



# IP CONNECTIONS

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## Combating counterfeiting crime in Canada

**Canada has not been immune to the explosion in IP crime over the last decade. Practical steps available to address the problem require awareness, diligence and perseverance.**

Although Canada is a signatory to treaties that require that we provide “criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale”, law enforcement efforts have not proven to be an effective deterrent to date. Inadequate laws, including outdated and ineffective border enforcement provisions and trade-mark offences, exacerbate the problem. The result is that counterfeit brand name products and pirated copyright works are openly offered for sale in Canada on the internet, on the streets and in certain markets and malls. Further, counterfeit and pirated products closely copying legitimate products appear in legitimate channels of trade and are purchased without knowledge of their counterfeit or pirated nature.

The types of counterfeited products are limitless. Some raise serious health and safety issues, including pharmaceuticals, electrical products, toys, car parts and personal care products, to name but a few. Authorized imported products have recently raised health and safety concerns, but the concerns raised by IP criminals’ manufacturing methods are far

worse. Reported counterfeit pharmaceutical cases provide striking examples.

On February 28, 2007, pharmacist Abadir Nasr was acquitted on charges arising from his proven sale of counterfeit NORVASC blood pressure medication. The Chief Coroner of Ontario investigated eleven deaths among people who had received NORVASC from Nasr’s pharmacy in Hamilton, and classified the manner of death of four of them as “undetermined” with the cause of death mentioning the medication substitution. Nasr was acquitted on the basis that there was insufficient evidence to prove that he knew he was selling counterfeit pharmaceuticals. The Trial Judge had evidence that included a statement made by Nasr to the RCMP that he had purchased some of the products from an individual having a “white van”, identified only as a wholesaler from Vancouver who offered the products at discounted prices. The evidence also included testimony regarding distinguishable differences in the features of the counterfeit product and legitimate product being brought to the attention of Nasr by concerned customers.



Another example is the unfortunate death of Marcia Ann Bergeron in B.C. in December 2006. Mrs. Bergeron was found to have died of cardiac arrhythmia due to acute metal poisoning. Investigations confirmed Mrs. Bergeron's purchase of pharmaceuticals over the internet, and that counterfeit pills found in her home contained metals.

So what steps can people and businesses take to protect themselves against IP crime? Common sense solutions help against inadvertent purchases, and perseverance helps in combating the significant economic damage that may be caused.

With respect to purchasing, some basic rules are worth keeping in mind.

- If the price seems too good to be true, it probably is. Unbelievable deals at any point in a product's distribution chain should raise suspicion and cause steps to be taken to verify authenticity before purchase.
- Purchasing from authorized distributors or trusted retailers is one way to minimize risk.
- Check all products for telltale signs of counterfeiting, like labeling mistakes, inferior packaging, burned optical disks (rather than pressed), etc. Legitimate brand name products normally have crisp printing and graphics, and do not misspell words.
- When purchasing products outside brand owners' authorized channels (*i.e.* in the grey market), proof of authenticity should be requested and products closely inspected when received.
- If suspicions are raised when purchasing from a trusted distributor or retailer, consider mentioning your suspicion, as the sale may be inadvertent. However, recognize the activity as crime and treat any response appropriately.
- Verifiable suspicions should be brought to the attention of:
  - the police (see for instance: [http://www.rcmp-grc.gc.ca/fio/ipo\\_guide\\_e.htm](http://www.rcmp-grc.gc.ca/fio/ipo_guide_e.htm))
  - the brand owner
  - in the case of a certification mark (such as the CSA or UL certification marks), the certifying authority (*i.e.* the Canadian Standards Association or Underwriters Laboratories).

Regardless of the level of diligence exercised, counterfeit products may be obtained unintentionally, including in a manner that does not provide any opportunity to inspect (such as electrical breaker boxes in buildings, included batteries, or automobile replacement parts). If any problems are encountered with a product, counterfeiting should be considered and verifiable suspicions brought to the attention of the authorities and the IP owner, regardless of whether the product is covered by a warranty.

When protecting business interests, internal diligence is required to prevent inadvertent distribution or use of counterfeit or pirated products. Companies should also enforce their IP rights and address damage to business resulting from the unfair anti-competitive distribution of counterfeit or pirated products by competitors. Contacting the police is an obvious first step. Unfortunately, law enforcement resources are limited (*i.e.* the RCMP's stated policy is that retail level IP crime is not an enforcement priority), and even when criminal enforcement is pursued, there is often insufficient deterrent effect. Civil enforcement may also be considered, the particulars and cost-effectiveness of which will depend on the circumstances.

In general, awareness, diligence and perseverance are the best defences against IP crime in Canada. IP owners may and do use various means to combat the problem, including international and local enforcement programs, overt and covert authentication technology, educational programs, and lobbying for effective tools and enforcement.

The Canadian government has studied the issue, and two parliamentary committee reports in the spring of 2007 unanimously called for reforms. Most recently, the government indicated in the throne speech in October that it would improve the protection of cultural and intellectual property rights in Canada, and commented in response to the parliamentary reports that it will develop options to strengthen and modernize Canada's IP enforcement regime. Legislative action to update Canada's IP crime laws is overdue and anticipated. It is hoped that Canada will soon have more effective laws providing more practical legal tools for addressing the problem.

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## A “colourful” approach to non-traditional trade-marks

Trade-marks that fall outside the usual categories of words or design are getting increased attention, from companies and from the Trade-marks Office.

When one thinks of a trade-mark, one generally thinks of a word trade-mark such as ESPRIT or a design trade-mark such as Dairy Queen’s “DQ & Design”:



Many companies, however, have recognized the importance of what may be classified as “non-traditional” trade-marks: colour, sound and scent. It is unquestionable that a sound, colour, or scent can form an association with a certain company in the mind of the consumer. For example, an individual singing along to a catchy ZOOM ZOOM ZOOM tune may find themselves thinking about Mazda’s automobiles. The registrability of non-traditional trade-marks is an interesting and often-debated topic.

**Sound trade-marks.** The Trade-marks Office generally objects to the registration of sound trade-marks on the basis that sound cannot be physically represented. Commentators (and applicants) have argued, however, that sound marks can be represented visually in a number of ways. For example, Metro-Goldwyn-Mayer Lion Corp. has applied to register its roaring lion sound, often heard at the beginning of movies. The roaring sound is represented as follows in the application:



Another application, for HI SA MI TSU & DESIGN (for use in association with medical goods) is represented visually as:



and is described in the application as follows:

“The mark consists of the word “HISAMITSU” sung over the sound of four musical tones, E, A, E, and F sharp. The first three notes being

quarter notes and the final note being a tied quarter note and half note.”

Neither mark has been approved by an Examiner.

A famous example of a sound trade-mark in the United States is Harley-Davidson’s attempt to register a particular exhaust sound in association with its motorcycles. Harley-Davidson’s application was eventually abandoned after nine competing motorcycle manufacturers opposed the trade-mark.

**Colour trade-marks.** Although colour can form part of a trade-mark in Canada, the Trade-marks Office will not accept an application for the registration of a colour unless the colour is tied to a particular size or shape.

The ban on colour-alone marks has required applicants to file somewhat imaginative applications in an attempt to avoid an objection by the Trade-marks Office. For example, a company called Henkel Canada Corporation sells masking tape for use in painting.



Henkel’s COLOUR GREEN #2 trade-mark is shown below:



The trade-mark application claims that “[t]he trade-mark consists of the colour green applied to the whole of the visible surface of the particular piece of masking tape depicted in the drawing.” Although Henkel’s trade-mark is limited to a particular shape, the shape is common for masking tape and therefore a registration would essentially grant Henkel the sole right to sell green masking tape. A third party is opposing Henkel’s application.

**Scent trade-marks.** There appears to be little interest in protecting scent trade-marks in Canada, despite the existence of research suggesting that scent is the strongest sense tied to memory.

There are no Canadian cases dealing with the registrability of scent trade-marks, nor are there any registrations or pending applications for scent trade-marks on the Trade-marks Database. Many speculate that the Trade-marks Office would refuse to register a scent trade-mark on the basis that, similar to sound trade-marks, scent cannot be visually represented. However, a written description of a scent, or a scientific chart such as a chromatogram, are arguably both physical representations of scents.

**The future of non-traditional trade-marks.** Although the current position of the Trade-marks Office is that colour alone, sound, and scent trade-marks are not registrable, a modernization of trade-mark law in Canada may eventually result in protection for non-traditional trade-marks. As indicated by the Canadian Intellectual Property Office in a call



to the profession in 2005, “many feel that these so called non-traditional marks are the dominant branding strategies of the future. We are at a critical juncture in the way trade-marks are selected, created and used and the time for change is approaching rapidly.”

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## What is a Freedom to Operate analysis?

**A clear understanding of the existing patent rights of others is essential to prevent costly infringement actions down the road.**

A core tenet of the modern-day patent system is that the patent rights of others deserve to be respected. Therefore, when launching a new product or service into the marketplace, every effort should be made to ensure that the commercialization of that product or service does not infringe any third party patents. Companies failing to do so could suffer dire consequences.

It is in this spirit of respecting others' patent rights that many companies perform what is known as a Freedom to Operate (FTO) or “market clearance” analysis. The purpose of an FTO analysis is threefold:

- a) to understand what patent infringement risks exist with the potential commercialization of a product or service,
- b) to understand where those risks lie (e.g. in whose hands and in what technology area) and
- c) to determine how to manage those risks prior to commercialization.

At its most basic level, an FTO analysis involves two major steps. The first is to perform a search to identify others' patents in the same technology area as the product or service being commercialized. The second is to analyze those patents to determine whether the product or service falls within the scope of the patent claims.

The term Freedom to Operate can be misleading. It sounds very finite and can sometimes give the impression that there is absolutely no risk of infringing any third party patents once the analysis has been performed. Unfortunately, this is seldom the case. Usually, an FTO analysis simply provides information to help a company understand and manage the risks associated with launching a product or service into the marketplace.

There are many different types of FTO analyses, and the type that is performed can vary depending on a company's tolerance for unknown risk. For example, a first type of FTO analysis may focus only on assessing the



patents belonging to a key competitor. In such a case, the search would only reveal those patents belonging to that competitor, and the analysis would simply provide an indication as to whether the commercialization of the product or service could be problematic in view of the patent rights of that competitor. While this type of FTO provides some indication of the risk of entering the marketplace, there is still the possibility that patent rights held by someone other than that competitor could present a problem from an infringement perspective.

A second type of FTO analysis may focus only on assessing others' patent rights relating to a single aspect of a new product or service. For example, in the case of a new car engine that has self-diagnostic capabilities, the FTO could focus solely on assessing others' patents in the field of self-diagnostic engines. All the other aspects of the engine (for example, the design and operating characteristics of the engine) would be ignored. This type of FTO would provide an indication of the potentially problematic patents relating to that one technological aspect of the new product, but there could still be patents covering other

aspects of the engine that could be problematic.

The most thorough and extensive type of FTO analysis would involve considering all third party patents relating to every aspect of a product or service to be commercialized. This type of FTO would provide the most information, and thus the most assurance that there will be no infringement issues when commercializing the product or service. However, this type of FTO analysis can often be prohibitively expensive both in terms of time and financial resources.

Regardless of the type of FTO that is performed, some effort should be made to understand and mitigate the risks associated with entering the marketplace prior to commercialization. The type of FTO analysis performed can depend on many factors, one being the company's tolerance to unknown risk. However, in the spirit of mitigating risk, it should be remembered that some information is often better than no information.

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## Licensing basics, part 3

The third article in our series on IP licensing discusses escape clauses.

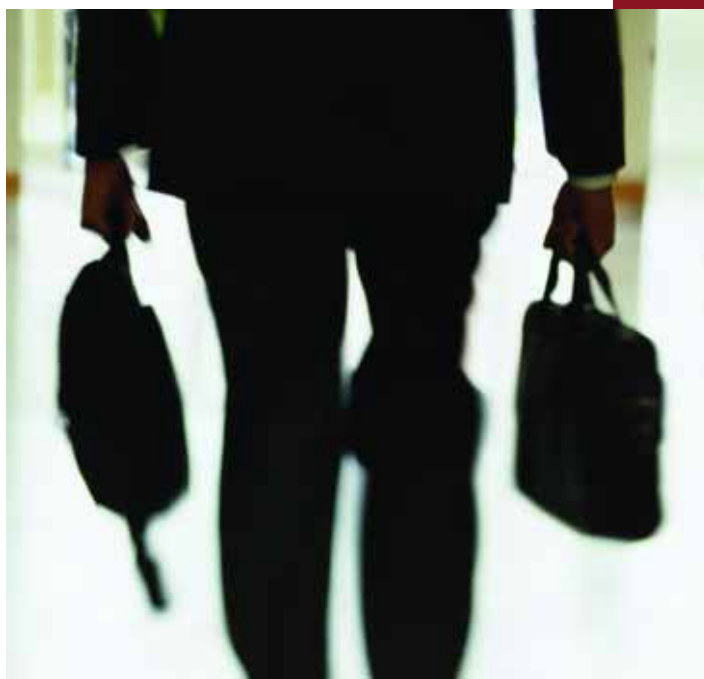
**Let me out of here!** Like many relationships, license agreements may be entered into with optimism and the best of intentions. However, it is worth remembering the old adage: hope for the best, but plan for the worst.

To further this objective, the "Term" (*i.e.* how long the license is intended to last) should be clearly specified.

Also, both parties (and in particular the Licensor) should turn their minds to the types of things that might go wrong in the relationship. Provisions should be included that provide the offended party with the option to exit the relationship in the event that such things occur.

There are an infinite number of problems that might arise for the Licensor during the term of the license, including:

- (a) the Licensee stops making payments, or is not paying the appropriate amounts, and/or is not paying in a timely manner;



- (b) the Licensee fails to live up to performance obligations relating to the volume or value of licensed products sold;
- (c) the Licensee is carrying on business in such a manner that damage is being caused to the licensed property of the Licensor; and,
- (d) the Licensee is sued by a third party based on a product liability claim or claim of infringement of third party IP rights.

Accordingly, it is often advisable for the Licensor to have terms in the license enabling it to be terminated upon the occurrence of one or more specified events.

Likewise, the Licensee may wish to have exit options specified in the agreement. For example, such provisions may allow the Licensee an easy exit if the planned exploitation of the licensed IP rights does not go according to plan. Also, the Licensee may wish to have the option to terminate in the event of the Licensor failing to live up to certain obligations he might have, such as failing to properly secure or maintain certain registered intellectual property rights or failing to take enforcement action against third party infringers.

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## Patentability: is patent protection an option?

So you or someone else at your company has developed a new device or system, a new chemical process, or a new way to achieve a certain result or to perform a function. An invention, some might say.

If you wish to have some form of protection for an invention, a patent might warrant consideration. A patent provides a period of exclusivity during which only a patent owner or those authorized by the patent owner may make, use, or sell an invention.

Determining whether a patent might be appropriate for an invention can be somewhat difficult. Canadian patents have been issued to inventions in a wide range of technical fields, from one of the "greatest things *in* sliced bread" (see Canadian Patent No. 198,275, entitled "Machine For Making Pre-Sliced Bread Loaves", issued March 16, 1920), to some of the greatest things *since* (see Canadian Patent No. 367,104 to J. Armand Bombardier, entitled "Snowmobile", issued June 29, 1937, as one example of a famous invention for which a patent was granted). Given the broad collection of inventions for which patents are granted, how can one initially assess an invention for potential patentability?

The Canadian *Patent Act* defines a patentable invention as a new and useful "art, process, machine, manufacture, or composition of matter" or a new and useful improvement thereof. In more familiar terms, an "art" would include a method or way of doing something. A "process" is generally considered to be a chemical process. A relatively broad interpretation, including virtually any physical device or system, is given to "machine". A

"manufacture" might be most clearly explained as a product that is made and sold. Finally, a "composition matter" is a chemical compound.

Certain exclusions to patentability have also been established in Canadian Patent legislation or by the Courts, including methods of medical treatment, professional skills, and abstract theorems, for example.

In some cases, even when an invention does not seem to fall into one of the permitted categories or appears to be precluded from patentability by an exclusion, a patent can be obtained by carefully defining the protection being sought. For example, there is a widespread misconception that software is not patentable. Although pure software *per se* might not be patentable, the underlying methods implemented by software, systems that execute software, and even computer-readable media storing software might all be patentable. An invention relating to financial systems or commerce, which might initially be dismissed by an inventor or owner as an unpatentable business method, could also be patentable if defined properly in a patent application.

In addition to subject matter considerations, other criteria are applied in Canada to determine whether a patent should be granted: novelty, utility, and inventive ingenuity. Simply put, an invention is novel if it is not identical to any previously known technologies, and an invention that has a real-world use or effect will normally be considered to possess utility. Inventive ingenuity, also often referred to as obviousness, can be much more difficult to gauge. Obviousness effectively becomes a



question of differences between an invention and known technologies. The actual differences, their effects, the problems they solve, and whether a person working in the technical field of the invention could be expected to revise the known technologies in the same manner, may all be pertinent to the issue of obviousness.

In short, an invention might satisfy subject matter and other patentability requirements to different degrees, and the patenting process

varies accordingly. The patenting process for a pioneer invention involving a new machine that breaks new ground in a technical field, as in the case of the above patent to Bombardier, might be more straightforward and require less effort than the process for a software-implemented invention having less substantial differences over known technologies.

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## Recent developments in brief

### **YouTube provides automatic copyright block.**

As the popularity of YouTube has grown, the frustration of copyright owners, particularly film studios, who are faced with video piracy has grown along with it. When Viacom Inc. sued for \$1 billion (U.S.) for showing clips of their videos, YouTube sat up and took notice. On October 17, 2007, the Globe & Mail reported on the rollout of new filtering tools on YouTube which are designed to automatically locate and remove material that is the subject of copyright protection from video clips. The technology requires copyright owners to participate by submitting copies of the material that they want to protect, but is nonetheless a major step forward for copyright owners and demonstrates the positive results that can flow when copyright owners take steps to protect their creative works.

**IBM seeks to patent its patents.** In recent years, it has become possible and popular to patent new and useful methods of doing business. Marketing methods, office automation systems and financial processing methods have all been the subject of patent protection in Canada. However, in a new twist on this concept, IBM has filed an application for patent protection in the United States for “a system and methods for extracting value from a portfolio of assets, for example a patent portfolio”. In other words, they are seeking to patent their idea for profiting from their patents. The application was filed in April of 2006 and was published in October of this year. Business method patents are receiving increased scrutiny by the U.S. Patent and Trademark Office in view of their proliferation. As a consequence, the outcome of the IBM application will be an interesting case to watch.

### **Let the games begin. Federal Court,**

**September 11, 2007.** Setana Sport, a company claiming to own North American copyright and broadcast rights in European soccer matches transmitted by encrypted satellite signals, sought an injunction to stop the owner of several sports bars in Canada from showing the games. The Federal Court refused to issue the injunction, partly on the basis that it is not possible for copyright to subsist in a work that has not yet been created. In other words, while copyright can subsist in a broadcast of a soccer match, that copyright does not exist and cannot be enforced unless the broadcast is already in existence.

### **No copyright in Gold hockey system. Alberta Queen's Bench, August 16, 2007.**

Gold in the Net Hockey School Inc. is in the business of developing and operating hockey schools around the world, including a franchise in Alberta. A former employee started Netpower, a company providing goaltending training programs in Edmonton, in competition with Gold. The founder of Gold in the Net had developed the “Gold system” for training hockey goaltenders, which included written manuals and videos demonstrating drills and goaltending techniques and sought an injunction against Netpower for copyright infringement. While it was agreed that there was copyright in the manuals and videos, the Alberta Court rejected the argument that there was copyright in “the Gold system”. The Court reinforced the principle that copyright can subsist only in matter or materials that have form or substance. While there can be copyright in non-written matter, such as choreography for a ballet, the game of hockey is dynamic and unpredictable and cannot be the subject of copyright protection.

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