

REGISTRATION OF LICENCE AGREEMENTS UNDER THE *PATENT ACT*: THE SAGA OF A BARBECUE

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A recent judgement rendered by the Quebec Superior Court (3288731 *Canada Inc. vs. Les Poinçons de Waterloo Inc.* No. 460-05-000290-960) and upheld by the Quebec Court of Appeal (No. 500-09-006534-986) on February 26, 2001 has several implications on licence agreements in Canada.

The plaintiff, 3288731 Canada Inc. was seeking a permanent injunction against the defendant, Les Poinçons de Waterloo Inc., which would order them to (i) cease, the manufacture and commercialisation of barbecue grills bearing the trade-marks Bo-Ox, Ecogrill, Kwik-Grill and Kookair and other similar trade-marks, (ii) recall those already delivered to retailers and (iii) cease the sale of and proceed with the destruction of those held in stock. The injunction was sought on the basis that the defendant held no rights in the barbecue devices ("chambre à combustion") that it used in manufacturing the barbecue grills which it commercialised.

In its defence, the defendant invoked the agreement entered into between the defendant and Bo-Ox Systems Corporation ("Bo-Ox") on September 21, 1989 (the "Agreement"), whereby Bo-Ox granted the defendant an exclusive right to manufacture and assemble the Kwik-Grill barbecue using the barbecue devices in question. Bo-Ox was the exclusive licensee of the patents for barbecue devices held, at the time, by Patenventor International Corporation.

Pursuant to the Agreement, the defendant had the right to continue, such manufacture until December 31, 1998. However in 1996, the owner of the patent rights assigned the patent in question to the plaintiff. The plaintiff informed the defendant that it had acquired the patent for the barbecue devices used in the manufacture of the barbecue grills and immediately demanded that the defendant cease its activities relating to the barbecue grills in question, failing which plaintiff would have to institute legal proceedings against the defendant. The defendant disregarded such notice and continued manufacturing the barbecue grills on the basis that it had a valid right to do so up until the expiration of the term of its Agreement with Bo-Ox. These actions originated the proceedings which led to the present judgement.

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The plaintiff argued that any agreement between Bo-Ox and the defendant could not be opposable to the plaintiff since it had not been registered in accordance with sections 50 and 51 of the *Patent Act* of Canada (R.S.C. 1985, c. P-4) (the "*Patent Act*"). Section 50 (2) of the *Patent Act* provides that "every assignment of a patent, and every grant and conveyance of any exclusive right to make and use and to grant to others the right to make and use the invention patented, within and throughout Canada or any part thereof, shall be registered in the Patent Office in the manner determined by the Commissioner". In addition, section 51 of the *Patent Act* creates a sanction for failure to register an assignment. This provision could operate to deprive an earlier assignee of its title in the event that a subsequent assignee registers its interest first. The assignment of the earlier assignee would thereby be rendered void vis-à-vis a subsequent assignee who has registered first.

Justice Daigle examined the Agreement and concluded that the exclusive right to execute and exploit the invention granted to the defendant by Bo-Ox constituted a partial assignment of the interest of the holder of such rights. The Superior Court judge concluded that, as an assignment, the Agreement fell into the category of rights that required registration in accordance with section 50 (2) of the *Patent Act*. Furthermore, in accordance with section 51 of the *Patent Act* lack of registration rendered the Agreement void against the plaintiff, subsequent assignee of the rights provided by the Agreement. He reached this conclusion notwithstanding the fact that the plaintiff had knowledge of the existence of the Agreement between Bo-Ox and the defendant prior to acquiring the rights in the patent. It would therefore appear that if the licence is not registered, notice of such pre-existing licence is not a factor to be considered when deciding whether the right of the prior licensee would be enforceable against a subsequent assignee.

The defendant was therefore ordered to cease the manufacture and sale of the barbecue grills at issue. Justice Daigle did however specify that, had the Agreement in fact been registered, the plaintiff would have had to respect the rights granted to the defendant therein.

It would be reasonable to believe that the reason why registration is required under the *Patent Act* is in order to create constructive notice for subsequent assignees of patent rights. In other words, if a licence or assignment is registered, then the subsequent assignee would be deemed to have knowledge of prior existing rights. However in this particular case, the existence of actual notice (as opposed to deemed notice) was not something that the Superior Court judge took into consideration. Could this lead us to the conclusion that deemed knowledge through registration is more important than actual knowledge. This would appear to be true in the present judgement.

The underlying principle to remember when reading this case is that the plaintiff was a third party to the Agreement and without registration of the defendant's rights, was not bound by its terms. It appears that a licence, being a personal right granted by the licensor to the licensee, creates a personal obligation binding only such two

parties. A subsequent assignee or licensee can not be bound by the terms of such agreement. This is in accordance with article 1440 of the Quebec Civil Code whereby an agreement between two parties is not opposable to a third party unless there exists some specific provision in the law that would allow one of the co-contractors to render its rights opposable to third parties (i.e.: registration of rights in accordance with section 50 and 51 of the *Patent Act*).

This judgement raises several questions and leaves many unanswered regarding the requirement to register licence agreements in Canada. Section 50 (2) states that an assignment and "every grant and conveyance of any exclusive right" must be registered at the Patent Office and implies that an exclusive licence would fall under the category of rights that would require registration. However, although the sanction provided in section 51 encompasses the failure to register "an assignment referred to in section 49 or 50", it does not specifically provide a sanction for the failure to register a "grant and conveyance of any exclusive right". It is therefore unclear whether or not an unregistered exclusive licence would have the same fate as an unregistered assignment. Notwithstanding this fact, the judge in the case at hand concluded that the exclusive right granted to the defendant required registration and applied the sanction of section 51.

Justice Daigle, in arriving at his decision, assimilated the exclusive licence held by Les Poinçons de Waterloo Inc. to a partial assignment. It would be interesting to know whether justice Daigle came to this conclusion due to the particular circumstances of this exclusive licence or whether in the opinion of Justice Daigle section 51 encompasses exclusive licences even though not expressly stated.

Another issue unresolved by this case is how a non-exclusive licensee can ensure that its rights are upheld against a subsequent assignee? Sections 50 and 51 of the *Patent Act* do not address non-exclusive rights conveyed or granted for the use of a patent. It would therefore appear that, under the *Patent Act*, a non-exclusive licensee is not obligated to register its rights. Even if it were to register, section 51 does not seem to provide a non-exclusive licensee with the right to make such licence opposable to a subsequent assignee.

In conclusion, the lack of jurisprudence and unclear legislation on this matter make it difficult to provide definite answers to these and other questions. This judgement confirms that existing legislation is inadequate in attempting to define the rights of assignees or exclusive and especially non-exclusive licensees. This decision does however express the importance of registering assignments and exclusive licence agreements in order to avoid losing such rights to a subsequent assignee.