Copyright and Patents

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Copyright

More money for Music-makers

Recent changes to Canada's Copyright Act mean more money for groovy music types. They also mean sweeping new powers for a federal tribunal, the Copyright Board.

In recent years, copyright law has become in some ways very different from patent and trade-mark law. Patent or trade-mark owners are rugged individualists; they enforce their rights themselves. But under copyright law, "collectives" representing certain copyright owners file "tariffs" with the Copyright Board, like a phone company seeking a rate increase.

The Board will become much more powerful as a result of Bill C-32, given royal assent on April 25, 1997. Some but not all of the amendments were proclaimed into force on September 1. Regulations remain to be written.

The changes are intended to bring Canada's copyright law in line with the 1961 Rome Convention, an international treaty that requires signatories to give rights to performers and producers. Most but not all major industrialized countries are signatories (the US being the significant exception).

The amendments are detailed and lengthy (about 98 pages)(for a government summary and the Bill itself see http://www.pch.gc.ca/main/whatsnew/copyright/english.htm.). The changes deal with many aspects of copyright law.

To broadcasters, movie studios and the music recording industry, the most important change is that they will have to pay more to use sound recordings. These new fees will be on top of the tariffs users already pay to "authors" represented by an existing collective, the Society of Composers, Authors, and Music Publishers (SOCAN) which collected about $91 million in 1996.

The Board will decide at hearings how much the new rights are worth, and who pays (but not which individuals get the money, which is decided by the collectives internally).

New collectives, Neighbouring Rights Collective of Canada (NRCC) and Societé de gestion des droits des artistes-musiciens (SOGEDAM) filed a tariff with the Board in the fall of 1997, which will be the subject of hearings sometime in 1998

How much more broadcasters will have to pay for neighbouring rights was a hotly disputed issue at Bill C-32 hearings before a parliamentary committee, the Heritage Committee. Broadcasters said they can't afford to pay more. As a compromise, Bill C-32 provides that small radio stations (defined to be those whose ad revenues are $1.25 million, or less) will pay only a nominal amount, $100. How much bigger radio stations and other broadcasters will have to pay is up to the Board.

The new rights "cannot be licensed or assigned. There's a statutory obligation to pay. The amount will be determined by what the Board thinks is appropriate after hearing from all the lawyers for all the different groups," explains Ken Thompson, counsel to the Canadian Recording Industry Association. Thompson also explains that US recordings are outside the scheme, since the US is not a signatory to the Rome Convention.

Payers do not like the retroactive effect of certain provisions in Bill C-32. "In effect, they're going back and declaring contracts invalid retroactively," comments Susan Peacock, counsel to the Canadian Motion Picture Distributors Association. "It seems to be based on an assumption that any performer or producer must necessarily have been ripped off, which doesn't reflect the realities of the entertainment business."

The complex details of all this will be worked out by the Copyright Board, which is now trying to get more resources to deal with the big increase in jurisdiction and hence workload. "The Board is already operating with extremely limited human and financial resources," comments Claude Majeau, secretary to the Board. "One only has to consider the new responsibilities conferred on the Board by the new Copyright Act to understand the need for additional resources."

The Board will also oversee another new right created by Bill C-32, the "blank tape levy", to be paid by anyone who buys a blank cassette tape, or anything else capable of holding a recording, such as an empty CD-ROM disc. The levy is intended to compensate makers, performers and authors for unlicensed home taping. At time of writing the blank tape levy was not yet proclaimed, but is expected for January, 1998. "It's a completely new right, and there are many issues," comments David Basskin Executive Director of the Canadian Music Publishers Association. It is unknown how the amount collected will be calculated, or how the revenues will be split up. "There's no tariff filed yet, because the relevant sections haven't become law yet."

David Basskin comments that CMPA lobbied very hard for the statutory damages section of Bill C-32, which he thinks will make enforcement more economically feasible.

He's also urging the government to move quickly onto the next phase of copyright reform, which he hopes will include a longer copyright term ("seventy years from the death of the author like in Europe") and changes to address unauthorized use of copyrighted material on the internet.

For existing collectives such as CANCOPY, which collects revenues from educational institutions, governments, and other bodies for photocopying literary works, worth over $13,000,000 in 1996, it is unclear what the effect of Bill C-32 will be. There are stronger enforcement rights under the new act, but also some new exemptions from infringement. "It may help us; it may be to our detriment. We'll just have to see how it all works out," says Diane Barry, a spokesperson for CANCOPY.

Yellow Pages does not have copyight in compilation

A vexed area of copyright law has been the question of "compilations". If you compile a list of names, addresses and phone numbers, or other data, is the result an "original work" that will attract copyright protection? The case law says the court should look at the "degree of industry, skill or judgment" expended making the compilation, sometimes referred to as the "sweat of the brow." In other words, originality is a question of fact in each case.

The Federal Court of Appeal applied this law in Tele-Direct Publications Inc. v. American Business Information, released in late October, 1997. Tele-Direct markets Yellow Pages directories. It takes phone listings from Bell Canada, arranges it in "in-column listings" under headings and adds some extra information such as fax numbers. American Business put out competing directories. The issue was: was American Business infringing copyright by grouping the telephone listings under the same headings used by Yellow Pages?

The Federal Court of Appeal upheld the trial court, which had said that Yellow Pages' method arrangement of the data was common in the industry, and Tele-Direct had not demonstrated the necessary degree of skill, judgment or labour (1996), 113 F.T.R. 123).

"Essentially, for a compilation to be original, it must be a work that was indepedently created by the author and which displays at least a minimal degree of skill judgment and labour in its overall selection or arrangement. The threshold is low, but it does exist," wrote Mr. Justice DéCary for the Court.

Patents

Whirlpool wipes-up

Washing-machine company Whirlpool, owner of a patent on the "dual action agitator", recently agitated its competitor General Electric. In a judgment released in August 1997, Justice Bud Cullen of the Federal Court, Trial Division found that GE had infringed Whirlpool's patent.

For those lucky readers who don't do their own laundry, an agitator is the whatchamacallit in the middle of a washing machine that spins around. The "dual action" agitator, first developed in the 1970s, out-agitates mere "unitary" agitators, and was therefore, according to Whirlpool, a major step forward in washing machine technology.

Whirlpool's various US patents on the dual agitator expired in 1995. When the US patents expired, competitor GE introduced its own dual-action washing machines in the US and Canada. The trouble was, one of the equivalent Canadian patents had not expired, but remained in force until early 1998.

Justice Cullen found that this patent, the so-called '734 patent, was both valid and infringed.

At trial, GE devoted most of its efforts to arguing the patent was invalid, arguing there had been "double patenting", meaning the patented invention was merely a restatement of an invention set out in an earlier, now expired patent or, in the alternative that the patent was obvious.

The court rejected these arguments. "The fact that it took six months to develop the idea is evidence of serious thought, research, or experimentation. It is not evidence of obviousness," said the Court.

Whirlpool says it is entitled to considerable damages. Seven hundred thousand washing machines were sold containing the agitators, according to Whirlpool's counsel Chris Kvas. The case is under appeal.

"The case is a great example of the Federal Court's ability to move a complex patent case through to trial fairly quickly where the patent is close to expiring, as it was here," said Kvas, noting that a statement of claim was issued in September, 1995 and the case went to trial within about eighteen months. Ron Dimock, counsel for GE, agrees that patent cases can indeed be heard quickly, "but it only happens if there's three way co-operation, from both the parties and the court."

Improvements Afoot

There seems to be a general view that third parties should have increased rights to "oppose" the issuance of a patent, or to get a patent re-examined after issuance. But no one is sure what exactly how broad these new rights should be.

A third party procedure is when someone other than the applicant submits evidence of pre-existing technology, or "prior art", to the patent office in an attempt to stop the issuance of the patent, or to get some or all of the claims knocked out after issuance (Patent Act, s. 34.1 and 48.1)

At present, only patents or published articles can be submitted by the third party. There is no right to file an affidavit. The ability to make submissions is limited.

One suggestion is that this be broadened to include the right to file an affidavit saying, for example, that the invention was disclosed publicly prior to the key one-year grace period (disclosure of an invention more than one year before filing is a no-no, rendering the patent invalid).

But if the third party has a right to file affidavit evidence, this leads to other issues. Should there be a right of cross-examination? What about responding evidence? And so on. But too complex a procedure might delay the issuance of the patent unduly - a concern since the 20 year term starts ticking from the application date.

There is a committee of the Patent & Trade-mark Institute of Canada (PTIC) looking into this, but no clear consensus has emerged as to what to do.

Patent litigation to speed up?

One of the complaints about patent litigation has always been that it takes too long. This may be changing, for two reasons: first, a new willingness on the part of the Federal Court judiciary to use the summary judgment rule, and, second, impending changes to the Federal Court rules.

Summary judgment catches on for patent cases

Almost all patent litigation is heard in the Federal Court. For years, the Federal Court lacked a workable summary judgment procedure. Summary judgment is a court procedure which allows either a party to bring a motion to get a speedy judgment if the facts are clear. A summary judgment rule, 432.1 - 7, was finally introduced in 1994.

At first, the new rule seemed not to change anything. In a few early cases, Federal Court judges signaled that they would dispose of cases by summary judgment only in the most exceptionally clear cases. However, in recent months, there have been cases in which the Court has been prepared to dispose of patent actions under the summary judgment rule,

even where this meant making a fairly involved analysis of the patent claims, or other complex issues.

In Heffco Inc. v. Dreco Energy (F.C.T.D., April 19, 1997) and Page Innovations Inc. v. Noma, (F.C.T.D. August 29, 1997) patent cases were dismissed on the ground that there was no infringement. On the other hand, in American Cyanamid v. Bio Agri Mix Ltd. (F.C.T.D., April 10, 1997), the court refused to dismiss a patent case.

As a result, some patent disputes may get resolved quicker.

New Rules Shake Things Up

The Federal Court Rules Committee has decided to jump start patent litigators by imposing new, hurry-up Rules. The new Rules impose structured case management, mandatory settlement discussions, and make it more difficult to get an extension of time periods, even if both sides consent.

At time of writing, the word is that the new Rules will come into force in late March, 1998 (a slight postponement over the earlier target, January 1, 1998). A draft was circulated in the fall of 1997, resulting in numerous comments to the Committee now under consideration as I write. A new draft may be circulated towards the end of 1997.

The summary judgment rule, for example, will be amended to provide that a party can no longer rely on the denials in its pleadings, much as the equivalent Ontario Rule now provides.

A new rule, called Rule 301(2) at the time of writing (it might change), provides that a time period can be extended once by filing the consent of both parties, but only for half the time period. Thereafter, it seems no further extension is permitted, even on consent, without a court order.

Will this lead to a proliferation of pointless motions? "No," says Roger Hughes, Chairman of the Federal Court Rules Committee, "because if the case is complicated, the parties will bring a motion to have the proceeding managed as a 'specially managed proceeding' under Rule 5004." "Specially managed proceeding" is new Federal Court-speak for a case management by a judge.

Would all patent cases be "specially managed proceedings"? Will the new rules speed things up or just drive both judges and lawyers crazy?

All this remains to be seen.

Pharmaceutical patent terms to stay the same

In the spring of 1997, parliament revisited Canada's drug patent laws. It appears that almost everything almost everything will stay the same, including the current 20 year patent term. A possible exception is the Patented Medicine (Notice of Compliance) Regulations, known variously as the "Linkage Regulations" or the NOC Regulations, about which more below.

Parliament was obliged to revisit the pharmaceutical portions of the Patent Act under the last set of amendments to those laws passed in 1993, known as Bill C-91, which required a "review" to take place in in four years.

The review consisted of lengthy hearings before the Standing Committee on Industry, in March and April, 1997.

For the innovator drug companies industry, the main objective was to convince the government to grant patent term extensions. In many other countries, pharmaceutical patents can be granted supplementary protection certificates, sometimes known as patent term restoration. The patentee receives some additional patent protection in return for the length of time that many new pharmaceuticals spend in the regulatory review process. The length of the extension is tied to the length of time spent in the regulatory process, and can usually only be granted for one patent per product.

The Standing Committee, in its report released in April, 1997, however stated that it "accepts the 20 year patent period".

The Committee also recommended the role of the Patented Medicine Prices Review Board (the PMPRB), the body that monitors the prices of patented drugs in Canada, be "reviewed and strengthened". Dr. Robert Elgie, Chairman of the PMPRB, says that a consultation process is now underway as to what the future role of the Board should be.

Whither the Linkage Regulations?

The big issue at the heart of the Bill C-91 review was what to do about the Patented Medicine (Notice of Compliance) Regulations, which came into force in 1993. These controversial regulations have kept the courts busy. By my estimate, they are involved in at least two thirds of all the reported and unreported patent decisions coming out of the Federal Court.

The Regulations link regulatory approval of new generic drugs to the alleged patent status of the originator product. Before the Regulations came along, Health Canada's regulatory approval process considered only whether a new drug was safe and effective.

The Regulations set out a complex process which replaces the court's normal procedure for determining whether to grant an interlocutory or interim injunction in a patent dispute.

They apply only to the pharamceutical industry. Instead of allowing the court to follow the normal rules of civil procedure, and apply the normal test for granting interlocutory injunction, the Regulations impose various statutory stays if the parties dispute infringement or validity, including an initial automatic 30 month stay of any regulatory approval to the generic. No undertaking as to damages is given by the patentee. All this creates an incentive to start cases regardless of the merits, claim the generics.

The brand name companies say that the complex process is necessary to prevent patent infringement, arguing that the normal court remedies under the Patent Act are inadequate in the unique circumstances of the pharmaceutical industry. The generic industry argues that the Regulations are unfair and unnecessary, and that defendants in the pharmaceutical should have the same rights in patent litigation as a defendant in any other industry.

At time of writing there have been at least 130 cases started under the procedure in the Regulations, almost all against Canada's two largest generic drug companies, Apotex and Novopharm.

At the end of the Bill C-91 hearings, counsel representing both generics and the brand name industry appeared in a special day-long "round table" to debate the pros and cons of the Regulations. (Here I must declare my partisan interest: I appeared on behalf of the generics).

The Standing Committee in its report released shortly afterwards stated that the Regulations are "problematic and [have] resulted in excessive litigation" and recommended that the government "re-visit" the Regulations. In joint press released on April 25, the two concerned cabinet ministers, John Manley (Industry), and David Dingwall, then Minister of Health, said that the Regulations would be reviewed "on a priority basis" after the election (the news release is on the internet at http://strategis.ic.gc.ca/SSG/ph01422e.html and the Standing Committee Report is at http://www.parl.gc.ca/committees352/indu/reports/05_1997-04/indu-05-cov-e.html)

At the time of writing, the government has not yet made clear what it plans to do.

Minister has jurisdiction to boot patents off Register

Under the NOC Regulations, all patents that innovator companies list as relevant to their drug products are listed on a Patent Register maintained by the Minister of Health (the internet address of which is http://www.hc.sc.ca/main/drugs/drhtmeng/patents.html) A recent case considered the question of the scope of the Minister's responsibilities conerning the Register.

In a 1995 audit, the Minister found that well over a hundred and fifty patents (about a quarter of the total) were listed improperly, most of them patents for a process rather than for "the medicine itself or the use of the medicine" (process patents may not be listed

under the scheme). Many listed patents in fact did not relate to pharmaceuticals at all, including a patent for a bicycle brake, a mobile crane and various other mechanical devices.

When the Minister announced in late 1995 that it intended to remove most of these from the Register, brand name drug companies Merck and Glaxo brought judicial review proceedings against the government on the grounds that the Minister lacked jurisdiction to do so. Both Apotex and Novopharm appeared as intervenors. In a lengthy decision released June 13, 1997, Justice Nadon of the Federal Court, Trial Division found that the Minister indeed had the jurisdiction to remove patents listed improperly, and dismissed the application (Merck et al v. M.N.H.W. (1997) 74 C.P.R. (3d) 307.)

The decision has been appealed but it is unclear at time of writing whether the appeal will be pursued.