

RECENT DEVELOPMENTS IN CANADIAN LAW: INTELLECTUAL PROPERTY

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I. INTRODUCTION	139
II. GOVERNMENT ACTIVITY	139
III. PATENTS	143
A. <i>Construction</i>	143
B. <i>Evidence</i>	146
1. <i>Patent Office Files</i>	146
2. <i>Experts</i>	148
C. <i>Validity</i>	149
1. <i>Subject-Matter Capable of Being Patented</i>	149
(a) <i>Computer Programs</i>	149
(b) <i>Mentally Performable Steps</i>	150
(c) <i>Mere Schemes or Plans; Professional Skills</i>	152
(d) <i>Living Things</i>	153
(e) <i>Medical Treatment</i>	154
2. <i>Anticipation</i>	155
3. <i>Obviousness</i>	157
4. <i>Excess Width of Claims</i>	159
D. <i>“Dilemma” or “Squeeze” Arguments</i>	161
E. <i>Infringement</i>	162
1. <i>The Importance of Claim Construction</i>	162
2. <i>Taking the “Substance” of the Invention</i>	162
3. <i>Contributory Infringement</i>	163
4. <i>Persons in Control of Corporate Infringers</i>	166
5. <i>Limitation Periods</i>	168
6. <i>Interlocutory Injunctions</i>	168
7. <i>Contempt</i>	171
F. <i>Contractual Obligations</i>	173
G. <i>Compulsory Licenses</i>	173
1. <i>Medicines</i>	173
2. <i>Foods</i>	176
3. <i>Abuse of Patent Rights</i>	178

IV. INDUSTRIAL DESIGNS	182
A. <i>Subject-Matter Capable of Being Registered</i>	182
B. <i>Novelty</i>	183
C. <i>Originality</i>	184
D. <i>Infringement</i>	185
E. <i>The Marking Requirement</i>	188
V. COPYRIGHT	188
A. <i>Law Revision</i>	188
B. <i>Copyright in Relation to Industrial Designs and Utilitarian Designs</i>	189
C. <i>Copyright Works</i>	193
1. <i>Videotapes</i>	193
2. <i>Mask Works and Computer Chips</i>	194
3. <i>Computer Programs</i>	195
D. <i>Copyright Infringement</i>	199
1. <i>As to Whether There was Copying</i>	199
2. <i>The Substantiality Test</i>	200
3. <i>Expert Evidence</i>	200
4. <i>Fact Works</i>	202
5. <i>Ephemeral Recordings</i>	203
6. <i>Authorizing Infringement</i>	204
7. <i>Contributory Infringement</i>	205
8. <i>Persons in Control of Corporate Infringers</i>	205
9. <i>Innocence</i>	207
10. <i>Fair Dealing</i>	208
11. <i>Public Interest</i>	208
E. <i>Civil Remedies</i>	209
F. <i>Criminal Penalties</i>	215
VI. CONFIDENTIAL INFORMATION	217
A. <i>Fiduciary Obligations</i>	218
B. <i>Negligence</i>	219
C. <i>Civil Remedies</i>	220
D. <i>Criminal Penalties</i>	221

I. INTRODUCTION

The term "industrial property" was once the title given to the subjects of patents, trade marks and designs while the term "intellectual property" was usually only applied to copyright. The modern tendency is to collect these subjects under the heading "intellectual property" along with the law of trade secrets and confidential information. The term intellectual property will be used in this survey. Picking up from the last survey published in 1983,¹ this survey will cover what the writer regards as the most significant developments in Canada from the end of 1982 to the end of 1986 in the fields of patent, industrial design and copyright law.²

II. GOVERNMENT ACTIVITY

In terms of legislative activity, there were few developments.³ Proposals once poured out of Consumer and Corporate Affairs Canada, only to run into the sands of critical appraisal. The Department now does much

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1 W.L. Hayhurst, *Industrial Property: Part I* (1983) 15 OTTAWA L. REV. 38 and *Industrial Property: Part II* (1983) 15 OTTAWA L. REV. 311 [hereinafter 1983 Survey].

2 Several new publications relating to intellectual property were introduced in 1984. In March 1984 The Carswell Company Ltd. began a series of law reports entitled Canadian Intellectual Property Reports (C.I.P.R.). In July, the same publisher launched the INTELLECTUAL PROPERTY JOURNAL (I.P.J.). The Editor-in-Chief is Professor David Vaver of Osgoode Hall. The I.P.J. contains articles, case notes, book reviews and other communications focusing primarily on Canadian intellectual property law. Unlike the I.P.J., the C.I.P.R. contains little that will not be found in the long-established Canadian Patent Reporter (C.P.R.) published by Canada Law Book Inc. The C.P.R. also includes substantial additional materials on restrictive trade practices, though subscribers may wonder why some decisions are considered to be worth reporting, particularly many of those in trade mark opposition proceedings. The Patent and Trademark Institute of Canada gave a new name to its Bulletin with the issuance in June 1984 of the CANADIAN INTELLECTUAL PROPERTY REVIEW (CAN. INTELL. PROP. REV.). The Review consists primarily of papers delivered at meetings of the Institute. Butterworth & Co. (Canada) Ltd. have published three looseleaf services entitled: *Hughes & Woodley on Patents* (which also includes material on trade secrets), *Hughes on Trade Marks* and *Hughes on Copyright and Industrial Design*. The objective of these services is to fill a long-felt need for current reference works relating to Canadian intellectual property law and practice. Another new looseleaf publication, *Canadian Trade Marks Act Annotated*, edited by H.G. Richard and published by Richard DeBoo is an indispensable reference work. A good, concise statement of the Canadian law of copyright in relation to musical works is provided by Paul Sanderson's book entitled *MUSICIANS AND THE LAW IN CANADA*, published in 1985 by The Carswell Company Ltd. The work, however, is less satisfactory on the subjects of trade marks and trade names.

3 There were some minor amendments to the *Copyright Act*, R.S.C. 1970, c. C-30. See *Miscellaneous Statute Law Amendment Act, 1984*, S.C. 1984, c. 40, s. 18, amending *Copyright Act*, R.S.C. 1970, c. C-30, ss. 17(2)(h), 48(2) and 49(1).

more in the way of testing the waters but continues to have difficulty providing policy that is satisfactory to the private sector.

The government's most significant accomplishment in the intellectual property field has been a dramatic increase in the fees that it charges in connection with patent, trade mark, copyright and industrial design applications.⁴ A few other amendments have been made to the regulations under the statutes.⁵ From the practitioner's viewpoint, the most useful amendment was the revocation of section 60 of the *Patent Rules*.⁶ That particular section was the source of much unproductive effort relating to the question of whether an applicant was seeking to cover more than one invention in a single patent application.

The *Corporations and Labour Unions Returns Act*, which came into effect in January 1984, requires that certain corporations carrying on business in Canada must file returns relating to transfers of technology from any person or corporation not resident in Canada.⁷ The technology itself need not be disclosed.⁸ Since 1962 the Act has required certain corporations to file annual returns concerning the amounts of royalties paid to persons outside Canada for patent, trade mark, trade name and industrial design rights and for copyrights.⁹

Amendments to the *Competition Act*¹⁰ will be examined below.¹¹ Activity in relation to the *Copyright Act*¹² and *Industrial Design Act*¹³ will also be discussed below.¹⁴ The government is considering possible amendments to the *Trade Marks Act*,¹⁵ in particular to rid Canada of its cumbersome registered user system for trade mark licences. However, at the time of writing, no specific proposal has emerged.

⁴ *Patents Rules* amendments, SOR/85-383, *Trade Marks Regulations*, SOR/85-385, SOR/85-1041, *Registered User Fees (Trade Marks)*, SI/86-1, *Copyright Fees Order*, SOR/85-597, *Industrial Designs Fees Order*, SOR/85-596.

⁵ *Patent Rules*, SOR/83-416, SOR/83-816 and SOR/84-398, *Trade Marks Regulations*, SOR/83-458.

⁶ *Patent Rules* amendment, SOR/84-398.

⁷ R.S.C. 1970, c. C-31, s. 4.2, *as am.* S.C. 1980-81-82-83, c. 79, s. 2. This section provides that a "holding" corporation [defined under the Act as a corporation which controls another corporation (subsidiary) (*see* R.S.C. 1970, c. C-31, ss. 2(4), (5), *as am.* S.C. 1980-81-82-83, c. 79, s. 1(2))] are required to file returns "relating to transactions involving transfers of technology". For the Regulations *see* *Corporations and Labour Union Returns Act Regulations*, SOR/84-125, ss. 6(2), (3), 5, *as am.* SOR/86-430, s. 3.

⁸ R.S.C. 1970, c. C-31, s. 4.2(3), *as am.* S.C. 1980-81-82-83, c. 79, s. 2.

⁹ R.S.C. 1970, c. C-31, ss. 4(b)(iii) (E)I, II, III, IV.

¹⁰ R.S.C. 1970, c. C-23, *as am.* Bill C-91, *Competition Act* (being Part 2 of *An Act to Establish the Competition Tribunal and to Amend the Combines Investigation Act and the Bank Act and other Acts in Consequence Thereof*, 1st Sess., 33d Parl., 1984-85-86) (assented to 27 June 1986).

¹¹ *See* Part III.H, *infra*.

¹² R.S.C. 1970, c. C-30.

¹³ R.S.C., c. I-8.

¹⁴ *See* Parts IV and V, *infra*.

¹⁵ R.S.C. 1970, c. T-10.

In relation to patents, a Bill was introduced in November 1986 and passed by the House of Commons in May 1987.¹⁶ It is designed to encourage domestic pharmaceutical research and investment.¹⁷ The other principal changes proposed in the Bill would have the following effects:

- (1) The present "first to invent" system which, as between rival inventors, is designed to award a patent to the first inventor,¹⁸ would be replaced by the simpler but less equitable "first to file" system of granting the patent to the applicant with the earliest priority date.¹⁹ The priority date is the date of filing in Canada or an earlier date of filing (within one year) in a country which, like Canada, has adhered to the Paris Convention for the Protection of Industrial Property.²⁰
- (2) Issues of novelty and unobviousness would be decided as of the applicant's priority date. Save for the period of grace mentioned below, relevant prior art would be anything that was available to the public in Canada or elsewhere before the priority date.²¹ Europeans and others have found that such an "absolute novelty" system, though easily administered, is particularly harsh on applicants who are unfamiliar with the system and who disclose their inventions before realizing that they must first see a patent agent. In line with proposals made by some Europeans, the Bill provides a period of grace that would excuse any public disclosure by the applicant, or by another who obtained knowledge of the invention from the applicant, in the one year period preceding the applicant's priority date.²²
- (3) The Governor in Council would be empowered²³ to arrange Canada's adherence to the *Patent Co-operation Treaty*.²⁴ This treaty is designed to reduce duplication of work by national patent offices. In brief outline, Chapter I of the treaty provides for a search for prior

¹⁶ Bill C-22, *An Act to Amend the Patent Act and to Provide for Certain Matters in Relation Thereto*, 2d Sess., 33d Parl., 1986 (as passed by the House of Commons May 6, 1987) [hereinafter Bill C-22].

¹⁷ See Part III.G, *infra*.

¹⁸ *Patent Act*, R.S.C. 1970, c. P-4, ss. 28, 45, 63.

¹⁹ Bill C-22, cl. 7 and 9.

²⁰ *Union Convention of Paris, March 20, 1883 for the Protection of Industrial Property* (Revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at The Hague November 6, 1925 and at London June 2, 1934), 192 U.N.T.S. 17, Can. T.S. 195, No. 10.

²¹ Bill C-22, cl. 10.

²² Bill C-22, cl. 7.

²³ Bill C-22, cl. 3.

²⁴ 31 December 1970, T.S. 78 (1978), Cmnd. 7340.

art by one of several recognized searching authorities. The results of the search are made available to the patent offices of the countries that have adhered to Chapter I. Chapter II of the treaty provides for a report by an examining authority,²⁵ and this report concerning the allowability or otherwise of the applicant's claims is given to the patent offices of the countries that have adhered to Chapter II.²⁶

- (4) Patent applications would in most cases become open for public inspection eighteen months after the priority date and, therefore, in most cases, before a patent is granted.²⁷ Once granted, a patent would not be enforceable in respect of articles acquired by an alleged infringer before the date when the application was laid open; however, damages could be claimed for infringements occurring after that date.²⁸
- (5) A "deferred examination system" would be introduced, enabling the Canadian Patent Office to avoid examining a patent application, other than for formalities, unless within a period to be prescribed by regulation the applicant or any other person requests examination and pays a fee.²⁹ An application would be deemed to be abandoned if no such request was made within a time to be prescribed.³⁰
- (6) The patent term would be twenty years from the Canadian filing date.³¹ To keep the patent in force, periodic renewal fees would be payable, as determined by regulation.³²
- (7) The Patent Office would be given jurisdiction to revoke a patent or to restrict its scope having regard to prior patents or prior printed publications.³³ An appeal could be taken to the Federal Court.³⁴

Generally speaking, the amendments would bring the Canadian patent system into closer agreement with those of countries that have adhered to the Patent Co-operation Treaty.³⁵

²⁵ The United States Patent and Trademark Office is a recognized searching authority and will become an examining authority under the treaty.

²⁶ A smaller number than have adhered to Chapter I.

²⁷ Bill C-22, cl. 2.

²⁸ Bill C-22, cl. 20.

²⁹ Bill C-22, cl. 11.

³⁰ Bill C-22, cl. 11.

³¹ Bill C-22, cl. 15.

³² Bill C-22, cl. 15.

³³ Bill C-22, cl. 17.

³⁴ Bill C-22, cl. 17.

³⁵ It appears, however, that the United States is unlikely in the near future to give up the "first to invent" system upon which the Canadian system has heretofore been modelled.

III. PATENTS

The patent agent who is asked to advise whether something is patentable should also consider the possibilities of industrial design, copyright and trade secret protection. The question of patentability will involve questioning whether the client has subject-matter that is capable of being patented (a question that carries with it an inquiry as to its practical utility) and, if so, whether the subject-matter is new. The patent agent will cross-examine the client as to inventorship and ownership, as well as to any disclosures the client has made that may deny the client the right to apply as a result of the client's having waited too long. Any relevant art that may be known to the client or to the agent will be reviewed by the latter. In many cases, novelty can be properly assessed only after a search of the prior art although no search will reveal the whole of the possibly relevant art. In considering the issue of novelty the agent must also address the further issue of obviousness. Having assessed the issues of patentable subject-matter, of utility, novelty and obviousness, the agent will then be in a position to draft a patent claim (or claims) having a reasonable hope of being valid and of worthwhile scope.

Patent Office examiners and judges have the advantage that their work begins after claims have already been drafted. The claims are provided in the context of a disclosure, which is often accompanied by drawings. The disclosure and claims constitute the patent specification and the first task of the examiner or judge is to construe the specification. Most attention will usually be focussed upon the claims. The patent agent will, in his initial contact with the client, have been thinking about notional claims, and when instructed to apply for a patent, will have drafted claims. The construction of the drafted claims is vital to the client's interests. Questions of construction are therefore a logical starting point in a review of patent law developments.

A. Construction

It has long been established that the first task in a patent case is to construe the specification and that this is to be done without reference to the effect that the construction will have upon issues of validity and infringement.³⁶ Construction must be founded upon the knowledge that a

³⁶ See, e.g., *Xerox of Canada Ltd. v. IBM Canada Ltd.* (1977), 33 C.P.R. (2d) 24 at 43 (F.C.T.D.) [hereinafter *Xerox*] citing authorities. Arguments will centre upon those points of construction which are likely to be determinative of other issues. Such arguments may reveal problems of construction that were not noticed earlier by the reader or draftsperson. *David Kahn Inc. v. Conway Stewart & Co.* (1974), [1974] R.P.C. 279 at 306 (Ch. D.); T.A. Blanco White, *ENCYCLOPEDIA OF UNITED KINGDOM AND EUROPEAN PATENT LAW* (London: Sweet & Maxwell Ltd., 1986) paragraph 10-103, note 21.

person skilled in the art would have in reading the specification³⁷ — that is, upon the common general knowledge in the art. Calling in aid the knowledge of the skilled person³⁸ is part of what has become known as “purposive construction”. One should reject a construction, whether it aids the patentee³⁹ or hurts his cause,⁴⁰ if the construction is contrary to what a skilled person reading the specification would understand to have been intended. What is essential to the invention as claimed is determined as a matter of construction;⁴¹ however, if, after honestly attempting to construe the claim,⁴² one is left in doubt as to the meaning of a claim, the claim is invalid.⁴³ If one cannot fathom the disclosure, the entire patent is invalid.⁴⁴

In drafting the disclosure of a patent specification, it is usual for the patent agent to include “boilerplate” statements such as the following concluding sentence quoted by the English Court of Appeal in *Société Nouvelle des Bennes Saphem v. Edbro Ltd.*:⁴⁵ “It will of course be understood that the present invention has been described above purely by way of example, and modifications of detail can be made within the scope of the invention as defined in the appended claims.”⁴⁶ The Court of Appeal derived some comfort from the quoted sentence in finding that the defendant had infringed the patent.⁴⁷ The qualified patent agent will be well

³⁷ *Burton Parsons Chems., Inc. v. Hewlett-Packard (Canada) Ltd.* (1974), [1976] 1 S.C.R. 555 at 559-60, 54 D.L.R. (3d) 711 at 713-4 [hereinafter *Burton Parsons*].

³⁸ The evidence of such a person is discussed at Part III.B.2, *infra*.

³⁹ See, e.g., *Catnic Components Ltd. v. Hill & Smith Ltd.* (1980), [1980] R.P.C. 183, 7 F.S.R. 60 (H.L.) [hereinafter *Catnic*], which is the leading case on “purposive” construction, *see supra*, note 1 at 106-10. Brian Reid has observed that there is a need for a new Lord Denning to put into simple English the somewhat tortuous language of Lord Diplock in *Catnic* (1985) 14 C.I.P.A. 254.

⁴⁰ *Rhone-Poulenc Agrochimie S.A. v. UMI Chem. Servs. Proprietary Ltd.* (1985) A.I.P.C. #90-251.

⁴¹ 1983 Survey, *supra*, note 1 at 106-10. See also *infra*, note 161.

⁴² Mere difficulty in construing should not be fatal. *Henriksen v. Tallon Ltd.* (1965), 82 R.P.C. 434 at 443, [1965] F.S.R. 215 at 219 (H.L.) [hereinafter *Henriksen*].

⁴³ *Minerals Separation North American Corp. v. Noranda Mines Ltd.* (1952), 69 R.P.C. 81 at 92-3 (P.C.). It has been observed in *C. Van der Lely N.V. v. Ruston's Eng'r Co.* (1985), [1985] R.P.C. 461 at 488 (C.A.) [hereinafter *C. Van der Lely*], that objections relating to ambiguity and lack of support for the claim in the disclosure should be settled before considering an obviousness attack.

⁴⁴ *Natural Colour Kinematograph Co. v. Bioschemes Ltd.* (1915), 32 R.P.C. 256 at 269 (H.L.) [hereinafter *Natural Colour*].

⁴⁵ (1983), [1983] R.P.C. 345.

⁴⁶ *Ibid.* at 361.

⁴⁷ *Ibid.* at 367. The Court also referred to a statement in the introductory part of the specification that the drawings were “by way of indication, and not in any limited sense, of one form of embodiment of the invention”. *Ibid.*

aware, however, that such euphoric statements are no substitute for a full disclosure.⁴⁸

Patent claims are sometimes drafted in a style which, in the United States, is called the Jepson form.⁴⁹ Such a claim begins with a preamble which recites conventional or known elements, followed by transitional words such as "the improvement comprising", ending with a recital of the improvement the inventor considers he or she has made. A draftsman may also use a form common in Europe, similar to the Jepson form but separating conventional, known or background elements of a claim, from the rest of the claim by words such as "characterized by".

In *Rucker Co. v. Gavel's Vulcanizing Ltd.*,⁵⁰ the plaintiff relied on a Jepson-type claim which began with the words "[i]n a blowout preventer", then recited features of four elements (a housing, resilient sealing means, metallic translating means and actuating means), then continued with the words "the improvement comprising", and then gave details of two of the preceding four elements (the resilient sealing means and the metallic translating means), both configured to conform to a curved inner surface of the housing. In practice, the resilient sealing means consists of rubber in which curved teeth (the metallic translating means) are imbedded with these two elements forming a packing element of the blowout preventer. The rubber is subject to wear. Persons who purchased blowout preventers from the plaintiff took worn packing elements to the defendant, who replaced the rubber. The defendant argued that the claim should be construed as being for a combination of four elements and that the defendant was not making that combination but was merely repairing parts that were worn out. The defendant in that case relied on the well established principle that repair, short of reconstruction, is not an infringement.⁵¹

The plaintiff argued that the claim should be construed as a claim for the two-element "improvement" and that the defendant was therefore reconstructing the subject-matter of the claim. In agreeing with the plaintiff, Mr. Justice Walsh referred to authorities, some of which were from the United States, supporting the defendant's contention that a Jepson claim is a claim to all the recited elements. However, His Lordship was satisfied that what was really invented in the case at bar was the packing element and he held that too technical an interpretation should not be given to the claim. An appeal has been filed.⁵²

What is essential to a claim may be different from what the inventor might have claimed. What is essential to a claim is not necessarily the same as what was in fact invented.⁵³ Courts do not automatically regard

⁴⁸ See W.L. Hayhurst, *Disclosure Drafting* (1971) 28 P.T.I.C BULL. 64 and W.L. Hayhurst, *Annual Survey of Canadian Law: Industrial Property* (1979) 11 OTTAWAL. REV. 391 at 429-32 [hereinafter 1979 Survey].

⁴⁹ Named after the decision in *Ex parte Jepson*, 1917 C.D. 62, 243 O.G. 525 (U.S. Asst. Commr., 1917).

⁵⁰ (1985), 7 C.P.R. (3d) 294, 6 C.I.P.R. 137 (F.C.T.D.) [hereinafter *Rucker*].

⁵¹ See *Solar Thomson Eng'r Co. v. Barton* (1977), [1977] R.P.C. 537 (C.A.).

⁵² See note 314 *infra*.

⁵³ 1983 Survey, *supra*, note 41. See also *infra*, note 161.

those elements which precede an improvement or characterizing statement as being non-essential to the claim⁵⁴ or as being admittedly old.⁵⁵ If there is a lack of uniformity in construing such claims, query whether they are open to objection on the ground of ambiguity. Moreover, if the earlier part of the claim is disregarded in considering infringement, is one precluded from referring to the earlier part of the claim in seeking to distinguish what is claimed from the prior art?⁵⁶

B. Evidence

1. Patent Office Files

Counsel involved in patent litigation in Canada frequently interact with their American counterparts. Counsel in the United States are accustomed to studying very carefully the record of proceedings in the patent office leading to the grant of a patent. That record may be used in the United States, first, as an aid to the construction of a patent claim, and then to ascertain whether the patentee has estopped himself or herself from asserting infringement by something not literally within the claim as construed.⁵⁷

Counsel in Canada make a practice of reviewing patent office proceedings, if only to see what thoughts these may provoke or what train of inquiry they may suggest. On this basis, patentees have been ordered to produce their entire files.⁵⁸ It has been urged by David Scott, a distinguished Canadian lawyer, that what transpired in Canadian and foreign patent offices may be useful in evidence in Canadian courts;⁵⁹ however, the purpose for which the record of such proceedings should be introduced, if at all, is controversial. As Mr. Scott notes, stout resistance to introducing patent office files in evidence emerged with Mr. Justice Joseph T. Thorson who, for many years, dominated the development of patent jurisprudence in the Exchequer Court of Canada.⁶⁰ His Lordship was

⁵⁴ See, e.g., *John Joseph Solon v. Bord Na Mona* (1956), 90 I.L.T.R. 5 at 22-3 (Irish H.C.). The Court declined to construe a characterizing statement as meaning that the claim was merely for the elements that followed. In the United States, the question of repair or reconstruction does not turn on what is allegedly essential or non-essential to a patented combination. See *Porter v. Farmers Supply Serv. Inc.*, 229 U.S.P.Q. 814 (C.A. Fed. Cir., 1986).

⁵⁵ See, e.g., *Reading & Bates Constr. Co. v. Baker Energy Resources Corp.*, 223 U.S.P.Q. 1168 (C.A. Fed. Cir., 1984).

⁵⁶ See, e.g., *De Beers Indus. Diamond Div. (Pty) Ltd. v. Ishizuka* (1980), 2 S.A.L.R. 191 (Transvaal Prov. Div.); *Super Prods. Corp. v. D.P. Way Corp.*, 546 F.2d 748, 192 U.S.P.Q. 417 (7th Cir., 1976). The introductory words of a claim, by limiting the scope of the claim, may save it from invalidity. See *Burton Parsons, supra*, note 37.

⁵⁷ *Loctite Corp. v. Ultraseal Ltd.*, 228 U.S.P.Q. 90 (C.A. Fed. Cir., 1985) [hereinafter *Loctite*]. This process is somewhat reminiscent of sequentially looking at "textual" infringement and then at "pith and marrow". See *Catnic, supra*, note 39 at 242.

⁵⁸ *Crila Plastic Indus. Ltd. v. Ninety-Eight Plastic Trim Ltd.* (1985), 6 C.P.R. (3d) 137 (F.C.T.D.).

⁵⁹ D.W. Scott, *The Record of Proceedings in the Patent Office in Canada and Foreign Countries as Evidence in Infringement and Validity Contests* (1986) 2 CAN. INTELL. PROP. REV. 160.

⁶⁰ *Ibid.* at 161.

frank to say that his views about the use of patent office files were influenced, in part, by his experience in Parliament, where those who introduce legislation may be inadequately briefed or may inadequately understand the implications of the proposed legislation. It may be said that he extended the traditional refusal to look at parliamentary debates to a refusal to look at patent office representations and amendments.

Since the days of Mr. Justice Thorson, emphasis has been placed on "purposive" construction, first in relation to legislation and later in relation to patents.⁶¹ There have been *obiter* statements by Mr. Justice Gibson in the Federal Court of Canada indicating that the patent office "file wrapper" may be considered to ascertain what the claims mean⁶² or whether the claims "read on" the alleged infringement.⁶³ Canadian judges have from time to time looked at the patent office files,⁶⁴ but none has expressly challenged what Mr. Justice Thorson took pains to state. Mr. Scott has referred to the principles of contract interpretation, where extrinsic evidence is sometimes admissible, but the same rules of interpretation do not apply to all instruments.⁶⁵

There have been suggestions that a representation made to the patent office might be relied upon as an admission against interest,⁶⁶ but an admission as to construction (a question of law) must be of little weight, if it is to be used at all.⁶⁷ Like other written records made by or on behalf of an inventor, the patent office file may serve as evidence of what was actually invented, giving rise to a possible issue of whether a patent claim extends to something other than what was in fact invented. Comparing the specification that was originally filed with the specification of the issued patent may show that the patentee came out of the patent office with claims for a different invention than the one that was initially sought

⁶¹ W.L. Hayhurst, *The Arrival of Purposive Construction in Patent Law* (1982) 60 CAN. BAR REV. 485. What transpired in Parliament is still not regarded as relevant to construction of a statute. *See Hadmor Prods. Ltd. v. Hamilton* (1982), [1983] 1 A.C. 191 at 232-3, [1982] 1 All E.R. 1042 at 1055-6 (H.L.). *But see Reference Re Upper Churchill Water Rights Reversion Act* (1984), [1984] 1 S.C.R. 297 at 318, (*sub nom. Churchill Falls (Labrador) Corp. v. A.G. Newfoundland*) 8 D.L.R. (4th) 1.

⁶² *Eli Lilly & Co. v. Marzone Chems. Ltd.* (1977), 37 C.P.R. (2d) 3 at 5 (T.D.), *aff'd* (1978), 37 C.P.R. (2d) 37, 22 N.R. 511 (F.C.A.).

⁶³ *Zelon Indus. Ltd. v. Bonar & Bemis Ltd.* (1978), 39 C.P.R. (2d) 5 at 12 (F.C.T.D.).

⁶⁴ *See, e.g., Atlas Copco Aktiebolag v. CIL Inc.* (1986), 10 C.P.R. 145 at 169 (F.C.T.D.) [hereinafter *Atlas*]. Cullen J. noted that although the plaintiff in evidence stressed the importance of using throttle valves (to answer an obviousness attack), such valves were not mentioned in the broad claims originally filed in the patent application.

⁶⁵ *See*, as to ambiguity, the comments of Lord Parker in *Natural Colour*, *supra*, note 44 at 269.

⁶⁶ *Furr v. C.D. Truline (Bldg. Prods.) Ltd.* (1985), 11 F.S.R. 553 at 563 (Pat. Ct.); *Foseco Int'l Ltd. v. Bimac Canada* (1980), 51 C.P.R. (2d) 51 (F.C.T.D.).

⁶⁷ *Amfac Foods Inc. v. Irving Pulp & Paper Ltd.* (1984), 80 C.P.R. (2d) 59 at 74, 2 C.I.P.R. 115 at 131 (F.C.T.D.), *aff'd* 12 C.P.R. (3d) 193 (C.A.) [hereinafter *Amfac Foods*].

to be protected.⁶⁸ As well, an issue of fraud or false suggestion might be raised,⁶⁹ although such issues would go to the validity of the patent rather than to construction. It is submitted that to ask a court to refer to other documents in an attempt to influence the construction or effect of a patent specification is wrong in principle⁷⁰ and is likely to lengthen and complicate matters which are already difficult. It is preferable to focus on whether the patentee is entitled to whatever the claims define when construed in their context in the specification of the issued patent.

2. *Experts*

Where Canada has drawn closer to American practice is in the use of expert witness evidence. In both countries it is clear that construction of the patent specification is for the court;⁷¹ however, adducing expert evidence on such "ultimate issues" has become commonplace,⁷² with the court concerning itself with the weight rather than the admissibility of such evidence. This entices Canadian litigants to compete for witnesses who are not only technically competent but who can preferably pose as being merely average.⁷³ In cases where a judge may tend to be deferential due to a lack of personal technical expertise, witnesses must compete in impressing the judge on matters which the judge must decide.

Whatever the proper role of experts may be, judges must try to separate experts' opinions from their advocacy. As one American judge once observed: "There are two types of experts — those who testify as to what they believe, and those who testify as to what they can defend".⁷⁴

⁶⁸ *Dennison Mfg. Co. of Canada v. Dymo of Canada Ltd.* (1975), 23 C.P.R. (2d) 155 at 162-3 (F.C.T.D.); *Martin v. Scribal Proprietary Ltd.* (1956), 73 R.P.C. 215 (P.C.).

⁶⁹ See W.L. Hayhurst, *Patents: Therm-a-Stor Ltd. v. Weatherseal Windows Ltd.* (No. 2) (1985) 1 I.P.J. 157.

⁷⁰ *In the Matter of the Petition of Compania Uruguaya de Fomento Indus. S.A. for the Revocation of Henriksen's Patent* (1957), 74 R.P.C. 314 at 325 (C.A.); *Union Carbide Corp. (Hostetler's) Application*, [1922] R.P.C. 601 at 607 (P.A.T.). The position may be different where the patent specification makes express reference to the other document.

⁷¹ *Western Elec. Co. v. Baldwin Int'l Radio of Canada Ltd.* (1934), [1934] 4 S.C.R. 570 at 572-3, [1934] 4 D.L.R. 129 at 131 [hereinafter *Baldwin*]; *Loctite*, *supra*, note 57 at 93.

⁷² See, e.g., *Beloit Canada Ltee./Ltd. v. Valmet Oy* (1986), 8 C.P.R. (3d) 289 at 295, 7 C.I.P.R. 205 at 211-2 (F.C.A.) [hereinafter *Beloit*]; *Windsurfing Int'l Inc. v. Trilantic Corp.* (1985), 8 C.P.R. (3d) 241 at 258-60, 7 C.I.P.R. 281 at 301-3 (F.C.A.) [hereinafter *Windsurfing Int'l*]; *Rucker, infra*, note 308; *Graat v. R.* (1982), [1982] 2 S.C.R. 819 at 836-9, 144 D.L.R. (3d) 267 at 281-4; *Northern Elec. Co. v. Photo Sound Corp.* (1936), [1936] S.C.R. 649 at 675-8, [1936] 4 D.L.R. 657 at 680-4; *Baldwin*, *ibid.* at 572-3 and 592-3, [1934] 4 D.L.R. 129 at 131 and 147-8; *Amfac Foods*, *supra*, note 67 at 82-5; *C. Van der Lely, supra*, note 43 at 497.

⁷³ See *Beloit*, *ibid.*; *Xerox*, *supra*, note 36 at 51. The notional person skilled in the art is an ordinary skilled person, though in some arts his skill will be considerably greater than that of the lay person. See T.A. Blanco White, *supra*, note 36 at paragraph 5-703.

⁷⁴ His Honour John D. Fulham of the United States District Court for Eastern Pennsylvania.

C. Validity

1. Subject-Matter Capable of Being Patented

(a) Computer Programs

The only Canadian court decision on the patentability of a claim which incorporates a computer program is that in *Schlumberger Canada Ltd. v. Commissioner of Patents*⁷⁵ discussed in the last Survey.⁷⁶ Since then, the Commissioner of Patents, on the advice of the Patent Appeal Board, has greatly relaxed his attitude towards such claims.⁷⁷ In the *Schlumberger* decision, the Federal Court of Appeal made two statements that the Board has emphasized in its decisions, the first of which is that: “[I]n order to determine whether the application discloses a patentable invention, it is first necessary to determine what, according to the application, has been discovered.”⁷⁸

Here the Court acknowledged that its first task is one of construction. Accordingly, the Patent Appeal Board first consults the applicant's disclosure to ascertain “what” the discovery is. Then the Board turns to the claims, keeping in mind a second statement of the Court, namely that “the fact that a computer is or should be used to implement discovery does not change the nature of that discovery”.⁷⁹

“What” is being done, rather than “how” (use of a computer), has been emphasized by the Board. If the applicant discloses more than merely processing data in a computer and if the claim, though replete with references to computer means or steps that process data, includes some further means or step that interacts with the computer operation, then the Board appears ready to admit that the claim is for a program integrated into an apparatus or process that is patentable. However, the apparatus or process must still conform to that which has traditionally been regarded as fit subject-matter where no computer program is involved.

The Board has rendered numerous decisions and the following example best illustrates its liberal approach. In *Re Application of Vapor Canada Ltd.*,⁸⁰ the applicant had devised a method and apparatus for analyzing data about the running of vehicles and for plotting the results. One of the applicant's claims recited steps of entering the data into a computer as well as steps performed in the computer of calculating, comparing, updating and storing data in a buffer. The claim concluded

⁷⁵ (1981), [1982] 1 F.C. 845, 56 C.P.R. (2d) 204 (A.D.), leave to appeal to the S.C.C. denied 63 C.P.R. (2d) 261n, 40 N.R. 90n (S.C.C.) [hereinafter *Schlumberger*].

⁷⁶ 1983 Survey, *supra*, note 1 at 49-54.

⁷⁷ See, e.g., T.McDonough, *Appeal Board Decisions with Respect to Computer Software* (1985) 12 CAN. INTELL. PROP. REV. 10.

⁷⁸ *Supra*, note 75 at 847, 56 C.P.R. (2d) at 205.

⁷⁹ *Ibid.* at 847, 56 C.P.R. (2d) at 206.

⁸⁰ (1985), 9 C.P.R. (3d) 524 (Pat. App. Bd. and Commr. of Pats.) [hereinafter *Vapor*].

with the steps of transmitting the buffer contents to an output device for display and detecting the completion of the plot.

The Board allowed the claim on the basis that these last two steps add something more to the claim than merely the analysis and storage of data, and that the subject-matter did not pertain merely to making calculations. In most cases it should not tax the ingenuity of the patent agent to draft claims that will survive the scrutiny of the Board.

The foregoing is not the whole story. The Board has also been prepared to allow a claim to an arrangement of means within a computer for the storage and retrieval of information.⁸¹ Provided that a claim for a combination of means within a computer is not a mere claim for means for carrying out a mathematical algorithm, and thus a disguised claim for the algorithm, the allowability of the claim is no departure from the allowability of a claim to any other apparatus. What the Board insists upon is that a claim be for more than the mere resolution of a mathematical algorithm, with or without a mere statement of purpose.⁸²

At least one class of computer-related cases, discussed under the next heading, may still present difficulty in the Patent Office.

(b) *Mentally Performable Steps*

Computers are able to perform tasks which theoretically could be performed mentally (perhaps with the aid of a pencil and paper or a slide rule), but which computers perform so rapidly as to make practical that which would otherwise be impractical, or so efficiently as to make human performance uncompetitive. In *Re Application for Patent No. 178,570*,⁸³ the applicant had devised a system for displaying at a computer terminal a valuation of an investment portfolio. A data base is stored in a known, remotely located general purpose computer which is available to the user on a time-shared basis, and the computer evaluates the portfolio as new market data is supplied to it. Different users may have separate terminals for valuation of their own portfolios. "Application" programs are written by the applicant for use with the computer's pre-existing "system" programs. The applicant's claim in this case was for a "stored program data processing system" and included, in a lengthy list: a combination of means including terminals, various storage areas for records of data, means for accessing and editing certain records, various means for converting signals and data, retrieving, computing and display means. Claims for a method of using this system were also presented. The claimed system allows simultaneous access to data files by a plurality of users,

⁸¹ See *Re Application for Patent of Dissly Research Corp.* (1984), 6 C.P.R. (3d) 420 (Pat. App. Bd. and Commr. of Pats.).

⁸² See, e.g., *Re Application for Patent of Gerber Garment Technology Inc.* (1985), 3 C.P.R. (3d) 563 (Pat. App. Bd. and Commr. of Pats.). See also G.E. Fisk, *The Protection of Computer Software in Canada — The View as of September 1985* (1986) 2 CAN. INTELL. PROP. REV. 176.

⁸³ (1983), 2 C.P.R. (3d) 483 (Pat. App. Bd. and Commr. of Pats.) [hereinafter *Patent No. 178,570*]

while allowing concurrent editing or updating of the data by the operator. The same claimed system could be used to store legal data, allowing simultaneous access to later citations of a court decision or statute, while also permitting concurrent updating of the latest citations. The Board conceded that what was claimed was not an "abstract theorem" or "scientific principle", both of which are specifically excluded from protection by subsection 28(3) of the *Patent Act*,⁸⁴ but it considered that a procedure merely to regulate the functioning of a known computer is unpatentable. It appears from the decision that the Board will reject a claim that is for nothing more than what takes place as a result of programming a known computer, whether the claims are expressed in terms of process steps or in terms of "means". This conclusion differs from that of the United Kingdom Patent Appeal Tribunal in *IBM Corporation's Application*⁸⁵ under the *Patent Act, 1949*.⁸⁶

The applicant in *Patent No. 178,570* had succeeded in having its claims allowed by the United Kingdom and United States Patent Offices (patents 1,447,238 and 4,344,270 respectively). The approach taken in the United States, as discussed in the last Survey,⁸⁷ is first to ascertain whether the challenged claim directly or indirectly recites a "mathematical" algorithm. The only mathematical algorithm involved in *Patent No. 178,570* was: units x price = value. This was not recited in the claim. The applicant argued that non-mathematical algorithms should not be regarded as unpatentable. The Canadian Board rejected this as a general proposition, saying that, "it would mean that the mere fact that a computer system is used, to perform what otherwise would be a series of mental operations and clerical procedures, makes the subject matter patentable because a novel program has been devised".⁸⁸

The reference to a "novel" program is unfortunate.⁸⁹ In another passage the Board said:

We have no doubt that the "end" — the display of information — is useful and has commercial application. We are not so sure, though, that it is new in a patentable sense. The information conveyed is new in the same way that a newspaper page is new because the particular information it carries is "news". This does not mean, however, that every newspaper page is patentably different, one from another, and it does not mean that a newspaper's apparatus and method is new and patentable merely because it produces a page of new information.⁹⁰

⁸⁴ R.S.C. 1970, c. P-4.

⁸⁵ (1978), [1980] F.S.R. 564 (Pat. App. Trib.).

⁸⁶ (U.K.), 12, 13 & 14 Geo. 6, c. 87.

⁸⁷ 1983 Survey, *supra*, note 1 at 49-54.

⁸⁸ *Patent No. 178,570*, *supra*, note 83 at 490.

⁸⁹ As was pointed out in the invaluable decisions of *Re Bergy*, 201 U.S.P.Q. 352 (Ct. of Customs and Pat. Apps., 1979) at 360-3 and *Re Walter*, 205 U.S.P.Q. 397 (Ct. of Customs and Pat. Apps., 1980) at 406, questions of novelty do not arise in deciding whether one has (in the terms of section 2 of the Canadian *Patent Act*, R.S.C. 1970, c. P-4) an "art, process, machine, manufacture or composition of matter". The latter are constant, but novelty is not. After all, what is new today will not be so tomorrow.

⁹⁰ *Patent No. 178,570*, *supra*, note 83 at 487.

As between a newspaper press and a computer, a significant difference in novelty is that in a printing press the elements of its mechanism interact in the same way irrespective of what is being printed, whereas in a computer the program determines how the elements of the computer interact. This may be new; however, it has no relevance to the inquiry of whether such programmed interaction is statutory subject-matter. It seems that the Board's needless references to novelty may have been in response to its understanding of the applicant's arguments, the Board having stated that it considers "that the patentability of a process using a computer depends, as it does in every other type of process, on the particular kind of subject matter and not on the novelty or lack of novelty of the article or machine used in the process".⁹¹

This is correct, and the issue remains whether means or methods for mechanizing what could theoretically be done mentally is patentable subject-matter. It is submitted that it is, in the same manner that means or methods for mechanizing what could be done manually is patentable subject-matter. It would be preferable if the Patent Office were to focus on more likely grounds of objection, such as whether the claims go beyond what has been invented⁹² or whether what is claimed was obvious, or old. Allowable patent claims may be of limited scope, and this induces computer programmers to rely on copyright, which is a limited but automatic right.⁹³

(c) *Mere Schemes or Plans: Professional Skills*

In *Re Application for Patent of North Oakland Dev. Co.*,⁹⁴ the applicant presented a claim which would cover a method of constructing a residential development, wherein a factory building is erected to fabricate dwelling houses, after which the houses are moved to designated sites, and the factory building is then converted into a shopping centre. The Patent Appeal Board expressed the view that the alleged invention did not relate to a "manual art or skill" but to the "skills of an architect or a planning consultant" and thus was in the "category of a scheme or plan or system related to a business proposal".⁹⁵ The logic of such categorization is difficult to penetrate. There has been some judicial endorsement of "professional skill" rejections,⁹⁶ but without explanation as to how to distinguish such skills from the practical application of other skills, for example, those of professional engineers. The Board was on safer ground in resting its decision on the obviousness of the claimed method, having regard to an earlier publication.

⁹¹ *Ibid.*

⁹² A claim covering every way of mechanizing would clearly be too broad.

⁹³ Developments relating to copyright in computer programs are discussed in Part V.C.3. of this Survey, *infra*.

⁹⁴ (1982), 82 C.P.R. (2d) 282 (Pat. App. Bd. and Commr. of Pats.).

⁹⁵ *Ibid.* at 288.

⁹⁶ See 1983 Survey, *supra*, note 1 at 54-5.

In *Re Application of Biederman*,⁹⁷ the Board rejected a claim to a method of detecting stress in a human wherein a stream of air picked up the scent of a human body, and the air was passed to an animal trained to respond to a scent which indicates stress. The Board held that such a claim was not for patentable subject-matter but was directed to a non-manufacturing method. This is hardly a sufficient explanation.⁹⁸ The Board allowed a claim to means for passing the air stream from the human to the animal, in terms that were essentially the apparatus equivalent of the method steps, holding that the apparatus claim was for a novel practical application of an inventive discovery. Form seems to have prevailed over substance in the treatment of this application.

(d) *Living Things*

In *Ex parte Hibberd*,⁹⁹ the Board of Appeals and Interferences of the United States Patent and Trademark Office held that plants, seeds and tissue cultures can fall within the scope of "manufacture" or "composition of matter", which are classes of subject-matter that are specified in both the American and Canadian patent legislation. The Canadian Patent Appeal Board has declined to follow this lead, and in *Re Application for Patent of Pioneer Hi-Bred Ltd.*¹⁰⁰ has rejected claims to a new variety of soybean plant, to a pod of the plant and to a seed of the plant. In so doing, the Canadian Board has drawn back from its expansive *dicta* in *Re Application of Abitibi Co.*,¹⁰¹ where it had said:

If an inventor creates a new and unobvious insect which did not exist before (and thus is not a product of nature), and can create it uniformly and at will, and it is useful (for example to destroy the spruce bud worm), then it is every bit as much a tool of man as a micro-organism. With still higher life forms it is of course less likely that the inventor will be able to reproduce it at will and consistently, as more complex life forms tend to vary more from individual to individual. But if it eventually becomes possible to achieve such a result, and the other requirements of patentability are met, we do not see why it should be treated differently.¹⁰²

The Board said that it had no doubt that the decision in *Re Application of Abitibi Co.* would apply to lower life forms produced *en masse*,¹⁰³

⁹⁷ (1981), 74 C.P.R. (2d) 277.

⁹⁸ Compare the method claim allowed in the *Vapor* case, *supra*, note 80.

⁹⁹ 227 U.S.P.Q. 443 (1985).

¹⁰⁰ (1986), 11 C.P.R. (3d) 311.

¹⁰¹ (1982), 62 C.P.R. (2d) 81.

¹⁰² *Ibid.* at 90.

¹⁰³ See, e.g., the cell culture claim allowed in *Re Application for Patent of Connaught Laboratories* (1982), 82 C.P.R. (2d) 32 (Pat. App. Bd. and Commr. of Pats.). The Canadian Patent Office has been allowing claims to biologically pure cultures of micro-organisms found in nature, as approved in *Re Bergy*, *supra*, note 89.

though the *Abitibi* decision expressly recognized that the patentability of higher life forms was more debatable. The Board considered that it must carefully scrutinize the present application on its own merits. In the absence of any direction from the courts to the effect that a plant growing according to the laws of nature should be considered a manufacture, it took the view that the professional skill of man in cross-breeding does not produce subject-matter within the Canadian *Patent Act*.¹⁰⁴

The same view was expressed by the Board in *Re Application of Pallos*,¹⁰⁵ where, however, the Board allowed a claim to a seed treated with an antidote to herbicides.

The Canadian Department of Consumer and Corporate Affairs, in collaboration with the departments of Agriculture Canada and Science and Technology Canada, has prepared an unpublished study entitled *Patenting Life Forms & Processes*¹⁰⁶ in which it invites discussion of the desirability of amending the *Patent Act* in the light of questions that are raised by developments in biotechnology. The study also discusses the desirability of proceeding with plant breeders' rights legislation. The International Association for the Protection of Industrial Property, in a resolution adopted at Rio de Janeiro in February 1985, came to the realistic¹⁰⁷ conclusion that, provided the usual criteria for patentability are met (novelty, sufficient disclosure and the like), a patent should not be denied merely because its subject-matter is living.

To provide a sufficient disclosure of living matter it may be necessary to refer to a deposit of the living matter where a specimen is maintained. In *Re Lundak*,¹⁰⁸ the United States Court of Appeal, for the Federal Circuit has held that while a patent application is pending it is sufficient that the Patent and Trademark Office have access to the deposit, provided that, when a patent is granted, the deposit will become readily accessible to the public at a depository that affords permanence of the deposit.

(e) *Medical Treatment*

At the time of the last Survey,¹⁰⁹ the Chief Justice of the High Court of New Zealand had approved a claim to a method of treating or preventing

¹⁰⁴ R.S.C. 1970, c. P-4. The *Pioneer Hi-Bred* decision has, on March 11, 1987, been affirmed by the Federal Court of Appeal, where Pratte J. has also disagreed with the *Abitibi* decision.

¹⁰⁵ (1978), 1 C.P.R. (3d) 334.

¹⁰⁶ August, 1986.

¹⁰⁷ R.S.C. 1970, c. P-4.

¹⁰⁸ 227 U.S.P.Q. 90 (1985). *See also Ex parte Old*, 229 U.S.P.Q. 196 (Pat. Trade Off. Bd. of Pat. Apps. and Int. 1985).

¹⁰⁹ 1983 Survey, *supra*, note 1.

a form of leukemia.¹¹⁰ That decision has since been reversed by the New Zealand Court of Appeal.¹¹¹ Similarly, an applicant in Canada has failed to convince the Federal Court of Appeal that such methods may be patented.¹¹² The Canadian applicant claimed a method of cleaning dental plaque or stains, including tobacco stains, from human teeth by applying a specified aqueous solution. The Court concluded that the decision of the Supreme Court of Canada in *Tennessee Eastman Co. v. Commissioner of Patents*¹¹³ requires rejection of any claims for medical treatment. It is immaterial whether or not the method of treatment employs a substance the patentability of which is restricted by subsection 41(1) of the *Patent Act*,¹¹⁴ that is, a substance intended for medicine and produced by a chemical process. The Court rejected the argument that a method should not be characterized as one for medical treatment where the method has another leading purpose, as in this case, a cosmetic one.¹¹⁵ As to what constitutes a method of medical treatment, the Patent Appeal Board has held, in another case,¹¹⁶ that a method of medical treatment is involved whenever organic functions of the body are modified. On this basis, the Board rejected a claim to a method for eliminating or reducing the desire for tobacco in a human by internally administering a specified liquid composition.

2. *Anticipation*

There are two tests to determine anticipation. The first is that of ascertaining whether the patentee is merely disclosing something that is not new. A clear case of this occurs where the patentee has publicly disclosed the invention in such a way and at such a time before filing the Canadian application that his own disclosure can be used against him.¹¹⁷

The other test, commonly referred to as the "infringement test", is concerned with the scope of the patentee's claims. A patentee may have disclosed, in the specification, something new and unobvious. Neverthe-

¹¹⁰ *Wellcome Foundation Ltd. (Hitching's) Application* (1979), [1980] R.P.C. 305.

¹¹¹ *Wellcome Foundation Ltd. v. Commissioner of Patents* (1983), [1983] N.Z.L.R. 385.

¹¹² *Imperial Chemical Indus. Ltd. v. Commissioner of Patents* (1986), [1986] 3 F.C. 40, 9 C.P.R. (3d) 289.

¹¹³ (1972), [1974] S.C.R. 111, 8 C.P.R. (2d) 202.

¹¹⁴ R.S.C. 1970, c. P-4.

¹¹⁵ Similarly, the Patent Office has regarded a substance as being intended for medicine where such utility is disclosed by the applicant, though other uses are also disclosed. The Board has said that if only non-medical usage is disclosed but, by chance, the substance may have medical utility, the position may be different. See, e.g., *Re Application of Jacquet* (1981), 73 C.P.R. (2d) 181.

¹¹⁶ *Re Application of Revici* (1981), 71 C.P.R. (2d) 285.

¹¹⁷ *Patent Act*, R.S.C. 1970, c. P-4, ss. 28(1)(b), (c). These provisions also extend to disclosures by others.

less, he or she may have drawn a claim too widely, thereby causing it to be anticipated. Though it may cover something new, the claim may also cover something old, even though the old thing may not reveal what the patentee has disclosed,¹¹⁸ and may fail to render obvious what the patentee has disclosed.¹¹⁹ The court need only ask whether the claim covers the old thing,¹²⁰ and this of course depends on how the court has construed the claim in the first instance. If the alleged anticipation is a prior publication, that publication must be construed in the light of common knowledge as of its date of publication¹²¹ (whereas, as discussed in the last Survey,¹²² the patentee's specification and claims should be construed as of the date they were filed). Although each alleged anticipation may, to ascertain its disclosure, be read or viewed through the eyes of someone having the common knowledge in the art at the relevant date, it is not permissible to make a mosaic of such disclosures.¹²³

This second test, relating to the scope of the patentee's claims has too often been overlooked or misunderstood. The two tests were thoroughly confused by Mr. Justice Gibson in *Reeves Bros. Inc. v. Toronto Quilting & Embroidery Ltd.*:¹²⁴

As I understand it, in order that there may be a finding of anticipation, the prior art must (1) give an exact prior description; (2) give directions which will inevitably result in something within the claims; (3) give clear and unmistakable directions; (4) give information which for the purpose of practical utility is equal to that given by the subject patent; (5) convey information so that a person grappling with the same problem must be able to say "that gives me what I wish"; (6) give information to a person of ordinary knowledge so that he must at once perceive the invention; (7) in the absence of explicit directions, teach an "inevitable result" which "can only be proved by experiments"; and (8) satisfy all these tests in a single document without making a mosaic.¹²⁵

¹¹⁸ See, e.g., *Titanium Metals Corp. v. Banner*, 227 U.S.P.Q. 773 at 777-9 (C.A. Fed. Cir., 1985).

¹¹⁹ Thus, in considering anticipation, unobviousness can be assumed. See W. Aldous *et al.*, *TERRELL ON THE LAW OF PATENTS*, 13th ed. (London: Sweet & Maxwell, 1982) at 124-6. In addition, the patentee may have done something unobvious but be anticipated by someone else who did the same thing.

¹²⁰ See, e.g., *Atlas*, *supra*, note 64 at 180. See also *Lightning Fastener Co. v. Colonial Fastener Co.* (1933), [1933] S.C.R. 377 at 381, [1933] 3 D.L.R. 348 at 352. On a purposive construction, a claim may be construed in a manner that does not assist the patentee. See, e.g., *Windsurfing Int'l Inc. v. Tabur Marine Ltd.* (1985), [1985] R.P.C. 59 at 80 (H.L.). A claim may, however, be construed in a manner that does assist the patentee. See, e.g., *Burton Parsons*, *supra*, note 37.

¹²¹ See, e.g., *C. Van der Lely*, *supra*, note 43 at 503-4.

¹²² 1983 Survey, *supra*, note 1 at 64-5.

¹²³ See, e.g., *Beloit*, *supra*, note 72 at 279. See also *W.H. Brady Co. v. Letraset Canada Ltd.* (1985), 7 C.P.R.(3d) 82 at 102 (F.C.T.D.).

¹²⁴ (1978), 43 C.P.R. (2d) 145 (F.C.T.D.).

¹²⁵ *Ibid.* at 157.

Regrettably, this statement has been accepted, without analysis, in several subsequent Canadian cases.¹²⁶ Item (2) refers to "something within the claims", but something may be within the claims, and therefore be anticipatory, though it fails to teach or provide what the patentee has accomplished. In such a case, the patentee has not limited his claim to what he had invented.

What the learned judge did in his statement, listing eight items, was to string together a collection of passages written at different times by different judges in different cases. Items (3) and (7) of the statement are clearly alternatives and are not cumulative as suggested by item (8).

3. *Obviousness*

As in the case of anticipation, obviousness may be tested in two ways. The simple test is whether the patentee has in his specification merely disclosed that which was obvious. If so, he is clearly not entitled to a patent. The second test to be applied to each patent claim is whether the patentee has drawn his claim so widely as to cover not only that which may have been unobvious, but also something that was obvious. Counsel for the patentee may strive to lead the court away from the latter test by focusing upon evidence as to the success of the patentee's commercial embodiment.

In considering an allegation of obviousness, the court should look at the prior state of the art as realistically as possible, recognizing that the person making the allegation may be relying upon an artificial, *ex post facto* selection from that art.¹²⁷ A combination of elements may be unobvious, even though the individual elements were all within common knowledge.¹²⁸

The standard is what would have been obvious to a notional average person skilled in the art, not what was obvious to the inventor named in the patent, nor how he happened to make the alleged invention. It follows that reference should be made to only the art that would have been available to the notional person at the relevant date,¹²⁹ not to the art that

¹²⁶ See, e.g., *Johnson Controls Inc. v. Varta Batteries Ltd.* (1984), 80 C.P.R. (2d) 1 at 11, 53 N.R. 6 at 34-5 (F.C.A.D.) [hereinafter *Johnson Controls*]. See also *Windsurfing Int'l*, *supra*, note 72 at 255; *Reading & Bates Construction Co. v. Baker Energy Resources Corp.* (1986), 9 C.P.R. (3d) 158 at 178 (F.C.T.D.) [hereinafter *Reading & Bates*]; *Services et Produits Hospitaliers Confort & Inc. v. W. Laframboise Ltée* (1985), 6 C.P.R. (3d) 238 at 245 (F.C.T.D.); *Tinsel Mfg. Ltd. v. Noma Canada Inc.* (1985), 3 C.P.R. (3d) 433 at 444 (F.C.T.D.) [hereinafter *Tinsel Mfg.*]; *Cooper & Beatty v. Alpha Graphics Ltd.* (1980), 49 C.P.R. (2d) 145 at 152-8 (F.C.T.D.); *Hy Kramer Canada Ltd. v. Lindsay Specialty Prods. Ltd.* (1986), 9 C.P.R. (3d) 297 at 305 (F.C.T.D.).

¹²⁷ See, e.g., *Dow Chemical Co. (Mildner's) Patent* (1975), [1975] R.P.C. 165 at 169 (C.A.).

¹²⁸ See, e.g., *Windsurfing Int'l*, *supra*, note 72; *British Celanese Ltd. v. Courtaulds Ltd.* (1933), 50 R.P.C. 259 at 269 (C.A.).

¹²⁹ See D.A. Hill, *The Requirement for Inventive Step* (1980) 6 P.T.I.C. BULL. 306.

may have been within the particular knowledge of the named inventor.¹³⁰ In *Hercules Inc. v. Commissioner of Patents*,¹³¹ the Patent Appeal Board seems to have considered that it could raise an obviousness objection on the basis of a reference known to the applicant even though the reference might not have been available to others. However, the observations of the Board were *obiter*, because the reference was a United States patent issued more than two years before the applicant filed in Canada and prior to the applicant's alleged invention.

To appeal successfully from a finding of fact is difficult¹³² and it has often been said that obviousness is a question of fact.¹³³ With respect, this is an oversimplification.¹³⁴ To arrive at a decision on obviousness, one must first construe the patentee's disclosure and claims. There are other issues of law that may have to be considered. For instance, what is the relevant date for considering the question of obviousness?¹³⁵ What is sufficient to constitute a printed publication¹³⁶ or a public use,¹³⁷ or prior invention?¹³⁸ Is a prior document or use relevant if it would have required more than a diligent search to find it?¹³⁹ Numerous factual inquiries may arise. For instance, what was the relevant art or arts in which notional skilled persons would have been working? What qualifications and experience would such persons have had? What common knowledge would they have had? Would they have perceived the problem that the alleged inventor has solved? How much attention would they have paid to citable prior art? What would that art have suggested to them? Is a suggested mosaic of such art legitimate? Would other art have obscured the path? In assessing the evidence and the weight to be given to the testimony of the witnesses, the court must consider factors such as an alleged long felt need, attempts of others, the age of the cited prior art, the disadvantages of that art, the enthusiasm or disbelief that the alleged invention received, the results that it achieved and elements that contributed to its commercial success.

¹³⁰ An exception to this is the case where the patentee has acknowledged in his specification that something was prior art, because the public is entitled to rely upon such an acknowledgement. See 1983 Survey, *supra*, note 1 at 82-3.

¹³¹ (1985), 4 C.P.R. (3d) 289 at 290 (Pat. App. Bd. and Commr. of Pats.), *aff'd* (1985), 4 C.P.R. (3d) 289 (F.C.A.D.) without any discussion of this issue.

¹³² See *Stein v. The Ship "Kathy K"* (1976), [1976] 2 S.C.R. 802 at 806-8, 62 D.L.R. (3d) 1 at 3-5.

¹³³ See, e.g., *French's Complex Ore Reduction Co. v. Electrolytic Zinc Process Co.* (1930), [1930] S.C.R. 462 at 466, [1930] 4 D.L.R. 902 at 905- 6; *Technograph Printed Circuits Ltd. v. Mills and Rockley (Electronics) Ltd.* (1971), [1972] R.P.C. 346 at 355 (H.L.).

¹³⁴ See *Bonnard v. London Gen. Omnibus Co.* (1920), 38 R.P.C. 1 at 14 (H.L.), per Lord Shaw. See also *Gardner v. TEC Systems Inc.*, 220 U.S.P.Q. 777 at 782 (C.A. Fed. Cir., 1984).

¹³⁵ D.A. Hill, *supra*, note 129.

¹³⁶ See 1983 Survey, *supra*, note 1 at 73-4.

¹³⁷ *Ibid.* at 74-6.

¹³⁸ *Ibid.* at 76-7.

¹³⁹ *Ibid.* at 82.

In considering these issues the court must, in applying the law to the fact, infer whether what the alleged inventor actually disclosed was obvious¹⁴⁰ and whether anything covered by the claims was obvious. An appellate court may believe it is in as good a position as the trial judge to draw the appropriate inferences, assuming that the judge did not misdirect himself or herself on the law. It has been comforting to patentees that, during the period of this review, the Federal Court of Appeal has twice overturned decisions of the Trial Division which had held that the invention in question was obvious. In *Windsurfing Int'l*,¹⁴¹ the Court acknowledged that there is an element of subjectivity in assessing obviousness. In litigation on the Windsurfing patent in England, the English Court of Appeal had held that a prior publication by Darby rendered the invention obvious;¹⁴² however, the Canadian court held otherwise. Mr. Justice Stone noted that there were differences between the claims of the Canadian and the United Kingdom patents, as well as differences in the evidence adduced in each case.

In *Beloit*, Mr. Justice Hugesson, speaking for the Court, stated:

I fully appreciate that obviousness is, at bottom, a question of fact and that, in consequence, a court of appeal should be very circumspect before overruling the findings of a trial judge. In the present case, however:

1. There are no issues of credibility. The trial judge found that all the witnesses had testified honestly and in good faith and to the best of their recollection.
2. Most of the primary facts were never in issue; it is over the inferences to be drawn from them that the parties disagree.
3. The trial judge has misstated and apparently misapprehended the correct nature of the legal test for obviousness.
4. The trial judge appears to have given no weight to the uncontested objective facts and preferred instead the subjective *ex post facto* opinion of a hired expert.¹⁴³

4. *Excess Width of Claims*

The claim draftsperson does not serve the inventor well if he or she covers no more than the specific thing that the inventor is doing, for variants will almost inevitably be found that embody the essential features

¹⁴⁰ See *Benmax v. Austin Motor Co.* (1955), 72 R.P.C. 39 at 42 (H.L.); *Lido Indus. Prod. Ltd. v. Teledyne Indus. Inc.* (1981), 57 C.P.R. (2d) 29 at 43, 39 N.R. 561 at 576 (F.C.A.D.), leave to appeal to S.C.C. refused (1981), 59 C.P.R. (2d) 183n, 40 N.R. 360n (S.C.C.).

¹⁴¹ *Supra*, note 72.

¹⁴² *Supra*, note 120.

¹⁴³ *Supra*, note 72 at 296.

of the invention. However, what is essential is not always easy to perceive. Experience may show that something that was once thought to be essential can be varied, or that something once thought to be optional is necessary, at least for commercial success. The draftsperson will therefore produce a range of claims, each having a different combination of elements in the hope of having at least one claim define what competitors are likely to want to adopt. The fewer the number of elements in the claim and the more general the definition of the elements, the wider the claim. The patent office examiner will try to ensure that the draftsperson gets no more than the inventor deserves, but rarely is the result uncontroversial.

In striving for breadth, the draftsperson runs the risk of drafting a claim that is construed to cover something old, obvious or useless, in which event the claim is invalid. He may also claim more than was invented if the claim is construed as covering too much that is new. The latter problem usually arises in cases involving chemical patents. The inventor may have discovered one or a few new substances of great utility. He or she knows that tens or hundreds or thousands or millions of other substances can be produced, all differing only slightly from the one or the few that he or she has made and tested, and all potentially having similar utility. To make and test them all may be impractical and time consuming and may prejudicially delay filing a patent application. In addition to claiming the substances that have been tested, the claim draftsperson must therefore consider drafting some claims of wider scope to cover other substances, not yet produced nor tested. To provide apparent support for such claims, the draftsperson may include in the disclosure examples or experiments that have not in fact been made or tried but that are likely to work. There are risks in this. The specification may be held to be misleading. This may invalidate the entire patent. Or may result in the invalidation of one or more claims as being speculative and covering more than was invented, even in the absence of evidence that the claims cover things having no utility.¹⁴⁴ In *Re Application of Ciba-Geigy A.G.*,¹⁴⁵ the Patent Appeal Board rejected several process claims of the applicant, making the following observations:

When we turn to the specification now before us, we find that many of the processes are merely proposed processes for making the desired compounds, and such processes are described as "possible" ways to make the products. Indeed, the whole disclosure in so far as it relates to the processes is so rife with indications of what might possibly be done, and so replete with various alternatives and suggestions for modifications that it is quite apparent the draftsman could only have been speculating and casting his net far beyond what had really been done. It is only when we turn to the examples themselves that we can perceive any concrete statements about processes really used. . . . In our view it would be completely inappropriate under such circumstances to allow the applicant to claim as widely as he proposes. To do so would be to condone "arm-chair inventioneering" and "paper chemistry". . . .¹⁴⁶

¹⁴⁴ See, e.g., *Hoechst Pharmaceuticals of Canada Ltd. v. Gilbert and Co.* (1965), [1966] S.C.R. 189, 50 C.P.R. 26.

¹⁴⁵ (1977), 1 C.P.R. (3d) 462.

¹⁴⁶ *Ibid.* at 497.

However, an inventor is entitled to claim that which was soundly predictable from the work he or she had done.¹⁴⁷ Consider the case where a notional person skilled in the art, knowing of the work done by the inventor, would not say that what is claimed was soundly predictable, but in fact it turns out that the inventor's prediction was indeed sound. This may show the genius of the inventor, for inventors are capable of things that average experts are not. It may alternatively show his good fortune in selecting his patent agent.

The patent specification must disclose some practical utility for the invention. The promised utility may be slight,¹⁴⁸ provided that what is claimed has the promised utility.¹⁴⁹ Claims must, of course, be construed purposively and may not be construed as covering something that the notional addressee would know is not useful,¹⁵⁰ unless the teaching of the disclosure dictates a different construction.¹⁵¹

A patentee may assert that it has achieved an advantage that distinguishes its invention from the prior art, and that an alleged infringer has taken that advantage. In *Riello Canada Inc. v. Lambert*,¹⁵² the patentee argued that its invention had the advantage of reducing cold air infiltration in an oil burner. However, the learned trial judge felt obliged to ignore arguments based on this alleged advantage because he was unable to construe the claims as being limited to devices having such an advantage.

In *Amfac Foods*,¹⁵³ where the invention was a method and apparatus for cutting potatoes into slices, the Court found that an essential feature of the invention disclosed in the specification was its separation of outside slabs of potato from the centre portion. An apparatus claim that was wide enough to cover a mechanism that did not perform this separation was held to be excessively wide and therefore invalid.

D. "Dilemma" or "Squeeze" Arguments

Defendants in patent actions sometimes argue that the court need not go through the process of first construing the specification and claims and then considering the issues of validity and infringement, on the ground that what the defendant is doing is old or obvious and that no claim can validly cover it.¹⁵⁴ In the alternative, it may be argued that if the claim is construed as covering what the defendant is doing, it is invalid because it covers some further thing that was old or obvious, or covers more than

¹⁴⁷ See, e.g., *Monsanto Co. v. Commissioner of Patents* (1979), [1979] 2 S.C.R. 1108, 100 D.L.R. (3d) 385.

¹⁴⁸ See, e.g., *Wandscheer v. Sicard Ltd.* (1944), [1946] Ex. C.R. 112 at 124, 4 C.P.R. 5 at 16, *aff'd* (1947), [1948] S.C.R. 1 at 24, 8 C.P.R. 35 at 39.

¹⁴⁹ See, e.g., *American Cyanamid Co. v. Ethicon Ltd.* (1978), [1979] R.P.C. 215 at 261 (Ch. D.).

¹⁵⁰ *Burton Parsons*, *supra*, note 37; *Henriksen*, *supra*, note 42.

¹⁵¹ See, e.g., *Norton & Gregory Ltd. v. Jacobs* (1937), 54 R.P.C. 271 (C.A.).

¹⁵² (1986), 9 C.P.R. (3d) 324 (F.C.T.D.).

¹⁵³ *Supra*, note 67.

¹⁵⁴ This reasoning is referred to as the Gillette or Moulton defence, so named after Lord Moulton's suggestion in *Gillette Safety Razor Co. v. Anglo-American Trading*

was actually invented or disclosed in the specification as being the invention,¹⁵⁵ or that it is void for inutility¹⁵⁶ or ambiguity.

E. Infringement

1. The Importance of Claim Construction

In *TRW Inc. v. Walbar of Canada Inc.*,¹⁵⁷ the patentee argued for a construction of its claims that would be sufficiently wide to cover the defendant's process. On reading the specification as a whole, Mr. Justice Muldoon construed the claims more narrowly: he was not prepared to construe the claims as covering more than the method that was stressed in the patentee's disclosure.

2. Taking the "Substance" of the Invention

To be valid, a claim must include everything that is essential to the invention actually made.¹⁵⁸ It must also include everything that the specification asserts as being essential, for otherwise the claim would not have adequate support in the specification.¹⁵⁹ The fact that a claim may also include something that is not essential to the actual invention does not invalidate the claim; however, such inclusion may limit the scope of the claim unless the lack of essentiality is apparent as a matter of construction of the specification.¹⁶⁰

We still await a Canadian decision which clearly disentangles the two issues that arise when an alleged infringer departs from what a claim literally specifies. The first issue is whether the departure is in respect of an essential feature, this being a question of construction.¹⁶¹ The second

Co. (1913), 30 R.P.C. 465 at 480-1 (H.L.). Such a defence was successful in *J.K. Smit and Sons v. McClintock* (1939), [1940] S.C.R. 279 at 286, [1940] 1 D.L.R. 507 at 513; and in *Kingsville Gas Appliances Ltd. v. New Idea Furnaces Ltd.* (1940), [1941] Ex. C.R. 118 at 128-30, [1941] 1 D.L.R. 444 at 454-5.

¹⁵⁵ See *Smith Incubator Co. v. Seiling* (1937), [1937] S.C.R. 251 at 257, [1937] 2 D.L.R. 701 at 706.

¹⁵⁶ See *Horville Eng'r Co. v. Clares (Eng'r) Ltd.* (1975), [1976] R.P.C. 411 at 442 (C.A.).

¹⁵⁷ (1986), 3 F.T.R. 160, 10 C.P.R. (3d) 184.

¹⁵⁸ *Mullard Radio Valve Co. v. Philco Radio and Television Corp.* (1936), [1936] 2 All E.R. 920 at 938, 53 R.P.C. 323 at 351 (H.L.).

¹⁵⁹ *Consolboard Inc. v. MacMillan Bloedell (Saskatchewan) Ltd.* (1978), 39 C.P.R. (2d) 191 at 201-2 (F.C.T.D.), *aff'd* (1981), [1981] 1 S.C.R. 504 at 538, 56 C.P.R. (2d) 145 at 170.

¹⁶⁰ *Supra*, note 41 and *infra*, note 161.

¹⁶¹ "Purposive" construction, referred to *supra*, note 39, is now part of the Canadian judicial vocabulary. See, e.g., *Reading & Bates*, *supra*, note 126 at 170; *Tinsel Mfg.*, *supra*, note 126 at 442. The overwhelming weight of modern authority is that what is essential is a matter of construction. See, e.g., 35 HALSBURY'S LAWS (4th), paragraph 579 at 324; J. Lahore *et al.*, INTELLECTUAL PROPERTY IN AUSTRALIA — PATENTS, DESIGNS, TRADE MARKS, paragraph 1.7.006; *Inglis v. Mason* (1983), 3 I.P.R. 588 at 602-5 (N.Z.H.C.); *Inteco v. Mayson*, 79 P.M. 240 (Israel District Court, 1973) noted in (1979) INDUS. PROP. 287 at 292; *Multotec Mfg. (Pty.) Ltd. v. Screenex Wire Weaving*

issue (which arises only where the departure is from a non-essential feature) is whether the defendant's variant is equivalent to what is claimed or, to put it another way, is in substance the same. This is a question of fact.¹⁶² Nevertheless, we still find Canadian judges saying that "[w]hat the 'substance' of the invention is is obviously material as it is the taking of it of which the respondents complain. It is also a question of fact, not one of law."¹⁶³ Such language, which suggests comparing the "invention" and the alleged infringement, obscures the vital first step of construing the claim, which is *not* a question of fact.¹⁶⁴ The invention which concerns the public is the one claimed in the patent as properly construed, not an invention which the patentee may later try to establish as a question of fact.

3. Contributory Infringement

A Canadian patentee receives "the exclusive right, privilege and liberty of making, constructing, using and vending to others to be used" the invention that is claimed in the patent.¹⁶⁵ The *Patent Act* does not say who is liable for patent infringement; but anyone who makes, constructs, uses or vends to others to be used something claimed in the patent is clearly an infringer. The statute says nothing about the position of a person who aids or abets an infringing act of another, or who procures or induces or contributes to such an infringing act. In *Copeland-Chatterson Co. v. Daniel Hatton*,¹⁶⁶ the first Canadian case on this subject, the Exchequer Court judge noted that the jurisdiction of his Court (like the jurisdiction

Mfrs. (Pty.) Ltd. (1982), [1983] 1 S.A. 1709 at 722 (A.D.), citing *Catnic, supra*, note 39 at 243, 7 F.S.R. at 65-6; *Foster Wheeler Corp. v. Babcock & Wilcox Co.*, 512 F. Supp. 792 at 799-801 (S.D.N.Y., 1981).

¹⁶² See 1983 Survey, *supra*, note 1 at 110; *Winans v. Denmead*, 56 U.S. 330 at 338 (1853). The House of Lords, in the *Catnic* case, *supra*, note 39, pointed out that the defendant's variant must not have a material effect on the way the invention works.

¹⁶³ *Northern Telecom Ltd. v. Reliable Elec. Co.* (1986), [1986] 1 F.C. 211 at 213, 8 C.P.R. (3d) 224 at 226 (A.D.), citing *McPhar Eng'r Co. v. Sharpe Instruments Ltd.* (1960), [1956-60] Ex. C.R. 467, 35 C.P.R. 105. The statement quoted in the text above was made in the context of an application for particulars of an allegation that the defendant had "taken the substance of the invention as described in the invention and as claimed", though taken literally the statement quoted in the text could be read as referring to the invention actually made, which may not be identical to what is described or claimed.

¹⁶⁴ Another unfortunate statement was made at the trial level in *Beloit Canada Ltd. v. Valmet Oy* (1984), 78 C.P.R. (2d) 1 at 51 (F.C.T.D.), in respect of a counterclaim for infringement of the defendant's patent: "I have reached the conclusion on the basis of the oral testimony that the larger middle roll is not an essential element of defendant's invention and that plaintiff could not avoid being charged with infringement if infringement was denied only on the basis of not using the larger middle roll."

¹⁶⁵ *Patent Act*, R.S.C. 1970, c. P-4, s. 46 read with subsection 36(2).

¹⁶⁶ (1906), 10 Ex. C.R. 224, *aff'd* (1906), 37 S.C.R. 651 [hereinafter *Copeland-Chatterson*].

today of the Federal Court) was entirely statutory. Consequently, his Court had no common law authority to grant a remedy (in fact, the *Copeland-Chatterson* case arose in the Province of Quebec). Therefore, an alleged act of contributory infringement must be an “infringement”, by which the Court undoubtedly meant to be an invasion of the exclusive right which the *Patent Act* confers. Examining the facts of the case, the Court found that the alleged contributory infringer had knowingly, for his own ends and benefit and to the damage of the patentee, induced or procured another to infringe the patent in suit. After reviewing a series of cases decided in England, the Court held that such activity was an infringement. However, it must be remembered that the English courts (like our provincial superior courts) have both statutory and common law jurisdiction; as well, at that time the rights of an English patentee flowed from a grant from the Crown rather than from statute.¹⁶⁷

More recently, in *Reading & Bates*,¹⁶⁸ Mr. Justice Strayer examined the question of who is an infringer. Like the *Copeland-Chatterson* case, the *Reading & Bates* case arose in the Province of Quebec. Mr. Justice Strayer held that the Federal Court must apply the *Patent Act*, which in subsection 57(1) refers to “any person who infringes a patent”. He regarded an action for damages for infringement under section 57 as the equivalent of an action on the case in tort and concluded that “one should have resort not to the law of the province where the infringement took place but rather to the common law principles of tort which are presumed to have been adopted by implication when Parliament enacted this section”.¹⁶⁹ The conclusion one may draw is that if a person commits that which at common law would constitute a tort of procuring or inducing or contributing to infringement, he or she “infringes” within the meaning of the *Patent Act*.

The Federal Court of Appeal has considered the issue of contributory infringement in *Windsurfing Int'l.*¹⁷⁰ The patent in suit claimed an assembly of components for a sailboard. The defendant made all of the components (a board, a mast, a joint, a sail and a boom) and these were sold unassembled. However, the components could only be assembled in a way that produced the novel arrangement claimed by the patentee. The Court held that the sale of a kit of components by the defendant was an

¹⁶⁷ See *Von Heyden v. Neustadt* (1880), 50 L.J. Ch. 126 at 131, 14 Ch. D. 230 at 233 (C.A.). By the *Patents Act 1977* (U.K.), 1977, c. 37, patents ceased to be grants from the Crown.

¹⁶⁸ *Supra*, note 126.

¹⁶⁹ *Ibid.* at 185. Compare *Compo Co. v. Blue Crest Music In.* (1979), [1980] 1 S.C.R. 357 at 372-3, 45 C.P.R. (2d) 1 at 13 [hereinafter *Compo Co.*]: “[Copyright law is neither tort law nor property law in classification, but is statutory law. . . . Copyright legislation simply creates rights and obligations upon the terms and in the circumstances set out in the statute. . . . It does not assist the interpretive analysis to import tort concepts. The legislation speaks for itself and the actions of the appellant must be measured according to the terms of the statute.”

¹⁷⁰ *Supra*, note 72.

inducement to infringe and that the defendant thereby became a party to infringement by customers assembling the kit. It was not necessary for the patentee to prove that the customers knew of the plaintiff's patent, or were persuaded by the defendant to infringe, or were innocently duped into infringing. The Court did not say whether the defendant's knowledge of the patent was necessary.

Several other Canadian cases relating to "contributory" infringement were discussed in the last survey.¹⁷¹ Thus far, situations where plaintiffs have succeeded in Canada have been similar to situations expressly dealt with in subsection 271(b) of the United States *Patent Act*,¹⁷² that is, situations of active inducement to infringe. We do not yet have a clear Canadian case where, as in subsection 271(c), a patentee has asserted infringement by the sale of something that is only a material part of a claimed invention, knowing it to be especially suited to infringe but without active inducement to infringe. This latter factor of active inducement seems to have been present in *Procter & Gamble Co. v. Bristol-Myers Canada Ltd.*,¹⁷³ the most far-reaching of the Canadian cases. Inducement may therefore be required in Canada to find "contributory" infringement.¹⁷⁴ Of course, there are other possible grounds of liability, such as conspiracy, joint infringement, or vicarious liability. The United Kingdom *Patents Act 1977*¹⁷⁵ deals expressly with contributory infringement in section 60; however, United Kingdom cases decided before this enactment were clearly to the effect that a person does not infringe a patent merely by selling unpatented goods to be used by another in an infringing way. This was true even if the vendor sold them for the purpose of infringing and indemnified the purchaser for having done so. The United Kingdom authorities have been collected by the Court of Appeal in *Amstrad (Consumer Elecs. PLC) v. British Phonographic Indus.*,¹⁷⁶ which involved an alleged infringement of copyright. Activities that constitute infringement in Canada may warrant re-examination having regard to the more conservative line reflected in those United Kingdom authorities. Meanwhile, patent agents will continue to try to obtain the allowance of claims that specify the very things which competitors are likely to sell, not merely the things that the ultimate customers (who may not be worth suing) will use.

¹⁷¹ 1983 Survey, *supra*, note 1 at 110-2.

¹⁷² 35 U.S.C. §271(b) (1982).

¹⁷³ (1978), 39 C.P.R. (2d) 145 (F.C.T.D.). This case was discussed in 1983 Survey, *supra*, note 1 at 110-1.

¹⁷⁴ *Saunders v. Airglide Deflectors Ltd.* (1980), 50 C.P.R. (2d) 6 (F.C.T.D.), discussed in the last Survey, *supra*, note 1 at 112; *Reading & Bates, supra*, note 126 at 183.

¹⁷⁵ (U.K.), 1977, c. 37.

¹⁷⁶ (1985), 12 F.S.R. 159 (C.A.) [hereinafter *Amstrad*].

4. Persons in Control of Corporate Infringers

It is not unusual to name one or more corporate officers or directors as defendants in an action brought against a corporation for infringement of an intellectual property right. The liability of such individuals, where the corporation is found to have infringed, has been considered in several recent cases. As noted in the 1979 Survey,¹⁷⁷ a leading Canadian decision on this question is *Mentmore Mfg. Co. v. National Merchandise Mfg. Co.*¹⁷⁸ Writing for the Federal Court of Appeal, Mr. Justice Le Dain suggested a test of "deliberate, wilful and knowing pursuit of a course of conduct that was likely to constitute infringement or reflected an indifference to the risk of it".¹⁷⁹ But in an earlier statement, Mr. Justice Le Dain said he did "not think we should go so far as to hold that the director or officer must know or have reason to know that the acts which he directs or procures constitute infringement".¹⁸⁰

Those who make corporate decisions must surely do so in "deliberate, wilful and knowing pursuit of a course of conduct". This test suggests that if such conduct is likely to constitute infringement, the decision-maker is personally liable (if there is infringement by the corporation), although he had no reason to know that it constituted infringement. Surely this goes too far if, as is clearly the case, incorporation is to provide some personal shelter against tortious corporate acts.¹⁸¹ His Lordship also said that "there must be circumstances from which it is reasonable to conclude that the purpose of the director or officer was not the direction of the manufacturing and selling activity of the company in the ordinary course of his relationship to it".¹⁸² However, a deliberate decision to take on a new product line is part of the ordinary course of business of many corporations, and if such a line of product infringes, His Lordship's test would seem to be satisfied. Mr. Justice Le Dain did acknowledge nevertheless that the precise formulation of the test is difficult and would require that the circumstances of each case be considered. In other words, what he said should not be read as if it were statutory.

Indeed, in the case before him, he agreed with the trial judge that the person who was both president and principal shareholder of the infringing corporation was not personally liable, although he "imparted the practical, business, financial and administrative policies and directives which ultimately resulted in the assembling and selling of some goods . . . which I have found infringed the plaintiff's rights".¹⁸³

¹⁷⁷ *Supra*, note 48 at 420.

¹⁷⁸ (1978), 89 D.L.R. (3d) 195, 40 C.P.R. (2d) 164 [hereinafter *Mentmore*].

¹⁷⁹ *Ibid.* at 204-5, 40 C.P.R. (2d) at 174.

¹⁸⁰ *Ibid.* at 204, 40 C.P.R. (2d) at 174.

¹⁸¹ See *C. Evans and Sons v. Spritebrand Ltd.*, (1984), [1985] 2 All E.R. 415 at 424, 11 F.S.R. 267 at 277-8 (C.A.) [hereinafter *Spritebrand*].

¹⁸² *Mentmore*, *supra*, note 178 at 204, 40 C.P.R. (2d) at 174.

¹⁸³ *Ibid.* at 167, 40 C.P.R. (2d) at 169.

Mr. Justice Le Dain's reasons for judgment attracted the attention of the English Court of Appeal in *Spritebrand*¹⁸⁴ That case was an application to dismiss the action against the managing director of the defendant corporation on the ground that the statement of claim disclosed no reasonable cause of action against him. Delivering the reasons for judgment of the Court of Appeal, Lord Justice Slade did not attempt to define comprehensively the circumstances in which a company director may be liable. The Court had only to decide whether there were any circumstances in which the director could be liable where, as was alleged, the corporation acted under his direction and control and he personally directed and procured the corporation to do what was alleged to be an infringement of the plaintiff's copyright. There was no allegation that the director was aware that the acts of the corporation were tortious, or that the director was reckless as to whether such acts might have been tortious. The Court of Appeal declined to strike out the plea. The Court accepted that if the plaintiff has to prove a particular state of mind or knowledge on the part of the defendant as a necessary element of the particular tort alleged, the state of mind of the director who authorized or directed it must be relevant to his personal liability. Different considerations may apply where the tort alleged may be committed without knowledge, as in the case of patent or copyright infringement.¹⁸⁵ Thus, the Court was not convinced that a knowing, deliberate, wilful quality to the director's participation would in all cases be a condition precedent to liability,¹⁸⁶ departing to this extent from what was said by Mr. Justice Le Dain in *Mentmore*.¹⁸⁷ For torts in the nature of copyright infringement, the Court was satisfied that there could be circumstances in which a director would be liable, without either knowing the acts were tortious or acting recklessly without care whether such acts were tortious or not. The Court pointed out that a servant who takes his orders from a director may be personally liable for torts that he commits as a servant of the corporation, and by extension considered that the director must equally be liable. The Court agreed with Mr. Justice Le Dain that personal liability in these cases is an elusive question, and is a question of fact to be decided in the circumstances of each case, where broad questions of policy may be material.

The foregoing decision of the English Court of Appeal has been reluctantly construed by Mr. Justice Harman as affirming that a director is liable if he is personally involved in ordering or doing the tortious act.¹⁸⁸ The Court of Appeal in *Spritebrand* noted that the very fact that an officer or director is joined as a defendant could in some cases operate to put unfair pressure on defendants to settle.¹⁸⁹

¹⁸⁴ *Supra*, note 181 at 421-2, 11 F.S.R. at 274-5.

¹⁸⁵ In Canada, knowledge of an alleged copyright infringement is relevant in only certain circumstances. *See Copyright Act*, R.S.C. 1970, c. C- 30, ss. 17(4) and 22.

¹⁸⁶ However, absent such quality the court may be more reluctant to find personal liability. *See Spritebrand, supra*, note 181 at 425, 11 F.S.R. at 280.

¹⁸⁷ *Supra*, note 178.

¹⁸⁸ *A.P. Besson Ltd. v. Fulleon Ltd.* (1985), 12 F.S.R. 319 at 322 (Ch.).

¹⁸⁹ *Supra*, note 181 at 424, 11 F.S.R. at 278.

The question arises whether officers and directors who cannot count upon being indemnified by their companies should be advised to avoid becoming too involved in decision-making. The more appropriate course is for them to ensure that the corporation does not infringe the rights of others.¹⁹⁰

In *Apple Computer Inc. v. Mackintosh Computers Ltd.*,¹⁹¹ Madame Justice Reed noted that infringement of a patent is more likely to occur accidentally or inadvertently than infringement of copyright, because in the latter case there must have been copying. In addition, in a copyright case an officer or director may be alleged to have authorized the infringing act, this being a clear infringement under the *Copyright Act*.¹⁹²

5. Limitation Periods

In *Johnson Controls*,¹⁹³ the Federal Court of Appeal reversed the trial judgment which had held that an action for patent infringement is an action for damages authorized by statute, within the meaning of paragraph 45(1)(h) of the Ontario *Limitations Act*.¹⁹⁴ Rather, and in conformity with what was argued in the last Survey,¹⁹⁵ the Court held that an action for patent infringement is an action upon the case within the meaning of paragraph 45(1)(g) of the Ontario statute.¹⁹⁶ As a consequence, the limitation period for patent infringements occurring in the Province of Ontario is six years.¹⁹⁷

6. Interlocutory Injunctions

In the era when Mr. Justice Thorson dominated the Canadian patent scene, Canada was regarded as a favourable jurisdiction in which to bring a patent case. His Lordship was, however, firmly set against the grant of interlocutory injunctions in patent cases. After his retirement, there was a swing in the Federal Court of Canada to what Lord Diplock (though not referring to Canada) characterized as the "meticulous verbal analysis in which lawyers are too often tempted by their training to indulge",¹⁹⁸ and

¹⁹⁰ For further discussion of the liability of directors, see R.K. Paterson, *Directors' Liability for Infringements — Of Drams and Delicts* (1985), 1 I.P.J. 269, suggesting that an appropriate test of personal liability is the ability of the individual to prevent or deter the corporation's tortious behaviour. See also the discussion of the liability of directors and officers for copyright infringement in Part V.D.8, *infra*.

¹⁹¹ (1986), 10 C.P.R. (3d) 1 at 46, 8 C.I.P.R. 153 at 201 (F.C.T.D.) [hereinafter *Apple Computer*].

¹⁹² R.S.C. 1970, c. C-30, s. 3(1) read with subsection 17(1). See text accompanying note 375, *infra*.

¹⁹³ *Supra*, note 126.

¹⁹⁴ R.S.O. 1980, c. 240.

¹⁹⁵ 1983 Survey, *supra*, note 1 at 117-20.

¹⁹⁶ *Limitations Act*, R.S.O. 1980, c. 240.

¹⁹⁷ In *Invacare Corp. v. Everest & Jennings Canadian Ltd.* (9 March 1987), (F.C.T.D.) [unreported], Collier J. was persuaded that in other provinces the limitation period is two years.

¹⁹⁸ *Catnic*, *supra*, note 39 at 243, 7 F.S.R. at 65-6.

technical attacks on patents were often successful. Along with this, the judicial reluctance to grant interlocutory relief continued.

More recently, Canada has again emerged as a jurisdiction in which patentees can have some confidence that their patents are likely to be beneficially construed. Having regard to the general acceptance of the proposition of the House of Lords in *American Cyanamid Co. v. Ethicon Ltd.*,¹⁹⁹ that an applicant for interlocutory relief need not invariably make out a strong *prima facie* case,²⁰⁰ some patentees have taken a shot at obtaining an injunction pending trial. Some have succeeded, in spite of Mr. Justice Thurlow's statement in *Cutter (Canada) Ltd. v. Baxter Trav-enol Laboratories of Canada Ltd.*²⁰¹ to the effect that in most cases of alleged patent infringement, damages will be an adequate remedy.

In *Dyckerhoff & Widmann Aktiengesellschaft v. Advanced Constr. Enterprises, Inc.*,²⁰² Mr. Justice Walsh noted that, pursuant to section 47 of the *Patent Act*,²⁰³ a patent is *prima facie* valid. He found that the plaintiff had established a strong *prima facie* case and that the defendant had at least an arguable one. He granted an interlocutory injunction. Principal considerations were that the defendant's ability to pay damages was in serious doubt, whereas the patentee was prepared to put up security.

In *Allergan Pharmaceuticals Inc. v. Bausch & Lomb Inc.*,²⁰⁴ Mr. Justice Dube acknowledged that the statutory presumption of validity is insufficient to support an interlocutory injunction where, as here, evidence was offered showing a *bona fide* arguable case of invalidity. However, the *status quo* was that the defendant had heretofore been promoting and selling the patentee's product and now proposed to switch to the allegedly infringing product, with a potentially devastating loss of goodwill for the plaintiff's product. An interlocutory injunction was therefore granted.

In *ICI Americas Inc. v. Ireco Canada Inc.*,²⁰⁵ the plaintiffs had successfully enforced their corresponding United States patent. Madame Justice Reed considered that the plaintiffs had established a very strong case that their Canadian patent was both valid and infringed. With respect to the likelihood of damages, the scales were about evenly balanced. Her Ladyship decided to grant an interlocutory injunction which restricted the defendants' sales to the mining sites which they were currently supplying.

¹⁹⁹ (1975), [1975] A.C. 396, [1975] 2 W.L.R. 316 (H.L.) [hereinafter *American Cyanamid*].

²⁰⁰ See, e.g., *Pfizer Canada Inc. v. A.G. Canada* (1986), 10 C.P.R. (3d) 268 (F.C.T.D.); *Procter & Gamble Co. v. Nabisco Brands Ltd.* (1984), [1984] 2 F.C. 475, 82 C.P.R. (2d) 224 (T.D.); *Kraft Ltd. v. McCain Refrigerated Foods Inc.* (29 December 1986), (F.C.T.D.) [unreported].

²⁰¹ (1980), 47 C.P.R. (2d) 53, 36 N.R. 87 (F.C.A.D); referred to in *1983 Survey, supra*, note 1 at 115.

²⁰² (1985), 6 C.I.P.R. 301 (F.C.T.D.).

²⁰³ R.S.C. 1970, c. P-4.

²⁰⁴ (1985), 7 C.P.R. (3d) 209, 7 C.I.P.R. 43 (F.C.T.D.).

²⁰⁵ (1985), 7 C.P.R. (3d) 1 (F.C.T.D.).

In intellectual property cases other than patent cases, and particularly in copyright cases,²⁰⁶ the merits of the parties' positions can usually be much more quickly appreciated than in patent cases. Although recognizing that an interlocutory injunction is an exceptional remedy,²⁰⁷ a court may feel more confident about granting interlocutory relief in cases other than patent cases. The granting of an interlocutory injunction is, of course, an equitable remedy and decisions must turn on their own facts. As stated by Lord Justice Megaw in *Alfred Dunhill Ltd. v. Sunoptics S.A.*,²⁰⁸ "I do not think that the principles laid down in *American Cyanamid*, despite the emphasis given to their generality, were intended to have in every respect the status once attributed to the laws of the Medes and Persians".²⁰⁹

The *American Cyanamid*²¹⁰ case was a patent case in which the decision of the House of Lords was a reaction against what had become mini-trials in England in order to ascertain whether a plaintiff had a strong *prima facie* case.²¹¹ In patent cases particularly, it is extremely difficult

²⁰⁶ *International Business Machs. Corp. v. Ordinateurs Spirales Inc./Spirales Computers Inc.* (1984), [1985] 1 F.C. 190 at 207, 80 C.P.R. (2d) 187 at 201 (T.D.); *Association of American Medical Colleges v. Mikaelian*, 571 F. Supp. 144 at 155, 219 U.S.P.Q. 1032 at 1040 (D. Pa. 1983).

²⁰⁷ A few instances of successful applications are: Trade Marks: *Tele-Direct (Publications) Inc. v. Telcor Canada Directories Inc.* (1986), 5 F.T.R. 179, 11 C.P.R. (3d) 102; *Interlego AG v. Irwin Toy Ltd.* (1985), 3 C.P.R. (3d) 476, 4 C.I.P.R. 1 (F.C.T.D.); *Labatt Brewing Co. v. Carling O'Keefe Breweries of Canada Ltd.* (1985), 4 C.P.R. (3d) 34, 53 Nfld. & P.E.I.R. 66 (Nfld. S.C.), *aff'd* (1985), 5 C.P.R. (3d) 273 (C.A.); *Canadian Process Equip. and Control News Ltd. v. Southam Communications Ltd.* (1984), 1 C.P.R. (3d) 382 (Ont. H.C.).

Professional Designation: *Canadian Bd. for Certification of Prosthetists and Orthotists v. Canadian Pharmaceutical Ass'n* (1985), 5 C.P.R. (3d) 236, C.I.P.R. 157 (Ont. H.C.).

Copyright: *Selection Testing Consultants Int'l Ltd. v. Humanex Int'l Inc.* (20 June 1986), (F.C.T.D.) [unreported] (interim injunction); *Canadian Tire Corp. v. Retail Clerks Union, Local 1518* (1985), 7 C.P.R. (3d) 415 (F.C.T.D.); *Apple Computer, Inc. v. Minitronics of Canada Ltd.* (1985), 7 C.P.R. (3d) 104 (F.C.T.D.); *Jeffrey Rogers Knitwear Prods. Ltd. v. R.D. Int'l Style Collections Ltd.* (1985), [1985] 2 F.C. 220, 6 C.P.R. (3d) 409 (T.D.); *Duomo Inc. v. Giftcraft Ltd.* (1984), 1 C.P.R. (3d) 165 (F.C.T.D.); *Universal City Studios Inc. v. Zellers Inc.* (1983), [1984] 1 F.C. 49, 73 C.P.R. (2d) 1 (T.D.); *Dynabec Ltée v. Société d'Informatique R.D.G.* (1985), 6 C.P.R. (3d) 322, 6 C.I.P.R. 185 (Que. C.A.); *Canavest House Ltd. v. Lett* (1984), 2 C.P.R. (3d) 386, 4 C.I.P.R. 103 (Ont. H.C.).

Industrial Design: *Alkot Indus. Inc. v. Consumers Distrib. Co.* (1986), 11 C.P.R. (3d) 276 (F.C.T.D.).

Trade Secrets: *Eli Lilly Canada Inc. v. Shamrock Chems. Ltd.* (1985), 4 C.P.R. (3d) 196, 6 C.I.P.R. 5 (Ont. S.C.) (interim injunction).

²⁰⁸ (1978), 5 F.S.R. 337 (C.A.).

²⁰⁹ *Ibid.* at 374.

²¹⁰ *Supra*, note 199.

²¹¹ *Ibid.* In this case it was noted that the proceedings had taken three days before Mr. Justice Graham and eight days before the Court of Appeal. In agreeing with the objection to mini-trials, Vice-Chancellor Browne-Wilkinson has nevertheless characterized *American Cyanamid* as "not in all its aspects a very popular decision, being rather formal and rigid": *Rubycliff Ltd. v. Plastic Engineers Ltd.*, [1986] R.P.C. 573 at 583.

for a court to assess, in a summary manner, whether a patent suit is meritorious or is a business strategem. Recognizing this, Mr. Justice Thorson took a different course than the English judges and made it plain that he would not be lured into mini-trials. The rule had been that a strong *prima facie* case had to be made out; therefore, he would not listen with much patience to such an alleged case, having regard to his own experience that a *prima facie* attractive point in a patent case may be seen to have nothing in it when all the evidence is in. In the economic battles, which patent suits are in essence all about, it should be a rare thing that a defendant is effectively knocked out in a preliminary skirmish.

7. *Contempt*

Three recent cases illustrate the importance of faithfully observing an order of the court. In *Baxter Travenol Laboratories of Canada Ltd. v. Cutter Ltd.*,²¹² the trial judge delivered reasons for judgment, in which he held that the plaintiff patentee was entitled to judgment enjoining the defendant from manufacturing, offering for sale, selling or distributing certain devices, and requiring the defendant to destroy or deliver to the plaintiff the devices in its possession, custody or control. He said that counsel for either party could prepare an appropriate judgment and move for judgment. The defendant promptly delivered some of its existing stock to a Canadian customer, and shipped further stock out of the country, before the formal judgment was taken out. The plaintiff brought proceedings for contempt of court and those proceedings went all the way to the Supreme Court of Canada.²¹³ The Supreme Court of Canada held that there was no injunction in effect before the formal judgment was signed, but that contempt in relation to injunctions has always been broader than actual breaches of the injunctions, and that after delivery of the trial judge's reasons it would, in the words of section 355 of the *Federal Court Rules*, be contempt to act "in such a way as to interfere with the orderly administration of justice, or to impair the authority or dignity of the Court".²¹⁴

The facts were thereafter examined by the Federal Court, where it was found that the shipments made by the defendant, in the interval between the delivery of the reasons for judgment and the signing of the formal judgment, were made by the defendant with the knowledge of the trial judge's reasons. The defendant was therefore held to be in contempt of court.²¹⁵ It was no excuse that the defendant had relied upon an erroneous legal opinion that it was free to dispose of its stock before the

²¹² (1980), 52 C.P.R. (2d) 163 (F.C.T.D.). The case is more fully discussed and criticized in C.L. Smith, *Contempt of Court Through Breach of an Anticipated Court Order* (1985), 1 I.P.J. 305.

²¹³ *Baxter Travenol Laboratories of Canada, Ltd. v. Cutter (Canada), Ltd.* (1983), [1983] 2 S.C.R. 388, 75 C.P.R. (2d) 1.

²¹⁴ C.R.C. 1978, c. 663.

²¹⁵ *Baxter Travenol Laboratories of Canada, Ltd. v. Cutter (Canada), Ltd.* (1984), [1986] 1 F.C. 497, 1 C.P.R. (3d) 433 (T.D.).

formal judgment was signed. The value of the devices that had been shipped was about one million dollars, and a fine of ten per cent of that amount was levied. The defendant was to pay the plaintiff's costs of the contempt proceedings on a solicitor and client basis.

In *Beloit*,²¹⁶ the plaintiff patentee obtained an injunction against the defendant, a Finnish company, restraining the defendant from "manufacturing, using or selling or inducing others to use" apparatus defined in several claims of the plaintiff's patent. The Finnish company had a controlling interest in a Canadian corporation, Valmet-Dominion, which had taken over the Canadian business of the Finnish company before the injunction was granted. Prior to the granting of the injunction, the Canadian subsidiary had contracted to supply the apparatus to Canadian customers. Failure to complete those contracts could have resulted in losses of as much as forty million dollars. With knowledge of the injunction, but not having been a party to the patent infringement action, the Canadian subsidiary decided to supply its customers. The Finnish parent continued to supply important components to its subsidiary and to provide technical assistance, knowing what apparatus the subsidiary was making and selling. Both parent and subsidiary were held to be in contempt. The Finnish company was ordered to pay a fine of \$750,000 and the Canadian subsidiary a fine of \$500,000, with costs on a party and party basis.²¹⁷ The parent and subsidiary have appealed and the plaintiff by cross-appeal is asking for costs on a solicitor and client basis.

In *Viking Corp. v. Aquatic Fire Protection Ltd.*,²¹⁸ the parties had consented to a judgment enjoining the defendant from infringing the plaintiff's copyright. Later, the plaintiff obtained a court order that the defendant show cause why it was not in contempt by distributing a brochure in alleged violation of the injunction. But on the day before the order was returnable, the plaintiff filed with the court a letter saying that the parties had resolved their differences and that the plaintiff was amenable to having the show cause order rescinded on a "without cost" basis. The Court was asked for directions as to the proper proceedings in the circumstances. In addressing this question, Mr. Justice Walsh stated:

Contempt of court is a matter of public order and not something which can be waived by the parties. The principle that court orders must be obeyed must be maintained. On the other hand, the nature of the penalty to be imposed if contempt is found as a result of a show cause order is in the discretion of the court. . . .²¹⁹

²¹⁶ *Supra*, note 72.

²¹⁷ *Beloit Canada Ltée/Ltd. v. Valmet Oy* (1986), 11 C.P.R. (3d) 470 (F.C.T.D.).

²¹⁸ (1985), 2 C.P.R. (3d) 470 (F.C.T.D.).

²¹⁹ *Ibid.* at 472. Another case of contempt of court in a copyright action is *Apple Computer, Inc. v. Mackintosh Computers Ltd.* (30 January 1987), (F.C.T.D.) [unreported].

His Lordship thought that the matter of contempt could be dealt with by affidavit evidence and written argument. The parties proceeded in this way. However, when the proceedings came before Madame Justice Reed,²²⁰ Her Ladyship found that the issue was highly contentious and called for a hearing in the normal way in order to allow for an assessment of the credibility of the evidence and full argument. One lesson to be learned is that an unsuccessful defendant should strive to have a formal judgment worded in a way that allows the plaintiff, by licence or other consent, to let the defendant off the hook.

F. *Contractual Obligations*

In *Wellman v. General Crane Indus. Ltd.*,²²¹ the defendant had agreed in writing to pay to the plaintiff a commission on any tower crane "in whole or in part described" in certain patents and patent applications. The patents and applications disclosed a mobile tower crane, whereas the defendant manufactured immobile tower cranes. Mr. Justice Dupont was of the opinion that the defendant's cranes were "substantially identical" to those described in the patents and applications. He rejected an argument that the defendant's obligations were restricted to paying for what was new in the patents and applications. What the defendant was making was, in the terms of the agreement, at least "in part described" in the patents and applications. His Lordship was fortified in his conclusion by a provision in the agreement that the payment was to be made "notwithstanding the invalidity of any patent and/or patent applications". The proper construction of the agreement, not the scope of the patent, was the controlling factor.

G. *Compulsory Licences*

1. *Medicines*

Section 41 of the *Patent Act* provides, in subsections (4) through (16), for the grant by the Commissioner of Patents of licences to import or to manufacture any medicine in respect of which a Canadian patent has been granted. Such a licence may be applied for as soon as the patent issues. The procedure is a summary one, with no right accorded to the patentee to cross-examine the applicant or to have an oral hearing. The application is almost invariably successful, with no need for the applicant to show that the patentee has behaved in a manner contrary to the public interest. The patentee may try to persuade the Commissioner of Patents that there is good reason to deny a compulsory licence, but such attempts have generally failed.²²² Procedural challenges have been equally unsuc-

²²⁰ *Viking Corp. v. Aquatic Fire Protection Ltd.* (1985), 5 C.P.R. (3d) 51 (F.C.T.D.).

²²¹ (1985), 8 C.P.R. (3d) 216 (Ont. H.C.).

²²² Recent examples are *Novopharm Ltd. v. Bayer Aktiengesellschaft* (1985), 4 C.P.R. (3d) 532 (Comm'r of Patents); *Syntex Corp. v. Apolex Inc.* (1984), [1984] 2 F.C. 1012, 2 C.I.P.R. 73 (A.D.).

cessful.²²³ In addition, royalties awarded to pharmaceutical patentees under section 41 have continued at the low rate of four per cent of the selling price of the dosage form.²²⁴

In *Smith, Kline & French Laboratories v. A.G. Canada*,²²⁵ the Federal Court of Canada continued its consistent rejection of attacks on the constitutional validity of section 41. The Court rejected the plaintiff's assertion that the section 41 provisions are *ultra vires* the federal government under the *Constitution Act, 1867*,²²⁶ and that they violate the *Canadian Bill of Rights*²²⁷ and the *Canadian Charter of Rights and Freedoms*.²²⁸

Meanwhile, the federal government has been pressured by various groups to revise or repeal section 41. This pressure comes principally from innovative pharmaceutical companies and other research based institutions, from the United States government, from those who are concerned about the decline in Canada in fundamental research and in development, employment and investment, and from those who are concerned about Canada's tarnished image abroad among those who make investment decisions. The result has been Bill C-22 which proposes complex amendments to section 41.²²⁹ Disregarding some complexities in the proposed legislation, its most important features are as follows:

1. Patent claims would be allowable for medicinal products (and foods) and would not be limited to claimed processes of production.
2. A compulsory licence to import a medicine for consumption in Canada would not be available during a period of ten years following the date

²²³ See *Smith, Kline & French Laboratories Ltd. v. Novopharm Ltd.* (1984), 79 C.P.R. (3d) 103, 2 C.I.P.R. 205 (F.C.A.); *Bayer AG v. Commissioner of Patents* (1984), 79 C.P.R. (2d) 166, 2 C.I.P.R. 251 (F.C.T.D.); *Smith, Kline & French Laboratories Ltd. v. Frank W. Horner Ltd.* (1983), 79 C.P.R. (2d) 1, 1 C.I.P.R. 183 (F.C.A.D.). Compare *Upjohn Co. v. Commissioner of Patents* (1983), 74 C.P.R. (2d) 228 (F.C.T.D.).

²²⁴ One patentee appeared to have scored a modest success in *American Home Prods. Corp. v. ICN Canada Ltd.* (1985), 5 C.P.R. (3d) 1, 7 C.I.P.R. 174, where the Federal Court of Appeal referred a section 41 application back to the Commissioner of Patents on the ground that he had no evidence to support a royalty rate of one percent, where the applicant had alleged that it would have to pay the same royalty to each of three other patentees from whom the applicant was seeking compulsory licences. Leave to appeal to the Supreme Court of Canada was denied (1985), 7 C.P.R. (3d) 144n. However, when the Commissioner again dealt with the matter he was not persuaded to change his original award: (1987), 12 C.P.R. (3d) 402.

²²⁵ (1986), 1 F.C. 274, 7 C.P.R. (3d) 145 (T.D.), *aff'd* (1987), 12 C.P.R. (3d) 385 (A.D.). See also *Pfizer Inc. v. Genpharm Inc.* (1986), 8 C.P.R. (3d) 68 (F.C.T.D.).

²²⁶ (U.K.), 30 & 31 Vict., c. 3 (formerly *British North America Act, 1867*).

²²⁷ S.C. 1960, c. 44, reprinted in R.S.C. 1970, App. III.

²²⁸ Part I of the *Constitution Act, 1982*, being Schedule B of the *Canada Act, 1982* (U.K.), 1982, c. 11.

²²⁹ Bill C-22, *An Act to Amend the Patent Act and to Provide for Certain Matters in Relation Thereto*, 2d Sess., 33d Parl., 1986, cl. 13 and 14 (as passed by the House of Commons May 6, 1987). The Bill was drafted after, but does not follow closely, recommendations by Economics Professor Harry C. Eastman made in *Report on the Pharmaceutical Industry* (Ottawa: Supply and Services Canada, 1985) [unpublished: Cat. No. CP 32-46/1985E].

that the patentee receives government approval for marketing in Canada. This period would be shortened to eight years if the approval for marketing was earlier than 27 June 1986, and to seven years if someone else had obtained such approval or a compulsory licence before 27 June 1986.

3. Where a patentee receives approval for marketing in Canada after 27 June 1986, no compulsory licensee will be entitled to manufacture the medicine for consumption in Canada for a period of seven years following the patentee's date of approval for marketing.
4. A patentee who has "invented and developed" a medicine in Canada could obtain from the Commissioner immunity from compulsory licences to import and, for seven years after approval for marketing, immunity from compulsory licences under section 41 to manufacture for consumption in Canada. If such a patentee manufacturers the medicine in Canada on a scale sufficient to substantially supply the Canadian market, he could obtain immunity against any compulsory licensing under section 41 for consumption of the medicine in Canada during the life of the patent.
5. The legislation would require owners of patents relating to medicines to provide a new tribunal, the Patented Medicines Prices Review Board, with information regarding their costs of manufacture and marketing, their prices, and their expenditures in Canada for research and development of medicines. The Board could set price ceilings and, if a patentee does not observe such a ceiling, the Board could remove the privileges of the patentee under paragraphs 2, 3 and 4 above in respect of the medicine in question and (save under paragraph 4) in respect of any other patent of the patentee for an invention that pertains to one other medicine. Also, after four years the federal Cabinet could declare the foregoing legislation to be no longer in force or reduce the ten, eight and seven year periods under paragraphs 2 and 3 above. The Cabinet would be guided by commitments that it has obtained from innovative pharmaceutical companies to dedicate eight per cent of their Canadian revenues to research and development in Canada by 1990, and ten per cent by 1995, as compared to approximately five per cent currently. Parliament would also review the effects of the new legislation in the tenth year of its operation.

Not surprisingly, these relatively modest proposals are being resisted by those who fear price increases and by those whose businesses contribute little or nothing to original research but thrive on imports of drugs from foreign sources.

One concern about the Bill, from an international perspective, is its proposed preference for those whose inventions are made in Canada. United States patent legislation²³⁰ also gives preference to those who invent in the United States (with certain exceptions) by not recognizing

²³⁰ 35 U.S.C. 104 (1982).

inventive activity outside the United States in determining who was the first inventor. Although such preferences relate to where an invention was made, and not to the nationality of the inventor, they are offensive to the non-discriminatory spirit of Article 2 of the Paris Convention for the Protection of Industrial Property,²³¹ which by its "national treatment" principle seeks to accord to foreigners the same rights as are accorded to one's own nationals.

2. Foods

Section 41 also provides, in subsections (3), (14) and (16), for the grant of compulsory licences under patents for inventions intended or capable of being used for the preparation or production of food. There are some differences between the section 41 provisions for foods and for medicines. In the case of foods, there is no provision for the grant of a licence to import. Furthermore, there is no provision for the grant of an interim licence pending the final outcome of the proceedings. Finally, the Commissioner is not required to complete the proceedings within eighteen months.

There have only been a few applications for licences relating to foods and only two have been reported. The first was *Borden Co. v. Salada- Shirriff-Horsey Ltd.*,²³² where the Commissioner refused to grant a licence. The patents were for processes for dehydrating cooked mashed potatoes, that is, altering an existing staple food product. There was a plentiful supply of potatoes in Canada and the patented processes were not needed to maintain the supply. Use of the processes did not increase the supply of food, but produced a specialty food product, higher priced than the staple, and with an appeal to a relatively small proportion of the population. The processes were not shown to have a great influence on the *per capita* consumption of potatoes in Canada. This potato case was said by the Commissioner to be an unusual one, and his decision stands out as the principal exception in section 41 compulsory licensing proceedings.

The more recent food case is *Willow Creek Laboratories Ltd. v. Commonwealth Scientific and Industrial Research Organization of Australia*,²³³ where, considering an oral hearing to be unnecessary, the Commissioner granted a compulsory licence on the basis of affidavits and written submissions. The patents in issue related to the production of animal feed protein supplements. The Commissioner dealt summarily

²³¹ *Union Convention of Paris, March 20, 1883, for the Protection of Industrial Property* (Revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at The Hague November 6, 1925 and at London June 2, 1934), 192 U.N.T.S. 17, Can. T.S. No. 10. It has also been suggested that Bill C-22 is inconsistent with Canada's obligations under the General Agreements on Tariffs and Trade.

²³² (1960), 34 C.P.R. 238, 20 Fox Pat. C. 169.

²³³ (1983), 4 C.P.R. (3d) 202.

with an argument by the patentee that the supply of animal feeds would not be increased, or that prices would be reduced, by the grant of a licence. He said that such a grant would encourage competition by introducing an alternative source of supply and that the "purpose of the licensing provisions in s. 41 is to encourage competition in the market by granting licenses, unless I have good reason not to".²³⁴ He made no reference to the potato case, or to the fact that the grant of a licence in the potato case would have had the same effect of introducing an alternative source of supply and encouraging competition. The Commissioner also failed to mention that section 41 contains no statement of purpose except in relation to the terms of a licence once a decision has been made to grant it. The applicable statutory provision reads as follows:

41(3) In the case of any patent for an invention intended or capable of being used for the preparation or production of food, the Commissioner shall, unless he sees good reason to the contrary, grant to any person applying for the same a licence limited to the use of the invention for the purposes of the preparation or production of food but not otherwise; and, in settling the terms of the licence and fixing the amount of royalty or other consideration payable, the Commissioner shall have regard to the desirability of making the food available to the public at the lowest possible price consistent with giving to the inventor due reward for the research leading to the invention.

In addition, the Commissioner brushed aside as irrelevant an argument that the applicant for the licence would be improperly using confidential information obtained from present Canadian licensees. Whether this was so was for others to decide. He noted that it has previously been held that an applicant for a licence need not show that it is competent to produce the product and he would not prejudge whether the applicant might produce a substandard product that could adversely affect an allegedly fragile market.

The patentee argued that the compulsory licensing provisions in section 41 are limited to inventions relating to preparation or production of food and medicines and do not extend to animal feeds.²³⁵ The Commissioner responded that there is nothing in the section to indicate that it relates exclusively to foods for human consumption and in any event the feedstuffs in this case were intended or capable of being used for the production of foods for human consumption.

I interpret the expression "intended or capable of being used for the preparation or production of food" liberally to include any patent whose subject matter claimed (process, apparatus or products) is capable of such use, even if the ultimate food stuff is not the immediate, proximate result of such use.²³⁶

²³⁴ *Ibid.* at 211. This statement properly echoes the following statement made by Mr. Justice Abbot in *Hoffmann-LaRoche Ltd. v. Bell-Craig Pharmaceuticals Div. of L.D. Craig Ltd.* (1966), [1966] S.C.R. 313 at 319, 48 C.P.R. 137 at 144: "Parliament intended that, in the public interest, there should be competition in the production and marketing of such products. . . ."

²³⁵ The Patent Office had earlier been persuaded that the reference in subsection 41(1) to "food" does not extend to animal feeds: Canadian Patent 1,082,516 issued 29 July 1980.

²³⁶ *Supra*, note 233 at 205.

Having decided to grant a licence, the Commissioner had to consider what royalty would be paid to the patentee. He noted that subsection 41(3) refers to "giving to the inventor due reward for the research leading to the invention", whereas subsection 41(4) relating to medicines refers to giving to the patentee such reward. Nevertheless, he was satisfied that in both cases the reward should go to the patentee. However, the reward was to be limited to the research leading to the invention, and he said that he was not entitled to consider post-invention development costs and programmes such as scale-up, patenting, market testing, product monitoring, capital expenditures for equipment and advertising, sales and other commercial costs. Moreover, he would not consider the expenses incurred by existing licensees, or compensate those licensees for loss of their exclusive position.

The Commissioner spoke of "contribution" to research, holding that the Canadian licensee should not have to pay a disproportionate amount for an invention that is useful worldwide. In the present case, the patentee could not accurately determine its research costs, not having kept cost records for individual research projects.

It is submitted, with respect, that "reward" for research should be more than mere compensation for research costs. This may be reflected in the Commissioner's decision that he would award a royalty equal to that being paid under existing voluntary licences. However, the principle upon which the Commissioner acted is unclear because the applicant for the compulsory licence said it was willing to pay such a royalty. Based on the existing licensees' royalty of \$2.60 per metric ton on a selling price of \$447.00 per metric ton, the royalty awarded amounts to about 0.6 per cent of the licensees' selling price. The patentee had asked for fifteen per cent of the selling price and argued that certain terms of the existing voluntary licences put an extra burden on the voluntary licensees. However, the Commissioner did not find that such an alleged burden put the voluntary licensees at a serious disadvantage relative to the compulsory licensee. The compulsory licence that was granted is in respect of three patents and continues, without reduction of the royalty rate, for the life of the last patent to expire. The licence expressly permits sales outside Canada. It is non-exclusive, as section 41 licences always are.

3. Abuse of Patent Rights

Section 67 of the *Patent Act* provides for the grant of a compulsory licence under any Canadian patent. However, unlike the position under section 41, an application cannot be filed until three requirements have been fulfilled: the patent must have been in effect for three years; the applicant must be a "person interested"; and the patentee must have abused his patent rights. The usual "abuse" is that set forth in paragraph 67(2)(a), namely, that the patented invention, although capable of being "worked" (that is, manufactured on an adequate commercial scale) in Canada, is not being worked here, and that there is no satisfactory reason for its non-working. In *Harvey's Skindiving Suits of Canada v. Poseidon*

Industri AB,²³⁷ the patentee Poseidon and its exclusive licensee Parkway sought to justify non-working on the ground that the patent was being infringed by others in Canada. In the view of the Commissioner, this did not constitute secure, licit working that would, for the purpose of section 67, enure to the benefit of the patentee; but the infringement could be considered as to whether the patentee had a satisfactory reason for non-working. The exclusive licensee, Parkway, did not intend to manufacture in Canada but had, before the commencement of the present proceedings, been negotiating to license one of the alleged Canadian infringers. The Commissioner did not consider that this was a satisfactory justification in circumstances where the patent had now been in force for eleven years, the alleged infringement had been known to Poseidon and Parkway for five years, and the negotiations to license the alleged infringer had been going on for three years. The Commissioner also considered that there was an abuse under paragraph 67(2)(b), namely, that working on a commercial scale in Canada was being prevented or hindered by importation under the authority of the patentee. His reasoning seems to have been that an abuse under paragraph 67(2)(b) is made out if the patentee satisfies the whole of the market that he can reach by importation and has no willingness to manufacture in Canada, although such manufacture would be possible.

H. Restraint of Trade

In answer to a claim for infringement of a patent or other intellectual property right, a defendant may plead that the plaintiff has been guilty of some misuse of that right. Although such defences have frequently succeeded in the United States,²³⁸ Canadian courts have shown great reluctance to entertain them.²³⁹

In Culzean Inventions Ltd. v. Midwestern Broom Co.,²⁴⁰ the plaintiff was the assignee of a reissue patent for a curling broom. In a patent infringement action that had been brought by the plaintiff's predecessor, the patent had been upheld by the Supreme Court of Canada.²⁴¹ Shortly after the Supreme Court of Canada's decision, the present defendant had taken a licence under the patent from the plaintiff's predecessor. Although

²³⁷ (1984), 5 C.P.R. (3d) 154, 1 C.I.P.R. 288.

²³⁸ The seminal case is *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 62 S. Ct. 402 (1942).

²³⁹ Possibilities are discussed in *RBM Equip. Ltd. v. Philips Elecs. Ltd.* (1973), 9 C.P.R. (2d) 46 (F.C.A.D.); *Philips Elecs. Ltd. v. RBM Equip. Ltd.* (1973), 10 C.P.R. (2d) 23 (F.C.T.D.). In *Apple Computer Inc. v. 115778 Canada Inc.* (1985), 8 C.P.R. (3d) 130, the Associate Senior Prothonotary of the Federal Court ruled, in respect of a defence of unclean hands, that the plaintiff need not produce documents which would tend to incriminate it.

²⁴⁰ (1984) 31 Sask. R. 180, 82 C.P.R. (2d) 175 (Q.B.) [hereinafter *Culzean*].

²⁴¹ *Curl-Master Mfg. Co. v. Atlas Brush Ltd.* (1967), [1967] S.C.R. 514, 52 C.P.R. 51.

the patent expired on March 25th, 1975, the licence agreement called for payment of royalties by the defendant until March 31st, 1980. In the present action the defendant argued that the plaintiff was not in law entitled to payment of royalties beyond the life of the patent. The defendant's argument was that at common law monopolies were void as being against the public interest and contrary to public policy, that a patent is essentially a statutory monopoly, valid by statutory dispensation, and that the dispensation ceases to exist on the expiration of the statutory term for which the patent is granted. Reference was made to section 33 of the *Combines Investigation Act*²⁴² which, at the time, made it an offence to be a party to a monopoly and defined a monopoly as:

[a] situation where one or more persons either substantially or completely control throughout Canada or any area thereof the class or species of business in which they are engaged and have operated such business or are likely to operate it to the detriment or against the interest of the public, whether consumers, producers or others.²⁴³

The definition went on to exclude the exercise of any interest derived under the *Patent Act*; however, it was asserted that this exception was inapplicable since the patent was no longer in existence after March 25th, 1975. The defendant argued that, after that date, the plaintiff was attempting to enforce a monopoly, that the licence agreement was illegal as an attempt to create a monopoly and that the Court should not assist the plaintiff. The defendant also contended that the licence agreement was in restraint of trade and was therefore void. In summarily rejecting all these arguments, Mr. Justice Grotzky found nothing unreasonable or unconscionable about the agreement. There was no evidence that it was contrary to the public interest. As between the parties, each had entered into it with a full understanding of it and each had obtained independent legal advice. The obligation to pay royalties arose under the agreement, not the patent.

Recent amendments to the *Combines Investigation Act*, now the *Competition Act*,²⁴⁴ have little impact on owners of intellectual property. The monopoly provision, relied upon in the *Culzean* case,²⁴⁵ has been replaced with provisions which deal with abuse of a dominant position.²⁴⁶ However, subsection 51(5) exempts activities in exercise of rights conferred by the intellectual property statutes (but not in respect of trade secrets).²⁴⁷ New provisions in sections 57 to 62 give to the Competition

²⁴² R.S.C. 1970, c. C-23, as am. Bill C-91, *Competition Act* (being Part 2 of *An Act to Establish the Competition Tribunal and to Amend the Combines Investigation Act and the Bank Act and other Acts in Consequence Thereof*, 1st Sess., 33d Parl., 1984-85-86) (assented to 27 June 1986) (now the *Competition Act*), cl. 34.

²⁴³ 243 R.S.C. 1970, c. C-23, s. 2, as am. Bill C-91, cl. 20.

²⁴⁴ R.S.C. 1970, c. C-23, as am. Bill C-91, *Competition Act* (being Part 2 of *An Act to Establish the Competition Tribunal and to Amend the Combines Investigation Act and the Bank Act and other Acts in Consequence Thereof*, 1st Sess., 33d Parl., 1984-85-86) (assented to 27 June 1986).

²⁴⁵ *Supra*, note 240.

²⁴⁶ R.S.C. 1970, c. C-23, as am. Bill C-91, cl. 47.

²⁴⁷ R.S.C. 1970, c. C-23, as am. Bill C-91, cl. 47.

Tribunal jurisdiction to approve and order the registration of specialization agreements under which parties cease to compete in order to achieve greater efficiency.²⁴⁸ Such registration will relieve the parties of a risk of offending the provisions of section 32 relating to conspiracies²⁴⁹ and section 49 relating to exclusive dealing;²⁵⁰ but by virtue of paragraph 57(4)(b) the Tribunal may require, *inter alia*, wider licensing of patents before such an order takes effect.

Apart from some renumbering of sections, other provisions of the *Competition Act* that affect intellectual property owners have not been altered, save that proceedings formerly conducted by the Restrictive Trade Practices Commission will now be conducted according to the procedures of the new Competition Tribunal.²⁵¹

Section 31.1 of the *Competition Act*²⁵² provides that a person who has suffered loss or damage as a result of certain offences under the Act,²⁵³ or as a result of the failure of any person to comply with an order of the Commission [*sic*] or a court under the Act, may sue for and recover from the offender the loss or damage suffered.²⁵⁴ The constitutionality of this provision has been upheld by the Federal Court of Appeal²⁵⁵ and by the Ontario Court of Appeal²⁵⁶ under the trade and commerce power of the *Constitution Act, 1867*.²⁵⁷

²⁴⁸ R.S.C. 1970, c. C-23, *as am.* Bill C-91, cl. 47.

²⁴⁹ R.S.C. 1970, c. C-23, *as am.* S.C. 1974-75-76, c. 76, s. 14, Bill C-91, cl. 30.

²⁵⁰ R.S.C. 1970, c. C-23, s. 31.4, *as am.* S.C. 1974-75-76, c. 76, s. 12, *as rep.* Bill C-91, s. 29 (now section 49 of the amended Act).

²⁵¹ Bill C-91, *Competition Tribunal Act* (being Part 1 of *An Act to Establish the Competition Tribunal and to Amend the Combines Investigation Act and the Bank Act and other Acts in Consequence Thereof*, 1st Sess., 33d Parl., 1984-85-86) (assented to 27 June 1986), cl. 8.

²⁵² R.S.C. 1970, c. C-23, *as am.* S.C. 1974-75-76, c. 76, s. 12.

²⁵³ Those under Part V, relating, *inter alia*, to conspiracy, misleading advertising and pricing, and resale price maintenance.

²⁵⁴ The view has been expressed that the remedy of an injunction is not available: *see ACA Joe Int'l v. 147255 Canada Inc.* (1986), 10 C.P.R. (3d) 301 (F.C.T.D.).

²⁵⁵ *A.G. Canada v. Quebec Ready Mix Inc.* (1985), [1985] 2 F.C. 40, (*sub nom. Pilote Ready Mix Inc. v. Rocois Constr. Inc.*) 8 C.P.R. (3d) 145. Leave to appeal to the Supreme Court of Canada granted 8 C.P.R. (3d) 145n.

²⁵⁶ *City Nat'l Leasing Ltd. v. General Motors of Canada Ltd.* (1986), 54 O.R. (2d) 626, 28 D.L.R. (4th) 158.

²⁵⁷ (U.K.), 30 & 31 Vict., c. 3 (formerly *British North America Act, 1867*).

IV. INDUSTRIAL DESIGN²⁵⁸A. *Subject-Matter Capable of Being Registered*

Although the Canadian *Industrial Design Act* does not define "industrial design",²⁵⁹ there is no doubt that a design must be for "ornamenting"²⁶⁰ an article rather than being merely utilitarian. In *Mainetti S.P.A. v. E.R.A. Display Co.*²⁶¹ a design had been registered for skirt hangers. Significant design features of the hangers were hidden when skirts were placed on them. The appearance of the hangers was of little interest to skirt manufacturers, who were the customers of the plaintiff and of the defendant and who sold their skirts on the hangers. The design was held to be primarily functional and the registration invalid. The decision is curious. Although the House of Lords has held that, to be registrable, a design must appeal to the eye of the customer,²⁶² skirt hangers are surely marketable over the counter to persons other than skirt manufacturers. The hangers are illustrated in the report, and when not concealed by a dress, were of such a unique appearance that it is difficult to understand why they were not regarded as fit subject-matter for an industrial design registration.

An unusual application for design registration was considered by the Patent Appeal Board in *Re Application for Indus. Design by Sylve Youle-White*.²⁶³ The subject-matter was a design for "a scarf or the like article".²⁶⁴ When simply viewing the design²⁶⁵ one saw a word, and mere reading matter does not constitute a design.²⁶⁶ However, the word *per se* was not the design because the word could be changed (it might be the word OTTAWA, the word CANADA, the word VANCOUVER, or any other word). The word, whatever it might be, was made up of geometric figures of different colours, several such geometric figures forming the letter of a word; however, recurrence of the same letter (for example, the letter A) did not require the same arrangement of geometric figures to form that letter. The description of the design in the application, which sought to give unity to the multitude of possibilities to be covered, read as follows:

²⁵⁸ Possible legislative activity relating to industrial designs is mentioned in Part V.A of this Survey, *infra*.

²⁵⁹ R.S.C. 1970, c. I-8. *But see* Bill C-60, introduced May 27, 1987, which by cl. 18 would define an industrial design as meaning "features of shape, configuration, pattern or ornament and any combination of those features that, in a finished article, appeal to and are judged solely by the eye".

²⁶⁰ S. 11.

²⁶¹ (1984), 2 C.I.P.R. 275, 80 C.P.R. (2d) 206 (F.C.T.D.) [hereinafter *Mainetti*].

²⁶² *Amp Inc. v. Utilux Proprietary Ltd.* (1971), [1972] R.P.C. 103.

²⁶³ (1985), 9 C.P.R. (3d) 129.

²⁶⁴ *Ibid.* at 129.

²⁶⁵ For a copy of the design, *see ibid.* at 130.

²⁶⁶ Rule 7(3) of the *Industrial Designs Rules*, C.R.C. 1978, c. 964, provides: "Any letter or word, in a view that has not been disclaimed in the description, shall be in stippled or broken lines."

[A]n ornamentation applied to a scarf or the like article displaying a plurality of geometric figures of different colours e.g. triangles, rectangles, segments of a circle or V-shaped figures. The figures are arranged in a plurality of groupings^[267] located one beside the other. Each grouping presents a plurality of at least one kind of said figures.^[268] The figures of each grouping are arranged in a random pattern^[269] and are disposed within a contour resembling an abstract version of a letter of the alphabet, whereby the overall image is that of a word in which the said groupings form letters.^[270]

The examiner had objected that more than one independently registrable design was involved, and this objection was endorsed by the Director of Industrial Designs, who considered that the applicant was seeking to protect a concept. The applicant's agent contended that the appeal to the eye would be the same no matter what word happened to be spelled out by the applicant's groupings of geometric figures. The Patent Appeal Board, persuaded that the applicant was seeking registration of a single design having a plurality of variants, approved the application, subject to an amendment of the description deleting the reference to randomness and possibly referring to the overlapping of the figures forming each letter. Whether or not one agrees with the result, the applicant's agent, Mr. Straznicky, must be credited with at least as much creativity as his client.

B. Novelty

By subsection 14(1) of the *Industrial Design Act* a design must be registered within one year from the publication of the design in Canada. In *Algonquin Mercantile Corp. v. Dart Indus. Canada Ltd.*,^[271] the proprietor of the design in question had made a plastic prototype of an article having the design and, more than a year before the registration, in order to ascertain the market prospects, had shown the prototype to the central buyers for most of the large retail stores and chains in Canada. This was held to be a fatal publication of the design. The trial judge distinguished the case from earlier ones in which it had been held that there was no publication when the proprietors disclosed their designs to others in order to explore the possibility of having articles made according to the designs. The judge defined publication as "offering or making available the design

²⁶⁷ Each grouping constituted a letter.

²⁶⁸ E.g., a letter could be made up of more than one of the same kind of figure (e.g., of more than one rectangle) or it could be made up of more than one different figure (e.g., triangles and parallelograms).

²⁶⁹ The Board objected to the word "random" and the applicant agreed to substitute other wording. See *Re Application for Industrial Design by Sylve Youle-White, supra*, note 263 at 133.

²⁷⁰ *Ibid.* at 129-30.

²⁷¹ (1983), [1984] 1 F.C. 246, 71 C.P.R. (2d) 11 (T.D.), *aff'd* (1984), 1 C.P.R. (3d) 75, 55 N.R. 291 (F.C.A.D.), leave to appeal denied (1984), [1984] 2 S.C.R. v, 57 N.R. 392 [hereinafter *Algonquin Mercantile*].

to the public",²⁷² and decided that "public" included those whom the design proprietor considers apt to be interested in ordering articles bearing the design. Though it was reasonable to expect that the central buyers would not disclose the design to the general public, the buyers could reasonably be expected to discuss it within their respective organizations. The Federal Court of Appeal agreed with the trial judge, noting that the evidence did not establish any special relationship between the proprietor of the design and the buyers, and also did not prove that the disclosures were made to the buyers in confidence.²⁷³ Nor was it significant that what was shown was a prototype rather than a commercial embodiment of the design.²⁷⁴

C. Originality

Section 4 of the *Industrial Design Act* requires the applicant for registration to declare that the design was not in use to his knowledge by any person other than himself at the time of his adoption thereof. Therefore, there is clearly a requirement of originality in the sense of the copyright law, namely, that the design has originated from the author rather than being merely a copy. Subsection 7(3) expressly refers to the originality of the design. The decision of Madame Justice Reed in *Bata Indus. Ltd. v. Warrington Inc.*²⁷⁵ confirms that a design must be both new and original if it is to be registered. In Her Ladyship's view, originality is to be judged as of the date that the design was created; however, in the absence of evidence as to that date, it will be judged as of the date of registration.²⁷⁶ More than originality in the copyright sense is required. Insubstantial changes or the introduction of ordinary trade variants into an old design are insufficient. In Her Ladyship's words, originality "seems to involve at least a spark of inspiration on the part of the designer either in creating an entirely new design or in hitting upon a new use for an old one".²⁷⁷

Section 6 of the *Industrial Design Act* requires that, to be registrable, a design must "not so clearly resemble any other design already registered as to be confounded therewith". This test is arguably the equivalent of the test of originality applied by Her Ladyship. It would therefore seem that a registered design must have originality over any design that was previously registered in Canada and over any design published in Canada before the date of creation of the design in question, the date of creation being taken as the date of application for registration of the design in question unless otherwise proved.

²⁷² *Ibid.*, [1984] 1 F.C. at 254, 71 C.P.R. (2d) at 17.

²⁷³ *Ibid.*

²⁷⁴ *Ibid.* For further discussion see A.G. Greber, *Publication of Industrial Designs* (1984) 1 CAN. INTELL. PROP. REV. 220.

²⁷⁵ (1985), 5 C.I.P.R. 223, 5 C.P.R. (3d) 339 (F.C.T.D.).

²⁷⁶ *Ibid.* at 227-8, 5 C.P.R. (3d) at 343. But surely she meant to say the date of the application for registration.

²⁷⁷ *Ibid.* at 275, 5 C.P.R. (3d) at 347.

In the event that a competitor, faced with a Canadian registration, cites an unregistered design that was published in Canada eighteen months before the registration, what would the outcome be? If that published design is the same as the registered design, the registration will be invalidated pursuant to section 14 of the *Industrial Design Act* which requires that a design must be registered within one year from the publication thereof in Canada. However, if the registered design and the cited design are somewhat different, the competitor will wish to be able to argue that there is nothing original in the registered design. From Madame Justice Reed's decision, it seems that the proprietor of the registration may be able to foreclose argument by proving a date of creation earlier than the publication date of the cited design.

A similar problem exists in Canada in relation to patents, where it has been held that the issue of obviousness is to be decided as of the date the alleged invention was made.²⁷⁸ Thus, in a patent case, although a competitor may find a reference that is citable in Canada on the issue of novelty (for example, a printed publication more than two years before the Canadian filing date), it appears that the patentee may, on the issue of obviousness, dispose of the reference by proving an earlier date of invention.

It is wholly unsatisfactory that the proprietor of a design registration, or of a patent, may be able to dispose of a reference by relying upon a date of actual creation or invention, as these dates are not of public record. In the case of an industrial design, Her Ladyship might have held that the requirement of originality is similar to the originality required for copyright, and that inherent in the statutory requirement of novelty is the need for more than an insubstantial change over anything citable on the issue of novelty. As in patent cases, on an issue of novelty, one looks at a citable reference with the common knowledge of a notional skilled person and thus with an appreciation of trade variants. In design cases, the conditions that a reference must meet to be citable on an issue of novelty are readily ascertainable from the statute: it must be a publication in Canada more than a year before the date of design registration²⁷⁹ or be an earlier Canadian design registration.²⁸⁰

D. Infringement

In *Algonquin Mercantile*²⁸¹ the Federal Court of Appeal agreed with the trial judge that if the design registration had been valid, the defendant's

²⁷⁸ *Xerox, supra*, note 36 at 86. See *Hill, supra*, note 129. If, as now proposed by the federal government in Bill C-22, *An Act to Amend the Patent Act and to Provide for Certain Matters in Relation Thereto*, 2d Sess., 33d Parl., 1986 (as passed by the House of Commons May 6, 1987), Canada goes to a filing date system, issues of novelty and obviousness in patent cases will be decided as of the applicant's priority date, which will be of public record.

²⁷⁹ *Industrial Design Act*, R.S.C. 1970, c. I-8, s. 14.

²⁸⁰ *Industrial Design Act*, R.S.C. 1970, c. I-8, s. 6.

²⁸¹ *Supra*, note 271, 1 C.P.R. (3d) 75, 55 N.R. 291.

article would not infringe. The Court held (and there is ample supportive authority²⁸²) that infringement is to be judged by the eye of the court, instructed by expert evidence. Such expert evidence may help in identifying the design — a design being that which determines the appearance of the article rather than determining the nature of the article or how the article is made. Expert instruction may be given as to differences or similarities between earlier designs and the registered design, and between the registered design and the alleged infringing design. The Court held that the trial judge was entitled to accept the conclusion of the defendant's expert witness that "the overall design treatment that has been given to . . . [the defendant's] unit is substantially different"²⁸³ and that the registered design and the defendant's design "comprise two separate designs".²⁸⁴ Such judicial references to expert opinion reflect the growing tendency of the Federal Court to entertain expert evidence on "ultimate issues" which the judge must decide.

The Federal Court of Appeal did not accept the plaintiff's suggested threefold test of infringement, which was:²⁸⁵

- (1) Would the defendant's design be confused with the plaintiff's? (This test is similar to that under section 6, namely, whether a design sought to be registered so closely resembles one already registered "as to be confounded therewith". The test may suggest that the designs are to be viewed through the eye of a customer, not the instructed eye of the court; but the latter is the traditional and better approach, and in the case of infringement is necessary when one gets to an issue of "fraudulent imitation", referred to below.)
- (2) Would the defendant's design have had any existence but for the plaintiff's design? (This would go to the issue of "fraudulent imitation" mentioned below.)
- (3) Is the defendant's design nearer to the plaintiff's than to any other prior design? (It is doubtless that this would be of interest, but not conclusive.)

This threefold test had earlier been regarded by Mr. Justice Walsh in the Trial Division of the Court, as "one of the best expressions of the test of an infringement".²⁸⁶

²⁸² See *Phillips v. Harbro Rubber Co.* (1920), 37 R.P.C. 233 at 240 (H.L.); *Dunlop Rubber Co. v. Golf Ball Devs. Ltd.* (1931), 48 R.P.C. 268 at 277, 75 Sol. Jo. 173 (Ch.).

²⁸³ *Supra*, note 271, 1 C.P.R. (3d) at 81, 55 N.R. at 295.

²⁸⁴ *Ibid.*

²⁸⁵ *Ibid.* at 79-80, 55 N.R. at 293-4.

²⁸⁶ *Mainetti, supra*, note 261 at 297, 80 C.P.R. (2d) at 218.

Paragraph 16(1)(a) of the *Industrial Design Act* prohibits applying, for the purposes of sale, the registered design "or a fraudulent imitation thereof" to the ornamenting of an article. Having decided, in *Algonquin Mercantile*,²⁸⁷ that the defendant had not applied the registered design to the articles, the Federal Court of Appeal turned its attention to whether the defendant's design was a fraudulent imitation. The Court relied on United Kingdom authority showing that it is relevant to inquire whether a defendant had knowledge of the registered design and whether he or she had deliberately based his design upon it.²⁸⁸ If so, the court may, on close examination, find that the registered design has been imitated, even though the defendant may honestly have thought that he or she had avoided infringement. The Court held that the trial judge was entitled to conclude, on the basis of evidence from the defendant's designer, that there was no attempt to imitate or copy the registered design; therefore, there was no fraudulent imitation.

The Court's decision that infringement is to be judged by the instructed eye of the court may be at variance with the present position in the United Kingdom.²⁸⁹ The Court noted the difference between Canadian and United Kingdom legislation.²⁹⁰ The decision recognizes that, in coming to a conclusion, the court must appreciate where and by how much the registered design departs from the prior art. The consumer or customer may not be aware of this, whereas a person with knowledge of the state of the prior art would appreciate the amount of any departure. As to whether there is a design at all, it is open for the Canadian court to adopt the view of the House of Lords that this is to be judged by the eye of the consumer.²⁹¹ However, the Canadian court was not called upon to deal with the latter question in *Algonquin Mercantile*.²⁹²

It is of interest that, as is usual in Canadian industrial design cases, the Court in *Algonquin Mercantile*²⁹³ made no reference to the verbal description that is required by the Canadian statute to be filed as part of the application for registration. In *Alkot Indus. Inc. v. Consumers Distrib. Co.*,²⁹⁴ Madame Justice Reed has correctly observed that "it is not appropriate to treat design registrations in the same fashion as patent claims".²⁹⁵

²⁸⁷ *Supra*, note 271, 1 C.P.R. (3d) 75, 55 N.R. 291.

²⁸⁸ *Ibid.* at 81-2, 55 N.R. at 295-6.

²⁸⁹ See *Benchairs Ltd. v. Chair Centre Ltd.* (1972), [1974] R.P.C. 429 at 442 (C.A.); *Kevi A/S v. Suspa-Verein U.K. Ltd.* (1981), [1982] R.P.C. 173 at 178 (Patents Ct.).

²⁹⁰ *Algonquin Mercantile*, *supra*, note 271, 1 C.P.R. (3d) at 80, 55 N.R. at 294.

²⁹¹ *Amp Inc. v. Utilux Proprietary Ltd.*, *supra*, note 262.

²⁹² *Supra*, note 271.

²⁹³ *Ibid.*

²⁹⁴ (1986), 11 C.P.R. (3d) 276 (F.C.T.D.).

²⁹⁵ *Ibid.* at 283. The effect of a design description is discussed in earlier surveys; see 1983 Survey, *supra*, note 1 at 416-7 and 1979 Survey, *supra*, note 48 at 473-80. Section 4 of the *Industrial Design Act* also requires that the applicant file a drawing, and Reed J. held in this case that a photograph satisfies this requirement.

E. The Marking Requirement

Section 14 of the *Industrial Design Act* requires that notice of registration be given on articles to which a registered design has been applied. In *Mainetti*,²⁹⁶ the great majority of the hangers sold by the plaintiff in Canada were appropriately marked with the abbreviation "Rd." and the name of the proprietor, but not, it seems, with the statutorily required year of registration. Also, some hangers sold by the plaintiff's French licensee to dress manufacturers had come to Canada with imported dresses and did not have the required Canadian marking. Mr. Justice Walsh held that the failure to comply with the marking requirement deprived the plaintiff of the protection of its registration.²⁹⁷

V. COPYRIGHT

A. Law Revision

In May 1984 the federal (Liberal) government released a White Paper entitled *From Gutenberg to Telidon*²⁹⁸ containing proposals for a complete revision of the Canadian *Copyright Act*.²⁹⁹ This White Paper was later referred by the (Conservative) government to a sub-committee of the Parliamentary Standing Committee on Communications in January 1985. After holding public hearings, the sub-committee released its report of October 1985 entitled *A Charter of Rights for Creators*,³⁰⁰ which recommended several changes to the proposals in the White Paper. In response, the government endorsed, in large measure, the sub-committee report in February 1986.³⁰¹ The resultant recommendations are too varied and voluminous to summarize. Many are highly controversial and the responsible departments (Communications and Consumer and Corporate Affairs) have been struggling to strike an appropriate balance between the interests of those who create and seek to derive revenues from original works and those who might be expected to pay. In the following review of recent developments, I shall note some of the recommendations.

²⁹⁶ *Supra*, note 261.

²⁹⁷ *Ibid.* at 295, 80 C.P.R. (2d) at 224. See also the 1979 Survey, *supra*, note 48 at 480.

²⁹⁸ Canada, *From Gutenberg to Telidon* (A White Paper on Copyright) (Ottawa: Supply and Services, 1984).

²⁹⁹ *Copyright Act*, R.S.C. 1970, c. C-30.

³⁰⁰ Canada, Standing Committee on Communications and Culture, *Report of the Sub-Committee on the Revision of Copyright: A Charter of Rights for Creators* (Ottawa: Queen's Printer, 10 October 1985) (Chair: G. Fontaine) [hereinafter *A Charter of Rights for Creators*].

³⁰¹ Canada, *Government Response to the Report of the Sub- Committee on the Revision of Copyright* (Hull, Que.: February 1986) [hereinafter *Government Response*].

B. Copyright in Relation to Industrial Designs and Utilitarian Designs

In *Bayliner Marine Corp. v. Doral Boats Ltd.*,³⁰² the plaintiff, Bayliner, had produced highly successful boats of two designs, one called the 1650 Capri Bowrider and the other called the 2450 Ciera. The plaintiff claimed that it had copyright in Canada in both the drawings of the boats and in the boats that were made from the drawings. The defendant purchased one of each of the boats and from each made moulds from which it produced boats, in alleged infringement of the plaintiff's copyrights.

With regard to copyright in the boats themselves, the plaintiff argued that each boat was an "architectural work of art", defined in the *Copyright Act* as "any building or structure having an artistic character or design, in respect of such character or design . . .".³⁰³ At trial, Mr. Justice Walsh was unwilling to construe the word "structure" as including a boat, and did not consider that the boats were works of "art", attractive though they might be. He thus rejected the argument that the plaintiff had copyright in the boats themselves. Presumably, this issue was not contested when the case went to the Federal Court of Appeal since no mention is made of it in the reported decision. As well, no consideration was given by the Court of Appeal as to whether copyright should be denied in the designs of the boats themselves by reason of section 46 of the *Copyright Act*, set forth below.

As for the copyright claimed in the plaintiff's drawings, reference was made to section 46 of the *Copyright Act*³⁰⁴ which provides:

- (1) This Act does not apply to designs capable of being registered under the *Industrial Design Act*, except designs that, though capable of being so registered, are not used or intended to be used as models or patterns to be multiplied by any industrial process.
- (2) General rules, under the *Industrial Design Act*, may be made for determining the conditions under which a design shall be deemed to be used for such purposes as aforesaid.

Rule 11 of the *Industrial Designs Rules*³⁰⁵ provides:

A design shall be deemed to be used as a model or pattern to be multiplied by any industrial process within the meaning of section 46 of the *Copyright Act*,

- (a) where the design is reproduced or is intended to be reproduced in more than 50 single articles . . . and

³⁰² (1985), 5 C.P.R. (3d) 289, 5 C.I.P.R. 268 (F.C.T.D.), *rev'd* (1986), 10 C.P.R. (3d) 289, 67 N.R. 139 (F.C.A.D.), leave to appeal refused (10 December 1986), 20073 (S.C.C.) [hereinafter *Bayliner*].

³⁰³ R.S.C. 1970, c. C-30, s. 2.

³⁰⁴ R.S.C. 1970, c. C-30.

³⁰⁵ C.R.C., c. 964.

- (b) where the design is to be applied to
 - (i) printed paper hangings,
 - (ii) carpets, floor cloths, or oil cloths manufactured or sold in lengths or pieces,
 - (iii) textile piece goods, or textile goods manufactured or sold in lengths or pieces, and
 - (iv) lace, not made by hand.

The Federal Court, Trial Division, had already held on two occasions that paragraphs (a) and (b) of Rule 11 are to be read conjunctively because of the word "and" at the end of paragraph (a).³⁰⁶ In *Bayliner*, Mr. Justice Walsh felt obliged to follow these earlier decisions. The Bayliner designs were clearly not designs falling within paragraph (b) of the Rule and His Lordship therefore concluded that the plaintiff's claim to copyright in respect of the drawings was not impaired by section 46 of the *Copyright Act*. Section 3 of that Act provides that copyright includes the sole right to reproduce a copyright work, or any substantial part thereof "in any material form whatever". It has been generally accepted that copyright in a two-dimensional work, such as a drawing, may in some cases be infringed by making an object in three dimensions from the drawing, or by reproducing that three-dimensional object and thereby indirectly copying the drawing.³⁰⁷ Mr. Justice Walsh compared the defendant's boats with the drawings of the plaintiff and concluded that copyright in the plaintiff's 1650 Capri hull and deck design had been infringed. However, the defendant had so altered the 2450 Ciera design that there was no infringement.

If the foregoing interpretation of Rule 11 were correct, there would be copyright in Canada in virtually every industrial design. However, on the appeal of the *Bayliner* case, the Federal Court of Appeal had no difficulty in concluding that paragraphs (a) and (b) of the Rule are dealing with different cases. The Bayliner designs fell within paragraph (a) of the Rule. The question remained whether, as set forth in section 46 of the *Copyright Act*, the Bayliner designs were "designs capable of being registered under the *Industrial Design Act*". The Court noted that the general shape of the hull and superstructure of a boat may be largely dictated by functional considerations, but that the details of shape which distinguish one boat from another are essentially ornamental. The Court held that the designs in question were capable of being registered as industrial designs. The plaintiff's claim for copyright infringement was therefore doomed to failure.

But it is submitted that, in reaching its decision, the Court of Appeal went further than it need have done. It held that section 46 excluded the

³⁰⁶ See *Royal Doulton Tableware Ltd. v. Cassidy's Ltd.* (1984), 1 C.P.R. (3d) 214, 5 C.I.P.R. 10, *per* Strayer J.; *Interlego AG v. Irwin Toy Ltd.* (1985), 3 C.P.R. (3d) 476, 4 C.I.P.R. 1, *per* Strayer J.

³⁰⁷ See *Hanfstaengl v. H.R. Baines and Co.* (1894), [1895] A.C. 20 at 30-1, [1891-94] All E.R. Rep. 296 at 301-2 (H.L.); *L.B. (Plastics) Ltd. v. Swish Prods. Ltd.* (1979), [1979] R.P.C. 611, [1979] F.S.R. 145 (H.L.).

plaintiff's plans (drawings) from copyright. By doing so, the Court was able to avoid deciding whether, as a matter of law, the copyright in a drawing is infringed by making a copy of an object made according to the drawing. With respect, all that the Court had to decide was that there was no copyright in the plaintiff's designs, for it is "designs" with which section 46 is concerned. A drawing may illustrate a design, and section 46 does not necessarily deprive drawings, as distinguished from designs, of copyright. A draftsman may, by choice and arrangements of views, thickness of lines and other selected features, be entitled to copyright in his drawing, even though such features of his drawing are not reproduced when one makes a three dimensional object having the design that the drawing illustrates. This reasoning would at least preserve for the draftsman the right to prevent others from reproducing that which in his drawing, as distinguished from his design, qualifies as an artistic work. For example, he could prevent making unauthorized reprographic copies of his drawing. In short, it is submitted that the effect of section 46 need be no more than to drain a drawing of any copyright protection for features of the thing illustrated where that thing is caught by section 46 of the Act and section 11 of the *Industrial Designs Rules*. Where the thing illustrated is not caught by those provisions, the copyright in the drawing may extend to design features of the thing, as well as to how such features are illustrated, if the author of the drawing is the author of the design features.

The foregoing distinction between the design or object illustrated and the features which, apart from the thing illustrated, justify copyright in a drawing, are important when one considers the case of a drawing of a purely utilitarian object. Such drawings have produced further copyright difficulties that need not have arisen. The difficulties are illustrated by the case of *Rucker Co. v. Gavel's Vulcanizing Ltd.*,³⁰⁸ which also came before Mr. Justice Walsh. In that case, Rucker sued for infringement of a patent on a blowout preventer and also for infringement of copyright in drawings of the blowout preventer. The drawings seem to have been of purely utilitarian objects, illustrating nothing capable of being registered as an industrial design. Referring to earlier decisions, including his own in the *Bayliner*³⁰⁹ case, which was then pending before the Court of Appeal, Mr. Justice Walsh was of the opinion that if there was copyright in the drawings, the defendant infringed that copyright by copying a device made from the drawings.³¹⁰ Nevertheless, His Lordship was able

³⁰⁸ (1985), 7 C.P.R. (3d) 294, 6 C.I.P.R. 137 (F.C.T.D.) [hereinafter *Rucker*]. See also *Spiro-Flex Indus. Ltd. v. Progressive Sealing Inc.* (1987), 13 C.P.R. (3d) 311 (B.C.S.C.).

³⁰⁹ *Supra*, note 302.

³¹⁰ The courts in England, and in other jurisdictions where copyright statutes have been modelled on the modern English copyright law, have held that to copy a purely utilitarian object, or an ornamental one, may be an infringement of copyright in the drawings from which the object was made. Where the object copied is a replacement part for an article sold by the copyright owner, the copier may escape liability on the theory that the copyright owner cannot derogate from his grant on the sale of the article, though the article was not sold to the copier. See *British Leyland Motor Corp. v. Armstrong Patents Co.* (1986), [1986] 1 All E.R. 850, [1986] F.S.R. 221 (H.L.).

to avoid a finding of copyright infringement. He referred to the plaintiff's patent, which covered the object shown in the plaintiff's drawings, and held that copyright protection was not available for "drawings from which the patented object was made".³¹¹ It is suggested that he might simply have held that copyright in a drawing of a purely utilitarian object extends only to the way in which the object is illustrated and not to the object itself. Copying of the non-artistic object is not copying of the way it was illustrated, that is, it is not reproducing that which gives the drawing its character as an artistic work. It is difficult to understand how a purely utilitarian object which cannot itself qualify as a copyright work can be a reproduction of a copyright work. In copyright law, it is permissible to use the ideas of others, provided that one does not copy the expression of those ideas.³¹²

Mr. Justice Walsh seems to have been of the opinion that there is no copyright protection for any drawing of a patentee whose patent covers the object shown in the drawing. He stated that he strongly believed that it was not the intention of Parliament to give overlapping protection under the *Patent Act*, the *Copyright Act* and the *Industrial Design Act*. Others, however, disagree.³¹³ An appeal of *Rucker* has been filed.³¹⁴

Copyright in drawings has not been the only concern of those who choose to copy articles made by others. Such articles may have been made not from a drawing but from a model, or from a mould. In *Wham-O Mfg. Co. v. Lincoln Indus. Ltd.*,³¹⁵ it was held that a model or mould may be a copyright sculpture or an engraving within the meaning of copyright legislation.³¹⁶ An object made from such a model or mould may be a reproduction thereof, and so may a copy of that object. However, in Canada the copier need not worry if the model or mould falls within Rule 11 of the *Industrial Design Rules*.

In the *Bayliner* case, the Federal Court of Appeal dealt with another point that had been troublesome. It was argued that under section 46 of the *Copyright Act*, a design is not "capable of being registered" under the *Industrial Design Act* if the design lacks the novelty or originality required by the latter Act.³¹⁷ The Court rejected this argument, holding

³¹¹ *Supra*, note 308 at 312, 6 C.I.P.R. at 155.

³¹² See *Cuisenaire v. South West Imports Ltd.* (1968), [1969] S.C.R. 208, 2 D.L.R. (3d) 430.

³¹³ See, e.g., N. Dawson, *There Was an Englishman, an Irishman and a Libyan*. . . (1984) 2 E.I.P.R. 49. See *Wham-O Mfg. Co. v. Lincoln Indus. Ltd.* (1981), [1981] 2 N.Z.L.R. 628, [1982] R.P.C. 281 (H.C.); *Ogden Indus. Pty. Ltd. v. KIS (Australia) Ltd.* (1982), 45 A.L.R. 129, [1983] F.S.R. 619 (S.C.N.S.W.); *Werner Motors Ltd. v. A.W. Gamage Ltd.* (1904), [1904] 2 Ch. 580, [1904] R.P.C. 621 (C.A.); *Gardex Ltd. v. Sorata Ltd.*, [1986] R.P.C. 623 (Ch. D.).

³¹⁴ Filed, 17 December 1985. No hearing date has been set down as of date of writing. (Federal Court of Appeal file #A-980-85).

³¹⁵ (1984), [1984] 1 N.Z.L.R. 641, [1985] R.P.C. 127 (C.A.).

³¹⁶ See also *Copyright Act*, R.S.C. 1970, c. C-30, s. 2, where "work of sculpture" is defined as including casts and models and "engravings" is defined as including etchings, lithographs, woodcuts, prints and other similar works, not being photographs.

³¹⁷ At the trial level, Mr. Justice Walsh seemed to have some sympathy for this argument. See *supra*, note 213 at 300-2, 5 C.I.P.R. 268 at 282-4.

that section 46 of the *Copyright Act* is concerned with whether the subject-matter is a design within the meaning of the *Industrial Design Act*, not with whether the design has the novelty or originality that is needed for registration.

Before the Federal Court of Appeal had rendered its decision in *Bayliner*, the federal government had endorsed a recommendation of the parliamentary sub-committee that the *Copyright Act* should promptly be amended to deal with problems such as those that have been discussed above.³¹⁸ The *Bayliner* case has not settled the problem of copying purely utilitarian objects. Nor did it deal with the point, regarded as long settled, that copyright is not taken away by section 46 and Rule 11 if, when a design was originally made, the designer did not intend to produce more than fifty articles bearing the design, even if he should later decide to produce such quantities.³¹⁹ The original intent of the designer may not be ascertainable, if it is ascertainable at all, short of litigation. Furthermore, some articles such as greeting cards, game boards, calendars, transfers and jewelry are arguably deprived of copyright by section 46, the argument being that they are articles to which a design has been applied rather than being mere artistic works. Such unresolved problems merit early legislative attention.³²⁰

C. Copyright Works

1. Videotapes

The copyright status of videotapes was considered in the British Columbia case of *Tom Hopkins Int'l Inc. v. Wall Redekop Realty Ltd.*³²¹ Although the Court thought it probable that such a tape is protected as a "contrivance by means of which sounds may be mechanically reproduced" within subsection 4(3) of the *Copyright Act*,³²² it held that the tape in question qualified as a "dramatic work" as defined in section 2 of the Act. However, the latter definition will not accommodate all videotapes, as has been discussed elsewhere,³²³ and the government has ap-

³¹⁸ *A Charter of Rights for Creators*, *supra*, note 300 at 27; *Government Response*, *supra*, note 301 at 6.

³¹⁹ See *King Features Syndicate Inc. v. O. and M. Kleeman Ltd.* (1941), [1941] A.C. 417, [1943] 2 All E.R. 403 (H.L.).

³²⁰ For a possible legislative solution, see W.L. Hayhurst, *Report of Revision and Clarification of the Copyright and Industrial Design Laws to Exclude Purely Utilitarian Articles, and to Exclude from Copyright the Appearance of Many Utilitarian Articles* (Prepared for Consumer and Corporate Affairs Canada, 16 April 1986) [unpublished]; and now see Bill C-60, introduced May 27, 1987, cl. 11.

³²¹ (1984), [1984] 5 W.W.R. 555, 1 C.P.R. (3d) 348 (S.C.), var'd (1985), [1985] 6 W.W.R. 367, 6 C.P.R. (3d) 475 (C.A.).

³²² *Copyright Act*, R.S.C. 1970, c. C-30, s. 4(3) as am. 2d Supp., c. 4, s. 1.

³²³ See B.M. Green, *Copyright in Videotapes* (1985) 1 I.P.J. 180; R.M. Perry, *Copyright in Motion Pictures and Other Mechanical Contrivances* (1972) 5 C.P.R. (2d) 256.

proved, in principle, the parliamentary sub-committee's recommendation that the Act now include a new definition of audio-visual work that would clearly include a videotape.³²⁴

2. *Mask Works and Computer Chips*

The United States has led the way in enacting specific legislation³²⁵ which provides a new form of intellectual property protection for designs or layouts of semiconductor chips. Such layouts are produced by the use of masks, and the legislation protects "mask works" when fixed as three dimensional patterns in semiconductor chips. A mask, and a chip so produced, is not a program. A chip can be programmed in a variety of ways. In Canada, masks and chips are not industrial design subject-matter: in the finished chip, the design is not visible to the naked eye, not only because of its size, but also because the chip is sealed. The design is not intended to appeal to the eye. Some argue that masks and chips are protectable as drawings, photographs or engravings under the Canadian *Copyright Act*, but others regard them as merely utilitarian devices that do not qualify for copyright protection. The latter argument prevailed in the United States, resulting in *sui generis* protection being conferred by legislation. That legislation, if it were copyright legislation, would be incompatible with both the *Universal Copyright Convention*,³²⁶ to which the United States has adhered, and the *Berne Convention*,³²⁷ to which the United States has not adhered. For convenience, however, the *sui generis* legislation was appended to the United States copyright statute. While nationals of other countries have no automatic entitlement to United States protection for masks and chips,³²⁸ the benefits of the United States legislation have been extended to Canadians until November 8, 1987³²⁹ on the strength of representations that Canada is making good faith efforts and reasonable progress towards developing and enacting appropriate

³²⁴ *A Charter of Rights for Creators*, *supra*, note 300 at 37; *Government Response*, *supra*, note 301 at 8.

³²⁵ Semiconductor Chip Protection Act of 1984, Pub. L. No. 98-620, 98 Stat. 3347 (codified at 17 U.S.C.A. §§901-914 (Supp. II 1984)).

³²⁶ If only because Article IV of the Convention requires protection for a minimum of 25 years whereas mask works are protected in the United States for only 10 years. *Universal Copyright Convention*, 6 September 1952, 216 U.N.T.S. 132, Can. T.S. 1962 No. 13 (in force for Canada as of 10 August 1962).

³²⁷ *Convention for the Protection of Literary and Artistic Works*, (revised at Brussels 26 June 1948), 331 U.N.T.S. 217, Can. T.S. 1948 No. 22 [hereinafter *Berne Convention*].

³²⁸ Non-American nationals obtain protection only if they first commercially exploit the mask works in the United States: Semiconductor Chip Protection Act of 1984, Pub. L. No. 98-620, 98 Stat. 3347 (codified at 17 U.S.C.A. §§901-914 (Supp. II 1984)), 17 U.S.C.A. §§902(a)(1)(B).

³²⁹ 51 Federal Register 30690, August 28, 1986. See also H.P. Knopf, *Computer Program and Semiconductor Chip Protection: Canadian Government Options* (1986) 2 CAN. INTELL. PROP. REV. 87.

legislation under which United States nationals may obtain protection for such works in Canada. The Canadian government has accepted the parliamentary sub-committee's recommendation that Canada provide protection for mask works fixed in semiconductor chips.³³⁰

3. Computer Programs

Unlike the Canadian *Copyright Act*, copyright legislation in the United States and the United Kingdom refers specifically to computer programs. The Canadian government has approved, in principle, the parliamentary sub-committee's recommendations that the Act be amended to provide specifically for copyright in computer programs.³³¹ Meanwhile, Canadian courts have been faced with a number of cases of alleged infringement of copyright in computer programs.

A computer programmer usually begins by writing a program in a "high level" programming language (BASIC, FORTRAN, COBOL, and so on). This humanly-readable "source code" can be converted into a series of "0's" and "1's" constituting an "object code" readable by the computer. The object code may be embodied in a chip (for example, a read only memory (ROM)). The source code undoubtedly qualifies as a "literary work" under the Canadian Act.³³²

At the time of writing, the most recent and complete Canadian discussion of the scope of copyright in a source code is *Apple Computer, Inc. v. Mackintosh Computers Ltd.*³³³ The defendants, Mackintosh, manufactured ROM chips by copying the plaintiff's chips. In doing so, the defendants reproduced substantially the entire computer programs embodied in the plaintiff's chips. It was conceded that the programs had been originally written as humanly-readable source code, that the original source code versions were literary works in which copyright subsists, and that the plaintiffs owned the copyright. The issue was whether or not the copyright was infringed by copying the object codes that had been derived from the source codes and were embodied in the chips that the defendants had copied. A significant motivation for copying the chips was that the chips embodied the plaintiff's AUTOSTART and APPLESOFT operating system programs, and chips having such programs were needed in order to

³³⁰ *A Charter of Rights for Creators*, *supra*, note 300 at 47; *Government Response*, *supra*, note 301 at 9.

³³¹ *A Charter of Rights for Creators*, *ibid.* at 39-46; *Government Response*, *ibid.* at 8-9, and now see Bill C-60, introduced May 27, 1987, cl. 1(2), (3), 5 and 22. The government recognizes that under the *Berne Convention*, *supra*, note 327 and *Universal Copyright Convention*, *supra*, note 326, it must extend to the nationals of other countries the benefit of copyright in computer programs which qualify as literary works; *see also* note 342, *infra*.

³³² *See Dynabec Ltée c. Société d'Informatique R.D.G. Inc.* (1985), 6 C.P.R. (3d) 322 at 327, 6 C.I.P.R. 185 at 191 (C.A. Que.) for an example of a source code.

³³³ *Supra*, note 191. *See also* Fisk, *supra*, note 82 for a discussion of earlier developments.

use the great variety of application programs that had been designed for use with those operating programs of the plaintiff. Madame Justice Reed held that there was an infringement of the copyright in the plaintiff's source codes.

The defendants argued that a computer program is merely a specification for a machine part and that by copying the chips the defendants were carrying out those specifications, as one might do by using a recipe to make a pie. However, Her Ladyship noted that the person who writes the program is not concerned with chip design. A program may ultimately be embodied in a variety of media (tapes, punched cards, ROMs, and so on). In such media, the program instructions will be included and, if desired, can be "read out" in hexadecimal code form by a disassembler program and then converted to their original source code form. In the recipe-pie analogy, the defendants were not making the pie, but were copying the recipe book. Moreover, as Madame Justice Reed pointed out, the uniqueness of a program, in comparison with more conventional literary works, is that it can be used to cause a machine to perform a variety of operations.

The defendants contended that when a program is encoded in a chip, the copyrightable expression of the program becomes merged with the uncopyrightable idea of the program. Her Ladyship had difficulty in following this argument, which is derived from American jurisprudence. She rejected the merger argument in relation to the case before her, relying instead on the fact that programs can be written in different ways and in a variety of forms to accomplish the same result. Thus, a program writer can be indifferent to the medium in which the program will ultimately be embodied.

By section 3 of the *Copyright Act*, copyright includes the sole right to reproduce a substantial part of a work in any material form and to produce a translation of a work. Her Ladyship was persuaded that a program encoded in a chip is a translation of the original written source code and also a reproduction, in a material form, of the original. As to the statutory meaning of "translation", she agreed that it is irrelevant that computer programmers give the name "translation" to a conversion from one code to another, and she accepted a dictionary definition that to translate can mean to express "in or to another form of representation".³³⁴ However, Her Ladyship's reasons appear to be based primarily on her conclusion that the defendants, in copying the plaintiff's programmed chips, had reproduced the source codes. She rejected arguments that the purpose of a reproduction must be to communicate with human beings and that a reproduction must be humanly-readable. It is sufficient, in her view, that what is encoded in a chip can, if necessary, be "read out" for comparison with the original. She also thought that there was merit in the argument that an encoded chip is a "contrivance by means of which the

³³⁴ *Concise Oxford Dictionary*, 1232 6th ed. (1979).

work may be mechanically . . . delivered" within the meaning of paragraph 3(1)(d) of the Canadian *Copyright Act* (a provision that was originally drafted to ensure that copyright is infringed by making a recording) but she found it unnecessary to decide this point. Reference was made to numerous interlocutory decisions, in Canada and elsewhere, in which defendants have been enjoined from copying encoded chips. However, this is the first Canadian decision after a full trial and the reasons for judgment provide a convenient explanation of computer terminology. Although at times Her Ladyship seemed to be saying that there is copyright in the electrical or object code form of a program, it must be stated that the decision is not an authority for such a conclusion because it is clear that the issue was whether or not copying the chips, with their encoded programs, was an infringement of the admitted copyright in the assembly language (source code) of the plaintiff's operating systems programs. The decision construes the antiquated Canadian *Copyright Act* (which is based essentially on the United Kingdom Act of 1911³³⁵) in an expansive way. Madame Justice Reed was of the opinion that the Act, in conferring a right to reproduce a copyright work "in any material form whatsoever", did away with any rule which (as in the old piano roll case of *Boosey v. Whight*³³⁶) would deny protection merely because the copy or reproduction could be characterized as part of the machine. Her interpretation of the general right to reproduce would seem to make tautologous, or else merely explanatory, the express right, conferred by paragraph 3(1)(d), of making contrivances for mechanical performance or delivery. She considered that the plaintiff's case in respect of a program encoded in a chip was stronger than one where the plaintiff claims that a three dimensional article is a reproduction of a two dimensional drawing. Furthermore, although the *Copyright Act* confers both civil and criminal remedies for certain infringements, Her Ladyship was not prepared to construe the statute restrictively.

The defendants contended that certain policy considerations should lead Her Ladyship to a more conservative approach. First, copyright was said to be a monopoly, and Parliament did not intend to create a monopoly in an item of commerce such as a chip. Her Ladyship accepted that copyright confers a monopoly (causing one to wonder whether plaintiff's counsel troubled themselves seriously with this argument); nevertheless, she was not prepared to put on the statute a gloss which its wording does not bear. Second, it was argued that patent law affords a means for protecting certain program-related inventions and that overlap of protection should be avoided. However, Her Ladyship noted that computer programs are not *per se* patentable and, in any event, overlapping areas of law are not unusual. Third, the defendants referred to proposals³³⁷ to

³³⁵ *Copyright Act, 1911* (U.K.), 1 & 2 Geo. V, c. 46.

³³⁶ (1899), [1900] 1 Ch. 122, [1900] 69 L.J. Ch. 66 (C.A.).

³³⁷ *Supra*, note 191 at 37, 8 C.I.P.R. at 192. As for these proposals, see *From Gutenberg to Telidon, supra*, note 298 at 79-83; *A Charter of Rights for Creators, supra*, note 300 at 45-6.

amend the *Copyright Act* to deal expressly with computer programs. Her Ladyship said that such considerations are not relevant to the role of the courts in applying existing law. Finally, it was suggested that the defendants should not be penalized for acting as they did when there has been much debate as to the scope of copyright in computer programs; however, Her Ladyship was not prepared to assist a defendant who chooses to take his chances.

Consistent with this Canadian decision was a decision of the Australian Federal Court of Appeal, cited by Madame Justice Reed, involving the same Apple Computer programs.³³⁸ That Australian decision, however, has since been reversed by the High Court of Australia.³³⁹ While regarding a source code as a literary work, the High Court rejected arguments that the object code is a literary work when embodied in a chip and held that such code in a chip is neither a "translation" nor "adaptation" of the source code within the meaning of the relevant Australian copyright legislation.³⁴⁰ The Canadian *Apple* case is now under appeal to the Federal Court of Appeal.³⁴¹

There are numerous other issues that have yet to be litigated in Canada but that have come before United States courts and that have resulted in decisions favourable to the copyright claimants. It has been held that there is copyright in an object code and in firmware (discs, tapes, chips and the like) carrying the object code, and that copyright is infringed by inputting a program into a computer.³⁴² Microcode stored in a computer and forming part of it has been held to have copyright protection,³⁴³ although, like a mathematical table, there may be only one way of expressing it. The "structure" (sequence and organization) of a computer program has been held to be infringed by converting a program to a different language to suit a different computer.³⁴⁴ Copyright has also

³³⁸ *Apple Computer Inc. v. Computer Edge Pty. Ltd.* (1984), 53 A.L.R. 225, [1984] F.S.R. 481 (F.C.N.S.W. Dist.).

³³⁹ *Computer Edge Pty. Ltd. v. Apple Computer Inc.* (1986), 65 A.L.R. 33, [1986] F.S.R. 537 (Full Ct.).

³⁴⁰ The Court was not concerned with the recently amended Australian statute that now deals specifically with computer programs; *Copyright Amendment Act 1984*, No. 43 (Australia).

³⁴¹ Filed, 25 January 1985, no hearing date has been set down as of date of writing (Federal Court of Appeal file #A-84-85).

³⁴² *Apple Computer Inc. v. Franklin Computer Corp.*, 714 F.2d 1240 (3d Cir. 1983); *Rand McNally & Co. v. Fleet Management Systs. Inc.*, 634 F. Supp. 604 (N.D. Ill. 1986).

³⁴³ *N.E.C. Corp. v. Intel Corp.*, 1986 CCH Copyright Law Decisions, para. 25,990 (N.D. Cal.).

³⁴⁴ *Whelan Assocs. Inc. v. Jaslow Dental Laboratory*, 609 F. Supp. 1307 (D.C. Pa. 1985), *aff'd* 797 F.2d 1222 (3d Cir., 1986). In an Ontario decision, *Gemologist Int'l Inc. v. Gem Scan Int'l Inc.* (1986), 9 C.P.R. (3d) 255, 7 C.I.P.R. 225 (H.C.), in which the plaintiffs succeeded in obtaining an interlocutory injunction, the judge, Mr. Justice Montgomery, referred to the "overall logical structure of the program" and to "the program sequence of menus and menu options" but did not explain what he meant by these terms.

been held to subsist in the display that appears on a video screen.³⁴⁵

Under paragraph 3(1)(d) of the Canadian Act, copyright includes the right to make any contrivance by which the work may be delivered. This may include making a ROM, tape and so on.

D. Copyright Infringement³⁴⁶

1. As to Whether There was Copying

A plaintiff who alleges that his copyright has been infringed must first prove that there has been some unauthorized taking of his work (rather than independent creation) and, second, that a substantial part of his work has been taken.³⁴⁷ Putting aside the second issue for the moment, and considering only the first, the *Copyright Act* does not actually use the word "copying", but the word is a convenient, compendious term to cover those activities of reproduction and public performance that the statute reserves to the copyright owner.³⁴⁸

As noted earlier, in the *Bayliner*³⁴⁹ case the Federal Court of Appeal was able to avoid a decision on whether copying of a drawing may occur indirectly by copying an article made from the drawing. However, United Kingdom decisions have firmly established that indirect copying may occur in this manner.³⁵⁰

³⁴⁵ *Broderbund Software, Inc. v. Unison World, Inc.*, 231 U.S.P.Q. 700 (N.D. Cal., 1986). It seems that screen formats were involved in *F & I Retail Systs. Ltd. v. Thermo-Guard Automotive Prods. Canada Ltd.* (1984), 1 C.P.R. (3d) 297 (Ont. H.C.), leave to appeal refused (1984), 1 C.P.R. (3d) 297 at 298n (C.A.). See Fisk, *supra*, note 82.

³⁴⁶ The foregoing discussion of copyright in computer programs includes some discussion of the scope of protection.

³⁴⁷ *Copyright Act*, R.S.C. 1970, c. C-30, s. 3(1). Subsection 3(1) of the *Copyright Act* commences as follows:

For the purposes of this Act, "copyright" means the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform, or in the case of a lecture to deliver, the work or any substantial part thereof in public; if the work is unpublished, to publish the work or any substantial part thereof.

The section then goes on to say that copyright "includes the sole right" to do a number of specific things (translate, record, etc.); but it has always been assumed that the reference to a "substantial part" in the introductory language quoted above applies to all the latter activities so that copyright includes, for example, the right to translate the whole or a substantial part of the work.

³⁴⁸ *Copyright Act*, R.S.C. 1970, c. C-30, ss. 3, 17, as am. S.C. 1974-75-76, c. 50, s. 47, S.C. 1980-81-82-83, c. 111, s. 5 (Schedule IV), S.C. 1984, c. 40, s. 18. The word "copy" is used in section 21 which refers to an "infringing copy". "Infringing" is defined in section 2.

³⁴⁹ *Supra*, note 302.

³⁵⁰ *Hanfstaengl v. H.R. Baines and Co.; L.B. (Plastics) Ltd. v. Swish Prods. Ltd.*, *supra*, note 307. A fascinating case on indirect copying is *Plix Prods. Ltd. v. Frank M. Winstone (Merchants) Ltd.* (1984), [1986] F.S.R. 63 (N.Z.H.C.), *aff'd* [1986] F.S.R. 608 (N.Z.C.A.).

In any case where there is an allegation of copying, it may be possible to infer that there was copying, even though there may be no direct evidence on which to base the inference. Evidence that the defendant had access to the copyright work or to a copy thereof and evidence of similarities between the copyright work and that of the defendant may be sufficient.³⁵¹ Moreover, it would not seem to matter that copying may have occurred subconsciously rather than deliberately.³⁵² In *Gondos v. Hardy*,³⁵³ the plaintiff alleged that the composer Hagood Hardy had copied a composition of the plaintiff, perhaps subconsciously, when he created his highly successful composition *The Homecoming*. The action failed on the facts. The decision contains an interesting review of the contradictory expert evidence that was adduced as to whether copying should be inferred.³⁵⁴

2. *The Substantiality Test*

If there has been copying, there is no infringement unless a substantial part of the original has been taken. Where, as is common, copying is proved by inference, the inference must be drawn from substantial similarity to a substantial part of the original. What is substantial is a question of fact and degree and depends more on the quality than on the quantity of what is taken.³⁵⁵

3. *Expert Evidence*

In many cases, an expert may perceive more copying than would be recognized by an untrained observer, particularly in situations involving computer programs and musical compositions. There are three possibilities as to whose viewpoint the judge is to adopt:

1. That of an expert.
2. That of a layman — the intended audience.
3. That of an expert as to the amount and importance of what has been copied, leaving to a layman's viewpoint the question of whether that amount is substantial.

³⁵¹ See *L.B. (Plastics) Ltd. v. Swish Prods. Ltd.*, *ibid.* at 619, [1979] F.S.R. at 149.

³⁵² See generally *ABKCO Music Inc. v. Harrisongs Music, Ltd.*, 221 U.S.P.Q. 490 (2d Cir., 1984). The question is also discussed in *Francis Day & Hunter Ltd. v. Bron* (1963), [1963] 1 Ch. 587, [1963] 2 All E.R. 16 (C.A.).

³⁵³ (1982), 38 O.R. (2d) 555, 64 C.P.R. (2d) 145 (H.C.).

³⁵⁴ See also C. Crowe, *The Song You Write May Not Be Your Own* (1984) 1 I.P.J. 29.

³⁵⁵ See *Ladbroke (Football), Ltd. v. William Hill (Football), Ltd.* (1964), [1964] 1 All E.R. 465 at 473, 477, [1964] 1 W.L.R. 273 at 283, 288 (H.L.). See also *Reliable Parts Ltd. v. Amre Supply Co.* (1985), 10 C.P.R. (3d) 124 (B.C.S.C.).

It is submitted that the ultimate decision must surely depend upon the viewpoint of the intended audience. The first of the above tests would be applicable only where the works are addressed to experts. In the usual case, the role of the expert is to show what has really been going on. Hence, if an expert can perceive what the untrained layman would not, the third test is the appropriate one. Traditionally, the Americans (whose statute does not refer to a "substantial part", and who talk of "substantial similarity") have used the second test, which they call the "ordinary observer" test; however, there has been growing support in the United States for the third test.³⁵⁶ In Commonwealth countries, the tradition has also been to use the second test;³⁵⁷ nevertheless, there is also a recognition that in some cases the unaided non-expert may not recognize where the copying has occurred.³⁵⁸

In the trial decision of the *Bayliner* case, the learned judge considered that the correct observer is an average purchaser, not an expert.³⁵⁹ It is submitted, however, that the judge approached the issue of infringement incorrectly. Rather than considering whether a substantial part of the plaintiff's work had been reproduced, he only considered whether the defendant had made significant changes.

If the role of the expert is to assist in establishing the extent and quality of the copying, the question arises whether the expert may testify that there has been copying or whether his testimony should be confined to pointing out, *inter alia*, similarities, coincidences, identical omissions and the significance of these. For example, he might point out whether the similarities relate to trite or innovative aspects of the plaintiff's work. In *Deeks v. Wells*,³⁶⁰ the Privy Council protested against the admission of expert testimony on the ultimate issue of whether copying had actually occurred. However, as noted earlier,³⁶¹ this traditional view of the role of experts seems to be withering away. In any event, the expert cannot usurp the judge's role of deciding, in the light of all the evidence, whether there has been copying, how much has been taken and whether it was substantial.

³⁵⁶ See *Whelan Assocs., Inc. v. Jaslow Dental Laboratory*, *supra*, note 344; M.B. Nimmer, *NIMMER ON COPYRIGHT*, 1986 ed. (New York: Matthew Bender & Co., 1963) at §13.03[E].

³⁵⁷ See generally E.P. Skone James *et al.*, *COPINGER AND SKONE JAMES ON COPYRIGHT*, 12th ed. (London: Sweet & Maxwell Ltd., 1980) at 229, para. 559.

³⁵⁸ See *British Leyland Motor Corp. v. Armstrong Patents Co.*, *supra*, note 310; *S.W. Hart & Co. Pty. Ltd. v. Edwards Hot Water Systs.* (1985), 61 A.L.R. 251, [1986] F.S.R. 575 (Austl. H.C.).

³⁵⁹ *Supra*, note 302, 5 C.P.R. (3d) at 314, 5 C.I.P.R. at 298. The Federal Court of Appeal did not consider the point now being discussed.

³⁶⁰ (1932), [1933] 1 D.L.R. 353 at 356-7.

³⁶¹ See Part III.B.2 of this Survey, *supra*. See also *Cyril A. Verge v. Imperial Oil Ltd.* (May 6, 1987) (F.C.T.D.).

4. Fact Works

*British Columbia Jockey Club v. Standen*³⁶² provides an interesting sequel to the English case of *Football League, Ltd. v. Littlewoods Pools, Ltd.*³⁶³ In the *Football League* case, the plaintiff had created "club lists" and, from those, had created a chronological list of football matches for the season. Each week the defendants had copied parts of the chronological list on to their betting coupons. Lord Upjohn held that the chronological list presented information in a particular form and that the defendants were not entitled to copy the list by instalments. His Lordship said:

If the defendants like to use the information contained in the chronological list and prepare their own lists by "scrambling" the order of matches so that the divisions were all mixed up and so that there was no alphabetical order, it is possible that it could be successfully argued that they were using only the information and were not reproducing the compilation, but that is not a question I decide, nor do I speculate on the defendants' customers' reactions on receiving such a list.³⁶⁴

A question somewhat like the one left open by Lord Upjohn arose in the Canadian *Jockey Club*³⁶⁵ case. The plaintiff Jockey Club published compilations of information about forthcoming horse races and was admitted to be the owner of the copyright in those compilations. As in the *Football League* case, the Jockey Club created the information that it compiled, and this required considerable skill, knowledge and experience. Each day information from the Jockey Club's compilation was published by others with its permission. However, the defendant, without such permission, published each day in its own news sheet substantial amounts of the information compiled by the Club: the order of races, the distance of the races, the list of horses in each race, the jockey for each horse and the assigned weights. In contrast to the *Football League* case, the defendant did not copy the Jockey Club's compilation line by line, but instead rearranged and expressed the information in different style and terminology. The Court of Appeal noted that copyright does not exist in information, ideas or opinions, but nevertheless held that the defendant infringed the Club's copyright. Quoting the trial judge, the Court concluded that the defendant had "appropriated the results of the labour and skills of the Club which has gone into the compilation of the information which the Club has developed and published".³⁶⁶

³⁶² (1983), 146 D.L.R. (3d) 693, 73 C.P.R. (2d) 164 (B.C.S.C.), *aff'd* (1985), 66 B.C.L.R. 245, 22 D.L.R. (4th) 467 (C.A.) [hereinafter *Jockey Club*].

³⁶³ (1959), [1959] 1 Ch. 637, [1959] 2 All E.R. 546 [hereinafter *Football League*].

³⁶⁴ *Ibid.* at 657, [1959] 2 All E.R. at 555-6.

³⁶⁵ *Supra*, note 362.

³⁶⁶ *Ibid.* at 248, 22 D.L.R. (4th) at 469.

The decision is fully in line with the interlocutory decision of the English Court of Appeal in *Elanco Prods. Ltd. v. Mandops (Agrochemical Specialists) Ltd.*,³⁶⁷ a case relating to a compilation of facts about a herbicide. By comparison, American courts are less disposed than their English counterparts to reward the industriousness of an author.³⁶⁸

5. *Ephemeral Recordings*

Broadcasters in Canada obtain licences from the public performing right societies in order to communicate works by radio and television³⁶⁹ and to authorize public performances.³⁷⁰ It is sometimes convenient for broadcasters to record a work for broadcast at a later time. After the broadcast the recording may be erased, and in such a case is commonly called "ephemeral". To make such recordings, broadcasters have tended to assume that no licence is needed other than the one from the public performing right society. In *Bishop v. Stevens*,³⁷¹ Mr. Justice Strayer held that this assumption is incorrect. The plaintiff Bishop composed a musical work entitled *Stay*. He was an associate member of the United Kingdom Performing Right Society Ltd. (PRS) who consequently owned the public performing right and the right of radio communication in the work. The rest of the copyright, however, remained with Bishop. In Canada, PRS is represented by the Composers, Authors and Publishers Assoc. of Canada, Ltd. (CAPAC). Without the consent of Bishop, the defendant Stevens arranged for the defendant Télé-Métropole Inc. to make two musical recordings on videotape, substantially reproducing Bishop's work *Stay*. These recordings were broadcast in the course of Tele-Metropole's television programming. Télé-Métropole had a licence to broadcast the works in CAPAC's (and thus PRS's) repertoire. Royalties for the broadcasts of Bishop's composition were paid by Télé-Métropole and were credited via CAPAC and PRS to Bishop. After learning of the making of the Télé-Métropole tapes, Bishop appointed the plaintiff Canadian Musical Reproduction Rights Agency Ltd. (CMMRA) as his agent to administer his mechanical recording rights.³⁷² Bishop and CMMRA brought the action in question claiming damages from Tele-Metropole, an injunction to restrain copyright infringement and delivery up of the tapes. However,

³⁶⁷ (1978), [1979] 5 F.S.R. 46 (C.A.).

³⁶⁸ *Rand McNally & Co. v. Fleet Mgmt. Systs. Inc.*, 634 F. Supp. 604 (N.D. Ill. 1986). Compare *Miller v. Universal City Studios Inc.*, 212 U.S.P.Q. 345 (5th Cir. 1982) with *Ravenscroft v. Herbert and New English Library Ltd.* (1980), [1980] R.P.C. 193 (Ch. D.).

³⁶⁹ Copyright Act, R.S.C. 1970, c. C-30, s. 3(1)(f).

³⁷⁰ Copyright Act, R.S.C. 1970, c. C-30, ss. 48-50, as am. S.C. 1984, c. 40, s. 18, S.C. 1984, c. 40, s. 18.

³⁷¹ (1985), [1985] 1 F.C. 755, (*sub nom. Bishop v. Télé-Metropole Inc.*) 4 C.P.R. (3d) 349 (T.D.) [hereinafter *Télé-Metropole*].

³⁷² Under the Copyright Act, R.S.C. 1970, c. C-30, s. 3(1)(d).

they did not press their claims against Stevens. Mr. Justice Strayer held that Télé-Métropole had infringed Bishop's recording rights and ordered Télé-Métropole to pay damages of one hundred and fifty dollars, an amount approximately equal to what CMMRA would have charged for a "synchronization licence" to record Bishop's work on Télé-Métropole's videotapes. Télé-Métropole had acted in good faith, erroneously assuming that Stevens had the right to record the work and that only CAPAC need be paid. His Lordship held that the Canadian *Copyright Act* distinguishes unambiguously between performing rights and recording rights, and only the former were owned by PRS. He declined to follow an earlier, unreported decision of Mr. Justice Archambault in the Superior Court of the Province of Quebec,³⁷³ where it had been held that a CAPAC licence included a pre-recording licence for broadcasting. Mr. Justice Strayer noted that American and British legislation may permit such recording for purposes of broadcasting without a separate mechanical licence, but that Canada had no corresponding legislation. The parliamentary sub-committee has recommended that such legislation be enacted and, in response, the government has proposed that broadcasters, cable systems and satellite systems that are authorized to transmit a program should be free to make ephemeral recordings (a) pursuant to regulations of the Canadian Radio-Television and Telecommunications Commission (CRTC), or (b) in order to permit the broadcast of a program in a different time zone, provided either that the recording is erased within six months after the initial transmission or that it is kept for research and study purposes only.³⁷⁴

6. Authorizing Infringement

To authorize a copyright infringement is itself an infringement of copyright.³⁷⁵ The word "authorize" has frequently been held to mean "sanction, approve and countenance";³⁷⁶ however, the English Court of Appeal³⁷⁷ has recently "doubted that merely to countenance infringement

³⁷³ See *Rochat v. C.B.C.* (27 September 1974) Montreal 796-037 (S.C.). This decision is criticized by C. Brunet, *L'enregistrement "éphémère": Notes pour une relecture de l'arrêt Rochat-Lefort* (No. 4, 1983) 3 LA REVUE CANADIENNE DU DROIT D'AUTEUR 29.

³⁷⁴ *A Charter of Rights for Creators*, *supra*, note 300 at recommendation no. 80 at 108; *Government Response*, *supra*, note 301 at 12.

³⁷⁵ *Copyright Act*, R.S.C. 1970, c. C-30, ss. 3, 17, as am. S.C. 1974-75-76, c. 50, s. 47, S.C. 1980-81-82-83, c. 111, s. 5 (Schedule IV), S.C. 1984, c. 40, s. 18.

³⁷⁶ See, e.g., *Muzak Corp. v. C.A.P.A.C.* (1953), [1953] 2 S.C.R. 182 at 193, 19 C.P.R. 1 at 15.

³⁷⁷ See *Amstrad*, *supra*, note 176, commented on in W.L. Hayhurst, *Copyright and the Copying Machine: The Amstrad Case* (1986) 11 CAN. BUS. L.J. 331, supplementing an earlier article, *Copyright and the Copying Machine* (1984) 9 CAN. BUS. L.J. 129.

³⁷⁸ Hayhurst, *Copyright and the Copying Machine: The Amstrad Case*, *ibid.* at 333.

would amount to authorizing it. . . . [A] better definition of authorizing would be to grant or purport to grant a right to do the act complained of."³⁷⁸ The Court held that to sell machines for copying pre-recorded tapes, and to advertise the utility of the machines for that purpose, was not to authorize infringement, although the use of the machines for the advertised purpose would inevitably be a copyright infringement. The Court relied upon the Canadian case of *Vigneux v. Canadian Performing Right Society, Ltd.*,³⁷⁹ where the Privy Council took the view that to provide both a juke-box and records to be played on it was not to authorize the infringing public performances that occurred when the records were played. The person supplying the juke-box and the records did not control the use of the juke-box. In circumstances similar to those in *Vigneux*, an Australian judge³⁸⁰ and a United States court³⁸¹ have considered that there is indeed authorization by the person who provides both a record and a machine for the public playing of it.

7. *Contributory Infringement*

"Contributory" infringement is not a term that has been often used in copyright law; but in *Amstrad*³⁸² the English Court of Appeal, in considering an allegation of procuring copyright infringement, referred to patent cases that are commonly viewed as being cases on contributory infringement. As has already been noted in the discussion of patent infringement,³⁸³ the *Amstrad* decision took a narrower view of contributory infringement in patent law than has been taken in Canadian patent cases. One might think it doubtful, particularly having regard to the *Vigneux* decision,³⁸⁴ that a Canadian court would take a more expansive view in copyright cases than has been taken in British copyright cases; however, in *Apple Computer*³⁸⁵ Madame Justice Reed indicated that the Canadian approach to contributory infringement in patent cases may be applied in copyright cases.

8. *Persons in Control of Corporate Infringers*

In the copyright case of *Apple Computer*,³⁸⁶ Madame Justice Reed referred to the Federal Court of Appeal decision in *Mentmore*,³⁸⁷ where, without purporting to enunciate a precise formulation, Mr. Justice Le

³⁷⁹ (1945), [1945] A.C. 108, [1945] 2 D.L.R. 1 (P.C.) [hereinafter *Vigneux*].

³⁸⁰ See *Winstone v. Wurlitzer Automatic Phonograph Co. of Australia Pty.* (1946), [1946] V.L.R. 338 (S.C.).

³⁸¹ See *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 230 U.S.P.Q. 869 (3d Cir. 1986).

³⁸² *Supra*, note 176.

³⁸³ See Part III.E.3 of this Survey, *supra*.

³⁸⁴ *Supra*, note 379.

³⁸⁵ *Supra*, note 191.

³⁸⁶ *Ibid.*

³⁸⁷ *Supra*, note 178.

Dain suggested that directors or officers of an infringing corporation may be personally liable where they have engaged in “the deliberate, wilful and knowing pursuit of a course of conduct that was likely to constitute infringement or reflected an indifference to the risk of it”.³⁸⁸ This test is arguably too severe, as discussed above.³⁸⁹

Madame Justice Reed also referred to the possibility that an individual defendant may have authorized the corporate infringement, citing the often used judicial definition of “authorize” as meaning “sanction, approve, and countenance”,³⁹⁰ a definition that has been more recently disapproved of in the *Amstrad* case.³⁹¹ With respect to a corporate defendant (131375 Canada Inc., which apparently did some actual copying), Her Ladyship found that its sole shareholder, director and officer was personally liable for authorizing infringement, as defined above. She thought that authorization could be inferred from indifference on the part of that particular individual, assuming, as he testified, that he took only a limited part in the day-to-day business activities in which he knew the company was engaged. She also found him to be liable under the Le Dain test.

In respect of another corporation, Repco, which was not a copier but which traded in copies, Her Ladyship found that this corporation did so with the required knowledge of infringement that a trader must have under subsection 17(4) of the *Copyright Act*³⁹² and that one of Repco’s officers was himself engaged in trading activities that brought him personally within subsection 17(4). She also found that Repco and one other officer had aided and abetted a copier in a manner which, under Canadian patent cases, would be considered “contributory infringement”, and she took the same principle to be applicable to a copyright case.

In sum, Her Ladyship was prepared to find a director or officer liable, although he was not an actual copier, on any one of four theories, namely:

1. authorizing copyright infringement;
2. trading in copies with the knowledge required by subsection 17(4);
3. the Le Dain theory of liability of corporate directors and officers; and
4. contributory infringement in the patent sense.

³⁸⁸ *Ibid.* at 204-5, 40 C.P.R. (2d) at 474.

³⁸⁹ See Part III.E.4 of this Survey, *supra*.

³⁹⁰ *Supra*, note 191 at 46, 8 C.I.P.R. at 201, citing *Falcon v. Famous Players Film Co.* (1926), [1926] 2 K.B. 474 at 491 (C.A.).

³⁹¹ *Supra*, note 176.

³⁹² Subsection 17(4) provides:

Copyright in a work shall also be deemed to be infringed by any person who

- (a) sells or lets for hire, or by way of trade exposes or offers for sale or hire;
- (b) distributes either for the purposes of trade, to such an extent as to affect prejudicially the owner of the copyright;
- (c) by way of trade exhibits in public; or
- (d) imports for sale or hire into Canada; any work that to his knowledge infringes copyright or would infringe copyright if it had been made within Canada.

The third and fourth of these bases of liability are not prescribed in the *Copyright Act*. Her Ladyship noted that in *Compo Co.*, the Supreme Court of Canada stated that:

[C]opyright law is neither tort law nor property law in classification, but is statutory law. . . . Copyright legislation simply creates rights and obligations upon the terms and in the circumstances set out in the statute. . . . It does not assist the interpretive analysis to import tort concepts. The legislation speaks for itself and the actions of the appellant [the alleged infringer] must be measured according to the terms of the statute.³⁹³

We have seen earlier that Mr. Justice Strayer was prepared to regard the patent statute as incorporating common law principles.³⁹⁴ It seems that Madame Justice Reed would agree in respect of the copyright statute, the reasoning appearing to be that Parliament, not the judiciary, has imported tort concepts into the statutes!

One corporate officer was exonerated by Madame Justice Reed. That officer had given credit guarantees to enable Repco, of which he was the president, to import the infringing matter and he knew of what Madame Justice Reed characterized as the "infringing activity". However, Her Ladyship held that this did not constitute authorizing the activity, nor was it a violation of subsection 17(4).

9. *Innocence*

Section 22 of the *Copyright Act* provides that, save where copyright was duly registered at the date of infringement, no remedy other than an injunction will be granted against a defendant who pleads and proves that, at the date of the infringement, he was not aware and had no reasonable ground for suspecting that copyright subsisted in the work. The section has been narrowly construed,³⁹⁵ but was successfully relied upon in *C.P. Koch Ltd. v. Continental Steel Ltd.*³⁹⁶ by an infringing corporation's employee, a draughtsperson, who acted entirely under the instructions of the principal of the corporation, a professional engineer. The draughtsperson simply followed instructions, with no reason to suspect that in doing so he might be infringing copyright.³⁹⁷

Subsection 17(4) of the *Copyright Act* provides that a person who trades in copies (but is not himself a copier) is deemed to infringe if dealing in "any work that to his knowledge infringes copyright or would

³⁹³ *Supra*, note 169 at 372-3, 45 C.P.R. (2d) 1 at 13.

³⁹⁴ *Compo Co.*, *ibid.* and text, *supra*.

³⁹⁵ See the 1979 Survey, *supra*, note 48 at 498-9, and the trial decision in the *Bayliner* case, *supra*, note 302.

³⁹⁶ (1984), 82 C.P.R. (2d) 156 at 169 (B.C.S.C.), *aff'd* 4 C.P.R. (3d) 395 (C.A.).

³⁹⁷ That a servant of a corporation may be personally liable for his actions, though done at the behest of his corporate employer, is clear from *C. Evans & Sons Ltd. v. Spritebrand Ltd.*, *supra*, note 181.

infringe copyright if it had been made within Canada". Once such a person has been put on notice by the copyright owner and has had an opportunity to check the position,³⁹⁸ he may be enjoined.³⁹⁹

10. Fair Dealing

In *Universal City Studios, Inc. v. Sony Corp.*,⁴⁰⁰ otherwise known as the *Betamax* case, the United States Supreme Court held that to record copyright works on a videotape recorder, in order to view and hear the works at a later time, was a "fair use" of the copyright works within the meaning of the United States *Copyright Act*.⁴⁰¹ In the trial decision in *Tom Hopkins Int'l Inc. v. Wall & Redekop Realty Ltd.*,⁴⁰² Mr. Justice Trainor of the British Columbia Supreme Court observed that to make such a record, merely for time shifting, does not seem to be a realistic exception to copyright infringement in Canada. He reached this conclusion having regard to the clear language of paragraph 17(2)(a) which exempts "fair dealing" only when it is for a purpose therein recited, namely, for "private study, research, criticism, review, or newspaper summary". The parliamentary sub-committee has rejected the idea of widening the Canadian fair dealing provision to something like the United States fair use concept, recommending instead only minor changes to the present fair dealing provision.⁴⁰³ The government has indicated its general approval of this.

11. Public Interest

A defendant who, without permission of the copyright owner, has published a substantial part of the copyright work, may argue that his publication was in the public interest. Such a defence has been recognized,⁴⁰⁴ but was rejected on the facts, in *R. v. James Lorimer & Co.*⁴⁰⁵ In that case, the Canadian government had conducted an investigation into the state of competition in the Canadian petroleum industry. It published a seven volume report on the investigation and owned the copyright

³⁹⁸ See *Sillitoe v. McGraw-Hill Book Co. (U.K.)* (1982), [1983] F.S.R. 545 at 556-8 (Ch. D.).

³⁹⁹ See, e.g., *Apple Computer Inc. v. Computermat Inc.* (1983), 75 C.P.R. (2d) 26 at 31-2, 1 C.I.P.R. 1 at 8-9 (Ont. H.C.).

⁴⁰⁰ 220 U.S.P.Q. 665 (1984).

⁴⁰¹ 17 U.S.C. 107 (1982).

⁴⁰² *Supra*, note 321 at 352-3.

⁴⁰³ *A Charter of Rights for Creators, supra*, note 300, recommendations nos. 82-86; *Government Response, supra*, note 301 at 13.

⁴⁰⁴ See, e.g., *Lion Laboratories Ltd. v. Evans* (1984), [1985] 1 Q.B. 526, [1984] 2 All E.R. 417 (C.A.); *Jockey Club, supra*, note 362.

⁴⁰⁵ (1984), [1984] 1 F.C. 1065, 77 C.P.R. (2d) 262 (C.A.) [hereinafter *Lorimer*]. The trial decision discussed in *1983 Survey, supra*, note 1 at 421-2.

in the report. The report was sold to the public. The defendant published a one volume abridgement of the report and sold it at a lower price. The abridgement copied a substantial part of the report. The Crown successfully sued for copyright infringement. The defendant argued that, under paragraph 17(2)(a) of the *Copyright Act*, it had a defence of fair dealing for the purpose of review. The Court rejected this argument, holding that such a defence requires, as a minimum, something more than simply condensing the original work and giving credit to its author.

The defendant also argued that publication of its abridgement was in the public interest. It relied on the English cases of *Hubbard v. Vosper*⁴⁰⁶ and *Beloff v. Pressdram Ltd.*,⁴⁰⁷ however, those cases were distinguished by the Court as dealing with matters that ought to have been made public but were not, whereas here the government made its report available to anyone. Although the *Copyright Act* makes no reference to a "public interest" defence, speaking for the Federal Court of Appeal, Mr. Justice Mahoney said that he had no doubt that a defence of publication in the public interest against an assertion of Crown copyright is available in the proper circumstances.

The defendant also raised a freedom of expression defence, based on the *Canadian Charter of Rights and Freedoms*;⁴⁰⁸ however, the Court held that so little of the defendant's own thought, belief, opinion and expression was contained in its publication that the latter was entirely an actionable appropriation of what appeared in the plaintiff's work.

E. Civil Remedies

If a copyright infringer can be found and is worth suing, and if he is financially responsible (these prerequisites can be big "ifs"), the *Copyright Act* provides a sumptuous collection of possible remedies.

In most intellectual property matters a successful plaintiff may be given an election either to recover such damages as he has suffered from an infringement or to have an accounting of the profits made by the infringer as a result of the infringement. But subsection 20(4) of the *Copyright Act* provides that an infringer:

[I]s liable to pay such damages to the owner of the right infringed as he may have suffered due to the infringement, and in addition thereto such part of the profits that the infringer has made from such infringement as the court may decide to be just and proper.

⁴⁰⁶ (1971), [1972] 2 Q.B. 84, [1972] 1 All E.R. 1023 (C.A.).

⁴⁰⁷ (1972), [1973] R.P.C. 765, [1973] 1 All E.R. 241 (Ch. D.).

⁴⁰⁸ *Canadian Charter of Rights and Freedoms*, s. 2(b), Part I of the *Constitution Act, 1982*, being Schedule B of the *Canada Act, 1982* (U.K.), 1982, c. 11.

Moreover, section 21 of the Act provides:

All infringing copies of any work in which copyright subsists, or of any substantial part thereof, and all plates used or intended to be used for the production of such infringing copies, shall be deemed to be the property of the owner of the copyright, who accordingly may take proceedings for the recovery of the possession thereof or in respect of the conversion thereof.

Section 2 of the Act defines an “infringing” copy as: “[A]ny copy, including any colourable imitation, made, or imported in contravention of this Act.”

Damages are awarded under section 21 for the conversion of chattels, whereas an award under subsection 20(4) is for invasion of incorporeal copyright. Cumulative awards under section 21 and subsection 20(4) are therefore possible.⁴⁰⁹

Where infringing copies are in the possession or power of the defendant, “delivery up”, rather than damages, will ordinarily be ordered as the remedy for conversion. Sometimes only part of an article infringes copyright. If the infringing part can be severed, only that part should be the subject of an order for delivery up. If the article has been disposed of by the infringer, it seems that damages for conversion should be limited to the value of the infringing part, if that is possible.⁴¹⁰ In this respect, Canadian law is the same as the English law was under the United Kingdom legislation of 1911.⁴¹¹ However, it differs from the present English statute where “infringing copy” is defined in a way that requires the copy to be an “article”,⁴¹² from which one can conclude that the copyright owner is entitled to have the whole article or its value, not just the infringing part or its value. Part of a book, for example, may not be an “article”.

In *Apple Computer*,⁴¹³ the reasons for judgment do not indicate whether the successful plaintiff made a claim for conversion; however, the plaintiff did ask for delivery up, which is an appropriate remedy in aid of an injunction. The defendant sold computers, but only the chips therein infringed the plaintiff’s copyright. The chips were easily removable and only the chips were ordered to be delivered up. The plaintiff also claimed an account of the profits arising from the defendant’s computer sales. Those profits were derived mainly from the fact that the defendant sold its computers as being compatible with the plaintiff’s computers. It was not possible to divide the profits between those that were attributable to the chips and those arising from the sale of other components of the computers. As a result, the whole of the profits were awarded.

⁴⁰⁹ See *Sutherland Publishing Co. v. Caxton Publishing Co.* (1936), [1936] 1 Ch. 323 at 336, [1936] 1 All E.R. 177 at 180 (C.A.).

⁴¹⁰ *Ibid. See also Alwinco Prods. Ltd. v. Crystal Glass Indus. Ltd.* (1985), [1985] 1 N.Z.L.R. 716 at 725-6, [1986] R.P.C. 259 at 270 (C.A.).

⁴¹¹ *Copyright Act, 1911* (U.K.), 1 & 2 Geo. 5, c. 46, ss. 7, 35(1).

⁴¹² *Copyright Act, 1956* (U.K.), 4 & 5 Eliz. 2, c. 74, s. 18(3); see also *Infabrics Ltd. v. Jaytex Ltd.* (1981), [1982] A.C. 1, [1984] R.P.C. 405 (H.L.) [hereinafter *Infabrics*].

⁴¹³ *Supra*, note 191.

In *Tom Hopkins Int'l, Inc. v. Wall & Redekop Realty Ltd.*,⁴¹⁴ the defendant had made ten infringing copies of the plaintiff's videotapes. The defendant had promptly destroyed the tapes when informed of the plaintiff's claim that they infringed. On the plaintiff's claim for damages for conversion, the trial judge held that the measure of damages was the value of the videotapes to the plaintiff at the time of conversion. He awarded five hundred dollars to the plaintiff, this being his estimate of the cost of producing the tapes. The British Columbia Court of Appeal agreed that the defendant should pay the value of the tapes to the copyright owner, but said that the value is normally determined by ascertaining their market value. The evidence as to this was meagre; nevertheless, the Court increased the judge's award to three thousand dollars. On the plaintiff's claim for infringement of copyright, no damages were proved. It was relevant that the defendant was unaware that its copying was wrongful. The trial judge awarded nominal damages of two thousand dollars and the Court of Appeal saw no reason to interfere with that.

To award, as conversion damages, the value of all copies sold by an infringer can confer windfall profits on the copyright owner. In *Infabrics*, Lord Scarman has pointed out that if a copy is engraved upon a silver chalice, the value of the latter could be awarded.⁴¹⁵ Statutory changes to the remedies under the Act are anticipated.⁴¹⁶

In the *Bayliner* case,⁴¹⁷ the trial judge held that the defendant's boat infringed the plaintiff's copyright, but he declined to order that the boats be delivered up immediately, despite the plaintiff's claim for conversion. The trial decision was rendered on June 14, 1985, a time when boat sales were at their peak and an order for immediate delivery up would have been ruinous to the defendant. The judge would therefore only enjoin the defendant from making further infringing boats, and (it seems) required the defendant to have its infringing design off the market by the time that boat shows commenced in the autumn. Furthermore, he said that it would be too severe to award damages for conversion, or for that matter to award exemplary or punitive damages. The alleged infringement began in 1982. His Lordship directed a reference as to damages for infringement, or an account; however, he limited recovery to the period from October, 1983, when the plaintiff gave notice of infringement, to the end of the sale of the infringing boats. This lenient award was not discussed by the Federal Court of Appeal⁴¹⁸ because it held that the plaintiff had no copyright.

⁴¹⁴ *Supra*, note 402.

⁴¹⁵ *Supra*, note 412 at 26, [1984] R.P.C. at 457.

⁴¹⁶ See *A Charter of Rights for Creators*, *supra*, note 300, recommendations 133-7 at 111-2, approved by the government in principle. See *Government Response*, *supra*, note 301 at 18.

⁴¹⁷ *Supra*, note 302, 5 C.P.R. (3d) 289. 5 C.I.P.R. 268 (F.C.T.D.). For criticism of the judge's handling of the claim for conversion, see J. Berryman, *Damages for Conversion under the Copyright Act* (1987) 3 I.P.J. 107.

⁴¹⁸ *Bayliner*, *ibid.*, (1986), 10 C.P.R. (3d) 289, 67 N.R. 139.

In the *Lorimer* case,⁴¹⁹ it will be recalled that the defendant had infringed the Crown's copyright by making and selling an abridgement of a lengthy report published by the Crown. The trial judge had found that the Crown was not losing distribution or sale by reason of the infringement, but that it was being deprived of the opportunity to publish its own abridgement or to authorize others to do so. He said that the case was not one for an injunction, but one where a royalty should be paid to the Crown; and he accepted the defendant's evidence that a royalty of eight percent of retail sales was a normal arrangement. The Court of Appeal took a different view.⁴²⁰ The Court held that a copyright owner is *prima facie* entitled to an injunction and, where a substantial part of its work has been copied, to the assistance of the court in obtaining possession of all copies of the infringing work and of all production plates. The onus is on the infringer to establish grounds upon which the court may properly exercise its discretion against granting such relief, and the fact that the copyright owner has suffered no damages is not a sufficient ground. Mr. Justice Mahoney added that he found, "no authority for requiring a copyright owner to acquiesce in a continuing infringement against payment of a royalty. That is tantamount to the imposition of a compulsory licence. In the absence of legislative authority, the Court has no power to do that."⁴²¹

With respect, this last observation goes too far as a general proposition. If, as the Court accepted, a defence of publication in the public interest may sometimes succeed, and preclude the grant of an injunction, there is nothing to prevent the court from requiring the payment of damages based on what would be an appropriate royalty. This could be a satisfactory remedy in a patent case where the grant of an injunction could seriously affect the community (for example, in the United States case, *City of Milwaukee v. Activated Sludges, Inc.*,⁴²² where an injunction would have shut down the city's sewage treatment plant).

In the *Lorimer* case,⁴²³ the Crown had also requested a mandatory injunction requiring the defendant to re-acquire all copies of its book from retailers and wholesalers, and to deliver these to the Crown. The Court of Appeal rejected this request, saying that compliance would not be entirely within the power of the defendant, that the Court knew of no precedent for such an order and that, furthermore, it was not a proper order.

⁴¹⁹ (30 April 1982), (F.C.T.D.) [unreported]. *See also* 1983 Survey, *supra*, note 1 at 421-2, 427-8.

⁴²⁰ *Supra*, note 405.

⁴²¹ *Ibid.* at 1073, 77 C.P.R. (2d) at 268-9.

⁴²² 69 F.2d 577 (7th Cir. 1934); *see also* *Hopkinson v. The St. James' and Pall Mall Elec. Light Co.* (1893), 10 R.P.C. 46 (Ch. D.), where operation of an injunction was suspended for a period of time, and the defendant was required to keep an account, in order to avoid public inconvenience by suddenly shutting down an electric power supply system.

⁴²³ *Supra*, note 405.

The Crown had also asked for exemplary damages and costs. These had been refused by the trial judge, although he had characterized the defendant's conduct as "a blatant disregard of what was obviously the right of the plaintiff"⁴²⁴ and had found the defendant's purpose to be primarily commercial. The trial judge considered the Crown to be an "unusual" plaintiff, not greatly interested in making revenue from its work, and having an obligation to see that its work receives the widest possible dissemination. Consequently, the defendant could be at least partially forgiven for assuming that the Crown would not take the same attitude towards infringement as would a private publisher. The Court of Appeal said that the absence of economic injury and the "unusual" nature of the Crown as a plaintiff were not good reasons to deny the Crown exemplary damages; nevertheless, it deferred to the trial judge's discretion not to award exemplary damages, noting that the trial judge did not think that the defendant's acts warranted punishment and did not "see deterrence as a desirable object". However, the Court of Appeal did reverse the trial judge's exercise of discretion as to costs. Mr. Justice Mahoney said:

It is trite law that costs are not awarded to punish an unsuccessful party. There was a time when the "rule of dignity" dictated that the Crown neither asked nor paid costs in the ordinary course of events. That time is long past and the position of the Crown, even if it be "unusual", is no more relevant than the colour of a litigant's hair. . . . I fail to see that a deliberate invasion in the expectation that the aggrieved party will acquiesce is a fact justifying an exercise of discretion to the detriment of the aggrieved party.

The appellant [the Crown] had a clear right of action; neither it nor its subject-matter were trivial. The Attorney General proceeded in this Court immediately, expeditiously and economically. The appellant was entirely successful at trial in all respects but obtaining a remedy the law provided. There was no proper basis for a judicial exercise of discretion denying the appellant costs.⁴²⁵

The Crown had not asked for an account of the defendant's profits, nor for damages for conversion. The Court of Appeal concluded that damages would be paid for past infringement at the eight percent royalty rate adopted by the trial judge; that a permanent injunction should issue; and that the defendant must deliver to the Crown all copies of the infringing work in its possession or control, and all plates for production of the infringing works, and pay the Crown's taxable costs.

The defendant in *C.P. Koch Ltd. v. Continental Steel Ltd.*⁴²⁶ had infringed the plaintiff's copyright in plans for gates and barriers used in prisons. The learned trial judge observed:

⁴²⁴ *Supra*, note 419. See also 1983 Survey, *supra*, note 1 at 427-8.

⁴²⁵ *Supra*, note 300 at 1076-7, 77 C.P.R. (2d) at 271-2.

⁴²⁶ (1984), 82 C.P.R. (2d) 156 (B.C.S.C.), *aff'd* (1985), 4 C.P.R. (3d) 395 (C.A.) [hereinafter *Koch*].

Apparently, damages are often difficult to assess in copyright cases. I propose to adopt the following statement of principle in *Kafka v. Mountain Side Developments Ltd.* (1982), 62 C.P.R. (2d) 157 at p. 162 (B.C.S.C.): "Damages for breach of copyright are at large and may be dealt with broadly and as a matter of common sense without professing to be minutely accurate."⁴²⁷

In the *Koch* case, the judge thought that an award of the defendant's profits was not appropriate because of compensation to which the plaintiff was entitled for a breach of contract. No additional loss appeared to have been suffered by reason of the defendant's copyright infringement; nevertheless, His Lordship awarded two thousand five hundred dollars for the copyright infringement, saying that he should make "some award which is not entirely insubstantial or just nominal".⁴²⁸ On the plaintiff's claim for conversion the defendant was required to deliver to the plaintiff all the drawings which incorporated the plaintiff's work, even though they included additional work of the defendant.

A minimal award was made by the Federal Court in *Breen v. Hancock House Publishers Ltd.*⁴²⁹ The plaintiff had written a doctoral thesis on the history of ranching. The defendant wrote a letter to the plaintiff requesting permission to use the plaintiff's material, but the plaintiff had left for parts unknown and the defendant's letter had been returned. The defendant published a book, using a quantitatively small but qualitatively significant part of the plaintiff's work. In his book, he acknowledged the plaintiff's thesis as source material. The plaintiff also succeeded in having his thesis published, though his publisher knew of the defendant's book. The latter was not a commercial success. Mr. Justice Joyal concluded that the case was not one for an award of damages. The plaintiff was awarded costs, an injunction and an order for delivery up of infringing copies.

In *Performing Rights Organization of Canada Ltd. v. Manoir Mercier Inc.*,⁴³⁰ default judgment was given against the defendant for publicly performing certain musical works without a licence to do so. Mr. Justice Walsh ordered that the defendants pay the plaintiff's damages and, in addition, that they pay the profits made by the defendants from the infringements.⁴³¹ Furthermore, he awarded exemplary damages of two thousand dollars costs on a solicitor-client basis, as well as an injunction.

Where the plaintiff is in the business of licensing its works at an established royalty, the measure of damages for infringement will normally be the unpaid royalty. In *Télé-Métropole*,⁴³² the defendant had been

⁴²⁷ *Ibid.*, 82 C.P.R. (2d) at 165.

⁴²⁸ *Ibid.* at 166. In respect of another infringement, the judge found that the plaintiff had agreed to the copying in return for payment of a reasonable royalty, which the judge did his best to assess.

⁴²⁹ (1985), 6 C.P.R. (3d) 433, 6 C.I.P.R. 129 (T.D.).

⁴³⁰ (1985), 3 C.P.R. (3d) 90 (F.C.T.D.).

⁴³¹ The damages and profit were to be determined on a reference.

⁴³² *Supra*, note 371.

under the misapprehension that it need not pay a fee for making an "ephemeral" recording. The plaintiff was awarded damages of one hundred and fifty dollars, an amount approximately equal to what the plaintiffs would have been charged for a licence. However, courts should not encourage infringers to think that they can get away with infringing and that, if caught, they will suffer no more than if they had taken a licence in the first place.⁴³³ Additional awards of punitive damages, an account of profits, interest and costs may be in order.⁴³⁴

In the *Télé-Métropole* case, the plaintiff also made a claim for conversion, but rather than ordering the defendant to deliver up the infringing tapes, the Court ordered that they be erased. The reasons for judgment do not disclose whether the judge's attention was drawn to the decision of the Federal Court of Appeal in *Canusa Records Inc. v. Blue Crest Music Inc.*,⁴³⁵ where it was held that records are not "infringing copies" within the meaning of section 21. The Court rejected an argument that section 21 is *ultra vires* the Parliament of Canada.

F. Criminal Penalties

Modern facilities for copying have made copyright infringement easy for the "fly-by-night" operator who may copy the works of several copyright owners, be difficult to locate, expensive to sue, judgment proof and soon succeeded by another elusive parasite. As noted in the last Survey,⁴³⁶ the *Copyright Act* does provide for criminal prosecutions, but the penalties are light.⁴³⁷ The government has approved the recommendation of the parliamentary sub-committee that the penalties under the *Copyright Act* be increased substantially.⁴³⁸

Meanwhile, some interesting prosecutions under the *Criminal Code*⁴³⁹ have been reported. In *R. v. Kirkwood*,⁴⁴⁰ the accused sold counterfeit videotapes (copies made without the authorization of the copyright owners

⁴³³ See *Lorimer, supra*, note 405, for Mr. Justice Mahoney's remarks about not in effect granting compulsory licences; see also *Iowa State Univ. Research Foundation, Inc. v. American Broadcasting Cos.*, 207 U.S.P.Q. 92 at 96 (S.D.N.Y., 1980).

⁴³⁴ See *MCA Canada Ltd. v. Gillberry & Hawke Advertising Agency Ltd.* (1976), 28 C.P.R. (2d) 52 at 56 (F.C.T.D.); *Performing Rights Organization of Canada Ltd. v. 497227 Ontario Ltd.* (1986), 11 C.P.R. (3d) 289 (F.C.T.D.); *Performing Rights Organization of Canada Ltd. v. Transom Ltd.* (1987), 13 C.P.R. (3d) 97 (F.C. Referee)..

⁴³⁵ (1976), 30 C.P.R. (2d) 11.

⁴³⁶ 1983 Survey, *supra*, note 1 at 428.

⁴³⁷ See also *R. v. Comox Valley Video Stop Ltd.* (1985), 5 C.P.R. (3d) 245, 4 C.I.P.R. 537 (B.C. Co. Ct.).

⁴³⁸ *A Charter of Rights for Creators, supra*, note 300, recommendation no. 136, at 112; *Government Response, supra*, note 301 at 18; Bill C-60, cl. 10.

⁴³⁹ R.S.C. 1970, c. C-34, s. 338, as am. S.C. 1974-75-76, c. 93, s. 32.

⁴⁴⁰ (1983), 42 O.R. (2d) 65, 73 C.P.R. (2d) 114 (C.A.).

from tapes made with such authorization). He was charged under section 338 of the *Code* which provides that: "Every one who, by deceit, falsehood or other fraudulent means . . . defrauds the public or any person . . . of any property, money or valuable security . . . is guilty of an indictable offence. . . ."

The Supreme Court of Canada had earlier held⁴⁴¹ that two essential elements of fraud are "dishonesty" and "deprivation", the latter element being satisfied on proof of detriment, prejudice, or risk of prejudice to the economic interests of the victim. There need not be proof of actual economic loss as the outcome of the fraud, nor is it required that the accused desire to bring about an actual loss. It was conceded by counsel for the accused that the element of "deprivation" was satisfied, the victims being the copyright owners and distributors of legitimate tapes. As to "dishonesty", it was conceded that there was evidence to support a finding of dishonesty by "other fraudulent means" within section 338. The trial judge, however, had dismissed the charge, holding that it was necessary to prove some relationship or nexus between the accused and the victim, whereas here the victims had been unaware of the accused and of his activities. The Court of Appeal held that such a nexus need not be established. Giving the judgment of the Court, Mr. Justice Lacourciere said:

I am satisfied that the [accused's] willingness to enter into the commercial distribution of the counterfeit video cassettes constitutes evidence from which the trier of fact may infer an awareness on his part of a risk of prejudice to the economic interests of the real owner of distribution rights and copyright. Notwithstanding the absence of a relationship, these owners could be defrauded of the money earned or to be earned by the [accused].⁴⁴²

A new trial was ordered and the accused was convicted.⁴⁴³

Three days after handing down its decision in *R. v. Kirkwood*, the Ontario Court of Appeal was to render its judgment in *R. v. Stewart*.⁴⁴⁴ The case was primarily concerned with confidential information, which will be discussed later;⁴⁴⁵ however, Mr. Justice Cory expressed some views about copyright. Under consideration was unauthorized copying of personnel records in which there was copyright. Authorities were cited which characterized copyright as a form of property. The question which Mr. Justice Cory addressed was whether the unauthorized copying was theft within the meaning of subsection 283(1) of the *Criminal Code*,⁴⁴⁶ which provides that anyone commits theft who:

⁴⁴¹ *R. v. Olan* (1978), [1978] 2 S.C.R. 1175 at 1182, 86 D.L.R. (3d) 212 at 218.

⁴⁴² *Supra*, note 440 at 71, 73 C.P.R. (2d) 114 at 120.

⁴⁴³ See also *R. v. Fitzpatrick* (1984), 11 C.C.C. (3d) 46 (B.C.C.A.).

⁴⁴⁴ (1983), 42 O.R. (2d) 225, 74 C.P.R. (2d) 1.

⁴⁴⁵ See Part VI, *infra*.

⁴⁴⁶ R.S.C. 1970, c. C-34.

[F]raudulently and without colour of right converts to his use or to the use of another person, anything whether animate or inanimate, with intent,

(a) to deprive, temporarily or absolutely, the owner of it . . . of the thing or of his property . . . in it.

His Lordship said that copying the personnel records would convert the copyright to the use of someone other than the copyright owner and therefore constitute the offence of theft. The other judges did not consider this point and, with respect, it is submitted that Mr. Justice Cory misdirected himself. A mere copier acquires no part of the copyright, which is the right to reproduce a work, to publish it and the like, and the right to authorize others to do so. To trespass upon or interfere with property is not to steal it nor to convert any of the intangible rights in it. It is true that if someone, without authority, publishes an unpublished work, the right of first publication has been destroyed, but destruction is not theft: the intangible right has not been acquired by anyone else. Infringing copies, or their value, may be recovered in a claim for conversion under section 21 of the *Copyright Act*, and dealing with these tangible copies may be a conversion under subsection 283(1) of the *Criminal Code*. But in *R. v. Stewart*, the indictments alleged the stealing of "information", not the conversion of copies, nor indeed the stealing or conversion of copyright.

Under the United Kingdom *Theft Act 1968*⁴⁴⁷ it has been held that copyright is not "property" that is stolen when it is infringed.⁴⁴⁸ As well, in the United States, phonorecords made in infringement of copyright have been held not to be goods, wares or merchandise that have been "stolen, converted, or taken by fraud". The United States Supreme Court noted that a copier does not assume physical control over copyright, nor does he wholly deprive the copyright owner of its use.⁴⁴⁹

VI. CONFIDENTIAL INFORMATION

There has been little development in Canada of the law relating to trade secrets or obligations of confidence. Canadian courts have readily adopted principles developed in the United Kingdom.⁴⁵⁰ These principles, and some unanswered questions, have been reviewed in a report by the University of Alberta's Institute of Law, Research and Reform entitled *Trade Secrets* published in July 1986.⁴⁵¹

⁴⁴⁷ (U.K.), 1968, c. 60.

⁴⁴⁸ Mr. Justice Lacourcière refers to this in *R. v. Kirkwood*, *supra*, note 440 at 72, 73 C.P.R. (2d) at 121. An Ontario District Court judge has, however, convicted a copier for theft. See *R. v. Wolfe*, *The Lawyers Weekly*, No. 32 at 1 (1986).

⁴⁴⁹ *Paul Edmond Dowling v. United States*, 226 U.S.P.Q. 529 (S. Ct., 1985).

⁴⁵⁰ *But see* note 456, *infra*.

⁴⁵¹ (Report No. 46) (Edmonton: The Institute, 1986).

A. Fiduciary Obligations

A trustee is not always possessed of confidential information and the sharing of confidential information may not involve fiduciary obligations.⁴⁵² Nevertheless, cases frequently arise where both confidential information and fiduciary obligations are involved. One such case, more remarkable for the stakes involved than for the issues of law, is *International Corona Resources Ltd. v. Lac Minerals Ltd.*⁴⁵³ which at the time of writing is awaiting decision in the Ontario Court of Appeal. The trial judge found that Corona had given Lac Minerals certain confidential information concerning mineral deposits in property of one Williams. Corona attempted to acquire the Williams property, but Lac Minerals managed to acquire it first. The judge found that the confidential information about the property had been given by Corona to Lac Minerals in the course of abortive negotiations toward entering into a joint venture, that this gave rise to a fiduciary relationship, and that Lac Minerals acquired the property in breach of its duty. He ordered Lac Minerals to transfer the property to Corona, but held that Lac was entitled to be reimbursed not only for the amount it had paid for the property but also for the cost it had incurred in improving the property, thereby increasing its value. That value was not what had actually been expended by Lac Minerals to make the improvements but the lesser amount that Corona, by reason of its advantageous location adjacent to the property, would have had to expend to make the same improvements.⁴⁵⁴

Fiduciary obligations and obligations of confidence were considered in another Ontario case, *Genesta Mfg. Ltd. v. Babey*.⁴⁵⁵ Having been dismissed from his employment by the plaintiff, Babey took with him a list of the plaintiff's ten major customers. He used the list to solicit the ten customers (on behalf of a newly formed company) in competition with the plaintiff, and managed to do business with four of them. Mr. Justice Barr found that Babey had not been a senior employee, of the sort described in *Canadian Aero Services Ltd. v. O'Malley*,⁴⁵⁶ whose fiduciary duty to an employer continued after termination of his employment. The ten customers on the list were all prominent lighting manufacturers and it seems that there was hardly anything of a confidential nature in the

⁴⁵² *Hospital Prods. Ltd. v. United States Surgical Corp.* (1985), 4 I.P.R. 291 at 306-9, [1985] L.R.C. (Comm.) 411 at 416-9 (Austl. H.C.).

⁴⁵³ (1986), 53 O.R. (2d) 11, 9 C.P.R. (3d) 7 (H.C.).

⁴⁵⁴ In case it should be held on appeal that Corona was entitled to damages rather than delivery up of the property, His Lordship calculated that Corona has suffered damages amounting to \$700,000,000.

⁴⁵⁵ (1985), 48 O.R. (2d) 94, 2 C.P.R. (3d) 32 (H.C.).

⁴⁵⁶ (1974), [1974] S.C.R. 592, 40 D.L.R. 371. United Kingdom courts have not recognized that employees' fiduciary duties continue after termination of employment. See R.J. Roberts, *Corporate Opportunity and Confidential Information: Birds of a Feather that Flock Together or Canaeros of a Different Colour* (1977) 28 C.P.R. (2d) 68.

customer list. His Lordship said that Babey's use of the list was pointless because there was no need to take any list. Yet Babey had used the customer list, rather than engaging in general solicitation of the entire marketplace. His Lordship held that this was a breach of the duty owed by an ex-employee to his former employer. This is difficult to follow. Perhaps His Lordship regarded the list as sufficiently informative to give Babey a jump on the competition, but it is difficult to reconcile the decision with the more recent, leading United Kingdom decision in *Faccenda Chicken Ltd. v. Fowler*.⁴⁵⁷ His Lordship ruled that the plaintiff was entitled to damages suffered during a limited period following Babey's dismissal, that being a period of one year which included the first four months of production by Babey's new company. Because during the one year period, the plaintiff's sales to customers on the list would have been reduced because of competition by the new company even if Babey had not used the list, the plaintiff was awarded damages totalling fifty percent of the profit it would have made on sales if it had made the sales that were actually made by the new company to the listed customers during the period. The defendant was also held liable for fifty percent of the plaintiff's foregone profits as a result of the latter having to reduce its prices in order to remain competitive during this period.

B. Negligence

One may be in breach of confidence through negligence.⁴⁵⁸ In *Dickson v. Venue Publishing Ltd.*,⁴⁵⁹ the plaintiff owned the copyright in a photograph and gave a copy to W, solely for the purpose of enabling the latter to decide whether to use the photograph in a certain festival. Without obtaining the plaintiff's consent, W delivered a copy of the photograph to V who published it in his magazine. The judge characterized W's action as negligent and awarded to the plaintiff damages against W in the amount that the plaintiff might otherwise have obtained for the exclusive right to publish the photograph. There is no doubt that W had a duty of care not to allow the photograph to be used for a purpose other than that for which he had received it, but from the meagre facts recited by the learned judge it seems that there was a deliberate breach of an equitable duty of confidence, rather than a negligent breach. The action against V was dismissed, perhaps because V was innocent throughout. Had infringement of copyright been alleged, it appears that V could have been held liable to the plaintiff and that W may also have been liable to the plaintiff, having authorized V's copyright infringement.

⁴⁵⁷ (1986), [1986] F.S.R. 291, [1986] 1 All E.R. 617 (C.A.). This case also gives an excellent summary of employees' duties.

⁴⁵⁸ See *Well-Blundell v. Stephens* (1920), [1920] A.C. 956, [1920] All E.R. 32 (H.L.). As to liability for negligence causing economic loss, see *Muirhead v. Industrial Tank Specialties* (1985), [1985] 3 W.L.R. 933 (C.A.).

⁴⁵⁹ (1985), 4 C.P.R. (3d) 279 (Ont. Prov. Ct.).

C. Civil Remedies

Breaches of confidence are sometimes also breaches of express or implied contract or, depending on the facts, may be treated as conversion of property, negligence, conspiracy or other nominate tortious activity. Where the breach cannot easily be fitted into one of the classic categories, the modern tendency is to regard it as a violation of an equitable obligation.⁴⁶⁰ Irrespective of whether courts proceed upon an equitable or common law theory in granting relief, they no longer consider themselves to be rigidly confined to corresponding equitable or common law remedies.⁴⁶¹ They tend to be more purist in cases of breach of fiduciary duty.⁴⁶² There is, however, a noticeable striving to strike the right balance.⁴⁶³

It may be a breach of confidence to make unauthorized use of an idea.⁴⁶⁴ In *Promotivate Int'l Inc. v. Toronto Star Newspapers Ltd.*,⁴⁶⁵ the plaintiff disclosed to the defendant an idea for a lottery game to promote the circulation of the defendant's newspapers. Mr. Justice Holland held that the parties had not entered into any contract and that the idea was old and of public knowledge as well as incapable of being the subject of an obligation of confidence. However, at the request of the defendant, the plaintiff worked out the numbers of potential prizewinners and the amounts of the prizes, and investigated the availability of machinery and material, and the defendant received the benefit of this in a promotion which it launched. His Lordship concluded that the time the plaintiff spent was worth five thousand dollars and he awarded this with the interest to the plaintiff. He said that a claim for *quantum meruit* or unjust enrichment:

is part of what is now called the doctrine of restitution, which gives a remedy to a plaintiff where it would be unjust to permit a defendant to retain a benefit conferred at the plaintiff's expense. The relationship "is usually . . . marked by two characteristics, first, knowledge of the benefit on the part of the defendant, and secondly, either an express or implied request by the defendant for the benefit, or acquiescence in its performance".⁴⁶⁶

⁴⁶⁰ *Seager v. Copydex Ltd.* (1967), [1967] R.P.C. 349, [1967] 2 All E.R. 415 (C.A.); *Moorgate Tobacco Co. v. Philip Morris Ltd.* (1985), [1985] R.P.C. 219, [1985] L.R.C. (Comm.) 682 (Austl. H.C.).

⁴⁶¹ *Seager v. Copydex Ltd.*, *supra*, note 460; *Habib Bank Ltd. v. Habib Bank AG Zurich* (1980), [1982] R.P.C. 1, [1981] 2 All E.R. 650 (C.A.); *Le Mesurier v. Andrus* (1986), 54 O.R. (2d) 1, 25 D.L.R. (4th) 424 (C.A.).

⁴⁶² See *supra*, note 453. Compare *supra*, note 455.

⁴⁶³ See, e.g., *Lake Mechanical Systs. Corp. v. Crandell Mechanical Systs. Inc.* (1985), 7 C.P.R. (3d) 279, 9 C.C.E.L. 52 (B.C.S.C.); S. Ricketson, *THE LAW OF INTELLECTUAL PROPERTY* (Agingcourt: Carswell, 1984).

⁴⁶⁴ *Fraser v. Thames Television Ltd.* (1983), [1983] Q.B.D. 44, [1983] 2 All E.R. 101.

⁴⁶⁵ (1986), 53 O.R. (2d) 9, 8 C.P.R. (3d) 546 (H.C.).

⁴⁶⁶ *Ibid.* at 12-3, 8 C.P.R. (3d) at 550. See also *Petkus v. Becker* (1980), [1980] 2 S.C.R. 834, 117 D.L.R.(3d) 257; *B.P. Exploration Co. (Libya) v. Hunt (No. 2)* (1979), [1979] 1 W.L.R. 783 (Q.B.).

It has been noted above that damages have been awarded for the estimated period during which a defendant may benefit from his adjudged transgressions.⁴⁶⁷ Similarly, an injunction may be limited in duration to such a period⁴⁶⁸ in the absence of a binding contractual obligation that requires a longer time.⁴⁶⁹

An injunction was granted in *Investors Syndicate Ltd. v. Vanderberg*⁴⁷⁰ even though the defendant argued that to restrain use and disclosure of information was contrary to the fundamental freedoms guaranteed by section 2 of the *Canadian Charter of Rights and Freedoms*.⁴⁷¹ In *Lion Laboratories Ltd. v. Evans*,⁴⁷² a case where publication of confidential information was allowed in the public interest, Lord Justice Stephenson observed:

The duty of confidence, the public interest in maintaining it, is a restriction on the freedom of the press which is recognized by our law, as well as by Art. 10(2) of the *European Convention for the Protection of Human Rights and Fundamental Freedoms*. . . ; the duty to publish, the countervailing interest of the public in being informed of matters which are of real public concern, in an inroad on the privacy of confidential matters.⁴⁷³

D. Criminal Penalties

In *R. v. Stewart*,⁴⁷⁴ a labour union wished to solicit some 600 employees of a large hotel for membership. For this purpose, the union required the names, addresses and telephone numbers of the hotel's employees. This information was regarded by the hotel management as confidential and the management would not have disclosed it to the union. The union approached Stewart, a self-employed consultant, to obtain the information. Stewart persuaded Hart, a security worker at the hotel, to copy surreptitiously the confidential information from the hotel's personnel records without removing or affecting the records themselves.

Though Hart did not accomplish the proposed copying, Stewart was charged under section 422 of the *Criminal Code* (counselling another to commit an offence) with counselling Hart to commit theft. Subsection 283(1) of the *Criminal Code* provides:

⁴⁶⁷ *Genesta Mfg. Ltd. v. Babey*, *supra*, note 455.

⁴⁶⁸ *Creditel of Canada Ltd. v. Boothe* (1986), 6 C.P.R. (3d) 507 (H.C.), where an interim order was obtained; *Chemical Co. v. Plastic Paint & Finish Specialties Ltd.* (1980), 47 C.P.R. (2d) 133 (C.A.), where an injunction was to cease when a trade secret entered the public domain.

⁴⁶⁹ *Peter Pan Mfg. Corp. v. Corsets Silhouette Ltd.* (1963), [1963] R.P.C. 45, [1963] 3 All E.R. 402 (Ch. D.).

⁴⁷⁰ (1986), 10 C.C.E.L. 153, 35 A.C.W.S. (2d) 149 (Ont. H.C.).

⁴⁷¹ Part I of the *Constitution Act, 1982*, being Schedule B of the *Canada Act 1982* (U.K.), 1982, c. 11.

⁴⁷² *Supra*, note 404.

⁴⁷³ *Ibid.* at 422-3.

⁴⁷⁴ *Supra*, note 444. For case comments, see R.G. Hammond, *Theft of Information* (1984) 100 L.R.Q. 252; P.M. Amos, *Copyright: Regina v. Stewart* (1984) 1 I.P.J. 77.

Everyone commits theft who fraudulently and without colour of right takes . . . anything whether animate or inanimate, with intent . . . (d) to deal with it in such a manner that it cannot be restored in the condition in which it was at the time it was taken. . . .

This offence is found in Part VI of the *Criminal Code* entitled “Offences Against Rights of Property”. At trial, Stewart was acquitted by Mr. Justice Krever. His Lordship concluded that the word “anything” in the above section does not include confidential information, but that what is taken must be capable of being “property”. The *Code* in section 2 defines “property” as including: “[R]eal and personal property of every description and deeds or instruments relating to or evidencing the title or right to property, or giving a right to receive money or goods.”

On appeal, it was conceded that there would have been theft if something tangible such as record cards or computer printouts had been taken, and it was argued that the physical form (Marshall McLuhan’s medium) is secondary in value to the information recorded (the message) and that “anything”⁴⁷⁵ in subsection 283(1) should be given an expanded meaning. Mr. Justice Lacourciere agreed with Mr. Justice Krever that what is stolen must be “property”, whether corporeal or incorporeal. He concluded that confidential information cannot be property in the normal sense of the word. He noted that there is an ongoing controversy in the civil context as to whether actions for breach of confidence are based on property in the information. However, he said it was clear to him that civil protection in English and Canadian courts arises from obligations of good faith or fiduciary relationships. He also noted that in *Oxford v. Moss*,⁴⁷⁶ it was held by the United Kingdom Divisional Court that confidential information did not fall within the meaning of “intangible property” under the United Kingdom *Theft Act 1968*.⁴⁷⁷

However, the majority in the Court of Appeal, Mr. Justice Houlden and Mr. Justice Cory, held that, accepting that the item stolen must be property, confidential information should be regarded as property and hence be entitled to the protection of the criminal law. They considered that anything that is property for purposes of the civil law is also property for purposes of the criminal law. They found numerous references to property in United Kingdom and American decisions in civil suits for breach of confidence. They also held that, although the hotel was not deprived of possession of the information, its character of confidentiality would have been gone, so that there was an intention to deal with the information in such a manner that it could not be restored in the condition in which it was at the time it was taken (within the meaning of paragraph (d) of subsection 283(1) quoted above).

Mr. Justice Houlden and Mr. Justice Cory also held that the accused was guilty of counselling the commission of fraud. Subsection 338(1) of the *Criminal Code* provides:

⁴⁷⁵ R.S.C. 1970, c. C-34, as am. Bill C-18, *Criminal Law Amendment Act, 1985*, 1st Sess., 33d Parl., 1984-85 (assented to 20 June 1985) [c. 19], cl. 61.

⁴⁷⁶ (1978), 68 Cr. App. R. 183.

⁴⁷⁷ (U.K.), 1968, c. 60.

Everyone who, by deceit, falsehood or other fraudulent means . . . defrauds . . . any person . . . of any property, money or valuable security, is guilty of an indictable offence.⁴⁷⁸

Their Lordships held that if information is "property" for the purposes of theft under section 283, it is also property for the purposes of fraud under section 338.

With respect to the characterization of confidential information as property, the reasoning of Mr. Justice Krever and Mr. Justice Lacourcière is to be preferred. This was the view of the Alberta Court of Appeal in the recent case of *R. v. Offley*.⁴⁷⁹ Rights in confidential information are rights *inter partes*, not rights *in rem*. It may be socially desirable to make it a crime to avail oneself in certain ways of the confidential information of another. However, there is serious doubt that the sections of the *Code*, to which reference has been made, should be construed to accomplish this, if it is necessary to characterize confidential information as property without clear statutory direction. Mr. Justice Lacourcière pointed out that a Bill introduced in the Canadian Parliament proposed to extend the definition of "property" in section 2 of the *Criminal Code* to include, expressly, computer data and software.⁴⁸⁰

Mr. Justice Lacourcière also noted that counselling the surreptitious copying of confidential information may in some circumstances constitute an offence of counselling a criminal breach of trust under section 296 of the *Criminal Code*. But the accused had not been charged with this. He had been charged at the trial with the offence of counselling mischief to the private property of the hotel.⁴⁸¹ However, Mr. Justice Krever acquitted him and no appeal was taken on this count. The Crown had made it clear that, as to this count, the property on which the Crown relied was the physical premises of the hotel.

The case went back to Mr. Justice Krever for sentencing and His Lordship, in his discretion, gave Stewart an absolute discharge. Stewart had no previous convictions, the offences that he counselled were not in fact committed and there had been no previous Canadian court decision holding that the circumstances proved in this case amounted to the offences of which he had been convicted.

⁴⁷⁸ R.S.C. 1970, c. C-34, as am. S.C. 1974-75-76, c. 93, s. 32.

⁴⁷⁹ (1986), 11 C.P.R. (3d) 231, 45 Alta. L.R. (2d) 23. For further discussion of "property" in intangibles, see R.G. Hammond, *Quantum Physics: Econometric Models and Property Rights to Information* (1981) 27 MCGILL L.J. 47; W.L. Hayhurst, *Legal Protection of Industrial Property* [1983] PROC. CAN. TAX FOUNDATION 800. See also the leading case of *Boardman v. Phipps* (1966), [1967] 2 A.C. 46, [1966] 3 All E.R. 721 (H.L.).

⁴⁸⁰ Now see Bill C-18, *Criminal Law Amendment Act, 1985*, 1st Sess., 33d Parl., 1984-85 (assented to 20 June 1985) [c. 19], cl. 46, 58, amending R.S.C. 1970, c. C-34, ss. 301.2, 387.

⁴⁸¹ (1984), 45 O.R. (2d) 185 (H.C.).

