

FOCUS ON INTELLECTUAL PROPERTY LAW

Court applies American patent law to Canadian business

By James Longwell

The U.S. Court of Appeal for the Federal Circuit (CAFC) has applied U.S. patent law to business operations conducted in Canada. The CAFC has declared that leading wireless e-mail provider Research in Motion (RIM), makers of the famous BlackBerry® devices, infringed upon U.S. patents owned by holding company NTP, Inc.

The finding was made even though RIM located its equipment and performed its activities in Canada. The decision is particularly surprising as patent laws have historically been applied territorially and not stretched across borders. The decision is so surprising that recently the Canadian government was persuaded to file an amicus brief as a "friend of the court". In response to its effect on Canadian business generally, the



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brief urged the CAFC to reconsider its decision.

Implications for Canadian Business:

The case raises broader questions for Canadian businesses, in particular, for e-commerce and

telecommunications companies and those who rely on such technology. For example, to what degree are Canadian companies exposed to liability for infringing upon e-commerce or business method patents issued in the U.S.?

The pertinent provision of the U.S. patent statute provides that "... whoever without authority makes, uses, offers to sell, or sells any patented invention, within the U.S., or imports into the U.S. any patented invention during the term of the patent therefore, infringes the patent."

The decision in the NTP case appears to contradict the statute and raise a test for infringement based on a requirement that the control and beneficial use of the allegedly infringing system be within the U.S. even if key components of the system itself are situated outside the U.S.

If other countries follow the American example in the NTP case, Canadian and even American companies could likewise find themselves at risk. A company that performs data processing, telecommunication processing or financial transactions for foreign customers, could find itself liable for patent infringement in its customers' countries. Amazon.com could be infringing a patent in China by serving a customer over the Internet.

Business Method Patents – U.S.:

Patents for business methods such as e-commerce services, financial services, communications services and information technology have increased immensely in the U.S. It is estimated that nearly 10,000 business method-related patents have issued in the U.S. Even more alarming is the number of patent applications filed by applicants seeking protection for business method-related inventions: in excess of 19,000 patent applications have been published since March 15, 2001 when the U.S. patent office began publishing its applications, and additional unpublished applications

remain pending.

The backlog of applications awaiting processing is staggering. As these cases are assessed, the number of issued patents will no doubt increase enormously. These patents may be used as non-tariff barriers to the U.S. market to keep Canadian competitors at bay.

Business Method Patents – Canada:

The issuance of computer and business method-related patents is not limited to the U.S. The Canadian Intellectual Property Office also issues such patents. But U.S. applicants for business method patents lead the charge in Canada, far outpacing Canadians or any others by a ratio of nearly three to one. There is a danger that opportunities to patent business methods at home are being overlooked by Canadian businesses because Canadian businesses don't realize that patents aren't just for traditional inventions anymore.

How should Canadian Business Protect Itself?

One approach Canadian businesses can take to protect themselves is to implement a three-

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Federal Court rules on co-pending applications

By Arnold Ceballos

In a decision that turns upside down the conventional wisdom about who prevails in a case involving co-pending applications for confusing trade-marks, the



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Federal Court has ruled that the Registrar of Trade-Marks can no longer refuse an application on the basis that a later-filed application claims an earlier date of first use.

The case, *Effigi Inc. v. Attorney General of Canada* (2004) F.C. 1000, involved an application filed in December 2000 by Effigi Inc. to register the trade-mark MAISON UNGAVA in association with bed

clothes, bath linen and table linen. The application was based on proposed use. Eight months after Effigi's application was filed, Tricorn Investments Canada Ltd. filed an application to register the mark UNGAVA in association with household linen, bed clothes and window coverings. Tricorn's application claimed use of the trade-mark in Canada since 1981, well prior to the date of Effigi's application.

The Registrar of Trade-Marks rejected Effigi's application on the basis of Sections 37 and 16(3) of the *Trade-Marks Act*. Section 37(1)(c) states that an application is to be refused if the applicant is not entitled to registration of the mark because it is confusing with another mark for which an application is pending.

Section 16(3) states that an applicant for a proposed use application is entitled to registration if the mark is not confusing with, *inter alia*, a mark that has been previously used in Canada. As a result, the Registrar held that, since Tricorn's application claimed use prior to the date of Effigi's application, the Effigi application

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INTELLECTUAL PROPERTY LAW

Case may help trade-mark owners enforce exclusive distribution programs in Canada

By John Koch

Recently, Canadian courts have been reluctant to assist trade-mark owners in their attempts to enforce authorized distribution networks. Typically, a trade-mark owner prefers to know and approve of the retailers that sell goods bearing the owner's trade-mark. The trade-mark owner can then terminate retailers that do not meet the trade-mark owner's standards of quality or customer service.

Canadian courts, however, have held that trade-mark law is designed primarily to protect consumers from misrepresentations about the origin of goods and services, not necessarily to protect the trade-mark owner's brand equity.

Thus, if an unauthorized retailer gets its hands on some products that were legitimately manufactured by or under license from the trade-mark owner, Canadian courts have largely refused to enjoin the so-called gray marketer from selling those goods.

In *Kraft Canada Inc. v. Euro Excellence Inc.*, the Federal Court of Canada recently considered a different approach based on copyright. Kraft Foods Schweiz AG manufactures chocolate bars under the TOBLERONE mark. A

related company makes CÔTE D'OR brand chocolate. The two products each have distinctive packaging and the Kraft companies own Canadian trade-mark



John Koch

registrations for the TOBLERONE and CÔTE D'OR marks.

Until Kraft terminated the relationship in 2000, Euro Excellence had been the exclusive Canadian distributor of CÔTE D'OR products. Euro Excellence, however, was not prepared to walk away

from this business. It managed to find an unnamed European source of authentic TOBLERONE and CÔTE D'OR products for importation into Canada. Euro Excellence then put stickers on the packaging, so that the ingredients lists complied with Canadian labelling laws, and sold the chocolate bars in Canada.

Perhaps recognizing the difficulty in using trade-mark law to prevent Euro Excellence from selling goods that were legitimately manufactured by Kraft, Kraft sought to enjoin Euro Excellence from distributing copyrighted artwork that was incorporated on the wrappers of the products.

The Kraft companies own Canadian copyright registrations for a drawing of a snow-covered mountain shown on the TOBLERONE labels and for drawings of an elephant, a red shield, and the style of script used to spell the words "Côte d'Or" on the CÔTE D'OR labels. Paragraph 27(2)(e) of the *Copyright Act* provides that it is an infringement of copyright to import into Canada a copy of a work for the purpose of, among other things, selling the work.

Euro Excellence's first defense to Kraft's claim was that the artwork on the label was not protected by copyright. Applying the

recent decision of the Supreme Court of Canada in *Law Society of Upper Canada v. CCH Canadian Limited*, the court held that the mountain drawing and the elephant drawing resulted from "an exercise of skill and judgement bringing into play use of one's knowledge, developed attitude or practical ability and the exercise of discernment or the ability to form an opinion or evaluation by comparing different possible options," and therefore met the level of originality required for copyright protection. The shield and script elements of the CÔTE D'OR packaging were not sufficiently original to acquire copyright protection.

In what is likely to be the most significant holding in the case, the court rejected Euro Excellence's second argument, that copyright law should not be used to restrict trade in goods where the purchaser is not buying the copyrighted work for its own sake.

Euro Excellence argued that people buying a chocolate bar do so for the chocolate, and that the wrapper was merely ancillary. The court rejected that argument and adopted the reasoning of the Supreme Court of New South Wales in the case of *Bailey v. Boccaccio*. That case had held that the owner of copyright in the labels of Bailey's Irish Cream liqueur could enjoin the importation into Australia of bottles of the liqueur that had not been intended for the Australian market. Euro Excellence was enjoined from selling any bars

bearing wrappers displaying the copyright works.

In the course of its reasons, the court wrote that "[t]here is nothing to prevent Euro Excellence from replacing the wrappers or otherwise covering over the copyrighted material." After the injunction had issued, Euro Excellence applied labels to portions of the packaging, in an attempt to obscure the copyright works. Kraft, apparently believing that the court had intended to impose an outright prohibition on the importation of goods bearing the copyright works, moved to vary the terms of the injunction. At that hearing, the court confirmed that importation was permitted, provided Euro Excellence effectively obscured the copyrighted material.

This case may provide some trade-mark owners with a means of enforcing exclusive distribution programs in Canada that trade-mark law has in many circumstances been unable to offer. To prohibit sales, the owner will need to show:

(i) that the text or artwork on the packaging is sufficiently original as to attract copyright protection;

(ii) that it is the owner of the copyright; and

(iii) that the copyright has not expired.

To prohibit importation altogether, the owner will apparently also have to show that the copyright work cannot be easily obscured by the importer. Otherwise, as in this case, the importer may be able to sell goods where the copyright works have been hidden through over-labelling.

John Koch is a partner in the Intellectual Property Group at Blake, Cassels & Graydon LLP in Toronto.

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Court overturns decision to refuse application

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should be refused.

On appeal by Effigi to the Federal Court, Justice Shore held that Sections 16 and 37 should not be considered together during examination of an application. According to Justice Shore, Section 16 applies only after examination of the application is completed and the mark is advertised for opposition purposes. In other words, considerations of entitlement based on earlier use are to be determined in a trade-mark opposition proceeding, when evidence can be filed by the parties.

Practically speaking, Justice Shore held that the Registrar is not in a position to make a determination about whether a mark has been used as claimed, since there is no evidence before the Registrar

other than the bald claim by the applicant in its application that the mark is in use.

The Court overturned the Registrar's decision to refuse the Effigi application and returned the matter to the Registrar for approval and advertisement of the application in the *Trade-marks Journal*.

The *Effigi* decision was influenced by *obiter dicta* in the 2000 Federal Court of Appeal decision in *Unitel International Inc. v. Canada (Registrar of Trade-marks)*, 9 C.P.R. (4th) 127 (F.C.A.).

In that case, Justice Rothstein seemed to imply that dates of first use were not relevant when considering co-pending applications. However, that decision was not followed by the Trade-Marks Office, which issued a practice

notice to that effect in March 2001.

The recent *Effigi* decision has been appealed to the Federal Court of Appeal. A check with the Trade-marks Office indicated that the office will not change its existing policy until such time as the appeal is decided. If this decision is upheld by the Federal Court of Appeal, it appears that applicants for later-filed applications who have earlier use of a confusing trade-mark will have to wait and oppose the confusing mark after it is advertised, rather than count on the Trade-Marks Office to reject it during examination.

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