

Patents

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Copyright in court judgments and Internet music considered, along with neighbouring rights and the controversial blank tape levy. WTO patent law disputes with the European Union and U.S. Supreme Court to hear patent cases while other courts consider whether poker's patentable and the "Harvard Mouse." And, more pharma frolics, including new NOC regs.

In a perfect world, developments in patents and copyright would always happen just before my deadline for this annual survey article. But, unfortunately, the universe doesn't always unfold as it should.

In the patent area, several things are about to happen at time of writing (late in 1999) but failed to occur in time to be written about (the Harvard Mouse appeal, the ruling in the WTO dispute with the European Union, and the upcoming Supreme Court of Canada ruling in the Whirlpool case). These things look likely to happen after this article is written, but perhaps before it actually comes out in print in February.

Events in the copyright area, on the other hand, have been much more co-operative. At least two important decisions (the "Tariff 22" case and the "Great Library" case) were perfectly timed, appearing just as this was being written.

So, due to accidents of timing, this survey article will devote more attention to copyright than to patents, where I can only outline briefly things that are about to happen. Since any predictions I might make will probably turn out to be wrong, I'm not going to make any, to avoid looking foolish later.

THE GREAT LIBRARY COPYING JUDGMENT

Many litigation lawyers in Toronto, including your faithful correspondent, sometimes get the staff of the Great Library at Osgoode Hall to copy cases, a welcome time-saver when getting ready for court. The library charges 25 cents a page for copying.

Three legal publishers (including Canada Law Book, publisher of Canadian Lawyer) sued Ontario's law society, which runs the Great Library, claiming the copying service infringed the publishers' copyright in their legal casebooks and texts.

The result is a surprise. In a carefully written 142-page decision, *CCH Canadian Ltd. v. Law Society of Upper Canada*, [1999] F.C.J. No. 1647 (released November 9, 1999) Federal Court Justice Frederick Gibson found legal publishers don't have copyright even in the headnotes of reported cases (and it seems three-quarters of the library's copying is of reported cases). However, there may be infringement if the library copies substantial portions of other materials such as textbooks or annotated statutes, Justice Gibson decided.

On the key issue of whether reported cases are an "original work" attracting copyright, Justice Gibson said no: "While the evidence before the Court demonstrates, beyond a doubt, that the preparation of the reported judicial decisions, including the headnote, catchlines, parallel citations, running heads and other matter added by the publisher, in respect of the three [test case] decisions in question, involved extensive labour, skill and judgment, I am satisfied that the whole process, particularly those elements involving skill and judgment, lacked the 'imagination' or 'creative spark' that I determine now to be essential to a finding of originality."

As authority for this high threshold, Justice Gibson relied on a recent Federal Court of Appeal case in *Tele-Direct*, [1998] 2 F.C. 22. In that case, dealing with telephone directories, the appeal court said mere "sweat of the brow" was not enough for a work to be "original." There has to be some spark of creativity.

The Law Society had also claimed that various exceptions applied, such as the "fair use" exception in s. 29 of the Copyright Act. Justice Gibson considered these defences (in case he was wrong on the "original works" issue), but for the most part, he rejected them.

CANCOPY, the collective representing creators of literary works, may eventually administer a license agreement with the law society. But if the decision stands, the license fees the legal publishers are able to collect from the Great Library (and other law libraries) may be negligible.

Ron Dimock, who represented the publishers, says: "I'm particularly surprised headnotes were not found to be original works attracting copyright." He says an appeal is likely.

Scott Jolliffe, who represented the society, says there might also be a cross-appeal on certain issues such as whether the "fair use" exception applies. "The issues are important for the legal profession and the public," he says. "It would be good thing to get the highest level of judicial input and expertise in reaching the final result on this issue."

Jolliffe also points out that exceptions in the Copyright Act for copying by libraries (s. 30.2(2)), came into force September 1, 1999, after the trial. Those amendments may apply, but their effect was not argued at trial.

Since this article largely summarizes various court cases, does it contain the “‘imagination’ or ‘creative spark’” necessary to make it an “original work” protected by copyright? Yikes! Maybe not!

MUSIC COPYRIGHT ON THE INTERNET

Teenagers used to go a record store to buy their favourite band’s latest album. That was then. Now, cool teens get their music off the Internet. Go to shoutcast.com, and you’ll find links to a vast number of sites playing various genres of music, using a format known as MP3.

Who collects money from whom, and how, for music on the Internet? In late October, the Copyright Board released an important decision on this question.

In a nutshell, the Canadian music industry wanted to make Internet service providers (ISPs) collect money from their subscribers on behalf of music creators. The Copyright Board said no. So for now, your ISP is not going to be adding an extra copyright fee to your monthly connectivity bill on behalf of Stompin’ Tom.

The issue was Tariff 22, submitted by the Society of Composers, Authors and Publishers of Music of Canada (SOCAN), a collective.

Copyright Act permits rights-holders to be represented by collectives because it’s not practical for individual owners to license their work to content users such as radio broadcasters.

A “tariff,” if approved by the Copyright Board, a federal tribunal, triggers a legal obligation to pay a certain percentage of revenues annually to the collective. Different Tariffs are directed at various classes of content user. (Next time you’re on hold, for example, you might want to reflect on SOCAN Tariff 15.B, “Telephone Music On Hold,” covering that irritating music you’re listening to.)

Tariff 22 proposed to make Internet Service Providers pay 25 cents per subscriber from ISPs not earning revenue from advertising, or 3.2 of gross revenues or 25 cents per subscriber, whichever is higher, from ISPs that do. Presumably, ISPs would have passed this on to their subscribers in the form of higher fees. SOCAN’s view was that ISPs are really in the telecommunications business, and that its virtually impossible to collect money any other way from music use on the Internet.

The Canadian Association of Internet Providers (CAIP) argued before the board that posting music on a website was not “communicating” within the Act. Their most important defence was that ISPs were exempt under what is sometimes called the “common carrier” exemption, s. s. 2.4(1)(b) of the Act.

The board, in a decision released on October 27, 1999 ([1999] C.B.D. No. 5.) found that operators of music webs-sites are transmitting musical works, and therefore are potentially liable under the Act. But ISPs should not generally be subject to the tariff,

because the common carrier exemption applies, provided “[their] role in respect of any given transmission is limited to providing the means necessary to allow data initiated by other persons to be transmitted over the Internet, and as long as the ancillary services ... fall short of involving the act of communicating the work or authorizing its communication.”

Mark Hayes, who represented Canadian Association of Internet Providers (CAIP) at the hearing, calls the decision a “major victory” for Internet service providers, although he notes that it may in practice be difficult to draw a distinction between providing the means to allow others to transmit over the Internet, and providing “ancillary services” that might attract liability.

Mark Walker of SOCAN says that the board’s decision makes it “impossible” to collect money from Internet usage in practice. However, he also says “we like parts of the decision. For example, it was argued before the board that posting music on the Internet was not a transmission, but the board rejected that view completely.” At time of writing SOCAN had not decided whether to seek judicial review of the decision at the Federal Court of Appeal.

The Federal government might jump into action with legislation at some point, but according to Danielle Bouvet of Industry Canada, no decision has yet been made. “We’re actively considering the issue,” she says.

NEIGHBOURING RIGHTS

In another recent decision, the board put a dollar figure on neighbouring rights.

Neighbouring rights are something new, created by the recent Bill C-32 amendments to the Copyright Act (s. 19 of the Act) in 1997. Similar rights exist in Europe, under the Rome Convention of 1961.

The neighbouring right gives performers and makers (i.e. producers) a right to “equitable remuneration” for recorded performances communicated by telecommunication. Even a back-up singer doing the doo-wop-wops might get some cash if the song is played on the radio.

Previously, only composers and “authors” (i.e. lyricists), usually represented by music publishers, had a right to file a tariff and get revenue from the use of recorded music in media.

In a decision released August 13, 1999 ([1999] C.B.D. No. 3), the board fixed the amount of the tariff at “45 percent of what [radio broadcasters] pay SOCAN,” for most stations, less for “low music use stations.” The board arrived at the 45 percent figure by first finding that neighbouring rights were worth the same the existing authors and composers’ rights, but with a big deduction because over half the song played on the radio are performed or produced by Americans, who are not eligible for the remuneration because the U.S. does not recognize neighbouring rights, and never signed the Rome Convention.

There are other deductions. The Act says that radio stations pay \$100 on their first \$1.25 million in advertising revenues, a compromise put in by Parliament in response to complaints by small radio stations that they couldn't afford to pay more for neighbouring rights. The tariff therefore kicks in only after a station's revenues exceed that amount in a given year. As well, there's a three-year phase-in, again a compromise measure in the Act itself. After these deductions, the board estimated the right would be worth about \$1.89 million in 1998, \$3.78 million in 1999, and \$5-6 million or more annually thereafter.

"It's a good decision," commented Ken Thompson, counsel to the Canadian Recording Industry Association, but he also thinks the decision supports his view that the token \$100 fee for revenues under \$1.25 million is an absurdly small amount. "If you're a station that attracts listeners by playing music, you should have to pay for the music — just like if you're running an ice cream parlor, you should pay for the ice cream."

BLANK TAPE LEVY

In mid-1999, a hearing before the board dealt with yet another new issue, private copying, a.k.a. the blank tape levy. There has been no decision at time of writing, but Ken Thompson, counsel to the Canadian Recording Industry Association, says it's expected in December.

Under the Bill C-32 changes, 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" meant to compensate copyright owners for home taping. This has been controversial.

The levy has been the most controversial of the Bill C-32 changes. According to Claude Majeau, secretary to the Copyright Board "the board has received voluminous amounts of protest mail [mostly about] the Private Copying Regime." In the summer of 1999, evangelical groups went to court in mid-1999 in an unsuccessful attempt to get a stay of the blank tape levy hearing, on the ground their Charter rights are violated if they must pay the levy when buying blank tapes to record sermons (*Evangelical Fellowship of Canada v. Canadian Musical Reproduction Rights Agency et al.* F.C.A. No. A-371-99, August 18, 1999).

Majeau stresses that the board lacks the resources to deal with the many issues created by Bill C-32 and this, he says, "casts a serious shadow over the reform of the Act."

WTO DISPUTE WITH EUROPEAN UNION

A decision is due shortly in Canada's dispute before the World Trade Organization (WTO) with the European Union.

European Union claims the "early working" and "stockpiling" exceptions" in the Patent Act (ss. 55.1(1) and (2)) are contrary to the Agreement on Trade-Related Aspects of

Intellectual Property Rights (TRIPS), one of the agreements reached as part of the Uruguay Round of trade negotiations.

The early working exception says that it is not an infringement to work a pharmaceutical patent for purposes reasonably related to making a regulatory filing. The stockpiling exception allows pharmaceuticals to be manufactured or stored for up to six months prior to the end of a patent. Both exceptions are intended to allow low-cost competitors to get on the market as soon as possible after patent expiry.

The European Union says these provisions of Canadian law are contrary to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The Europeans argue that Canada's exceptions must be changed.

Canada argues the two exceptions are both within Article 30 of TRIPS, a broadly-worded exception clause. All written arguments and meetings between the parties have now been held, and a decision is due at any time.

WTO DISPUTE WITH U.S.

The U.S. recently launched another WTO dispute, claiming that Canada's patent term does not comply with TRIPS, which requires a member nation's patent term be 20 years from filing.

Sections 44 and 45 of the Patent Act provide that patents applied for prior to October 1, 1989 have a term of 17 years from date of grant, but patents filed on or after that date have a term of 20 years from date of filing. That means some patents applied for prior to October 1, 1989 (those that spent under 3 years in the application process) get a term of less than 20 years from filing.

Canada's defence turns on Article 70, the transition section of TRIPS. A panel decision is likely at some point in 2000.

"Before deciding on any possible future amendments in the patent area, we're mainly waiting for the results in these disputes," Danielle Bouvet of Industry Canada told me.

SUPREME COURT TO HEAR PATENT CASES

The Supremes recently granted leave to appeal in two patent cases, for the first time in many years. The two cases, *Whirlpool Corp. v. Camco Inc.*, *General Electric Company* (1997), 76 C.P.R. (3d) 150, (affirmed, FCA No. A-630-97, January 22, 1999), and *Free World Trust et al. v. Électro Santé Inc. et al.* (1997), 81 C.P.R. (3d) 456 (Que. C.A.) will be heard together.

Both turn on the validity and infringement of fairly straightforward mechanical patents. Possibly, the court intends to comment on or change the law governing substantive patent infringement and claim construction. The hearing will be in December, 1999.

HARVARD MOUSE

The appeal of the well-known Harvard Mouse will be heard by the Federal Court of Appeal in late 1999.

The case concerns the question of the patentability of higher life forms. In April, 1998, Justice Marc Nadon of the Federal Court (Trial Division) found that claims to an oncomouse, a mouse genetically modified to be susceptible to tumors, were not directed to patentable subject matter.

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: *Harvard College v. Commissioner of Patents* (1998), 79 C.P.R. (3d) 98.

The Federal Court of Appeal's decision will be closely watched by the biotech industry. Danielle Bouvet on Industry Canada tells me there might eventually be legislation on this point, and indeed Justice Nadon had said it was a question that should be dealt with by Parliament, not the courts.

IS POKER PATENTABLE?

A recent decision of the Federal Court (Trial Division) also dealt with patentable subject matter, well, sort of. The Commissioner had found a modified version of five-card stud poker was not patentable subject matter.

In *Progressive Games v. The Commissioner*, F.C.T.D. No. T-439-98, October 22, 1999, Justice Pierre Denault agreed on appeal. He wrote the appellant's changes in the method of playing poker "do not substantially modify the poker game as it exists, nor do they create a new game."

He seems to decide the case on the basis of lack of novelty rather than whether, if novel, the claims were directed to proper subject matter.

NOC REGS AMENDED

The Patented Medicines (Notice of Compliance) Regulations, were amended on October 1, 1999 supposedly to close a "loophole" in the regulations.

The amendments were somewhat complex, but were intended to reverse the precedent created by a decision of Mr. Justice Bud Cullen of the Federal Court of Canada (*Nu-Pharm v. A.G. Canada and Minister of Health*, [1999] 1 F.C. 620). In a nutshell, Justice Cullen had held in late 1998 that a Nu-Pharm's generic submission for the best-selling heart drug Enalapril could be "compared" for regulatory approval purposes with an already existing generic product Apo-Enalapril, and not with the brand product, Merck's Vasotec.

The implication of Justice Cullen's decision seemed to be that the NOC Regulations did not apply to Nu-Pharm's submission. If that was the case, other generic submissions could avoid the effect of the regulations, the government reasoned, so the amendments were brought into force with remarkable speed.

A later court application decision, however, then said the NOC Regulations did indeed apply to the Nu-Pharm submission (*Merck v. Minister of Health*, F.C.T.D. No. T-393-99, November 23, 1999), thus seeming to make the amendments (already law by then) unnecessary. As a matter of full disclosure, I represented the generic industry in discussions on the amendments with the government.

PHARMA FROLICS

Pharmaceutical patent litigation has been on-going, as always. Besides various decisions under the NOC Regs, there have been some policy-oriented cases. One concerned the patent term issue. A patent for Pfizer's drug Sertraline, filed pre-October 1, 1989, was due to expire in late August, 1999, 17 years after the grant of the patent. The patent would have expired a year or so later under a 20-years- from-filing regime.

Pfizer commenced an action, and sought an injunction against the government preventing expiry, on the grounds that TRIPS dictated that the term be 20 years from filing. On application by the Minister, Pfizer's case was struck out. (*Pfizer v. Minister of Health*, F.C.T.D. No. T-667-99, July 9, 1999)

In another case, Bayer sought an order that a certain drug, identified only as Drug "X," was entitled to five years' exclusivity on the market, under the so-called data exclusivity section of the Food and Drug Regulations, although there was no patent on Drug "X."

Bayer relied in part on NAFTA to support its interpretation that it was entitled to a kind of quasi-patent protection. Bayer's summary judgment on this issue of law was dismissed in the trial level. This was upheld by the Federal Court of Appeal (*Bayer v. Minister of Health*, A-679-98, May 19, 1999). Bayer has sought leave to appeal to the Supreme Court of Canada. I should disclose I had some involvement on behalf of certain generic intervenors in both the Pfizer and Bayer litigation.

Yet another case about the best-selling heart drug Enalapril appeared on November 5, 1999 (*Apotex v. Merck*, F.C.T.D. T-294-96). In previous litigation between the same parties it had been held that Merck's patent on Enalapril was valid, but that Apotex's drug Apo-enalapril did not infringe insofar as certain raw material had been obtained and compressed into tablets prior to the issuance of the patent. However, certain lots had been processed into tablets after issuance, and were therefore infringing.

In this later litigation on the same Merck patent, Apotex claimed that it had located previously unknown bulk raw material manufactured under license. It sought a declaration this material was non-infringing. Merck counterclaimed claiming infringement.

Apotex, by reply and defence, claimed the patent was invalid. It argued it had different grounds of invalidity from those argued in the earlier litigation. Merck moved to strike out Apotex's pleading alleging invalidity. Justice François Lemieux found there was issue estoppel, and struck out the invalidity claim.