

# Intellectual Property

Annual IP survey articles published in *Canadian Lawyer Magazine* February 1999

Edward Hore  
Hazzard & Hore  
141 Adelaide Street West, Suite 1002  
Toronto, ON M5H 3L5  
(416) 868-1340  
edhore@ hazzardandhore.com

In copyright, the Copyright Board infights over role of collectives, while Internet providers chafe against royalty payment. There's also the blank tape levy, neighbouring rights, misappropriation of personality and new treaties. On the patent side, the "Harvard mouse" case goes the appeal court while pharmaceutical makers continue their never-ending punch-up over NOC regulations. And, here come the Europeans to challenge "early working" drug provisions.

While sitting in my office late one night writing this article, I got the urge to listen to something mellow by J.S. Bach. A brief Internet search turned up lots of audio sites devoted to Bach. In minutes, Glenn Gould was playing Bach sinfonias over my computer speakers, from a site run by a music professor in Ohio.

Before long, we'll all be able to get any music we want off the Internet immediately, from sites usually outside Canada. No one quite knows how copyright law is going to cope with this (old J.S. may be dead and gone, but lots of other musical content creators are still with us, and presumably want to get paid).

Such questions are keeping the Copyright Board busy. The Board is also dealing with various new rights created by the recent Bill C-32 amendments to the Copyright Act.

## **INTERNAL SQUABBLES AT COPYRIGHT BOARD**

On top of all this, the Board, a panel of three, seems to be at loggerheads internally over fundamental issues such as the proper role of collectives in the copyright system.

The latest decision by the Board at the time of writing includes a strongly-worded dissent by Chairman Michel Héту. The decision deals with proposed Tariff 2.A for Commercial Televisions Stations, a tariff submitted by the Society of Composers, Authors and Publishers of Music of Canada (SOCAN) ([1998] C.B.D. No 1), released in early 1998.

The Copyright Act (s. 70.1) allows certain groups of copyright holders to band together into “collective societies.” Both composers and users (such as broadcasters) will be better off, the thinking goes, if there’s a “blanket license”, whereby the radio station pays so much per year to a collective representing all Canadian composers.

The terms of the license (i.e. how much money changes hands, how often, and how it’s calculated) are the set out in the tariff. The tariff must be submitted to the Board by the collective, and the Board must approve it.

Every year, SOCAN submits a tariff to the Board, known as Tariff 2.A, saying how much in royalties it wants from TV broadcasters that year. Every year, TV broadcasters argue they shouldn’t have to pay as much as the year before.

For the year 1997, the Board agreed with the broadcasters (or two out of three members did, anyway), reducing the fees paid by the broadcaster for a “blanket license” from 2.1 percent of a station’s “gross revenues” to 1.8 percent.

The majority also gave broadcasters something else they wanted: a choice of either a blanket license or a new animal known as a “modified blanket license”.

A Modified Blanket License, or MBL, allows the station to negotiate a direct deal with a composer for a particular production, one rugged individualist to another. Previously, broadcasters had no choice but to buy rights through the collective.

“The market will be allowed to play a stronger role than is currently possible,” the majority wrote, citing the increased pace of competition and the fragmentation of the TV universe into specialty channels.

The majority was also influenced by the fact that American stations pay less (under one percent) for similar licenses. “The introduction of a MBL will give composers more options for remuneration including the option of a continuing to resort to current institutional arrangements. Continuing the current regime imposes on composers a one-size-fits-all approach.”

Chairman Héту strongly disagreed. The reduction in the percentage was “unwarranted, and will have disruptive and dangerous effects,” he thinks. He also argued strongly that the modified blanket license was a fundamental blow to the collective system. “The Board’s mandate is to set fair prices for performing rights, not to rely on the market to do so.”

The approved tariff is set out in the Canada Gazette Part 1, Jan. 31, 1998 (at 179). SOCAN has appealed the decision to the Federal Court of Appeal, according to George Hynna, who represented SOCAN at the hearing. The appeal will be heard this month, February 1999. “The Board’s decision means that composers may be forced to leave SOCAN, due to inequity of bargaining power with broadcasters, and that could gravely damage the collective” comments Hynna.

## **NET PROVIDERS FIGHT TARIFF 22**

Copyright owners are also forcing the Copyright Board to consider the complex issues raised by the Internet. The Internet the subject of lengthy hearing before the Board in mid-1998. No decision has yet been released, as the time of writing.

The issue at the hearing was SOCAN's proposed tariff, Tariff 22, which purports to force Internet service providers (ISPs) to remit money for music content on the Internet (SOCAN's proposed Tariff 22 for 1999 can be found at Canada Gazette Part 1, June 13, 1998, p. 26).

Tariff 22 demands .25 cents [check with writer is this .25 or 25 cents i.e. a quarter??] per subscriber from ISPs that do not earn revenue from advertising, or 3.2 percent of gross revenues or .25 cents per subscriber, whichever is higher, from ISPs that do.

SOCAN argues that ISPs are really in the telecommunication business like cable TV operators. Therefore, says SOCAN, it should collect money from ISPs, just as it does from cable operators and broadcasters. SOCAN also claims that there is no other practical way to collect money for music distribution of copyrighted works on the Internet.

The Internet service providers (ISPs) vigorously oppose this. They say they have no control over or knowledge of what their subscribers are doing. They claim to be common carriers, and therefore exempt from copyright liability under the Act (see s. 2.4 (1)(b)).

According to Mark Hayes, who represented the Canadian Association of Internet Providers (CAIP) at the hearing, Internet service providers can't afford to be burdened with the cost of collecting and remitting copyright fees. "This is an industry with paper-thin margins," he says.

"I have some sympathy for the members of the board in all this," adds Hayes. "These are really complex legal questions. They are having to deal these issues with because the government hasn't got around to passing legislation."

In the U.S., the Digital Millennium Copyright Act was recently passed, which limits to some extent the copyright liability of Internet service providers, but no such legislation has been passed in Canada.

Other industries and players in other countries will be watching the result of the hearing closely, because if ISPs have liability to authors and composers, this opens the door to other rightholders, such as authors of literary works, to collect from ISPs.

According to Ken Thompson of the Canadian Recording Artists Association, "whatever the Board decides will inevitably be appealed to the Federal Court of Appeal."

## **NEIGHBOURING RIGHTS**

Another other issue the Copyright Board is now grappling with is the question of how much neighbouring rights are worth. A neighbouring right is a new right, created by the Bill C-32 amendments (see ss. 15-19 of the Act) in 1997.

Similar rights exist in Europe, but not in the United States. The right gives performers and makers (i.e. producers) a right to equitable remuneration for their performances, including recorded performances communicated by telecommunication.

Previously, only composers and authors (i.e. lyricists), usually represented by music publishers, had a right to file a tariff and get a revenue stream from the use of recording music in broadcasting, movies and so on.

A new collective, the Neighbouring Rights Collective of Canada (NRCC) has now been created, and it has filed proposed tariffs with the Board. These were the subject of a hearing in June, 1998, but there has been no decision yet.

The main issue is how much additional money the NRCC can extract from users such as broadcasters and the motion picture industry, in addition to what the same users already pay SOCAN and other collectives.

## **PRIVATE COPYING**

In early 1999, a hearing before the Board will deal with yet another new issue, private copying, also known as the “blank tape levy.”

This is a new right created by Bill C-32. In short, it is no longer an infringement to create a copy of a musical work for “private use” (s. 80(1)). However, as a quid pro quo, the Act (at s. 82) now provides that manufacturers and importers of “blank audio recording media” are liable to pay a “levy” to an as yet unidentified “collecting body,” meant to compensate copyright owners for otherwise illegal taping.

Various collectives have filed tariffs. The two big players are SOCAN and the new Neighbouring Rights Collective of Canada (NRCC). “Probably, it’ll be SOCAN that will end up being the collecting body,” says Ken Thompson.

There will be hearings at some point in 1999, probably in two phases. The first will grapple with definitional problems, such as what is a “blank audio recording media” (for example, does it include the hard drive of a computer?), and what should the amount of the tariff be (SOCAN proposes .25 cents for each 15 minutes of recording time for analog, and .50 cents for each 15 minutes of recording time for digital media.)

The second part of the hearing will deal with matters such as who the collecting body will be, and how the money will be divided up among the various collectives.

## **GOULD ESTATE CAN’T STOP BOOK**

Speaking of Glenn Gould, his name recently came up in a the context of a different copyright issue. In May, 1998, the Ontario Court of Appeal handed down an important ruling on copyright in photographs, involving the estate of Canadian superstar pianist Glenn Gould.

Stoddard had published a book entitled Glenn Gould: Some portraits of the Artists as a Young Man. The book contained photographs by the late Jock Carroll, a journalist who had interviewed Gould and taken pictures in the spring of 1956 for a feature in Weekend Magazine, where some of the pictures first appeared.

The estate argued the use of the photographs was infringement of copyright, and that using the pictures in the book was a breach of contract, because Gould had allegedly only consented to the one-time use of the pictures in Weekend.

The estate also said the use of the photographs was “misappropriation of personality,” a somewhat nebulous tort on which there’s very little caselaw in Canada. It essentially involves using the likeness of some celebrity to create a misleading impression that a certain product or service is endorsed by that celebrity when it is not.

Ontario General Division Justice Sidney Lederman, focused on the issue of misappropriation of personality, and dismissed the claim. Appeal Justice George Finlayson upheld this ruling, but for different reasons.

It wasn’t “necessary to decide the issues in this case on the basis of the relatively new development in tort of appropriation of personality when this case so clearly sounds in intellectual property,” he said.

Finlayson noted that evidence did not show that there was any restriction placed on the use to which Carroll could put the photographs, so there was no breach of contract.

Under the Copyright Act, s. 13(2), copyright in a photograph “ordered” by someone other than the photographer is owned by the person that ordered it. But here, found Finlayson, “I think it is clear from the facts of this case that in no sense could Gould be said to have commissioned the photograph of himself.”

## **NEW COPYRIGHT TREATIES SIGNED**

In December 1997, Canada signed two new copyright-related treaties, but neither are yet ratified. They are the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performances and Phonograms Treaty.

Canada’s law may eventually have to be changed accordingly. For example, the Performances and Phonograms Treaty calls for a moral right of performers. If you are a famous pianist and someone owned rights to your recorded performance but added, say, Daffy Duck singing along, you could object, saying your moral right to the integrity of

your performance had been interfered. According to Johanne Daniel and Lesley Ellen Harris, who were commissioned by the government to comment on the treaty, there is no such right in the Act now.

The treaties also deal with “Technological Measures” and “Rights Management Information” (WIPO Copyright Treaty, arts. 11 and 12). Copyright owners increasingly use technological means to prevent piracy, such as data encryption, imbedded access codes, and so on.

However, if a vendor markets clever technology that can defeat such measures, this is not at present illegal, because copyright law lacks a workable doctrine of contributory infringement. The treaties impose an obligation on members states to outlaw the deliberate circumvention of technological measures designed to protect copyright. This also would require a change to the Copyright Act.

There is no telling when such changes in the Act may be made. Changing the Copyright Act is a slow and labourious process; the Bill C-32 changes took about ten years.

## **PATENTS**

### **NO PATENTS FOR MICE YET**

The well-known “Harvard Mouse” case will be heard by the Federal Court of Appeal probably in early 1999. As of the date of writing, no date has yet been set, although the parties have filed their written briefs and asked for court dates.

The case concerns the question of the patentability of higher life forms. In April 1998, Justice Marc Nadon of the Federal Court (Trial Division), rejected an appeal from a decision of the Commissioner of Patents (*Harvard College v. Commissioner of Patents* (1998), 79 C.P.R. (3d) 98.

The Commissioner found that an oncomouse, a mouse genetically modified to be susceptible to tumors, was not patentable. The Commissioner had allowed claims for the method of modifying the animal, but took the view, with which the Trial Division agreed, that claims for the animal itself were not permitted.

The concern is not that genetic engineering might create mutants that will take over the earth. Justice Nadon’s decision turns on the basic requirement in patent law that the “invention” be reproducible by others skilled in the art who read the patent specification. The court noted that many features of any given mouse that might emerge from the process are not in control of anyone using the patented process.

Therefore, reasoned Justice Nadon, referring to the well-known *Pioneer Hi-Bred* decision of the Supreme Court of Canada, [1989] 1 S.C.R. 1623 (which found a variety of soybean to be unpatentable), “What will result from the gestation process is infinitely variable and, in its detail, unknown.... In my view the mouse is not reproducible as that term is

understood in the Patent Act because too much is left to luck and chance as was the case in Pioneer Hi-Bred.”

## **NOC REGS GET MAKEOVER**

The Patented Medicines (Notice of Compliance) Regulations, were amended in the spring of 1998, supposedly to reduce the amount of litigation that they create.

The controversial Regulations, first passed in 1993, have led to a vast number of court cases over when generic drugs get on the market. The delays caused by legal wrangling over cheaper generics may be bad for sick people, grandmas, babies and so on, but it’s great for lawyers — the complex procedural issues raised by the litigation are seemingly endless.

The Regulations, in a nutshell, create a kind of alternative system of civil procedure for patent disputes that only applies if the case is about drugs.

If there’s a patent “listed” for the drug a generic manufacturer wants to copy, it must use a “notice of allegation,” to inform an innovator or brand name company that its submission would not infringe any valid patent.

It has to send that notice when it files a mandatory federal health and safety submission (called a Notice of Compliance or NOC). No drug can get onto the market without an NOC.

Once served with a notice of allegation, the brand name company can start a judicial review application. Doing that automatically triggers an injunction preventing approval of an NOC by Health Canada for 24 months, or until a hearing is held.

At the hearing, the judicial review application is either dismissed, or an “order of prohibition” is granted, preventing the Minister from issuing an NOC to the generic product until patent expiry. The proceedings are meant to be “summary,” meaning quick, although in real life, they can take years.

The court actions are not patent infringement actions — so they don’t resolve the actual root patent issue.

The March, 1998 amendments were in fact fairly minor, and are in my opinion unlikely to reduce the amount, or length, of the litigation (I must disclose I represented the generic industry in consultations with the federal government on the amendments).

The length of the automatic injunction was changed from 30 months to 24 months. This, however, is not likely to make much practical difference because, the automatic injunction is in place until the hearing, the date of which depends on such factors as the availability of court dates.

Another change in fact means the litigation may take longer. In various decisions, the generics had won the right to send the notice of allegation to the innovator early, that is before the generic actually filed its regulatory submission at Health Canada. This got the litigation started somewhat sooner. But the amendments specifically removed this right.

Another amendment added a damages section. The new section has not yet been considered by the courts as of the time of writing, but could be significant.

Previously, there was no downside to the innovator commencing litigation and getting the automatic injunction, regardless of the merits, because damages could not be awarded, no matter what. This probably led to abuses.

## **SUPREME COURT CASES**

Not long after the amendments, the Supreme of Canada found for generic companies Apotex and Novopharm in the first cases under the Regulations to go before the top court: *Novopharm and Apotex v. Eli Lilly*, (1998) 227 N.R. 201; *Apotex v. Merck Frosst* (1998) 227 N.R. 299.

The cases involving the drugs nizatidine, an ulcer drug, and norfloxacin, an antibiotic. The facts turned on the interpretation of certain “grandfathered” compulsory licenses (compulsory licenses granted prior to December 1991 remained in force under the 1993 amendments to the Patent Act, which otherwise abolished compulsory licenses.)

In the course of its ruling on norfloxacin, the Supreme Court had to consider a number of procedural issues under the NOC Regulations. Justice Frank Iacobucci pointedly called the Regulations a “draconian regime” aimed at generic drug manufactures, with consequences that may be “manifestly unjust.”

Nevertheless, the Chrétien government may be reluctant to reopen the Pandora’s box of drug patents by reviewing the Regulations yet again.

## **NIFEDIPINE CASE IN ONTARIO C.A.**

In September 1998 the Ontario Court of Appeal dismissed the appeal of generic drug company Apotex from a trial level decision which had found infringement of Bayer’s patent for a formulation for nifedipine, a heart drug (*Bayer Aktiengesellschaft v. Apotex*, Docket C21257, Sept. 25, 1998).

The case started back before the NOC Regulations came into effect. Apotex did have a compulsory license, but stopped paying the license fee in the mid 1980s on the grounds that it was not infringing the patent, and that the patent was invalid as obvious (nifedipine itself was off-patent — the “invention” related to the capsule).

However, both the trial court and the Ontario Court of Appeal construed the claim more broadly, and found Apotex’s product did infringe and that the patent was valid.



The court also granted Bayer's cross-appeal, meaning that the date when the infringing activity was pushed back to an earlier date. At time of writing, Apotex is seeking leave to appeal the case to the Supreme Court of Canada.

## **EU CHALLENGE TO PATENT ACT**

Just prior to deadline for this article, the European Union launched a formal challenge of Canada's so-called "early working" provisions, ss. 55.2 (1) and (2) of the Patent Act.

The dispute involves the interpretation of the TRIPS agreement, an international intellectual property agreement. The case may go before an international panel sometime in late 1999.

The early working provisions allow a party to seek regulatory approval of a product during the life of a patent, even if that act would otherwise constitute infringement.

The European Union does not have such provisions, but the U.S. does, as do other industrialized countries such as Australia and Israel.

The issue will therefore be followed closely by many other countries, especially by developing countries which are now upgrading their patent laws to comply with TRIPS. The Canadian government has stated that it will vigorously defend the EU challenge.