

PATENT CASE PERMITS COURT OF APPEAL TO REVIEW NOTION OF LICENSEE

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A recent decision of the Federal Court of Appeal in *Signalisation de Montréal Inc. v. Les Services de Béton Universels Ltée* (F.C.A. A-949-92, A-1222-92, 21 December 1992) has considerably enlarged the pool of "persons claiming under the patentee" under Subsection 55(1) of the *Patent Act* R.C.S. 1985, c. P-4. This Subsection states inter alia: "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 (...)".

This split decision also permitted the Court to review several questions raised by the application of 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* ("Béton Universels"). Interlocutory injunctive relief was sought by the plaintiff. Defendant *Béton Universels* immediately presented a motion under Rule 419 of the *Federal Court Rules*, C.R.C. 1978, c. 663 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 Absorbition Systems Inc.* ("Energy"). The owner of the patent had granted a license covering the United States and Canada to *Barrier Systems Inc.* ("Barrier"). 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.

Mr. Justice Rouleau, the motion judge who heard the defendant's motion, outlined the highlights of the agreement between Energy and Barrier (at (1992) 44 C.P.R. (3d) 1 (F.C.T.D.) at p. 3): "Paragraph II of this agreement entitled "Grants" states at s-s. 2.01 that the patentee/licensor: "... grants the Licensee an exclusive and non-transferable right and license ... of the inventions covered by the Licensor's patents". Under para. X entitled "Assignment", s-s. 10.01 specifically states: "the rights granted to the Licensee pursuant to this Agreement are personal, and licensee shall not assign the benefits of this Agreement or any rights granted or to be granted hereunder without the written consent of the Licensor..." Under para. XI, "Patent Infringement", s-s. 11.01, the licensee agrees to give notice to the licensor of any infringement within the territory."

Licensee Barrier entered into an agreement with plaintiff Signalisation. The essential points of this agreement between plaintiff and Barrier were described in the following manner by Mr. Justice Rouleau: " The plaintiff is referred to as "a representative". In para. II it is stated that "Barrier hereby appoints Representative exclusive representative of the Products in the Territory ... it agrees to promote the products to the customers in the territory. Barrier undertakes not to ship products to other buyers in the territory without prior notification to the representative". Paragraph IV emphasizes that both parties to the agreement are independent contractors and one is not the agent of the other party for any reason whatsoever. Paragraph VII of the agreement prohibits the representative (the plaintiff) from using any trade marks of Barrier and further, that the representative will advise Barrier if any infringement comes to their attention."

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 for the following reasons: "...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. I must conclude 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 has, 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*, (1871) L.R. 6 Ch. 239. Furthermore, Mr. Justice Hugessen restated the principle that the licensee is a person "claiming under" the patentee and is entitled to sue for infringement (referring to *Armstrong Cork Canada Ltd. v. Domco Industries Ltd.*, (1982), (1982) 1 S.C.R. 907, 66 C.P.R. (2d) 46 (S.C.C.) and relying heavily on the following words from Mr. Justice Martland: "A licensee relying on this subsection is not claiming against the infringer for infringement of his rights under the licence, he is claiming for the damage he has sustained in consequence of the infringement of the patent.")

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 my 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 Décaré 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 Décaré'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 Décarý pointed out that the license then at issue was granted by the patentee and conferred an interest in both patent and product. Mr. Justice Décarý 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 Décarý'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.

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