



IP PERSPECTIVES

INTELLECTUAL PROPERTY AND TECHNOLOGY LAW NEWSLETTER

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- 1 Supreme Court of Canada chews on the issue of using copyright to prevent grey marketing
- 3 Canada publishes new rules and procedures for opposition proceedings
- 4 Signal claims blocked in Canada
- 5 Patent Appeal Board clarifies professional skills exclusion
- 6 Smart & Biggar/Fetherstonhaugh recognized in leading publications

Notes

Supreme Court of Canada chews on the issue of using copyright to prevent grey marketing

Canada's highest Court has determined that assigning an exclusive copyright licence to a local subsidiary company is not sufficient to prevent a third party from importing the related goods into Canada.

In *Euro-Excellence Inc. v. Kraft Canada Inc.* (2007 SCC 37), an oddly split 7-2 decision handed down on July 26, 2007, the Supreme Court of Canada has issued an important decision relating to the ability to use copyright to prevent parallel importation of grey market goods into Canada.

Canada's highest Court overturned lower Court decisions which had held that grey marketing could be prevented by granting an exclusive copyright licence to a Canadian entity in artistic works – logos – displayed on product packaging.

However, in so doing, the Court has clearly left the door wide open to copyright owners to use another strategy to prevent parallel importation: granting Canadian entities an assignment of copyright, rather than an exclusive licence, in the work.

Kraft Foods Schweiz AG and Kraft Foods Belgium SA make TOBLERONE and COTE D'OR chocolate bars in Switzerland and Belgium, respectively. For several years, Kraft Canada Inc. has been their exclusive Canadian distributor. Euro-Excellence was the former authorized Canadian distributor for COTE D'OR chocolate bars. Even though Kraft Canada was the exclusive licensed Canadian distributor, Euro-Excellence continued to import and sell in Canada genuine TOBLERONE and COTE D'OR chocolate bars that were purchased from an unnamed source in Europe.

In an attempt to prevent Euro-Excellence's activities, the Kraft parent companies registered copyright in Canada, as artistic works, in the logos displayed on the chocolate bar wrappers. Additionally, Kraft Canada was granted an exclusive license to produce and reproduce the artistic works in Canada.

Both the Federal Court and Federal Court of Appeal held that that Euro-Excellence's importation and distribution of the artistic works in Canada violated Kraft Canada's rights as an exclusive licensee, and constituted secondary infringement contrary to section 27(2)(e) of the Canadian *Copyright Act*.

The Supreme Court disagreed and allowed the appeal, in a decision that reflects widely divergent views by various judges.

Four of the seven judges who allowed the appeal had no difficulty finding that copyright subsisted in the logos, and that parallel importation of the bars would have constituted secondary copyright infringement if the copyright had been assigned to Kraft Canada.

However, as an exclusive licensee, Kraft Canada was not in a legal position to prevent Euro-Excellence's sale of grey market bars.

Writing for the group of four judges, Mr. Justice Rothstein adopted a "purposive approach" and stated that:

"The copyright itself was not assigned to Kraft Canada. Therefore, to accept the Kraft companies' argument, this Court would have to find that copyright owners can infringe their own copyright if they have licensed copyright to an exclusive licensee despite their retention of the

copyright. In my view, the *Copyright Act* does not permit exclusive licensees to sue the copyright owner-licensor for infringement of its own copyright. If KFS or KFB had reproduced Kraft labels in Canada in violation of its licensing agreement with Kraft Canada, Kraft Canada's only remedy would lie in breach of contract and not in copyright infringement. Because a copyright owner cannot be liable to its exclusive licensee for infringement, there is no hypothetical infringement and thus no violation of s. 27(2)(e) in this case by Euro-Excellence."

In contrast, three other judges who allowed the appeal were not troubled by Kraft Canada's status to take action as an exclusive licensee. Rather, this group, led by Mr. Justice Bastarache, adopted a policy-based approach that is rather difficult to reconcile with the plain language of the *Copyright Act*, and was of the view that no legitimate economic interest was being served by allowing copyright to be used in this manner. Specifically, the "merely incidental presence" of the copyrighted works on the wrappers of the chocolate bars did not bring the chocolate bars within the protections offered by the *Copyright Act*.

This latter group of judges therefore seemed to accept the use of copyright by an exclusive licensee to prevent parallel importation of grey market goods, but only if the copyrighted work is central or integral (presumably such as in the case of software, music or movies), rather than merely incidental or ancillary, to the product itself.

Finally, the three dissenting judges, who would have upheld the lower Courts' decisions, essentially considered this to be a matter of simple and narrow statutory interpretation that should not incorporate policy-driven considerations. To this group, led by Madam Justice Abella, the *Copyright Act* clearly supported Kraft Canada's ability as an exclusive licensee to prevent Euro-Excellence's activities.

Furthermore, copyright clearly subsisted in the logos:

"To inject an exception for logos on the basis that they are 'incidental' would be to introduce unnecessary uncertainty, inviting case-by-case judicial explorations into the uncharted area of what is 'merely' incidental, 'somewhat' incidental, or not incidental at all. Such an approach also takes insufficient account of the reality that many products are, to a significant extent, sold on the basis of their logo or packaging."



The Court's differing views on grey marketing have resulted in a situation that is not black and white. This is particularly unfortunate, as a recently strengthened Canadian dollar may result in an increased flow of parallel imports into Canada.

Nevertheless, it does seem that assigning copyright to a Canadian entity – rather than just granting an exclusive licence – can be used to block importation of grey market goods. However, before adopting this strategy, several factors should be considered carefully, including:

- Will there be any negative tax consequences associated with assigning the copyright to a Canadian entity?
- From a corporate perspective, is there concern about potentially losing control over the copyright by granting an assignment?

- If the artistic work is a logo, will transferring the copyright in the logo to a Canadian entity (while the trade-mark rights in the logo are retained by the foreign parent corporation) have the unintended effect of rendering the trade-mark invalid due to a lack of distinctiveness? This is a matter yet to be fully resolved by a Canadian Court.
- Are there any trade-mark remedies available? For instance, is there a material difference in the quality of the goods that are manufactured for the Canadian market such that an action can be brought for passing off?
- Are there any other statutory remedies available? Does the packaging fully comply with Canada's packaging and labelling provisions?

Mark K. Evans and Geneviève M. Prévost,
Toronto

Canada publishes new rules and procedures for opposition proceedings

On October 1, 2007, new rules and procedures governing opposition proceedings came into effect in Canada. The changes relate to numerous administrative matters including the naming of joint opponents, the permitted methods of serving documents, the conduct of cross examinations and time limits for carrying out steps throughout the course of an opposition. Some of the changes are a relaxation of former practices. For example, where an extension of time to file an opposition is originally made naming only one party as an opponent, the actual Statement of Opposition may add any additional number of parties as joint opponents. Another example is the broadening of the permitted method of

serving documents to include any manner that is agreed upon by the parties or their agents. The new provisions also indicate that while the rules of the Federal Court generally apply to the production of evidence in opposition proceedings, the Opposition Board will usually be prepared to accept a particular form of evidence that has been agreed upon by the parties. However, the changes to time limitations and extensions are extensive and generally reduce the historical ability of the parties to extend deadlines for lengthy periods throughout the opposition process in Canada.

Oppositions that were ongoing at the time of the changes, as well as marks advertised before October 1 and after October 1, will each be treated in a somewhat different manner, with deadlines for post October 1 cases being subject to more stringent limitations. Sufficient reasons will be required for initial extensions and both sufficient reasons and consent or a demonstration of exceptional circumstances will be required to support requests for any additional extensions that may be available. Furthermore, time limitations may be strictly enforced, even if the parties are engaged in settlement discussions and are in agreement on extending the deadline.

A particular area where the time period has been restricted is in the preparation and filing



of affidavit evidence, which is often a time-consuming process. In the case of the initial evidence that is submitted by the opponent and applicant, the initial time period is now four months (rather than the previous one month). However, in oppositions to marks advertised after October 1, permitted extensions have been shortened to two months with sufficient reasons and consent of the other party, and six months with ongoing settlement negotiations and the consent of the other party.

The preamble to the newly published Practice Notice specifically indicates that its provisions are guidelines only, and are not binding in any particular case. It has been suggested that the

Opposition Board may examine requests for extensions during the opposition process quite carefully, and require detailed reasons to support initial requests, as well as detailed explanations of the status of settlement negotiations to support further requests. On the other hand, while the time limitations set forth in the rules appear to be finite, it has been suggested that additional extensions may be available if they appear to be warranted under the circumstances. Thus, it remains to be seen how stringently the new requirements and deadlines will be applied by the Opposition Board.

Keltie R. Sim, Toronto

Signal claims blocked in Canada

The Canadian Intellectual Property Office has stated its position, but the matter has yet to be tested in a Canadian Court.

On August 14, 2007, the Canadian Intellectual Property Office (CIPO) issued a Practice Notice stating its position that electromagnetic and acoustic signals are not patentable subject matter in Canada. However, the Practice Notice confirms that the exclusion from patentability applies only to claims directed to signals *per se*, and does not affect the patentability of methods, processes, machines or manufactures involved in the generation, transmission, reception or processing of signals.

This Practice Notice reverses the position expressed by CIPO in the February 2005 update of the Canadian *Manual of Patent Office Practice*, but generally follows recent developments in the United States. The United States Patent and Trademark Office made a similar announcement in October 2005, and on September 20, 2007 the United States Court of Appeals for the Federal Circuit handed down its decision in *In re Nuijten*, holding that signal claims do not constitute statutory subject matter under 35 U.S.C. § 101. As the definition of invention in section 2 of the Canadian *Patent Act* is virtually identical to that found in 35 U.S.C. § 101, the *In re Nuijten* decision is likely to strengthen CIPO's position.

Nevertheless, the patentability of signal claims has not yet been adjudicated by a Canadian Court. It is arguable that a signal claim falls within the statutory category of manufacture,



despite its transitory nature. For example, consider a patented software program that is purchased and downloaded from a foreign server over the Internet in the form of signals. From a practical perspective, such a download is no less an article of commerce than a CD-ROM or other physical article of manufacture storing the program. It therefore seems likely that CIPO's position will eventually be challenged before the Patent Appeal Board and possibly the Federal Court of Canada.

Jonas H. Gifford, Vancouver

Patent Appeal Board clarifies professional skills exclusion

A recent business method appeal has provided further guidance as to the scope of the professional skills exclusion from statutory subject matter.

Commissioner's Decision No. 1272 relates to Application No. 2,298,467, which discloses a system for facilitating the buying and selling of diamonds from remote locations. The application contains nine claims, of which the sole independent claim is directed to a host computer processor comprising a data structure for each stone offered for sale, as well as structural means for communicating with remote sellers, providing them with stone data, receiving bids, and completing sale transactions. The data structures allow the stones to be categorized by weight and other criteria.

Despite the fact that all of the claims are apparatus claims, the Examiner had characterized the invention as a “mere *scheme* of doing business” (emphasis added). Therefore, the Examiner effectively treated the apparatus claims as though they were method claims, and concluded that they did not constitute an “art” within the definition of invention in section 2 of the *Patent Act*. Rather, the Examiner viewed the claims as being directed to unpatentable “professional skills”.

In reversing the Examiner's rejection, the Board first noted that apparatus claims fall within the separate statutory category of “machine” within the definition of invention. The Board commented that it “is not aware of any restrictions on patentability with respect to ‘machines.’” Thus, it was unnecessary for machine claims to satisfy the requirements to qualify as an art.

The Board then clarified the scope of the professional skills exclusion from patentability:

“The Examiner indicates that there is professional skill involved in choosing the various parts of the apparatus which is claimed in the application and that this is not subject matter of a patent. Of course there is professional skill in designing a complicated system such as the one claimed in the instant application. However, this is not the type of professional skill which is prohibited.

Professional skill which falls outside the scope of patent protection involves a *step in a claimed method* which is *carried out by a human* and which *relies on the intelligence and reasoning of the human to make a judgment.*” (emphasis added)

Two years earlier, in *Commissioner's Decision No. 1260*, the Board had concluded that a claim reciting a mental step or a human response would not run afoul of the professional skills exclusion if the claimed steps were “clearly defined and precise, and for example, can be performed otherwise by apparatus”. Only steps that “require a high degree of training, judgment and decision making” would be excluded from patentability. *C.D. No. 1260* reaffirmed the Board's 1972 *Mental Steps* decision, which had reached the same conclusion.

In contrast, however, the Board's 1999 decision in *Re Patent Application No. 564,175* reflected a much broader view of the professional skills exclusion, encompassing virtually any invention that was *developed* as a result of the exercise of professional skill, even apparatus claims.

Accordingly, the Board's decisions in *C.D. No. 1272* and *C.D. No. 1260* have added welcome certainty in this area. The Board has clearly rejected the broader view of the professional skills exclusion as applied in *Re Patent Application No. 564,175*, and has returned to the narrower scope of this exclusion as formulated in its 1972 *Mental Steps* decision. As a result, it is clear that the Board views the professional skills exclusion as applying only to *method* claims that are *not reproducible*, and hence not “useful”, due to their reliance upon “subjective interpretive or judgmental considerations”. If the claimed method is reproducible, in the sense that its steps are “clearly defined and precise, and for example, can be performed otherwise by apparatus” (such as a programmed computer, for example), then the method will not run afoul of the professional skills exclusion.

Stephen J. Ferance, Vancouver

Smart & Biggar/Fetherstonhaugh recognized in leading publications

This year, Smart & Biggar/Fetherstonhaugh received numerous recognitions in international legal surveys and directories. The most recent of those releases are listed below. We are proud of these recognitions, and wish to congratulate all members of our firms who have been recognized.

The Best Lawyers in Canada. In the 2007 edition, the firms have been recognized as having eleven pre-eminent lawyers in the areas of biotechnology law and intellectual property law – more than any other firm.

Listed under intellectual property law are John Bochnovic, Gunars A. Gaikis, Steven B. Garland, François Guay, Michael D. Manson, John R. Morrissey, A. David Morrow, Joy D. Morrow and J. Christopher Robinson.

Listed under biotechnology law are Brian G. Kingwell, J. Christopher Robinson, and David E. Schwartz, giving our firms more listed lawyers in this section than any other firm.

PLC's IP Cross-border Handbook. Smart & Biggar/Fetherstonhaugh has eight lawyers listed in the 2007-08 edition.

Listed under non-patent litigation are John Bochnovic, Mark K. Evans and Brian P. Isaac.

Listed under patent litigation are John Bochnovic, Gunars A. Gaikis, François Guay, John R. Morrissey and A. David Morrow. More of our professionals are recognized as leading patent litigation lawyers than any other firm in Canada.

Who's Who Legal. The firms have once again had professionals recognized in the 2007 International Who's Who of Trade-mark Lawyers: Michael D. Manson and A. David Morrow; and in the 2007 International Who's Who of Patent Lawyers: John Bochnovic, Michael D. Manson and A. David Morrow.

Canadian Legal LEXPERT Directory. Twelve of our firms' professionals are listed in the 2007 edition.

Listed under intellectual property are John Bochnovic, Mark K. Evans, Gunars A. Gaikis, Steven B. Garland, François Guay, James D. Kokonis, Q.C., Michael D. Manson, John R. Morrissey, A. David Morrow and Joy D. Morrow.

Listed under intellectual property litigation are Gunars A. Gaikis, François Guay, James D. Kokonis, Q.C., John R. Morrissey and A. David Morrow.

Listed under technology is Michael D. Manson.

Listed under biotechnology are Brian G. Kingwell, A. David Morrow, Joy D. Morrow and J. Christopher Robinson. More professionals from our firms are featured in this section than from any other.

Euromoney's Guide to the World's Leading Patent Lawyers. Eight Smart & Biggar lawyers were selected to be featured in the guide, more than any other firm in Canada: John Bochnovic, Gunars A. Gaikis, Steven B. Garland, François Guay, James D. Kokonis, Q.C., Michael D. Manson, John R. Morrissey and A. David Morrow.

Notes

Announcements

Daniel S. Faya has returned after his articles to join our Toronto office as an associate. Mr. Faya holds a B.Eng in computer engineering from Carleton University and a J.D. from the University of Toronto.

Kwan T. Loh has returned after his articles to join our Ottawa office as an associate. Mr. Loh holds a B.Sc. in physiology and an LL.B. from the University of British Columbia.

Daphne C. Lainson has been appointed Chair of the Women in IP Law Committee of the

American Intellectual Property Law Association. The Committee, whose mandate is to further and facilitate the practice of intellectual property law by women, has a large membership in the U.S. and internationally.

Seminars and Presentations

Steven B. Garland lectured on the topic of "International and Comparative Patent and Trade Secret Protection" at the International Intellectual Property Law Program 2007, held at Oxford College in England on August 1, 2007.

Mark K. Evans lectured on the topic of copyright remedies at the Intellectual Property Institute of Canada and McGill University's Business of Copyright course, held in Montreal on August 14, 2007.

Sanjay D. Goorachurn presented on the topic of international licensing at the Information Technology Association of Canada conference, held in Montreal on September 20, 2007. Mr. Goorachurn is scheduled to give similar presentations at the ITAC venues in Ottawa on November 8, 2007 and in Toronto on December 6, 2007.

Philip D. Lapin spoke on the topic of "Taking a Strategic Approach: International and Regional Resources" at the International Trade-mark Association's Trade-mark Administrator's Conference, held in Long Beach, California on October 2, 2007.

Sanro Zlobec moderated a panel discussion titled "10 U.S. Patent Decisions in 60 Minutes" at the Intellectual Property Institute of Canada's Annual General Meeting, held in Vancouver on October 13, 2007.

Gunars A. Gaikis spoke on the topic of "Authorized Generics and Relevant Licensing Issues" at The Canadian Institute's 6th Annual Forum on Pharma Patents, held in Toronto on October 17-18, 2007. At the same forum,

Matthew Zischka spoke on the topic of "International Developments in Pharma Patents", and **Nancy P. Pei**, in conjunction with Angela Furlanetto of Dimock Stratton LLP, spoke on the topic of "Patent Time Lines: Maximizing Possibilities from Both Perspectives".

Michael D. Manson spoke on the topic of "Canadian Patent Litigation: Primer & Contrasts with United States Patent Litigation - Update on Patent Protection for Business Methods" at The Canadian IT Law Association's 11th Annual Conference, held in Vancouver on October 18-19, 2007.

Christian Bolduc spoke to microbiology students about the patent agent profession at Université Laval in Quebec City on October 19, 2007.

Christian Bolduc conducted a workshop on the topic of "Bonnes pratiques en matière de marques de commerce et de droit d'auteur" for the Fondation du Maire, held in Montreal on October 23, 2007.

Joy D. Morrow was an invited lecturer on the topic of "Intellectual Property in the Life Sciences" as part of the course Strategic Issues in Life Sciences Commercialization for MBA

students at the Joseph I. Rotman School of Management of the University of Toronto, held on October 24, 2007.

Theodore W. Sum presented on the topic of "Profiting from your Organization's IP Licenses" at the Canadian Institute's conference on Protecting Intellectual Property in the Energy Sector, held in Calgary on October 30-31, 2007.

Christian Bolduc will speak on the topic of "Protecting Useful Articles using Copyright: Myth or Reality?" at the Quebec Bar Association's seminar entitled Les développements récents en droit de la propriété intellectuelle, to be held in Montreal on November 16, 2007.

Gunars A. Gaikis and **Nancy P. Pei** will speak on the topic of "Changes to Patented Medicines (NOC) Regulations - Industry Perspective" at the Canadian Association of Professional Regulatory Affairs' symposium titled From Product Monograph to Promotion and Other Emerging Initiatives, to be held in Toronto on November 27, 2007.

Christian Bolduc will speak on the topic of "Les rudiments de la propriété intellectuelle" at the Canadian Intellectual Property Office's conference on intellectual property in Longueuil, Quebec to be held on November 29, 2007.

Publications

Mark K. Evans and **Geneviève M. Prévost**, "Copyright Licensing Not the Answer to Grey Marketing", *Managing Intellectual Property*, September 2007. (Mr. Evans was also interviewed about the impact of this decision by *Bloomberg News*, the *Canadian Broadcasting Corporation*, and *The Lawyers Weekly*.)

Steven B. Garland, **J. Sheldon Hamilton**, and **Amelia Choi**, "The Right Dose", *Patent World*, October 2007.

Steven B. Garland, "A Point of Privilege", *Patent World*, October 2007.



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