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New bankruptcy law amendments will help IP licensees

On September 18, 2009, many long-awaited amendments to Canada's *Bankruptcy and Insolvency Act (BIA)* and *Companies' Creditors Arrangement Act (CCAA)* came into force. One of these new provisions will help protect intellectual property (IP) licensees in the event of the bankruptcy of their licensors.

Under current Canadian common law, it is generally accepted that a trustee in bankruptcy can disclaim some kinds of contracts entered into by the bankrupt debtor, in order to promote the successful restructuring of the debtor's business. It has been unclear, however, whether or not IP license agreements are among such contracts. The issue has been raised, but never settled, in a number of Canadian cases. A discussion of these cases can be found in Stikeman Elliott's February 2009 *Intellectual Property Update*.

Significant amendments to the *BIA* and *CCAA* were passed in 2005 and 2007, but—aside from a few provisions that became effective in July 2008—the amendments sat dormant, awaiting proclamation into force.

Pursuant to Order in Council P.C. 2009-1207, almost all of these amendments have now been brought into force. In particular, section 65.11 of the *BIA* has been amended to include the following provision governing disclaimers of IP licenses:

65.11(7) If the debtor has granted a right to use intellectual property to a party to an agreement, the disclaimer or resiliation does not affect the party's right to use the intellectual property—including the party's right to enforce an exclusive use—during the term of the agreement, including any period for which the party extends the agreement as of right, as long as the party continues to perform its obligations under the agreement in relation to the use of the intellectual property.

In essence, the amendments provide protection similar to that found in Section 365(n) of the U.S. *Bankruptcy Code*, which provides that if a trustee in bankruptcy rejects an intellectual property license, the licensee has the option of retaining its rights under the license as they existed prior to the bankruptcy for the rest of the term of the license, as well as for any periods for which the licensee had the right to extend the license.

This new provision enhances commercial certainty for Canadian IP licensing agreements. Although the term “intellectual property” is not defined in the amendments, it is arguable that it includes at least the traditional types of registrable IP: copyrights, trademarks, patents, and industrial designs. The implicit inclusion of trademarks is notable, because trademarks are not covered by the equivalent provisions of section 365(n) of the U.S. *Bankruptcy Code*.

Amazon appeals rejection of its “One Click” patent

On September 3, 2009, Amazon.com filed an appeal to the Federal Court in respect of the decision of the Commissioner of Patents to refuse to grant a patent pursuant to Canadian Patent Application No. 2,246,933 (the '933 Application).

The '933 Application involved the use of “cookies” (which save an IP address and personal information) to allow an Internet shopper to click just once to purchase an item of interest. Amazon.com claimed that their cookies were a new and non-obvious method to hasten and simplify online ordering. The Examiner had initially rejected the application on the grounds that the claimed invention was obvious (and therefore not inventive) and also that the application sought to patent unpatentable subject matter.

This rejection was appealed to the Canada Patent Appeal Board (the Board). On March 5, 2009, the Board issued a surprising decision. While the Board found that the claimed invention was not obvious, the Board rejected the application, stating that: “concepts or rules for the more efficient conduct of online ordering, are methods of doing business. Even if these concepts or rules are novel, ingenious and useful, they are still unpatentable because they are business methods.”

The Board concluded that subject matter that is not “technological” is non-statutory subject matter. Amazon.com’s invention, in substance, was not considered technological in nature and did not bestow a technological advantage, and the form of the claims was directed to a method for the purchase of goods, which is non-statutory subject matter.

The Board held that in order for an “art” or “process” to be patentable, it must “cause a change in the character or condition of some physical object”. According to the Board, the one-click invention merely confers a change to the ordering process rather than a change to the products offered for sale.

Not surprisingly, Amazon.com’s appeal to the Federal Court alleges that the Board erred in making these determinations. The Federal Court’s decision in this matter will have a significant effect on patent practice in Canada. In the meantime, however, it is interesting to note that the current Manual of Patent Office Practice (MOPOP) does not specifically deny patent protection for business methods.

That said, proposed revisions to the MOPOP regarding subject matter and utility closely follow the reasoning of the Board in the Amazon.com case. The proposed revised subsection 12.04.01 states that the “examination of claims is performed from the perspective of both form and substance, and the requirement that an invention relate to a field of technology may, as appropriate, be evaluated in respect of both the form and substance of a claim.” “Technology” is defined as “the application of scientific knowledge for practical purposes, especially in industry”; “machinery and equipment developed from scientific knowledge”; and “the branch of knowledge dealing with engineering or applied sciences.”

The coming year will be very interesting, as both the Canadian Federal Court and the U.S. Supreme Court address the patentability of business methods.

[For a detailed discussion of the U.S. issues, please see Stikeman Elliott’s January 2009 *Intellectual Property Update*.]

Door still open for *Competition Act* challenges to patent settlement agreements

In June 2009, the Federal Court of Appeal (FCA) upheld the Federal Court of Canada’s decision in the patent infringement case of *Laboratoires Servier v. Apotex Inc.*, ([2008] F.C.J. No. 1094, aff’d [2009] FCA 222). In its decision, the Court dismissed a counterclaim by the defendant, Apotex, alleging that the settlement agreement leading to the relevant patent’s issuance constituted a conspiracy to lessen competition and an offence under Canada’s *Competition Act*. Although in this case the Court held that the defendant had failed to support its allegations with sufficient evidence, it specifically contemplated that under the right circumstances, a patent settlement agreement might amount to a conspiracy under the *Competition Act*.

The relevant patent in the *Laboratoires Servier* case was issued following lengthy conflict proceedings involving patent applications filed by ADIR, Schering Corporation (Schering) and Hoechst Aktiengesellschaft (Hoechst). The parties all became involved in Federal Court proceedings in which they were granted the right to contest any aspect of the Commissioner of Patents' determinations regarding the parties' respective rights in relation to the subject matter of the conflict claims. Following examinations for discovery, the parties entered into Minutes of Settlement resolving the actions, and a Federal Court order was issued on consent, allocating the claims among ADIR, Schering and Hoechst. The result of the claims awarded to ADIR was the patent that Apotex allegedly infringed.

Apotex argued that the settlement agreement was unlawful because it was entered into specifically to avoid the result that either no relevant claims would be issued or that overlapping claims would be issued. Apotex also argued that had the conflict proceedings been decided by the Court rather than settled, ADIR might never have obtained any exclusive patent rights, and therefore that the issuance of the patent probably granted ADIR greater market power than it would otherwise have had.

Both the Federal Court and the FCA rejected Apotex's arguments as speculative. Apotex had not provided any evidence of the alleged probability that the agreement resulted in greater market power than would otherwise have existed. The FCA noted that the Federal Court could have awarded the claims in issue precisely as they were allocated in the settlement agreement. More importantly, every step of the process—from the applications of each of the parties, through the settlement process, the order allocating the claims, and the issuance of ADIR's patent—was in accordance with ADIR's rights under the *Patent Act* and the *Federal Courts Rules*. The FCA had "some difficulty conceptualizing that an agreement effecting a remedy that was open to the court to grant and was placed before the court for its approval could constitute an offence under the *Competition Act*."

Despite this holding, the FCA was careful to keep the door open for potential *Competition Act* challenges to settlement agreements involving intellectual property, saying there could be "circumstances where a settlement agreement could constitute the 'something more' contemplated in the *Eli Lilly* cases."

In the *Eli Lilly* cases, the FCA reinstated a counterclaim by Apotex that had been previously struck by the Federal Court of Canada. In doing so, the FCA characterized the facts at issue [*i.e.* an assignment of patent rights alleged by Apotex to result in an undue lessening of competition contrary to the *Competition Act's* conspiracy provision (s. 45)] as including "evidence of something more than the mere exercise of patent rights" and therefore not beyond the application of the conspiracy provision. In a separate decision later in the same case, the FCA again concluded that "the assignment of a patent may, as a matter of law, unduly lessen competition."

It is interesting to note that the FCA's approach is similar to that of Canada's Competition Bureau. The Competition Bureau has taken the position that the general provisions of the *Competition Act* (such as criminal conspiracy and bid-rigging, as well as civilly reviewable conduct such as abuse of dominance, tied selling, market restriction, exclusive dealing, resale price maintenance and refusal to deal), apply to conduct that involves "something more" than the "mere exercise" of an intellectual property right. The Bureau defines the "mere exercise" of an intellectual property right as the "exercise of the owner's right to unilaterally exclude others from using the IP, as well as the use or non-use of IP by the owner." Once conduct ceases to be unilateral, including, for example, the assignment or licensing of intellectual property rights, the Competition Bureau has advised that the *Competition Act's* general provisions may apply.

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