



2019 Study Question

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IP damages for acts other than sales

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I. Current law and practice

Please answer all questions in Part I on the basis of your Group's current law.

1 What non-sales infringing acts, i.e. infringing acts which do not involve sales, are recognised in your jurisdiction?

The relevant statutes provide the basis for acts that are considered infringement of an intellectual property right, though case law may provide some clarifications or additions to what is considered to be an infringing act as follows:

Infringement of Patent rights:

- Making, using or constructing the patented invention: *Patent Act*, s. 42
- Importing of products made abroad by a process that if practiced in Canada would be patent infringement (i.e. the *Saccharin* doctrine): *Bayer Inc. v. Fresenius Kabi Canada Ltd.*, 2016 FC 581 at para. 23
- Possession of the patented invention (if there is a value to the invention's stand-by or insurance utility): *Monsanto Canada Inc. v. Schmeiser*, 2004 SCC 34
- Inducing others to infringe: *Corlac Inc et al. v. Weatherford Canada Ltd et al.*, 2011 FCA 228
- Repair where a patented component is provided: *Rucker Co. v. Gavel's Vulcanizing Ltd.* (1985), 7 C.P.R. (3d) 294 (F.C.T.D.)

Infringement of Trademark rights

- Using/Displaying the trademark in the performance/advertisement of services: *Trade-marks Act*, ss. 4(2) and 19

- Exporting of goods from Canada: *Trade-marks Act*, ss. 4(3) and 19
- Distributing/advertising the goods/services in association with a confusing trademark/tradename: *Trade-marks Act*, s. 20(1)(a)
- Manufacturing, causing to be manufactured, possessing, importing, exporting, and attempting to export any goods in association with a confusing trademark/tradename: *Trade-marks Act*, s. 20(1)(b)
- Offering for sale or distributing labels or packaging bearing the trademark/tradename: *Trade-marks Act*, s. 20(1)(c)
- Manufacturing, causing to be manufacture, possessing, importing, exporting, or attempting to export labels or packaging bearing the trademark/tradename: *Trade-marks Act*, s. 20(1)(d)

Infringement of Copyright

- To produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public or, if the work is unpublished, to publish the work or any substantial part thereof: *Copyright Act*, ss. 27(1) and 3(1)
- To reproduce, perform, or publish any translation of a work: *Copyright Act*, ss. 27(1) and 3(1)(a)
- In the case of a dramatic work, to convert it into a novel or another non-dramatic work: *Copyright Act*, ss. 27(1) and 3(1)(b)
- In the case of a novel or other non-dramatic work, or of an artistic work, to convert it into a dramatic work, by way of performance in public or otherwise: *Copyright Act*, ss. 27(1) and 3(1)(c)
- In the case of a literary, dramatic or musical work, to make any sound recording, cinematograph film or other contrivance by means of which the work may be mechanically reproduced or performed: *Copyright Act*, ss. 27(1) and 3(1)(d)
- In the case of any literary, dramatic, musical or artistic work, to reproduce, adapt and publicly present the work as a cinematographic work: *Copyright Act*, ss. 27(1) and 3(1)(e)
- In the case of any literary, dramatic, musical or artistic work, to communicate the work to the public by telecommunication: *Copyright Act*, ss. 27(1) and 3(1)(f)
- To present at a public exhibition, for a purpose other than sale or hire, an artistic work created after June 7, 1988, other than a map, chart or plan: *Copyright Act*, ss. 27(1) and 3(1)(g)
- In the case of a computer program that can be reproduced in the ordinary course of its use, other than by a reproduction during its execution in conjunction with a machine, device or computer, to rent out the computer program: *Copyright Act*, ss. 27(1) and 3(1)(h)
- In the case of a musical work, to rent out a sound recording in which the work is embodied: *Copyright Act*, ss. 27(1) and 3(1)(i)

Infringement of Industrial Design Rights

- Make, import for the purpose of trade or business, ... rent, or offer or expose for sale or rent, any article in respect of which the design is registered and to which the design or a design not differing substantially therefrom has been applied: *Industrial Design Act*:s. 11(1)
- To do, in relation to a kit, anything specified above that would constitute an infringement if done in relation to an article assembled from the kit: *Industrial Design Act*:s. 11(1)

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**Please explain how damages are quantified, under the laws of your Group, in relation to infringing acts which do not involve sales of infringing products.
(If the laws of your Group provided for different quantification of damages for different IP rights, please explain how damages are quantified for each type of IP right.)**

In Canada, the statutory provisions that address the liabilities of infringers (for example, div 55 of the *Patent Act*, div 53.2 of the *Trade-marks Act*)

, divs 34, 35 and 38.1 of the *Copyright Act*, and div 15.1 of the *Industrial Design Act*) do not differentiate sales of infringing products from other forms of infringement of IP rights (*i.e.*, non-sales infringement). Accordingly, for infringing acts that do not involve sales of infringing products, the quantification of damages will follow the same general principles for infringement actions, including that the plaintiff needs to prove damages as a result of infringement (*i.e.*, causation).

In addition to the general principles for quantifying the damages, the *Patent Act* and the *Copyright Act* contain some unique provisions for infringement of patents and copyrights, respectively.

Under subdiv 55(2) of the *Patent Act*, once a patent issues, a person is liable to pay reasonable compensation for acts after the application for the patent became open to public inspection and before the grant of the patent that would have constituted infringement of the patent. The courts have held that such reasonable compensation means reasonable royalties.

Under subdiv 38.1(1) of the *Copyright Act*, a copyright owner may elect an award of statutory damages in an amount that the Court considers just:

1. In the range of \$500 to \$20,000, for infringement for commercial purposes for each work; or
2. In the range of \$100 to \$5,000 for infringement for non-commercial purposes for each work.

3 Please explain what approach your current law takes in relation to “franking”: if damages are paid in relation one infringing act (e.g. manufacturing) for specific infringing goods, can those goods then be circulated freely subsequently, or does their subsequent circulation amount to a fresh infringement in relation to which an injunction or damages may be available?

Canadian law does not allow franking, but it also does not allow a plaintiff to recover compensatory damages in an amount in excess of what it actually suffered. In a sense, the damages are franked, not the infringements.

For example, if a patentee establishes that an entity has infringed its patent by manufacturing the patented product, that entity is liable for the damages caused to the patentee as a result of infringement. The patentee can also sue any other person who commit acts of infringement in relation to these same goods, and recover damages, for example, from those who distribute, offer for sale, sell or use the patent product (*Diversified Products Corp. v. Consumers Distributing Co.*, [1991] F.C.J. No. 1125). The fact the manufacturer pays an award of damages to the patentee does not cloak the infringing product (or the actions of other infringers) with legitimacy.

However, the damages to be awarded against any infringer are the damages caused by that specific act of infringement. Generally speaking, the patentee will be able to argue that all of the damages it suffered from lost sales can be attributed to any one of the infringements along the chain. Thus, the plaintiff usually recovers all of its damages from the first defendant it sues. However, the Plaintiff can also sue the other infringers to obtain injunctive relief and any damages that were not available (legally or practically) from the first defendant. Because damages are compensatory in nature, the Court will not allow the Plaintiff to use multiple lawsuits to obtain damages in excess of what it actually suffered.

II. Policy considerations and proposals for improvements of your Group's current law

4 Are there aspects of your Group's current law or practice relating to the quantification of damages for non-sales infringements that could be improved? If YES, please explain.

No

Please Explain

No. The current law does not differentiate sales of infringing products from other forms of infringement of IP rights. Given that there are a variety of types non-sales infringement for each type of IP rights (see answer to Question #1), having a uniform approach for different types of

infringement would promote consistency and predictability.

5 What policy should be adopted generally in relation to non-sales infringements?
Should:

Both damages and an injunction should be available.

Please Explain

To promote consistency and predictability, a uniform approach for different types of infringement is preferred. As such, the policy for non-sales infringement should be the same as for sales. In Canada, both damages and an injunction are available.

6 What policy, in relation to franking, would best promote a uniform recovery of damages in relation to infringements in a number of jurisdictions in relation to the same goods?

In general, the Canadian policy of awarding only damages attributable to an infringement, and in ensuring that a plaintiff is compensated fully (and no more) for its losses is considered satisfactory. There is no reason that such a policy could not be applied where the infringements occur in a number of different jurisdictions. However, Canadian Courts would need to be informed as to what damages had already been paid in what jurisdictions for infringement in respect of what goods so as to prevent double recovery in Canada. Expanding the Canadian obligations of disclosure on the patentee and the scope of discovery would have to be considered in such situations.

When the damages resulting from infringement are simply lost sales to the patentee, the calculation of damages is relatively straightforward. The court will determine how many sales of the patentee were replaced and multiply that number by the profit the patentee would have earned on those sales. When the infringements do not readily translate to lost sales by the patentee, the calculation of damages becomes more difficult. Often, the Court is required to assess a reasonable royalty that the patentee and infringer would have agreed to in a hypothetical world to assess the royalty.

Under the current law, the patentee and the infringer engage in a one-time, hypothetical negotiation to reach a reasonable royalty on the eve of the first infringement (*Merck & Co. et al. v. Apotex Inc. et al.*, 2013 FC 751 at 156 - 162). This framework would be difficult to apply in the circumstances described in the question because (1) there will not be an "eve of infringement", but several; and (2) there will not be a single infringer in the negotiations. It may not be fair to bind subsequent infringers to a royalty rate negotiated by an earlier infringer at a time before the subsequent infringer begins infringement. It may be more just to assess the reasonable royalty on an ongoing basis as circumstances develop, rather than all at the outset of the first infringement.

7 Are there any other policy considerations and/or proposals for improvement to your Group's current law falling within the scope of this Study Question?

None.

III. Proposals for harmonisation

**Please consult with relevant in-house / industry members of your Group in responding to Part III.
For the purposes of this div III, please assume that the following acts are infringing acts, even if they**

are not infringing acts under the current laws of your Group:

- (a) Manufacturing;**
- (b) Selling;**
- (c) Offering whether for sale otherwise;**
- (d) Importing; and**
- (e) Keeping and warehousing.**

8 Do you believe that there should be harmonisation in relation to damages for non-sales IP infringement?

Yes

Please Explain

Yes. Having a uniform approach for different types of infringement would promote consistency and predictability for rights holders and infringers.

If YES, please respond to the following questions without regard to your Group's current law or practice.

Even if NO, please address the following questions to the extent your Group considers your Group's current law or practice could be improved.

9 Manufacturing of patented products: How should damages be quantified in relation to the manufacturing of infringing products?

The current law in Canada does not differentiate sales of infringing products from other forms of infringement of IP rights (*i.e.*, non-sales infringement). Accordingly, for infringing acts that do not involve sales of infringing products, the quantification of damages will follow the same general principles for all types of infringing acts, including that the plaintiff needs to prove damages as a result of infringement (*i.e.*, causation). The causation approach means the damages to be awarded against any infringer are the damages caused by the specific acts of infringement. Since damages are compensatory in nature, the Court will not allow the Plaintiff to use multiple lawsuits to obtain damages in excess of the harm the patentee (or those claiming under the patentee, e.g. licensees) actually suffered.

Accordingly, given this approach for different types of infringement promotes consistency and predictability, the Canadian group believes damages should be quantified in relation to the manufacturing of infringing products in the same manner that they are currently quantified in Canada.

10 Should the subsequent export and sale of manufactured infringing goods change the quantification of damages?

Given the Canadian approach for different types of infringement promotes consistency and predictability, the Canadian group believes damages should be quantified in relation to the export and sale of manufactured infringing goods should not change the quantification of damages.

11 Importing and warehousing of patented products: How should damages be quantified in relation to importing and keeping or warehousing?

In Canada, in addition to damages, a patentee may seek delivery up of infringing products to the plaintiff patentee. Further, Canadian case law recognizes that patented products may be improperly stockpiled and not sold until the expiry of a patent as a way to springboard or obtain

an advantage in terms of market share. The approach to damages in Canada would be the same even though the infringing act (stockpiling) occurs before expiry of a patent and damage may arise subsequently.

Given the Canadian approach for different types of infringement promotes consistency and predictability, the Canadian group believes damages should be quantified in relation to the importing and keeping or warehousing of patented products should not change the quantification of damages.

12 Series of infringements in relation to patented products: In the situation where there is a series of infringing acts, such as manufacturing, followed by warehousing, followed by a sale, should damages be quantified, for each individual infringing product:

2.a On the basis of a sale alone, if that infringing product was eventually sold?

2.b On the basis of each infringing act in the chain?

Yes

Please Explain

The Canadian group believes damages should be quantified on the basis of each infringing act in the chain provided the patentee is not overcompensated for the harm it has suffered.

As is the current law in Canada for infringing acts that do not involve sales of infringing products, the quantification of damages will follow the same general principles for all types of infringing acts, including that the plaintiff needs to prove damages as a result of infringement (*i.e.*, causation). The causation approach means the damages to be awarded against any infringer are the damages caused by the specific acts of infringement. Since damages are compensatory in nature, the Court will not allow the Plaintiff to use multiple lawsuits to obtain damages in excess of the harm the patentee (or those claiming under the patentee, e.g. licensees) actually suffered.

2.c If the infringing product was never sold?

2.d On some other basis?

13 Services/operating patented processes: please explain how damages should be quantified in relation to infringements that consist of carrying out infringing processes. e.g. a patented manufacturing process?

The quantification of damages for infringing acts such as services or operating patent processes, that do not involve sales of infringing products, should follow the same general principles as for all other types of infringing acts including sales, such that the plaintiff needs to prove damages as a result of infringement (*i.e.*, causation). The causation approach means the damages to be awarded against any infringer are the damages caused by the specific acts of infringement. Since damages are compensatory in nature, the Court will not allow the Plaintiff to use multiple lawsuits to obtain damages in excess of the harm the patentee (or those claiming under the patentee, e.g. licensees) actually suffered.

14 Please explain how damages should be quantified for subsequent post-manufacturing activities in relation to the products of a patented process, e.g. the offering for sale of a product made using a patented process?

As stated above, the quantification of damages for infringing acts such as subsequent post-manufacturing activities in relation to the products of a patented process should follow the same general principles as for all other types of infringing acts, including sales, such that the plaintiff needs to prove damages as a result of infringement (*i.e.*, causation). The causation approach means the damages to be awarded against any infringer are the damages caused by the specific acts of infringement. Since damages are compensatory in nature, the Court will not allow the Plaintiff to use multiple lawsuits to obtain damages in excess of the harm the patentee (or those claiming under the patentee, e.g. licensees) actually suffered.

15 **Simultaneous single infringing acts: In the situation where there is a single act, such as an offer for sale on the internet, which amounts to an infringing act simultaneously in a number of jurisdictions, how should damages be quantified in each of those jurisdictions? For example, one single offer to sell products is made on the internet and that single offer is considered to infringe by the courts of two jurisdictions A and B. If court A awards damages for that single act which compensate for the loss suffered by the right holder, should court B also award damages and how should those damages be quantified so as to eliminate or reduce double recovery?**

The causation approach, as used in Canada, means the damages to be awarded against any infringer are the damages caused by the specific acts of infringement. Since damages are compensatory in nature, the Court will not allow the Plaintiff to use multiple lawsuits (e.g. a lawsuit in the United States followed by a suit in Canada) to obtain damages in excess of the harm the patentee (or those claiming under the patentee, e.g. licensees) actually suffered. However, the Plaintiff can the infringers to obtain injunctive relief and any damages that were not available (legally or practically) from the defendant in the first jurisdiction. As damages are compensatory in nature, the Court should not allow the Plaintiff to use multiple lawsuits to obtain damages in excess of what it actually suffered. However, the Court in the second (or subsequent) jurisdiction would need to be informed as to what damages had already been paid in other jurisdictions for infringement in respect of what goods so as to prevent double recovery in a latter jurisdiction.

16 **Franking: If damages have been paid in relation to goods that have been manufactured but the further circulation of those goods has not been restricted by injunction, should the infringer (or the acquirer of the goods) be liable again for damages if those same goods are subsequently sold?**

6.a **If the answer to Question 16 is NO, does that mean that the right holder can recover twice in relation to the same goods?**

No

Please Explain

The infringer (or the acquirer of the goods) should be subject to other remedies (including delivery up or an injunction) in addition to liability for damages (or an accounting of the infringers' profits. However, if damages are considered compensatory in nature, as in Canada, the Court should not allow the infringer to obtain damages in excess of what it actually suffered *i.e.* it should prevent double recovery.

6.b **If the answer to Question 16 is YES, does that mean that the infringer has a de facto licence to sell the manufactured infringing goods?**

17 **Please comment on any additional issues concerning any aspect of quantification you consider relevant to this Study Question.**

A policy of awarding only damages attributable to an infringement, and in ensuring that a plaintiff is compensated fully (and no more) for its losses could be applied where the infringements occur in a number of different jurisdictions. However, the Courts of the respective jurisdictions would need to be informed as to what damages had already been paid in what jurisdictions for infringement in respect of what goods so as to prevent double recovery.

18 Please indicate which industry sector views provided by in-house counsel are included in your Group's answers to Part III.

While in-house counsel did not participate in the preparation of this response, the outside counsel who did participate reflect the views expressed to them from in-house counsel in the diverse industries they represent, including pharmaceuticals, medical device, oil and gas sector. Chemical, biotech and hi-tech.