

ENFORCEMENT OF LICENCE AGREEMENTS

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While preparing this presentation on the enforcement of licence agreements, I realized that the vastness of the subject could justify different approaches.

The subject could be studied by reviewing the content of licensing agreements; it could also be studied by taking note of various statutes affecting the licensee's capacity to enforce his or her own rights under the licence agreement. I decided to take the latter road and remain in a single lane and concentrate on a particular point, that is the legislative setting regulating a licensee's standing to sue an infringer under three specific laws in the field of intellectual property, namely the Copyright Act, the Patent Act and the Trade-Marks Act.

The word "licence" has very ancient origins; in its primitive sense, it means a leave, a permission or the liberty to do something. For example, the Shorter Oxford English Dictionary on Historical Principles indicates that medieval English attributed to the word licence the meaning of "a formal permission from a constituted authority to do something, e.g. to marry, preach, carry on some trade".

Fastforwarding to today, one realizes that the word "licence" retains the idea of a special permission or authorization.

To quote one source, The Dictionary of Canadian Law (Toronto, Carswell, 1991) has the following definition for the term:

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"The permission given to do something which would otherwise be unlawful."

In Canada, in the field of intellectual property, the Copyright Act, the Trade-Marks Act and the Patent Act, through mechanisms of their own, grant monopolistic rights in certain cases to individuals or moral entities over the result of a creative effort, a trade-mark or an invention. These monopolies can be voluntarily broken by the individual or entity to whom these rights have been recognized by the granting of a licence affecting one or more of the rights flowing from the element of intellectual property so protected. This presentation will deal with the enforcement of licensing agreements and rights granted thereunder. Who may sue? Who may be sued? And more specifically, does a licensee have a standing to sue an infringer in the context of a licensing agreement covering material protected by copyright, a patent or a trade-mark? This presentation will attempt to answer these questions.

COPYRIGHT

Firstly, I will concentrate on the question of a licensee's standing to sue an infringer under the Copyright Act. As the relationship between a licensee and an infringer of the right granted to the licensee is obviously not to be settled by a review of the Law of Contracts, reference must be made to the Copyright Act to locate or identify a licensee's sanctionable right. To quote Mr. Justice Dubé in Jeffrey Rogers Knitwear Productions Ltd. v. B.D. International Style Collections Ltd., 19 C.P.R. (3d) 217:

"The rights and obligations of persons regarding the field of copyright are to be found exclusively in the Copyright Act and are defined and limited by the boundaries of that Act."

The owner of copyright in a work possesses the exclusive rights enumerated at Section 3 of the Copyright Act, R.C.S. 1985, c. C-42, including the right to authorize the acts enumerated therein; a licensing agreement between the owner of copyright in a work and a licensee may therefore concern one or more of the exclusive rights of Section 3 in relation with the protected work (for example, the right of reproduction of a book protected by copyright).

The question of the standing to sue of a licensee in the case of infringement of the right or rights granted under such licence has not definitely been settled by Canadian Courts.

Section 36 of the Copyright Act deals with the question of a party's standing to sue under the Copyright Act. It provides that the author or the owner of

any right, title or interest in the copyright may institute legal proceedings individually for the protection of his individual right without joining other parties. More specifically, it states:

"36. The author or other owner of any copyright or any person or persons deriving any right, title or interest by assignment or grant in writing from any author or other owner may each, individually for himself, in his own name as party to a suit, action or proceeding, protect and enforce such rights as he may hold, and to the extent of his right, title and interest is entitled to the remedies provided by this Act."

It would appear that Section 36 was enacted in order to clarify the standing to sue of assignees in the case of partial assignments.

In 1931, before the House of Commons, Canada's Secretary of State Mr. Cahan explained in the following terms the introduction of Section 36 of the Copyright Act:

"Separate rights have grown up under the Copyright Act. There is the performing right, there is the producing right by mechanical instrument, there is the broadcasting right, and under the law as it now stands there is doubt as to whether or not the plaintiff, who has the performing right which he desires to enforce, must necessarily join the author or the owner of the copyright as a party to the suit. This section provides that the author or the owner of any right, title or interest whatsoever may sue in the courts individually for the protection of his individual right without joining other parties."

(House of Commons - Debates, Second Session, 17 Parliament, Vol. III (1931.06.08), at p. 2417)

Section 36 therefore provides a standing to sue to four categories of persons who may alone claim on the basis of their distinct rights:

- i) the author;
- ii) the owner of copyright;
- iii) a person or persons deriving any right, title or interest by assignment in writing;
- iv) a person or persons deriving any right, title or interest by grant in writing.

Of course, licensor and licensee are not specifically identified at Section 36 of the Copyright Act. However, all 4 categories mentioned (either alone or in combination with others, in certain cases) may cover the situation of the licensor. For example, a licensor may be the author and the owner of copyright, simply the owner of copyright, a person deriving a right by assignment in writing or a person deriving a right by grant in writing. He may not however simply be the author of a work (yet the author to the extent of his right, is still entitled to deal with his moral rights). A licensor's standing to sue (as owner) may be shared with the author of the work. Therefore, when the "author" and the "owner of any copyright" are not the same person, each will be able to protect and enforce his rights in his own name, separately.

Before appraising a licensee's standing to sue, let us recall that case law distinguishes three types of licenses: a mere or (ordinary) license, a sole license and an exclusive license. On these differences, Lord Denning made the following comments in Murray (H.M. Inspector of Taxes) v. Imperial Chemical Industries Ltd. (1967), 44 T.C. 175 (C.A.) at p. 211:

"An ordinary "licence" is a permission to the licensee to do something which would otherwise be unlawful. It leaves the licensor at liberty to do it himself and to grant licences to other persons also. A "sole licence" is a permission to the licensee to do it, and no-one else, save that it leaves the licensor himself at liberty to do it. An "exclusive licence" is a permission which is exclusive to the licensee, so that even the licensor himself is excluded as well as anyone else".

As copyright in a work may be jointly owned, caution should be exercised by a joint owner before granting a licence. Indeed, the question can be asked: can a joint owner of copyright licence the work without the other joint owner's consent? As put by Millett J. in Mail Newspapers Plc v. Express Newspapers Plc (1986), (1987) 13 F.S.R. 90 (Ch.D.) at p. 93: "it is settled law that one joint owner cannot grant an exclusive licence without the consent of the other owner or owners. Even if it were possible for one co-owner to grant a licence without the consent of the others, such a licence could not possibly be an exclusive licence, since he would not be able, without the consent of the others, to exclude the others or their licensees".

However, a joint owner can sue for infringement of copyright without obtaining the consent of his co-owner; but then he can recover monetary relief only to the extent of his interest.

And now a few thoughts concerning the licensee, the person or entity who has been authorized to realize one or more of the exclusive acts listed at Section 3 of the Copyright Act in relation to a work protected by copyright.

From a reading of Section 13(4) of the Act, which recognizes the validity of a grant of interest in a right, done by way of a written license, one can suppose that a grantee under Section 36 could also include a licensee.

Pursuant to Section 13(4), copyright may be assigned in whole or in part, generally or subject to territorial limitations, and for the whole of its term or just a part thereof. Moreover, the copyright owner may grant an interest in his copyright by entering into a licence agreement rather than proceed by way of assignment. The distinction between a licence and an assignment can be compared with that of a lease and a sale.

It appears that a licence creates a personal obligation rather than an interest in the thing. A licence does not mean the transfer of any property right. As put by FOX (Harold George), The Canadian Law of Copyright and Industrial Designs: "a licence does not confirm a right. A licence prevents that from being unlawful which, but for a licence, would be unlawful; it is a consent by an owner of a right that an other person should commit an act which, but for a licence would be an infringement of the right of the person who gives the licence". Can a licensee derive any right, title or interest, thus giving it a standing to sue? One must not look to the courts for a definite answer to these questions. Courts in Canada have generally avoided to answer this theoretical question, preferring to decide the case on its own factual merit, referring to assignments rather than licences.

In support of the standing of a licensee to sue, reference is often made to the Trial Division decision in Asthon-Potter Ltd. v. White Rose Nurseries Ltd., an appeal of which was however allowed by the Appeal Division of the Federal Court.

In this action, before the Trial Division, upon the motion of defendant to strike the statement of claim as disclosing no cause of action, the Trial Division gave standing to sue to the plaintiff, as a licensee of the copyright owner.

In its statement of claim, plaintiff had alleged its position as licensee flowing from a licence agreement with 2 companies from Switzerland and alleged that it had acquired from the licensors the right to reproduce in Canada on behalf of customers of the Plaintiff certain coloured prints of flowers, bushes and shrubs.

In order to ascertain the rights of the plaintiff, the Court reviewed the Licence Agreement which contained, among others, the following clauses:

"1. The licensor hereby grants to the licensee the right to reproduce the printing material furnished by the licensor for

printing processes and to distribute coloured seed bags, labels, catalogues and sales promotion material made by the use of such reproduced originals. The copyright shall remain property of the licensor". (...)

"3. The licensor hereby undertakes not to grant any licence for his designs to any other company within the country of Canada".

"4. The licensor undertakes not to send, during the term of this agreement, any empty seed bags, printed with his designs, into the country of Canada".

Without deciding whether the contract was a mere, sole or exclusive license agreement, Mr. Justice Kerr concluded at p. 695 that Section 36 (then Section 20(5)) was "... broad enough to include a right and interest in a copyright acquired by a licensee by an agreement such as the licensing agreement here under consideration". On appeal, the defendant, attacking the licensee's standing to sue, pleaded that the plaintiff as alleged exclusive licensee of foreign companies, did not mention in his statement of claim the licensors' rights. The defendant stated, inter alia, that plaintiff omitted to allege in its statement of claim that copyrights subsisted in Canada in the named work and made no reference to the owner of copyright. The defendant further pleaded that, at Common Law, even an exclusive licensee has no interest in title in property, such as copyright, so that he may not sue others. The appeal was allowed and Mr. Justice Jackett of the Federal Court of Appeal stated:

"Unless the respondent amends his statement of claim so as to plead the facts upon which the rights of the licensors are based, the statement of claim shall be struck out and the action stand dismissed without further order."

Eventually, the licensee filed an amended statement of claim but the whole matter was settled before going to trial.

As it may be considered that Mr. Justice Kerr's decision was overturned on more than a mere procedural point, that is, absence of reference to the licensor's rights, caution should be exercised in finding that Mr. Justice Kerr's decision, which was not left undisturbed, gave standing to sue to a licensee and finally settled the matter.

In another case, Les dictionnaires Robert Canada SCC et al. v. Librairie du Nomade Inc., one of the two plaintiffs involved was the exclusive distributor in Canada of literary works whose copyright rested with the second plaintiff. The Court granted an injunction and damages to both plaintiffs for copyright

infringement, without ever questioning the distributor's capacity to sue or his right as distributor, to obtain damages and an injunction under the Copyright Act (of course, a distributor may have other recourses at Common Law or under the Civil Code of Lower Canada). Despite this isolated decision, it has been decided that agents acting on behalf of copyright owners do not have a standing to sue, even if they have a strong business interest.

Despite the clear drafting of Section 36, there seems to be a reluctance of the part of the Courts to recognize that licensees have a standing to sue. The rationale behind this reluctance might be the concern of protecting alleged infringers from successive law suits.

A review of case law indicates that courts have been more comfortable in recognizing as assignments, either total or partial any authorization given by the copyright owner to realize one or more of the acts enumerated at Section 3 of the Copyright Act. This situation of hesitation can be attributed to the drafting of Sections 13 and 36 of the Copyright Act; it is the type of drafting that led Mr. Justice Kerr to simply state that Section 36 was broad enough to cover a licensing agreement.

Though these Sections of the Copyright Act might be seen as giving a standing to sue to a licensee - and it has even been argue by certain authors that they can indeed give a standing to sue - this question has not been definitely settled by Canadian Courts.

PATENTS

Let us now turn our attention to a patent licensee.

A patent of invention could be defined as a temporary title of property delivered by government authority to an inventor, or his representative, on a technology developed by this inventor and which presents the particularity of being useful, new and original in view of what exists in the field. i.e. the prior art.

Once issued, this title of property gives to its owner an exclusive right to exploit this technology in the country where the patent is issued. By exclusive right, is meant the exclusive right to manufacture, sell, use and even import.

Canada's Patent Act provides the legal framework within which patents are granted. Of course, the Patent Act does not contain any prohibition relating to licences and it is abundantly clear that a patentee may grant either an exclusive or a non-exclusive licence to use the patented invention. To quote Mr. Justice Jackett:

"There is no express provision under which the patentee may grant a licence, but this must be inherent in ownership of the patent".

This presentation will deal solely with contractual licences and not compulsory licences granted in special circumstances which are described at Section 66 of the Patent Act. More particularly, I will concentrate upon a licensee's standing to sue in light of recent jurisprudential developments.

By decision dated December 21, 1992, the Federal Court of Appeal in Signalisation de Montréal Inc. v. Les Services de Béton Universels Ltée has considerably enlarged the pool of "persons claiming under the patentee" under Subsection 55(1) of the Patent Act. This Subsection states among other things that: "Any person who infringes a patent is liable to the patentee and to all persons claiming under the patentee for all damages sustained by the patentee or by any such person, after the grant of the patent, by reasons of the infringement".

It is worth noting the extent to which this pool has been enlarged over the years, following the adoption of Section 55(1) of the Patent Act in 1935.

Before the adoption of Subsection 55(1), a plaintiff's standing to sue for infringement under the Patent Act was limited by a very narrow door: indeed, the Patent Act (as it stood until 1935) provided that an infringer was liable to the patentee or his legal representatives in an action for damages. The notion of legal representative was defined in a non-exhaustive manner.

Prior to the 1935 amendment, which introduced Subsection 55(1), the Supreme Court of Canada, in Electric Chain Co. of Canada Ltd. v. Art Metal Works Inc. et al. confirmed that a licensee did not have a standing to sue in an infringement action.

In doing so, the Supreme Court referred to the case of Heap v. Hartley of 1889 which dealt with the standing to sue of an exclusive licensee in the following terms:

"An exclusive licence is only a licence in one sense; that is to say, the true nature of an exclusive licence is this. It is a leave to do a thing, and a contract not to give leave to anybody else to do the same thing. But it confers like any other licence, no interest or property in the thing. (...) It only enables a person to do lawfully what he could not otherwise do, except unlawfully. I think, therefore, that an exclusive licensee has no title whatever to sue."

In 1935, the provision of the Patent Act regarding the patent infringer's liability was modified to read that an infringer is liable to "the patentee and to all persons claiming under him" for all damages sustained by the patentee or by any such person by reason of such infringement. This amendment provided the legislative setting for the Supreme Court of Canada's decision in Spun Rock Wools Limited v. Fiberglass Canada Limited et al.. In this case, a Canadian patent had been delivered to a Dutch company who had granted exclusive licences to intermediate parties who, in turn, had granted exclusive licences to Fiberglass Canada.

In May 1940, the Dutch company became an enemy under Canada's war time legislation regarding trade and the rights under the patent were transferred to a Custodian under the war time legislation. Fiberglass Canada initiated patent infringement proceedings against Spun Rock Wools and named the Custodian as defendant; during the proceedings, one of the intermediate parties was added as plaintiff. Although it rejected the plaintiffs' claim for lack of invention in the patent relied upon, the Supreme Court confirmed the plaintiff's standing to sue as licensee.

The judicial committee of the Privy Council reversed the Supreme Court's decision as to the validity of the patent and sided with the plaintiff. In doing so, it affirmed that the licensee of a patent is a person claiming under the patentee within the meaning of the Patent Act of Canada and as such is entitled under the section to sue for damages for infringement. Thus, in Lord Justice Simonds' words:

"But it appears that the statutory amendment of 1935 following on the decision of Electric Chain Co. of Canada, Ltd. v. Art Metal Works Inc. points irresistibly to the conclusion that licensees are persons claiming under the patentee within the meaning of the section. The patentee by definition means the person for the time being entitled to the benefit of a patent. Section 55, sub-s. 1, contemplates an action not only by the person for the time being entitled to the benefit of a patent but also by any person claiming under that person. On the plain language of the section a licensee answers that description. The appellants as licensees were therefore entitled to sue for damages under s. 55."

Thus, the amendment of 1935 and its subsequent application by the Courts enlarged the narrow door and recognized an infringer's liability for damage suffered by a licensee in the case of a patent infringement.

In the 1972 case of American Cyanamid Company v. Novopharm Limited (1972) F.C. 739 (F.C.A.), the Federal Court of Canada pushed the door open

even further when it decided that a non-exclusive licensee of a patent is a person claiming under the patentee within the meaning of Subsection 55(1) of the Patent Act.

In that case, American Cyanamid initiated a suit against Novopharm alleging that the latter had infringed a patent which was granted and owned by Bristol Meyers Company. American Cyanamid alleged that it was a non-exclusive licensee under certain claims of the patent. Granting a motion presented by Novopharm seeking an order striking out the statement of claim, Mr. Justice Noel A.C.J. held that a non-exclusive licensee could not claim damages for infringement of a patent and had therefore no standing to sue.

American Cyanamid appealed to the Federal Court of Appeal which expressed a contrary view. Referring to the Fiberglass Canada case, Mr. Justice Bastin stated that neither the judges of the Supreme Court, nor the member of the Privy Council who gave the Privy Council judgement in that case made any distinction between an exclusive and a bare licensee. Mr. Justice Bastin also considered it worth mentioning that Parliament when changing the law in 1935 used general and comprehensive words that did not make any distinction between an exclusive licensee and a bare licensee. In his view, a non-exclusive licensee is a person claiming under the patentee as the permission he receives from the latter (whether labelled a right, a privilege or a benefit) is derived from the patentee.

Mr. Justice Sweet concurred, finding that the words "all persons claiming under him" must necessarily include every type or every kind of licensee, whether exclusive or non-exclusive. In his view, by the amendment of 1935, Parliament created by statute a right of action for the licensee against an infringer for damages suffered by the former: He noted that:

"There is no differentiation between the liability of the infringer to the patentee and to persons claiming under him nor is there any differentiation between the nature of the rights the patentee and the persons claiming under him have against the person infringing."

Mr. Justice Sweet concluded that it was Parliament's intention to create a right for a non-exclusive licensee to recover from a patent infringer, in respect of any matter relevant to his licence, damages and compensation for the licensee's loss by reason of the infringer's action. In short, an infringer is liable to a non-exclusive licensee for damages caused by such infringement.

The reasoning of the Federal Court of Appeal in American Cyanamid was confirmed by the Supreme Court of Canada in Armstrong Cork Canada Limited v. Domco Industries Limited.

It might be said that the recent decision of the Federal Court of Appeal in Signalisation de Montréal Inc. has now knocked the door off its hinges in determining who is a person claiming under the patentee under Section 55(1) of the Patent Act. This split decision permitted the Court to review several questions raised by the application of said Subsection 55(1) of the Patent Act, namely 1) who can be called a licensee and 2) under what rationale may a licensee sue an infringer.

In this case, plaintiff Signalisation de Montréal Inc. ("Signalisation") commenced legal proceedings by way of a statement of claim alleging infringement of its patent rights by defendant Les Services de Béton Universels Ltée. Interlocutory injunctive relief was sought by the plaintiff. Defendant Béton Universels immediately presented a motion under Rule 419 of the Federal Court Rules to obtain an order striking out the statement of claim arguing that plaintiff could not claim the relief sought as it was not the patentee nor a person claiming under the patentee.

Plaintiff Signalisation was not the owner of the patent which was the subject of these proceedings. The patent was held in the name of Energy Absorbtion Systems Inc. who was named as a defendant. The owner of the patent had granted a license covering the United States and Canada to Barrier Systems Inc. The specific claims which were allegedly infringed covered a method of transferring transferable roadway line dividers from one side of the roadway to the other in order to permit a rapid change of the direction of vehicle flow in high density traffic areas.

Licensee Barrier entered into an agreement with plaintiff Signalisation whereby Barrier appointed Signalisation as exclusive representative of its products in a certain Territory.

Plaintiff Signalisation had acquired an apparatus known as lane dividers from Barrier and had been making use of it and of the patented method while carrying on its business.

The motion judge, Mr. Justice Rouleau, allowed the defendant's motion and struck out plaintiff's statement of claim indicating that: "...there is no doubt that the plaintiff has a "right" or "license" to use the equipment as he sees fit, this corollary does not confer on it any "rights" under the patent. He concluded that the plaintiff is no more than an exclusive representative of Barrier, the manufacturer of the equipment, in the territory of Ontario and Quebec and it had, in fact, no capacity to seek injunctive relief."

On appeal, Mr. Justice Hugessen, supported by Mr. Justice Létourneau, overturned the motion judge's decision. In doing so, it provided its own set of answers to the questions previously put forth: Mr. Justice Hugessen indicated that the purchaser of a patented product acquires the right to use and the right to sell the product in question, this right having been described as a license as early as 1871 by Lord Hatherly in Betts v. Willmott. Furthermore, Mr. Justice Hugessen restated the principle that the licensee is a person "claiming under" the patentee and is entitled to sue for infringement.

Thereafter, Mr. Justice Hugessen bridged together these two principles and wrote: "... if I purchase a patented monkey wrench from a hardware store which has acquired it from a wholesaler which has obtained it from a distributor who got it from a manufacturer who holds a licence from the patentee, an infringement action by the latter against me will fail, not because I have infringed but am protected from the claim asserted against me, but rather because I have a right to use the thing which I have bought, a right that can be asserted not only against the patentee but against the world at large and which prevents me from being an infringer. Just like any other licensee, I am a person "claiming under" the patentee and that claim avails as much against the latter as against anyone else."

Finally, Mr. Justice Hugessen stated that the plaintiff was clearly a person covered by Subsection 55(1) of the Patent Act: "In his view, a person "claiming under" the patentee is a person who derives his rights to use the patented invention, at whatever degree, from the patentee. The right to use an invention is one the monopoly to which is conferred by a patent. When a breach of that right is asserted by a person who can trace his title in a direct line back to the patentee that person is "claiming under" the patentee. It matters not by what technical means the acquisition of the right to use may have taken place. It may be a straightforward assignment or a licence. It may, as I have indicated, be a sale of an article embodying the invention. It may also be a lease thereof. What matters is that the claimant asserts a right in the monopoly and that the source of that right may be traced back to the patentee. That is the case with the appellant here." Although Mr. Justice Hugessen overturned the motion judge's decision, he nonetheless refused the interlocutory injunctive relief which was requested by plaintiff.

In a strong dissent, Mr. Justice Décary took issue with the fact that the purchaser of a patented product becomes by implication a licensee under the patent and thus, a person claiming under the patentee in accordance with Subsection 55(1) of the Patent Act; of course, he did not have any qualms with the fact that there is indeed an "implied license" or "implied warranty" (a preferable expression in Mr. Justice Décary's eyes) granted to the owner and user of a patented product to use it without infringing the patent.

In his words, "this implied warranty derives from the contract of sale by which the inventor, the assignee or the licensee and the purchaser are bound, and it attaches to the product sold". However, this warranty on use which is attached to the product is not an implied license under the patent which would be attached to the patent itself.

Distinguishing the Armstrong case, Mr. Justice Décary pointed out that the license then at issue was granted by the patentee and conferred an interest in both patent and product. Mr. Justice Décary refused to extend the right afforded by Subsection 55(1) of the Patent Act to the simple purchaser and user of a patented product who does not have a mandate from the inventor, assignee or licensee. To accept the contrary view, in Mr. Justice Décary's opinion, would be "to interpret Subsection 55(1) of the Act as if the words "claiming under the patentee" did not appear, and as if it were sufficient for damages to have been incurred as a result of the infringement of a patent in order for the injured party to have a remedy under that subsection".

This split decision presents two very different outlooks: the majority judges favoured an all-embracing notion of a licensee and relied heavily on the Armstrong case where Subsection 55(1) of the Patent Act was seen as permitting any licensee to claim for damages sustained in consequence of an infringement of a patent. The dissenting judge interpreted the term "license" as meaning more than the simple right to use as its owner a patented product; he therefore found that although licensees are covered by Subsection 55(1) of the Patent Act, the simple purchaser and user of a patented product is not a person claiming under the patentee within the meaning of this Subsection.

The net result of this decision is to give any purchaser of a patented article a standing to sue against any infringer for damages suffered by this purchaser as the result of the infringement. Of course, one may wonder what these damages may be. One may envision the situation where the purchaser of a patented article has been promised an exclusive use of the product in a certain territory; damages may be suffered by that purchaser should someone be using an infringing product in the same territory. Finally, another consequence of this decision is to postpone the decision regarding the sanction of a purchaser's right from the motion to strike under Rule 419 stage to the final disposition of the matter, as it appears that the standing to sue issue does seem settled.

TRADE-MARKS

And now a few comments regarding the law of trade-marks. As the law presently stands in Canada, any licensing agreement which authorizes a

licensee to use a licensor's trade-mark implies the recordal of the former as the registered user of the latter's trade-mark which implies, of course, that the relevant trade-mark is either pending or registered with the Canadian Trade-Marks Office.

Courts have reminded us that Section 50 of the Trade-Marks Act must be strictly complied with in order to reserve the distinctive character of a trade-mark.

In addition to preserving the distinctive character of a trade-mark, the provisions relating to registered users offer other advantages to the licensor and its licensee: ordinarily, the only person entitled to initiate proceedings for infringement of a right is the owner of that right. However, under Subsection 50(4) of the Trade-Marks Act, a registered user may institute proceedings for infringement in his own name as if he were the owner. The registered user may follow this path as long as he has called on the owner thereof to initiate proceedings for infringement and the owner has refused or neglected to do so within the two months after being so called upon. Of course, should the registered user initiate proceedings in his own name, the owner must be named as a defendant. However, Section 50 does not impose any obligation against the registered user to initiate any infringement proceedings. It is to be noted however that the right for a registered user to initiate proceedings for infringement are subject to any agreement that has been concluded between the parties, that is between the owner and its licensee. Thus, in their agreement, the licensor and its licensee may agree in advance on the party who will be initiating infringement proceedings, if need be.

In order that a trade-mark licensee be able to initiate infringement proceedings, that licensee must have been recorded as registered user of the licensed trade-mark.

Could such a licensee recorded as registered user initiate infringement proceedings on his own, without following the procedure set out at Subsection 50(4)?

Jurisprudence is divided on the question. For example, Mr. Justice Cattanach commented on the matter in S.C. Johnson & Son, Ltd. v. Marketing International Ltd. (1977) 32 C.P.R. (2d) 25 where two plaintiffs, a trade-mark owner and its registered owner were both suing for trade-mark infringement. The Honourable judge had this to say regarding the capacity for the registered user to be joined as plaintiff with the trade-mark owner at p. 29 of his decision:

"Obviously, rights are conferred upon the registered user by the registered owner. These rights arise by virtue of the agreement

between them, but a registered user may also be sorely aggrieved by an infringing use by others.

In that event, s. 49(4) of the Trade Marks Act provides that the registered user may call upon the registered owner to take proceedings for infringement. If the owner refuses or neglects to do so within two months of being called upon to do so, then, and in my opinion only then, may the registered user institute proceedings in his own name as if he were the owner but the owner must be named as a defendant in the proceedings and is not liable for costs unless he takes part in the proceedings. In my opinion, s. 49(4) makes it abundantly clear that the only circumstances where a registered user may sue in his own name for infringement is when the procedure outlined in the section has first been complied with.

This did not happen in the present instance. The owner and the registered user are joint plaintiffs and for the reasons expressed the Canadian plaintiff, being a registered user, is improperly joined."

Of course, caution should be exercised if relying on this decision as it was overturned, although for other reasons, by the Federal Court of Appeal, who concluded that there had been no infringement. This decision of the Federal Court of Appeal was confirmed by the Supreme Court of Canada.

On the other hand, Mrs. Justice Reed came to the opposite conclusion than Mr. Justice Cattanach in Tonka Corp. et al. v. Toronto Sun Publishing Corp. et al., (1990) 35 C.P.R. (3d) 24. In that case, two plaintiffs took action for trade-mark infringement; the first was the registered owner of the mark while the second was its registered owner. The defendant applied for an order striking out from the action the plaintiff, registered user of the mark on the ground that the registered user does not have the right to institute an action as plaintiff for trade-mark infringement.

Mrs. Justice Reed dismissed the motion for the following reasons:

"I do not read s. 50(4) as setting out an exhaustive description of the circumstances in which a registered user may commence an action for trade mark infringement. In my view s. 50(4) is ancillary to the right of a licensed user to commence an action on its own should it wish to do so. Section 50(4) provides that a licensed user may call on an owner to commence an action and if the owner does not, may add the owner as a defendant. But the subsection does not say that this is the only remedy open to a

licensed user. The provision does not say that a licensed user may only commence action on its own after it has first sought to have the owner commence the action and the owner has refused.

On reading the Trade Marks Act as a whole, one finds that it is remarkably silent as to who can sue and under what circumstances. Section 57(1) provides that "any person interested" can seek expungement.

(...) Apart from this provision, however, there is no express provision according even the trade mark owner the right to commence an action. The text of the Act clearly leaves that right to be implied from the terms of the Act; terms which, for example, give the trade mark owner the right to the exclusive use of the mark. In my view, the right of a registered user to commence an action is equally implicit. This flows from provisions such as s-ss. 50(1) to (3) in an analogous fashion to the implicit right to sue which flows from the owner's exclusive right to sue the mark."

It is to be noticed however that an appeal was filed against Mrs. Justice Reed's decision in file A-1051-90.

However, no decision has been rendered to this date.

As we can see, courts have not adopted a definite view on the capacity for a trade-mark licensee as registered user to initiate infringement proceedings without following the scheme of subsection 50(4) of the Trade-Marks Act.

In a recent development, in a decision that sheds new light on the necessity of registering trade-mark licensees, the Trial Division of the Federal Court in Steinberg Inc. v. J.L. Duval Limitée (1992) 44 C.P.R. (3d) 417 (F.C.T.D., Denault J.) has ruled that a trade-mark owner need not register its licensee as registered user in certain cases, if the owner exercises control over the use to prevent deception or confusion of the public.

In this case, J.L. Duval Limitée was the registered owner of the design trade-mark MARCHE EXTRA, whose registration covered the wholesale distribution and sale of food products. Steinberg Inc. had applied for an order expunging the registration pursuant to Section 18(1)(b) of the Trade-Marks Act, on the basis of lack of distinctivity.

Steinberg pleaded that the trade-mark in question was not distinctive of the services provided by Duval as the latter had allowed over 30 licensees (all

retailers) to use its mark without recording them as registered users under Section 50 of the Trade-Marks Act.

In rendering his decision, Mr. Justice Denault indicated that distinctiveness is essential to a trade-mark's strength and must be evaluated in light of the specific facts in each case. Mr. Justice Denault underlined that "distinctive means some quality in the trade-mark which earmarks the goods so marked as distinct from those of other producers of such goods". The Court then proceeded to review the registration in question, noting that it covered "the wholesale distribution and sale of food products"; it then determined whether the mark had been used, either by the owner or others in association with those specific services listed in the registration, that is the wholesale distribution and sale of food products.

The Court reviewed the evidence submitted by the parties and concluded that no other wholesaler of food products had been using the J.L. Duval's registered trade-mark which was held as properly defining Duval's existing rights. In response to the argument that J.L. Duval should have recorded its licensees, all retailers, as registered users of its trade-mark covering wholesale services, Mr. Justice Denault replied that this was not necessary as the retailers did not use J.L. Duval's trade-mark in association with any of the services described in the registration for the design trade-mark MARCHE EXTRA.

From Mr. Justice Denault's comments, one can understand that the provisions of Section 50 of the Trade-Marks Act need not be followed blindly and that an unregistered licensee's use of a trade-mark will not automatically damage said mark's distinctive character. In this case, Mr. Justice Denault declared himself satisfied as to the degree of control exercised by the owner of the trade-mark over its use by its licensees. As indicated by the evidence, Duval was responsible for the installation and maintenance of a sign appearing outside of each of its licensees' premises which displayed J.L. Duval's trade-mark as well as the caption "affiliated to J.L. Duval".

In rejecting Steinberg's application to expunge J.L. Duval's registration, Mr. Justice Denault concluded:

"In my view, a trade mark should not automatically be held to be invalid merely because its owner has permitted its restricted use in association with wares or services not included in the trade mark owner's registration of its mark. In such cases, a more detailed study of the owner's control over the use of its mark and public perception is required."

In light of the recent discussions relating to the eventual abolition of Section 50 of the Trade-Marks Act, Mr. Justice Denault has provided an indication of the steps to be taken by a trade-mark owner who concludes licensing agreements in order to protect the distinctive character of its trade-mark. Without Section 50, the test of distinctiveness would appear to rest on an examination of the type of control exercised by the licensor over its licensees, rather than on a review of entries at the Trade-Marks Office. Without Section 50, it remains to be seen under what rationale trade-mark licensees will or will not be granted the right to sue for trade-mark infringement considering, as stated by Mrs. Justice Reed, that the Trade Marks Act as it now stands is remarkably silent as to who can sue and under what circumstances.

CONCLUSION

Licensing agreements in the field of intellectual property, whether relating to material protected by copyright, patented inventions or trade-marks require more than a review of the law of contracts. As we have seen, various provisions of legislation in each specific area of intellectual property affect the relationship between the parties themselves and vis-à-vis infringers.

This presentation has attempted to answer certain questions regarding a licensee's capacity to sue in relation to certain statutes when definite answers have been provided by the Courts. While this area has not been definitely explore, licensing agreements must be drafted while keeping in mind our courts' latest pronouncements so as to better manage the pitfalls inherent to our clients' activities.

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+ BUSINESS
+ SCIENCE
+ ART

ROBIC + DROIT
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+ SCIENCES
+ ARTS

