts (especially critical parts) by having multiple suppliers, and prevent the technology that they are purchasing from being supplied to competing OEMs. In contrast, it is usually in the supplier's best interest to have the relationship set up in exactly the opposite manner. The supplier wants to be able to sell the parts at the highest possible price, be the sole provider of certain types of parts to the OEM, and have no restrictions on the sale of their parts to other OEMs.

This dynamic can create tension which in practice is often resolved in favour of the OEM simply because the supplier needs the OEM more than the OEM needs the supplier. Unfortunately for the supplier, this often puts the OEM in a position to be able to dictate the terms of the business relationship to the supplier, and the supplier often has no choice but to accept those terms if the supplier wants to continue doing business with the OEM.

This is where a commitment to innovation backed by a strong patent portfolio in the hands of the supplier can be strategic. When a supplier's technology includes innovation that will provide value to the OEM's end product, it is quite likely that the OEM will see a clear benefit in including the supplier's technology in its product line. A supplier that



has built a strong patent portfolio covering its desirable technology is then in a position to leverage its patent assets to negotiate a more even-handed business relationship with the OEM. In fact, if the technology is truly desirable to the OEM and the patent protection covering the technology is strong, the roles may very well be reversed. In other words, that OEM may then need the supplier more than the supplier needs that OEM.

One tangible way that a supplier can extract value from its patent portfolio when negotiating a supply agreement is by charging the OEM a premium for access to the supplier's innovative patent-protected technology. For example, consider the hypothetical situation of SoundBite Inc., a supplier of car stereo systems to a large car manufacturer (the OEM). SoundBite is aware that one of the major issues in car stereo systems today is the question of volume control. Currently, stereo systems require a user to manually press buttons, either on the stereo system itself or on the steering wheel. This requirement for manual control forces the driver to remove his/her eyes from the road, which has been known to cause accidents. To solve this problem, SoundBite has developed and obtained patent protection for a stereo

system that can be controlled using voice commands. Given the benefits of this improved stereo system, the OEM will obviously be interested in integrating this new voice-controlled stereo system into its product lines.

As such, when negotiating the price for the voice-controlled stereo system, SoundBite is in a position to ask for an "innovation premium" in exchange for giving the OEM access to the patented technology. The price to the OEM may then be determined based on (1) SoundBite's costs (how much it costs SoundBite to make the car radio system), (2) a reasonable profit based on SoundBite's manufacturing operation and (3) the innovation premium. Based on these criteria, the total price for the voice-controlled stereo system may be calculated according to a formula such as: price = costs + reasonable profit + innovation premium.

The notion of an innovation premium can be justified on the grounds that the technology is broadly covered with patents and the OEM therefore cannot get that technology from anywhere but that supplier. The innovation premium may be determined based on factors that include the desirability of the technology,

the strength of the patent protection, and whether the OEM is getting the exclusive rights to the technology. Obviously, the more desirable the technology and the stronger the exclusivity, the higher the premium can be.

In the above scenario, SoundBite did not obtain patent protection solely for defensive reasons, i.e. to prevent others from copying its technology. Rather, Soundbite's motivation was to use these patents to increase the margins on the products sold to the OEM.

For a supplier to be able to charge an innovation premium to an OEM, a few things have to happen. First, innovation is essential. Creating desirable, innovative technology needs to be a primary focus, with patent protection following naturally from the innovation process. In other words, building a strong patent portfolio should come secondary to investing in and being committed to ongoing innovation.

But not any innovation will do. Long-term product and market vision is important. Consider what innovative technology will go into products being supplied to the OEM three to four years down the road. What

technology will consumers want to see in the OEM's overall product in the future? Keeping with the example of a supplier of stereo systems to a large car manufacturer, the supplier that knows its niche inside out is in an excellent position to forecast what the market will need in the future. Accordingly, the supplier may very well be capable of seeking patent protection today for stereo technologies unknown to OEMs at present but likely to be coveted by them in the future.

In an ideal world, by the time the OEM discusses with the supplier what technology it would like to purchase, the supplier will already have patent protection covering the innovative aspects and features of that technology. In such a scenario, suppliers should see themselves not just as manufacturers of parts but also as suppliers of innovation, which should be taken into account when negotiating with an OEM.

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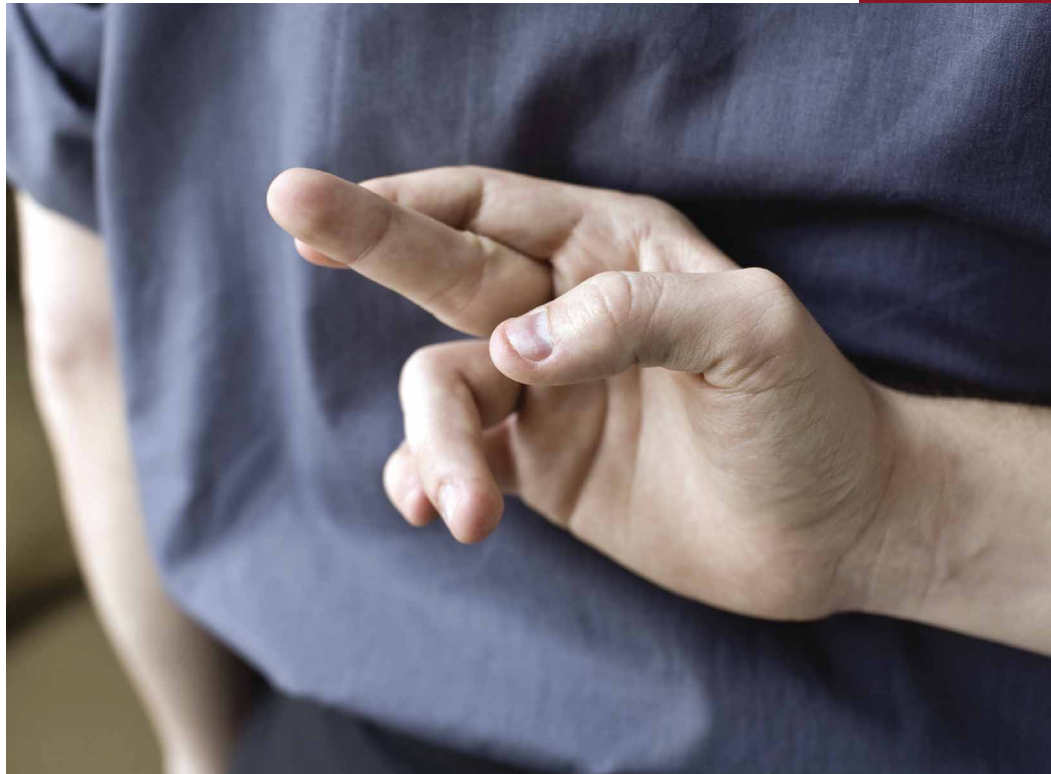
Make a statement without saying a (misleading) word

The UK government recently published a series of advertisements aimed at encouraging climate change awareness, including one retelling of a famous nursery rhyme with amended wording:

Jack and Jill went up the hill to fetch a pail of water. There was none, as extreme weather due to climate change had caused a drought.

An accompanying picture depicts a perplexed Jack examining an empty water pail and includes a statement: "extreme weather conditions such as flooding, heat waves and storms will become more frequent & intense." The Advertising Standards Authority, in response to readers' complaints, banned the advertisements on the basis that the environmental claims were exaggerated, distressing and misleading.

Though the UK government's opinions may be extreme, there is no question that a concern for the environment is at the forefront of public interest and political agendas. It's unsurprising that companies are rushing to label or advertise products that claim to be



green or environmentally friendly, and many of these claims have been criticized as being vague and misleading. In fact, a North American survey conducted by TerraChoice Environmental Marketing concluded that, of the identified 1,018 consumer products in the survey bearing 1,753 environmental claims, all but one made claims that were false or could mislead audiences.

Environmental claims, as well as other types of claims such as health or drug claims, may sometimes form part or all of a trade-mark. These marks may be deemed registrable by the Canadian Trade-marks Office while containing a term or word that is prohibited by other Acts such as the *Competition Act* or the *Consumer Packaging and Labelling Act*. These Acts apply regardless of the field of use. For example, the *Competition Act* prohibits advertisers from making representations in advertising that are “false or misleading in a material respect.” Under certain circumstances, in serious cases of false or misleading advertising, the individual or company responsible may be subject to criminal prosecution.

Other legislation or guidelines, such as the *Food and Drugs Act* and the *Textile Labelling Act*, may also apply to the specific field of use. In the environmental context, a guide titled “Environmental Claims: A Guide for Industry and Advertisers” was published in June 2008 by the Competition Bureau of Canada in partnership with the Canadian Standards Association to address concerns relating to misleading or confusing environmental claims.

The guide discourages the use of vague claims such as environmentally friendly, ecological (eco), green, environmentally safe, earth smart, ozone friendly, nature’s friend, forest friendly, etc., unless the claim is accompanied by another supporting statement. For example, according to the guide, a phrase such as “This product has replaced its aerosol ingredients with an alternative that does less harm to the ozone layer” is preferred over a term such as “ozone-friendly.” In addition, if the claim makes representations as to the performance or efficacy of a product, the claim should be supported by proper testing that is made available upon request.

While the guide is not a Regulation and therefore does not have the force of law, the Competition Bureau uses the guide as a standard for evaluating whether self-declared environmental claims are false or misleading.

In addition to the environmental industry, the food industry has been criticized for marketing products with unsubstantiated health benefit claims. Health claims are governed by the *Food and Drugs Act* and *Regulations*, and violations of the *Act* or its *Regulations* will be investigated by Health Canada and, in some circumstances, the Competition Bureau. Under the *Food and Drugs Act*, food cannot be labelled, packaged or advertised, including through the use of a trade-mark, “in a manner that is false, misleading or deceptive or likely to create an erroneous impression regarding its character, quality, value, quantity, composition, merit or safety.”

Health Canada has also published a Guide to Food Labelling and Advertising. The guide notes that “Health claims may be stated explicitly with words, or implied through symbols, graphics, logos or other means such as a name, trade mark or seal of approval.” Therefore, both word trade-marks and trade-marks comprised only of a design element are subject to the *Act* if they imply a particular health claim.

Examples of health claims and the limitations on marketing them are provided in the guide and the *Food and Drug Regulations* (see for example Table 1 following B.01.513 of the *Regulations*). A few of these numerous examples are provided below:

Low protein – these claims are specifically set out in technical terms in the *Regulations*; the claim must fulfill the condition that the food contains no more than one gram of protein per 100 grams of the food.

Carbohydrates – as a result of the popularity of low-carbohydrate diets, an explosion of



carbohydrate claims began appearing on food products in Canada. The Canadian Food Inspection Agency responded by announcing that carbohydrate claims such as low carbohydrate, reduced carbohydrates, or source of carbohydrates on food products are generally not permitted.

Fresh – the word fresh can be used to describe the nature, age, flavour, texture, appearance and smell of a product, provided the term is not misleading. For example, according to the guide, it would be considered misleading to label or advertise fruits and vegetables as orchard fresh if the fruits or vegetables were held for months in controlled-atmosphere storage. The word fresh can also be used as a trade-mark, provided it is clear to the consumer that fresh is not a characteristic of the product but instead represents a brand.

Organic – The Agriculture and Agri-Food Canada website indicates that annual retail sales of certified organic products in Canada are more than \$1 billion. As of 2009, the *Organic Products Regulations* prohibit the labelling of a product as organic unless it has been certified to the Canadian Organic Standards for agricultural products. The

Regulations specifically indicate that no person shall label or advertise a product as organic (or use similar wording) unless the product is a single-ingredient organic product or a multi-ingredient organic product that contains at least 95% organic content. It is noteworthy that the *Regulations* apply only to products travelling across provincial or international borders. As a result, uncertified organic claims may still be observed at small venues such as farmers' markets.

Given that trade-marks are often interpreted as a type of advertising or labelling claim, it is important to be familiar with the relevant Acts, Regulations and guidelines that apply to the trade-mark owner's field of use. The underlying question with respect to the applicable Acts is typically whether the trade-mark appearing on the label or advertisement could be considered misleading. Prior to filing a trade-mark application or commencing a marketing campaign, it is therefore prudent to question whether a trade-mark or portions thereof could be viewed as misleading to Canadian consumers.

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Time limitations worth noting: is it too late to protect my rights?

In the excitement of getting a new product to market, the protection of IP rights is not always a primary concern. Sometimes, the question arises only after the first shipment is out the door or after an existing product has been introduced to a new market. Some types of IP protection are severely limited once a product has been introduced to the public. Is there anything that can be done to protect your rights after a new product has gone to market? The answer depends on what IP rights are involved.

Patents. The patent process is the strictest of the protections available for IP when it comes to the effect of a disclosure. In many jurisdictions, such as in the European Union, it is normally too late to file a patent application after any disclosure of the invention has been made to the public. However, this is not the case universally. There are countries that may have significant markets for your products that allow a patent application to be filed up to one year after the first public disclosure of



the invention (and these countries include Canada and the United States).

The other issue to consider is whether the disclosure that has occurred is of a type that would prevent patenting. If your product has appeared at a trade show but the invention could not have been reverse-engineered from the manner in which it was displayed, there may not have been a disclosure that would prevent patenting the invention. The key is to consider exactly what was disclosed and to whom before exploring patenting options.



Industrial designs. An industrial design, or a design patent as it is known in the United States, can be used to protect the esthetic features of a functional article. There can be similarities or significant differences between industrial design and patent time limits. In Canada and the United States, the time limit for filing an industrial design application is the same as for filing a patent application, while in Europe, it is different: although a European patent application must be filed before public disclosure of an invention, a European design application can be filed up to one year after the first public disclosure. Therefore, if your new product has a novel appearance as well as a new function, you can still obtain a level of protection in some countries by registering a design within one year of the first disclosure, even though it is too late by then to file a patent application.

Trade-marks. Publicly launching your new product will not hamper your ability to obtain a trade-mark registration. A trade-mark registration is normally available well after it is too late to file a patent or industrial design application.

There are significant advantages, however, to obtaining the earliest possible filing date for a trade-mark application. If you initially believe that Canada will be the primary market for your product, you may file a trade-mark application only in Canada. Five months down the road, you may discover a booming market in Mexico. Can you file a trade-mark application there as well? Yes, but to take advantage of the earlier filing date of the Canadian application, you must file the Mexican application within six months of filing in Canada. Beyond six months, the claim to the Canadian filing date is lost, and you are limited to the later Mexican filing date.

Copyright. Copyright exists in a work as of its creation. The registration of copyright is generally optional and can be made at any time. Although very attractive because of the lack of time limits, copyright is unlikely to be of much assistance in protecting your new product. The instruction manual may be subject to copyright as a printed publication, but a mass-produced product is not likely to be protected by copyright itself. For most products, you will need to look to the other forms of protection discussed above.

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Recent developments in brief



False patent marking in the U.S. The U.S. Court of Appeals issued a decision on December 28, 2009, that is of interest to those advertising or selling products south of the border. The Court considered the statute that provides for a \$500 fine for falsely marking articles as patented or improperly providing a patent number that does not cover the article. It concluded that the fine should be imposed on a “per article” basis, thus potentially increasing the overall penalty substantially. As a consequence of this decision, patent owners should be careful to ensure that any products marked as patented are indeed covered by at least one claim of the named patent.

Keyword law develops globally. The common practice that allows online advertisers to purchase keywords containing their competitor’s trade-marks has been a source of significant revenue for providers of this service and a source of significant frustration for trade-mark owners. In Canada, there have been few legal actions that have resulted in judicial guidance on how this issue will be viewed by the courts. However, a March 2010 decision of the European Court of Justice has provided insight as to the trend in judicial interpretation of the law on a global basis. The Court held that Google should not be held liable for trade-mark infringement if an ad is removed promptly when brand owners complained about violations, but advertisers could be liable if ads generated by another company’s brand name could not easily and quickly establish the actual source of the goods upon viewing the advertisement. The decision has been interpreted to indicate that advertisers must be very careful if they wish to adopt the keyword marketing strategy within the European Union.

More modernization initiatives for trade-marks. Over the course of the past few months, the Canadian Intellectual Property Office has been active in efforts to modernize trade-mark law and practice. A few new initiatives are now on the table, including extensive updates to the Trade-marks Examination manual and rules for conducting cross-examinations in opposition cases. Amendments to the *Trade-mark Regulations* have also been proposed suggesting that Pantone numbers may be required when describing colours not specifically covered by the rules and to limit the availability of retroactive extensions of time in some circumstances.

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Smart & Biggar/Fetherstonhaugh has been named Canadian Copyright Firm of the Year for 2010 by U.K. publication *Managing Intellectual Property* magazine (MIP). The awards were presented at MIP's annual North America Awards ceremony, held on April 16th in Washington, DC. MIP has for several years recognized Smart & Biggar/ Fetherstonhaugh as a highly ranked IP firm in patents, trade-marks and copyrights.

With over 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 over one-third also have post-graduate degrees. More than two-thirds of our firm members, including most of our lawyers, are registered patent agents.

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- IP management and strategic counselling
- Domain names
- E-commerce

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