

*McCarthy Tétrault Co-Counsel:*  
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# Co-Counsel: Technology Law Quarterly

## Volume 5, Issue 3

Welcome to Volume 5, Issue 3 of *McCarthy Tétrault Co-Counsel: Technology Law Quarterly*.

In the last quarter, the consultation period on Canadian copyright reform came to a close, and a bill on copyright reform is expected in the fall. It will be interesting to see if and how that bill differs from the two previous incarnations, Bill C-60 and Bill C-61, which died on the order paper after federal elections were called.

During this quarter, amendments to the *Bankruptcy and Insolvency Act* and the *Companies' Creditors Arrangement Act*, dealing with the right to "use" licensed IP upon an insolvency or bankruptcy, also came into force. While these changes may provide some comfort to licensees, there is some uncertainty over the scope of protection afforded by the amendments. In one article, we discuss a mechanism that licensees may wish to consider to augment their statutory rights until this uncertainty is resolved. That mechanism is a bankruptcy remote entity.

We also discuss the new Ontario government guidelines for consulting contracts, which will likely result in an increase in the number of RFPs. If you are responding to these or other RFPs, you should check out our tips on improving the quality of proposals in an article featured in this edition, which continues our series on improving the RFP process.

In this edition, we also provide an update on a number of previous *TLO* stories: one of the hackers behind the TJX data breaches has pled guilty, the UK government has issued its final Digital Britain report, the European Commission has come out with its final report on competition in the pharmaceutical sector, and the BC Court of Appeal has upheld a lower court decision on defamation liability for hyperlinking.

McCarthy Tétrault is recognized by the foremost ranking publications as a leader in technology law and other practice areas. The 2009 edition of *Chambers Global*, a guide to the world's leading lawyers, confirms McCarthy Tétrault's continued top ranking in Canada for information technology as well as telecommunications & broadcasting. McCarthy Tétrault had five lawyers ranked in the 2010 edition of *Best Lawyers in Canada* for information technology law, the most of any Canadian firm. And the *International Who's Who of Internet and e-Commerce Lawyers* recognizes more lawyers from our firm than from any other Canadian firm. The *Canadian Legal Lexpert Directory 2009* recognizes McCarthy Tétrault as having the most frequently recommended technology transactions practice in Toronto. Our *Co-Counsel: Technology Law Quarterly* demonstrates our commitment to maintaining this position of leadership.

[Heather J. Ritchie](#)

Editor-in-Chief

October 2009

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# Internet/E-World

## E-COMMERCE

### BC: **Appeal Court Finds No Defamation Liability for Hyperlinking**

In *Crookes v. Newton*, the BC Court of Appeal recently considered whether hyperlinking to another website or article that contains defamatory material gives rise to liability for defamation.

To succeed in a defamation action, the defendant must have published (i.e., communicated) the actionable material to a third party. In [TLO 4:4](#), we reported that the BC Supreme Court ruled that merely hyperlinking to allegedly defamatory material on another website does not amount to “publication” and dismissed the action. The plaintiffs appealed that decision, and the BC Court of Appeal largely upheld the lower court ruling.

The Court of Appeal ruled that the mere creation of a hyperlink does not give rise to an automatic presumption of publication. However, the court went on to state that hyperlinking could constitute publication and give rise to liability for defamation in some circumstances (e.g., inviting or actively encouraging viewers to read the defamatory materials or adopting the defamatory content). The judges disagreed on whether the words in the defendant’s article amounted to an invitation or approbation of the allegedly defamatory content.

The majority of the Court of Appeal found that the plaintiff had failed to prove that a reader of the defendant’s site used the hyperlink to visit the defamatory site. They refused to infer on the basis of the level of traffic to the defendant’s website that any third party actually clicked on the link to view the defamatory material.

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### US: **Linden Lab Aims to Make (Second) Life Easier for IP Owners**

Second Life<sup>®</sup>, one of the most popular three-dimensional virtual worlds accessible via the Internet, is working to provide owners of intellectual property (IP) with better tools for managing and controlling their content. In Second Life, users, called “residents,” can explore, meet and socialize with other residents, participate in individual and group activities, and create and trade virtual property and services. Several of these activities involve the creation of content, which according to the Second Life creators is “the heart and soul of Second Life.”

According to the Second Life Terms of Service, users retain copyright for any content they create. But just as in real life, this virtual world is finding that it must deal with complex IP infringement issues. Linden Lab, the creator and operator of the Second Life virtual world, recently posted through its community blog a

“content management roadmap.” This roadmap outlines a number of approaches to improve content management and IP protection. Although Linden Lab does not commit to a specific timeframe, it has stated that it expects to provide updates or launch certain of these initiatives by the end of the year.

**IP Complaint Process.** Second Life currently provides a complaint process in accordance with the *Digital Millennium Copyright Act* provisions, which limit liability for online copyright infringement. A copyright owner can lodge a complaint with Linden Lab in writing (via letter or fax) identifying the allegedly infringing “in-world” item and providing information reasonably sufficient to locate the item “in-world.” To reduce the time and effort required from residents in submitting notifications, Linden Lab is developing an online form that residents can submit electronically. In addition, this online form will allow IP owners to request that Linden Lab search for and remove all copies of an identified item created by a particular resident. Linden Lab admits that developing this capability is one of the most complicated tasks they have ever undertaken.

**“Sticky Licenses.”** When residents create content on Second Life, they can apply a “permission on use” (e.g., move, modify, copy and transfer) to this content. In addition, some residents currently post license terms in their “in-world” stores or in notecards distributed with their content. However, the permissions system does not grant any legal permission to use content outside of Second Life.

Second Life is developing a stand-alone “behind-the-firewall” solution, a server

solution completely disconnected from the main environment (and currently in its alpha phase). As part of this solution, Linden Lab intends to add the ability to attach “sticky licenses” to content sold to enterprise customers running the stand-alone version. Content with these “sticky licenses” will have additional metadata such that the license information can “stick” to the content as it is distributed to the enterprise customer’s server.

**Best Practices.** In addition to the initiatives described above, the roadmap also addresses the need for standard industry practices for copying tools, clear guidance on listing practices for the Xstreet SL marketplace and a content-seller certification program.

**McCarthy Tétrault Notes:**

Policing your IP assets has always been a vital component of any IP strategy. Whether you have a presence “in-world” or not, you may wish to revisit your own policies to take into account virtual world realities and factor in the additional enforcement tools that become available.

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## SPAM

### Canada: Industry Committee Amends Anti-Spam Bill

In May of this year, we sent an [e-Alert](#) that reviewed the concerns many Canadian businesses had expressed with the first draft of Bill C-27 – the *Electronic Commerce Protection Act (ECPA)*. This draft was criticized for containing overly broad anti-spam and anti-spyware provisions that would have rendered illegal many common legitimate commercial practices. It would have potentially exposed businesses to millions of dollars in fines and liabilities for activities that were unrelated to sending spam e-mails or installing spyware programs.

Since then, officials at Industry Canada and MPs on the Standing Committee on Industry, Science and Technology (INDU) have made substantial amendments to the bill to address the concerns raised by Canadian businesses. However, some problems remain.

#### Amendments to the *ECPA*

The INDU Committee completed its clause-by-clause review of the *ECPA* on Monday, October 26. Among the amendments recommended by the committee:

- The spam provisions will not extend to electronic messages that (a) provide a quote or estimate; (b) facilitate, complete or confirm an existing commercial transaction; (c) provide warranty information; (d) provide information related to an ongoing subscription, membership, account or

loan; (e) provide information related to an employment relationship; or (f) deliver a product, goods or a service, including product updates and upgrades.

- The spam provisions will also not extend to messages sent to a published e-mail address, where the message is relevant to the person's type of business so is not considered spam.
- The anti-spam law will now only apply to messages that are sent or accessed from within Canada. Messages that are merely routed through a Canadian server will not be subject to the bill.
- The disclosure requirements for the installation of computer programs were changed from describing the "function, purpose and impact" of the program to simply the "function and purpose." However, if a program performs certain undesirable functions, it must bring their foreseeable impacts to the attention of the user. The prescribed list of undesirable functions is similar to those found in international anti-spyware law precedents.
- The anti-spyware law was also amended to create exceptions for software updates, upgrades and patches.
- Certain programs were excluded from the consent requirements of the anti-spyware law, including web cookies, HTML code, Javascript and operating systems.

- The maximum damage award for a contravention of the anti-spyware provision was changed from \$200 per contravention to \$1 million for each day on which a contravention occurred.
- Transitional provisions were included so that businesses have up to three years to obtain consent to send messages from existing business contacts. Similarly, if a computer program was already installed before the *ECPA* comes into force, the user's consent to updates and upgrades can be implied for up to three years.

While these amendments would alleviate a number of concerns that were expressed with respect to the *ECPA*, a key amendment to Section 78 that had sought to preserve the ability of private entities to collect personal information to investigate breaches of law was not adopted by the Committee.

### ***PIPEDA* Provisions**

Under the original draft of the bill, *PIPEDA* would have been amended to make it illegal to collect "personal information, through any means of telecommunication, if the collection is made by accessing a computer system or causing a computer system to be accessed without authorization."<sup>1</sup> There were no exceptions to this prohibition.

Business groups such as the Canadian Chamber of Commerce, ITAC and others were concerned that the new prohibition was not subject to the usual *PIPEDA* exceptions, including the exception that permits the collection of

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<sup>1</sup> *ECPA*, s. 78.

personal information for the purposes of investigating breaches of an agreement or the contravention of a federal or provincial law. The business community was worried that section 78 could have been construed to prevent the collection of personal information over the Internet to investigate contraventions of law including: fraud such as bank, insurance, and credit card fraud; money laundering, securities violations, theft, misappropriation, or unauthorized use of confidential information/ personal information; violations of business practices legislation; defamation; workplace-related sexual harassment; computer hacking, including committing the criminal offences associated with theft of telecommunications services, making unauthorized use of a computer, or mischief in relation to data; identity theft or personation; and violations of copyright by peer-to-peer networks and other infringers.

The government had tabled amendments to fix this potentially serious flaw in the bill, however, during the final day of Committee hearings, the government withdrew its proposed amendment and the flawed bill was sent to Parliament for Third Reading. If the proposed amendments are not made before the bill becomes law, there could be serious implications for private and public law enforcement in Canada.

### **McCarthy Tétrault Notes:**

It is likely that Bill C-27 will pass Third Reading and go through the Senate in the next few months before becoming law. It will have major implications on software licensing practices as well as on how businesses collect and use personal information in their electronic

communications. Since the bill will become law soon, it is essential that businesses review their business practices concerning sending electronic messages, their privacy policies, and software licence and maintenance agreements to ensure compliance with the *ECPA*.

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# Technology M&A

## TECH-RELATED M&A

### Canada: GPLv3 and Tech M&A

It has been a little more than two years since the Free Software Foundation updated the GNU General Public License with the release of GPLv3 in June 2007. This revision made several important and far-reaching changes in the licensing dynamics surrounding the use and distribution of the open source software (oss) subject to it, but perhaps none so important as those impacting on software patents. We all knew these changes would have a dramatic impact, and now we are seeing this in our tech M&A deals, where oss covered by GPLv3 is implicated.

In a nutshell, GPLv3 provides that when a software company uses oss covered by GPLv3, the rights they convey to downstream users include a patent licence necessary to exercise the rights the GPL is intended to give them. Thus, one of the objectives of GPLv3 was to ensure that software patents – much more prevalent in 2007 when GPLv3 was released, than in 1991 when GPLv2 was crafted – could not be used to defeat the purposes of the GPL.

Incidentally, GPLv3 goes even further and releases users from liability for infringement of patents belonging to a distributor or creator of GPLv3 programs. This broad non-assert provision was another innovation in GPLv3 in 2007, essentially implementing the policy

objective that a GPL licensor not be able to initiate patent litigation alleging infringement of the oss.

### McCarthy Tétrault Notes:

One major impact of GPLv3 can be seen in tech M&A deals, where the purchaser of a tech target company has a portfolio of software patents. The target company often will not have any software patents, and so is comfortable using GPLv3 oss in some of its products or operations. On the other hand, the purchaser does have software patents, and therefore does not want to be in a position where, by acquiring the target company (and the oss it uses) it automatically has to grant patent licences to the installed base of the target company's software licensees.

The upshot has been that purchasers in such situations are insisting that the target remove the GPLv3 oss prior to the closing of the deal. Of course this can be a time-consuming and sometimes technically challenging, activity – hardly opportune given the usual objective of closing M&A deals quickly and with a minimum of closing conditions.

Accordingly, now that we are seeing how GPLv3 is being received by purchasers of tech companies, tech companies are well advised to review their use of and strategy with oss (but especially oss subject to GPLv3) prior to any M&A activity even being on the horizon. The use of oss should be carefully managed by the most senior

managers of the company, rather than simply used for convenience by programming staff. And if a possible exit by means of an M&A deal is likely down the road, at a minimum the tech company needs a plan that will allow for quick and impact-free removal of the oss in the event the potential acquirer happens to have a software patent portfolio.

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# Technology Contracting

## TECHNOLOGY AGREEMENTS

### Canada:

### **New Protection for Licensees of IP – BIA and CCAA Amendments Come into Force**

At long last, amendments to the *Bankruptcy and Insolvency Act (BIA)* and the *Companies' Creditors Arrangement Act (CCAA)* have come into force, providing licensees of intellectual property (IP) with some additional level of protection.

Prior to the amendments, the right of debtors to disclaim (terminate) contracts in a restructuring under the *CCAA* was explicitly recognized by the courts, the rationale behind the contract disclaimer regime being to permit debtor companies to shed uneconomic contracts that present obstacles to a viable restructuring of the debtor. If a business licensed software from a supplier who sought protection under the *CCAA* to deal with its insolvency, the supplier could disclaim the software licence – leaving the licensee with nothing but a damages claim. For businesses dependent on licensed software for their operations, a damages claim would only provide very limited relief.

The amendments expressly permit debtors to disclaim contracts in a restructuring process under the *CCAA* or a proposal made under the *BIA*, but the disclaimer will not affect the licensee's right to use the IP so long as the

licensee continues to perform its obligations under the agreement related to the use of the IP (for example, the payment of royalties).

Under the amendments, the right to use the IP lasts for the duration of such contract, and for any extensions or renewals permitted under the contract. This right also includes the right to enforce any exclusivity provisions in the contract.

### **McCarthy Tétrault Notes:**

While these changes in Canadian bankruptcy laws are welcomed by licensees, the amendments raise a number of issues as to their interpretation:

- **Meaning of IP** – The amendments do not define IP. Does it include, for example, trade secrets and trade-marks? In the United States, the bankruptcy legislation has a narrow definition of what constitutes IP, which expressly excludes trade-marks.
- **Meaning of use** – It is not clear whether rights that are ancillary to the right to use, such as the rights to modify, copy or distribute, the right to enforce confidentiality covenants, and the right to sublicense, are included within the meaning of "use." It is likely that the legislators did not want to go into a long enumeration of all the possible iterations of IP rights, but it will be up to the courts to determine the scope of the current language.

- **Continuing obligations of the licensee** – There is some uncertainty as to the nature and extent of the licensee’s obligations if those obligations are contingent upon the debtor’s performance of certain functions and the debtor has disclaimed the obligations. For example, if a licensor terminates its obligation to provide ongoing technical support or maintenance, it is not clear whether the licensee would still have to continue making full fee payments. It might also prove difficult to calculate the correct fee that a licensee must pay to maintain its rights. Since the licensee’s right to use the IP is contingent upon its performance of its obligations under the agreement, the licensee could potentially lose the right to use the IP if the licensee failed to make the correct payments.

We can also question whether, in the context of a licence for sophisticated technology, it will make any sense for a licensee to continue its use of a software without being able to enforce the ancillary obligations of the debtor (regarding maintenance, support and upgrades) for anything other than a transitional period while the licensee finds a replacement supplier.

Moreover, the amendments do not address the preservation of the licensee’s rights following the transfer of the IP assets under licence to a third-party purchaser. Indeed, as a licence is usually considered to be a personal right granted by the licensor, as opposed to a real right related to the

underlying IP, a purchaser of such IP could claim, in the absence of a specific undertaking to assume the licences or in the case the sale is made free and clear of any liens, that he or she is not bound by the licences granted by the previous owner.

In light of the uncertainties, licensees should consider:

- proactively reviewing the existing licence agreements to ensure that the language regarding their licensor’s financial difficulties is appropriate, e.g., does not provide for automatic termination of the licence upon the licensor’s insolvency;
- taking security or proprietary interests in the IP;
- creating a bankruptcy remote entity (discussed in more detail in [another article](#)) to bolster the statutorily protected rights;
- breaking down the fees payable under a licence agreement to separate the royalties for use from the payments for other services such as maintenance and support; and
- entering into source code escrow agreements with licensors.

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## **Canada: Harmonized Sales Tax – Timing Your Tech Purchases**

Ontario and BC recently announced that they will harmonize their provincial sales tax (PST) with the federal goods and services tax (GST) effective July 1, 2010. In BC, the harmonized sales tax (HST) will apply at the rate of 12 per cent, compared with 13 per cent for Ontario and the other GST-harmonized provinces (Nova Scotia, New Brunswick, and Newfoundland & Labrador), and will be recoverable to the extent the recipient of the supply is fully engaged in commercial activities.

The HST will apply to the same tax base as the GST, with some limited point-of-sale rebates on the provincial portion for a few products. The major benefit of harmonization is that it will eliminate unrecoverable PST for most organizations in these provinces. Currently, organizations pay PST on a broad range of goods (and a limited range of services) acquired in or imported into the province, unless they qualify for a specific exemption such as the production machinery and equipment exemption. The HST will generally eliminate the non-recoverable PST burden. The provincial budget papers indicate that studies have shown that most of these tax savings are passed on to consumers through lower prices.

Businesses (particularly in the financial and public sectors) that have large service or outsourcing agreements in place, that are looking to make large-scale purchases or are considering entering into significant service contacts in the near future, should factor into consideration the impact of the HST, as this

may result in significant additional costs or savings to them. Likewise, tech companies that sell software, hardware and services should take the HST into account in their sales efforts as there may be opportunities for accelerated deals in certain circumstances.

### **McCarthy Tétrault Notes:**

To benefit from potential tax savings or minimize tax liability, as the case may be, it is extremely important that businesses promptly review and consider the impact of HST on their current service and outsourcing agreements and on their procurement plans. In certain instances, businesses may wish to delay significant capital purchases until after July 1, 2010 to take advantage of the available input tax credits.

On the other hand, financial institutions and those public sector bodies (such as provincial lottery corporations) that do not charge GST on their services, and cannot take advantage of input tax credits, may wish to expedite some of their expenditures or rethink some of their existing service and outsourcing agreements. Once the HST is implemented, the costs under existing service and outsourcing agreements will immediately increase – the unrecoverable tax portion will climb from approximately five per cent to 12 per cent in BC and 13 per cent in Ontario (depending on the extent of the particular organization's level of commercial activities).

Before entering into or renewing significant outsourcing or services agreements, organizations should seek tax and legal

advice on structuring their supplier arrangements to achieve their business objectives in a tax-efficient manner. Vendors that can propose novel ways to address this significant problem for these types of customers could have a material advantage over their competitors.

Ontario and BC have released detailed transitional rules. These rules will be important to understand as they will govern transactions occurring around the July 1, 2010 HST implementation date and may have a marked effect on hardware and software sales during this period.

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## OUTSOURCING

### Ontario: **Ontario Government Issues New Guidelines for Consulting Contracts**

The Ontario government has released new guidelines for hiring consultants. All consulting contracts will now be subject to a competitive hiring process and consultants may no longer bill the government for hospitality, food expenses or incidental costs.

The new guidelines apply broadly and affect all consultants, all contracts regardless of dollar value, and all Ontario ministries and agencies.

Under the old rules, contracts valued under \$25,000 were not subject to a competitive hiring process. Now, contracts valued at less than \$100,000 must use either an invitational competitive process with a minimum of three qualified vendors or an open competitive process. Contracts valued over \$100,000 must all use an open competitive process.

Exceptions may only be made in a limited set of circumstances including:

- unforeseen urgency;
- confidential/privileged nature;
- security/protection of human, animal, or plant life or health;
- absence of any bids in response to an open tendering process; and

- where only one supplier is able to meet requirements due to compatibility with existing products or statutory monopolies.

Any of the above exceptions relating to a Ministry contract or a contract from a classified agency without operational independence (i.e., adjudicative, regulatory, and advisory agencies) must be approved by the relevant Minister.

Exceptions relating to a contract from a classified agency with operational independence (i.e., operational services, operational enterprises, Crown foundations and trusts) or a non-classified entity (i.e., entities where the government appoints the Chair/CEO but not the majority of board members) only require Minister approval where the dollar value is greater than \$100,000.

Consultants will still be able to bill for travel and accommodation expenses that are directly related to an assignment in accordance with the *Travel, Meal, and Hospitality Expenses Directive*. However, these expenses must be pre-approved.

The government has stated that it will continue to use Vendor of Record (VOR) arrangements as they are established through a competitive process.

**McCarthy Tétrault Notes:**

Businesses and consultants engaging in contracts with the government or its agencies should be prepared to participate in competitive processes where they may not have been required to in the past. This may also provide opportunities for new entrants to participate in the tendering

process and for existing providers of services to expand their dealings through the competitive selection processes. (For tips on how to improve the quality of proposals, read our article on “Responding to RFPs.”)

Given the government’s sensitivity to incidental expenses on bills, companies that provide services to the government may wish to review their internal billing guidelines and practices.

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**Canada:  
Responding to RFPs — Tips for Suppliers**

Having explored the ways customers can improve their RFP processes in the past three editions of the *TLQ*, we now turn to look at the supplier side of the equation. In this edition, we discuss responding to RFPs and set out some tips for improving the quality of supplier proposals.

RFPs are issued for all manner of products and services — from photocopy paper to construction projects, IT services and complex business process outsourcing initiatives. At the simple end of the procurement spectrum, customers are usually seeking the best price. As the

complexity of the project increases, so will the evaluation criteria, and the quality of your proposal can help ensure that your solution receives full consideration by the customer.

### **Follow the Rules**

Each RFP sets out specific rules regarding the RFP process that should be followed to avoid jeopardizing your proposal. For example, even though a supplier may have an existing relationship with the customer, if the RFP dictates that all questions should be directed in writing to a particular individual within the organization, don't try to circumvent that process by calling your usual business contact. To do so may be perceived as giving an unfair advantage and could result in disqualification, depending on the particular RFP rules.

The RFP will usually set out how proposals should be organized and how they will be evaluated. Avoid the urge to get creative – follow the layout requested by the customer. If specific certifications or bond requirements are requested, ensure those are satisfied and submitted with the proposal.

### **Ask Questions**

If something is unclear or further information is required to respond to a specific item, seek clarification and ask questions. Certain items may have been overlooked by the customer and questions may help with defining requirements. When crafting questions, keep in mind that in most RFP processes any questions and answers will be distributed to all proponents who received a copy of the RFP.

### **Respond to all Requirements**

It is important to respond to every requirement in the RFP, especially in any technical response section. Failure to respond to a requirement may disqualify your proposal. Assign someone to review the proposal before submission to ensure that nothing has been missed.

Be sure you pay close attention to the RFP requirements – are they “mandatory” (i.e., must be included in order for your proposal to receive consideration) or “desirable” (i.e., important to the customer)? Expressly address all mandatory requirements and give the customer sufficient information to evaluate the response. If the evaluation criteria ascribe more weight to particular sections of the RFP, emphasize those sections in your response. Desirable requirements are those that are above and beyond the minimum RFP requirements – “value-adds” can be highlighted and are often a basis upon which the customer differentiates among proposals.

If your solution or performance is dependent on the customer providing certain infrastructure or other deliverables, or carrying out certain steps, make that very clear in the proposal. If you have an alternative solution or idea than is sought in the RFP, ensure that specific RFP requirements have been satisfied and then offer the alternative solution.

### **Clarify Pricing**

If your proposal indicates that the solution meets certain or all requirements, including “desirable” items, the customer will expect that those requirements are included in the pricing, unless otherwise specified. Specify

which components or capabilities of the goods or services are included in the price. If there are any components or services that involve additional fees, clearly state this in the proposal.

Ensure that the pricing offer has an expiry date (which may be as specified in the RFP) and that it is expressly identified in the proposal. If pricing is subject to any adjustment, such as in accordance with CPI, specify the particular reference index and identify whether it applies to all pricing or just certain components such as labour costs.

Clearly articulate all of the assumptions on which the pricing is based; these will often be derived from information provided by the customer.

#### Use Defined Terms

In an understandable but misguided attempt to make the proposal less repetitive and more interesting to the reader, some suppliers write the same thing in many different ways. This can cause confusion and ambiguity, and can actually annoy the reader. To keep your proposal as clear and concise as possible, use terminology and phrases consistently, especially where responding to a technical requirement or specification in the RFP. Use only one term to describe something throughout your proposal. Either define the term on its first use, or include a glossary to capture defined terms.

With a complex procurement, prepare and distribute drafting guidelines to proposal team members as early as possible. The guidelines can include defined terms that are to be used

in the proposal. These terms should mirror, where possible, the terminology used in the RFP. This will help reduce the time required for review and redrafting the proposal for consistency. The guidelines can also include the RFP instructions to proponents and any other advice that might be helpful in preparing the proposal.

#### Avoid Overselling

Depending on the terms of the RFP, the proposal can be contractually binding, so words need to be chosen carefully given their contractual meaning. Below are a few specific drafting suggestions:

Avoid	Use
“ensure” “guarantee” and similar words	“help confirm” or similar
“best efforts” unless you really intend to use all means necessary to achieve something	“commercially reasonable efforts”
“will meet the customer’s requirements”	“will meet agreed contractual requirements”

#### Prepare Early and Stay on Track

Each RFP is unique and will contain different rules and requirements – even when dealing with the same organization, don’t assume that the rules applicable to one RFP will be the same for the next. It goes without saying that it is important to carefully read each RFP upon

receipt and make note of any special requirements.

RFP timelines are important and will be strictly enforced. Prepare early – don't leave the drafting until the day before the proposal is due. Give yourself extra time at the end to proofread, print and bind proposals.

With a complex RFP where input from multiple people within the organization is required to prepare the proposal, consider creating a project plan and build in some extra time at various checkpoints in the proposal process. If a legal review is required, confirm the time required to complete a comprehensive review of the relevant portions of the proposal, and at which stages of the process. Also, appoint a proposal project manager with primary responsibility for overseeing the process, including compiling various portions of the proposal and pulling it together.

Preparing an RFP response can be a costly endeavour involving numerous resources. Investing some time in organization and planning upfront will result in a smoother internal process and yield a higher-quality proposal with better prospects of being selected.

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## Canada: **Value Drivers for IT Outsourcing Deals In An Economic Downturn – Part II**

The last TLO considered the core price-related rationales for renewing IT outsourcing deals early: the customer gets the benefit of immediate lowered prices; the supplier gets the certainty of a new five-to-seven-year agreement. If you are contemplating such an “early renewal” deal with your outsourced services supplier, there are a few other value drivers you must negotiate.

### **Flexibility is the Ideal End State**

Various value drivers may be summed up in one overarching objective: giving you greater flexibility over the new five-to-seven year term of the renewed agreement. In turn, flexibility comes in various guises.

Given the current difficult economic environment, one important flexibility objective is to have the contract address what happens if you simply need fewer services over time because your own business is shrinking. Ideally, the outsourcing agreement's price algorithm should reflect overall price reductions if you use fewer resource units (even if the cost per unit stays the same or even rises slightly at the lower unit utilization run rate).

In traditional outsourcing deals, the price schedule might contemplate what happens if service volumes drop as much as 25 per cent. In today's uncertain business environment, however, smart users are expanding this range to 50 per cent or more, to give the customer greater flexibility.

Or, what happens if your company has several material subsidiaries or different business units, and you sell one of them? If the purchaser is a strategic buyer who can easily provide IT services to the newly acquired entity, then that is an ideal scenario. If, however, the buyer is a financial buyer without its own IT infrastructure, then it would be very valuable to the purchaser — and indirectly to you as the seller — if your outsourcing deal would permit the newly divested entity to continue to obtain IT services under your existing arrangement, at least for a reasonable transition period.

This sort of transition deal can often be negotiated with the supplier at the time it is needed. Invariably, however, the price would be much lower if the transition deal were negotiated as part of the overall initial outsourcing arrangement, when the supplier is still not sure it will be awarded the outsourcing business, and is therefore more likely to offer more attractive prices and contractual concessions.

### Repatriating Work

Traditionally, the suppliers of outsourced services took the position that once they were awarded a certain scope of work — such as operating all of your company’s computer servers — that work would become “exclusive” to them, such that no other service provider could do that work, nor could you do it yourself (until the current outsourcing agreement expired).

This sort of rigid stance on exclusivity is now being softened in many outsourcing agreements, again with a view to providing the customer

with greater flexibility. Today, it is not uncommon to provide that up to 20 per cent of the scope of work (such as 20 per cent of your servers, to use the previous example) can be “repatriated,” either by bringing the work back in-house with the customer, or by the customer handing it over to another service supplier.

This type of flexibility can be very useful to you. For example, you might be acquiring a new material software system that will operate on a new set of servers. A new supplier has agreed to operate this software for you, but as part of that service, also wants to operate the related hardware servers (on which the new software will operate), so that they have control of the entire computing environment (related to the new software) and therefore can guarantee 99.999 per cent uptime availability for it. If you have no repatriation rights in your main outsourcing agreement, this sort of scenario becomes impossible — much to your chagrin.

### Early Termination

In a similar vein — but often even more important — is the “termination for convenience” clause that allows you to bring the outsourcing arrangement to an end (at some point during the term of the agreement) even though the supplier is not in default in terms of the performance of the outsourced services. This can be a critical provision of the outsourcing agreement, as it offers maximum flexibility to you.

You need such a provision because all sorts of things might happen over the term of the agreement that no longer make it sensible for

you to continue the relationship. For example, your company may be acquired, and the purchaser may have an IT capability that is going to provide you the services previously sourced from the outsourcing company. In that case, it is imperative you have the option to end the outsourcing agreement. There are numerous other scenarios that make having such a clause a “must have” in your outsourcing agreement.

### Partial Termination

Where you are obtaining multiple services from the outsourcer, it is important that you have the ability to terminate each service for convenience (in addition to the overall arrangement). For example, in a typical outsourcing deal for IT infrastructure services, you will have outsourced the following so-called “towers” of different services: servers, desktop computers, help desk, the main frame computer, and likely several other activities. Then, a couple of years into the deal, you might find that the supplier has “lost interest” in its help desk service offering (it is still offering it, but it is no longer making material investments in the contact software needed to keep it state-of-the-art, etc.). And another supplier has since developed the leading help desk outsourced service offering.

In such a scenario, you may want to terminate your current help desk service, and move over to the new player. You will not be able to do so unless your agreement permits you to terminate an individual service tower. Again, the importance of such flexibility-enhancing provisions cannot be overstated.

### Early Termination Fees

Often the most contested negotiation you will have with the supplier is not whether you can have the right of early termination for convenience by service tower, but rather whether you will have to pay a fee for this privilege when you exercise this right. Supplier positions on this issue vary widely.

Equally, some suppliers insist that such an early termination clause (while provided for in the agreement generally), cannot be exercised by the customer for some period of time (typically for one or two years after the start date of the contract). Again, this is a highly negotiable point.

To maximize your negotiating leverage on these two very important issues, I strongly encourage you to have these discussions while you are still in negotiations with at least two bidders for your work. Particularly in this economic environment, where suppliers are extremely keen to get your business (or renew it), some very favourable terms can be achieved on these points, if you negotiate them while there is still a healthy competitive tension between two or more prospective service suppliers.

Along these same pro-competition lines, today’s savvy customers are in fact not ending up with only one supplier of outsourced IT services. Rather, they are concluding arrangements whereby two or even three suppliers are “pre-approved” as being able to provide services in a certain category (such as software development and maintenance), and then as specific projects arise, these are submitted to the two or three authorized bidders for their best and final offers (which are often for firm, fixed-price

quotes). Assuming each supplier has already been cleared from a quality perspective (i.e., each of them is clearly able to do the job from a staffing and expertise perspective), then this multi-supplier sourcing structure can save you many dollars by ensuring that each supplier submits a very competitive “best and final offer” for your specific project.

In conclusion, while difficult economic times generally constrain companies from pursuing creative strategies, in the outsourcing area there is never a better time than an economic downturn in which to conclude a sensible deal with the supplier.

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### Canada: **Immigration 101 for IT Companies Bringing Temporary Foreign Workers to Canada**

You are the Human Resources Director for a Canadian-based IT company with affiliates and subsidiaries in numerous countries. One of your responsibilities is to manage the temporary foreign workers employed by your company in Canada. All individuals are subject to Canadian immigration laws that apply to temporary foreign workers, unless they are either a Canadian citizen or a Canadian permanent resident. Under these laws, every person who participates in employment in Canada requires a work permit. The definition of employment is very broad, and most business travellers to Canada fall into this category.

### **Working in Canada Temporarily: Relevant Considerations**

But when do you require a work permit? The *Foreign Worker Manual* assists in interpreting the *Immigration and Refugee Protection Act* and Citizenship and Immigration Canada’s policy with respect to temporary foreign workers. According to the *Manual*, if an individual performs an activity that will result in payment or remuneration, he or she will be considered to be engaging in work. This includes salary or wages paid by an employer to an employee, remuneration or commission received for fulfilling a service contract, or any other situation where a foreign national receives payment for performing a service.

The first step for any IT company is to assess whether a foreign-based employee requires a work permit for his or her trip to Canada. Whether the person will be travelling to Canada for two days or two years is not necessarily relevant. What is much more important is the type of activity the person will engage in while in Canada, and the company or people with whom the traveller will interact.

There are some limited categories that exempt the individual from needing to obtain a work permit. These include the North American Free Trade Agreement (NAFTA) Business Visitors and the NAFTA After Sales Service Personnel categories.

### **Obtaining a Work Permit**

If a work permit is necessary for an individual to participate in business activities in Canada, the next step is to determine what category he or she may be eligible under, and where the

person is eligible to apply for the permit. This can usually be accomplished by forwarding a copy of the employee's resume and a detailed description of the proposed activities to your immigration lawyer for consideration.

Two of the more common Service Canada Labour Market Opinion (LMO) exempt categories that are available to IT companies are:

- the IT Pilot Project, which allows for foreign nationals who qualify under seven different IT occupations to apply for work permits, and
- the NAFTA Professional Computer Systems Analyst category, which is only available to qualified American or Mexican citizens.

Once the proper route to apply for the work permit has been established, there are other factors to consider to ensure compliance with Canadian immigration legislation. The IT professional who is travelling to Canada or being transferred may require a special entry document called a temporary resident visa if he or she is a citizen of a prescribed country such as South Africa or Brazil. This visa must be obtained through a Canadian Consulate in advance and cannot be applied for at the border, otherwise the employee may be refused entry to Canada. This document is required regardless of the purpose of the trip or the duration of the stay in Canada.

Similarly, if the IT professional has a previous criminal record or serious health problem, he or she may be denied entry to the country. Finally, an individual may be required under certain circumstances to take an "immigration

medical examination" prior to travelling to Canada.

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# Intellectual Property

## COPYRIGHT

### US: US Court Rejects File-Sharer's Fair Use Defence

In *Capital Records v. Tennenbaum*, the US District Court for Massachusetts rejected the defendant file-sharer's defence that his sharing of musical files over a peer-to-peer (P2P) network was a "fair use" that should insulate him from liability under the US *Copyright Act*. The Act allows limited "fair use" of copyrighted material without the rights holder's permission.

The defendant had contended that his uploading of more than 800 songs onto a P2P network was fair in light of the statutory criteria requiring courts to consider (a) the purpose and character of the use; (b) the nature of the copyrighted work; (c) the amount and substantiality of the portion taken; and (d) the effect of the use upon the potential market.

In rejecting the defence before trial, the court commented that the defendant's suggested interpretation of the US *Copyright Act* "proposes a fair use defense so broad that it would swallow the copyright protections that Congress has created. Indeed, the Court can discern almost no limiting principle: [thus interpreted, the Act] would shield from liability any person who downloaded copyrighted songs for his or her own private enjoyment."

While the court found that there might be certain circumstances in which a file-sharer could assert such a defence, it suggested

that such defences might be limited to acts undertaken in the "infancy" of P2P file-sharing, where the purposes of the use were otherwise in line with the fair use case law in the US. This was not the case for this defendant, who had shared hundreds of songs over the course of many years.

After the court's rejection of the fair use defence, the case went directly to a jury without significant dispute as to the extent of the file-sharing, and the defendant was assessed \$675,000 in civil penalties based on the US statutory damages regime.

#### McCarthy Tétrault Notes:

The findings on fair use are consistent with other results in the US courts. However, this decision must be applied with care in a Canadian context, where the "fair dealing" doctrine requires all such defences to be anchored in the specific purposes set out in Canada's *Copyright Act*. The US Act's fair use defence allows, in theory, for any use to be justified as fair, while the fair dealing defence in Canada is only available in certain enumerated situations – such as for research or private study. The enumerations under the Canadian Act make it far more difficult for Canadian mass infringers to argue that a particular use was "fair" in any given context.

Recent calls have been made to adopt an open-ended fair use system in Canada. These calls do not address the fact that US courts have applied fair use law on a common law basis since 1841, and on a

statutory basis since 1976. In light of this long line of jurisprudence, the doctrine has some meaning and boundaries, allowing outlier cases such as *Tennenbaum* to be more easily handled.

By contrast, adopting fair use into the Canadian legal system, which lacks this backdrop, would result in confusion and unpredictable application. The resulting uncertainty would inhibit both users and creators from understanding what is permissible and what is not. This concern is a major reason why a coalition of close to 50 prominent Canadian organizations joined together in the recent round of copyright consultations to oppose calls for a new fair use system. Their joint submission was authored by Barry Sookman and Daniel Glover of McCarthy Tétrault LLP.

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## **Canada: Canadian Government Completes Consultations with Canadians on Copyright Reform**

The Canadian government recently concluded a nation-wide consultation on copyright modernization. It asked Canadians five questions about the changes that should be made to the *Copyright Act* to best foster innovation, creativity, competition, and investment and to position Canada as a leader in the global, digital economy:

1. How do Canada's copyright laws affect you? How should existing laws be modernized?
2. Based on Canadian values and interests, how should copyright changes be made in order to withstand the test of time?
3. What sorts of copyright changes do you believe would best foster innovation and creativity in Canada?
4. What sorts of copyright changes do you believe would best foster competition and investment in Canada?
5. What kinds of changes would best position Canada as a leader in the global, digital economy?

Undertaken jointly by Industry Minister Tony Clement and Canadian Heritage Minister James Moore, this is the first Canadian public consultation on copyright reform since 2001.

The consultation period ran for approximately two months and provided a variety of ways

for Canadians to participate. There was a [consultation website](#) that featured an active online discussion forum. Thousands of individuals and organizations submitted formal opinion letters to the government, and many of these submissions have now been posted on the website. In addition, Ministers Moore and Clement hosted a series of nine roundtable discussions with experts in the field in different regions of the country. Finally, Canadians could make submissions either live or via interactive webcast at two well-attended town halls in Montréal and Toronto.

**McCarthy Tétrault Notes:**

Now that the consultation period has closed, the government has stated its intention to release a first draft of the copyright reform bill in the fall. However, there have been some indications that the new bill may not surface until March. The upcoming bill would represent the government's third attempt to reform copyright law in the past four years. Bills C-60 and C-61 both died on the order paper after federal elections were called in 2005 and 2008.

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**UK:  
UK Government Issues Final Digital  
Britain Report**

In [TLQ5:1](#), we reported that the UK government had issued its Digital Britain: Interim Report, which outlines a strategic plan to position the UK as a leader in the global digital economy and to spur growth in the digital and communications industries. Following extensive consultation with key stakeholders and members of the public, the government has now published the final report and accompanying action plan.

The final report sets out a number of recommendations to foster and protect talent and innovation in the UK's creative industries as well as to modernize and upgrade the wired, wireless, and broadcasting infrastructures and support local news. The report also introduces policies aimed at maximizing the social and economic benefits from digital technologies. These measures include:

- a three-year national plan to improve digital participation by expanding Britons' knowledge of the Internet;
- the provision of universal access to broadband services by 2012 so that every home in the UK has access to 2 Mbps broadband;
- the creation of a fund that will invest in Next Generation broadband services;
- an upgrade of digital radio by the end of 2015;

- a liberalization of the mobile spectrum, enhancing 3G coverage and accelerating Next Generation mobile services;
- the development of a robust legal and regulatory framework to combat digital piracy;
- the provision of support for public service content partnerships; and
- a consultation on funding options for national, regional and local news.
- notify alleged infringers of rights (subject to reasonable levels of proof from rights holders) that their conduct is unlawful; and
- collect anonymized information on serious repeat infringers (derived from their notification activities), to be made available to rights holders together with personal details on receipt of a court order.

The report is accompanied by an action plan that sets out the steps for implementing the final report. Previously, we reported on the UK government's intention to consult further on a new rights agency and possible ISP obligations to collect anonymized information on serious repeat peer-to-peer file-sharing infringers and to make that information available to rights holders. The final report now outlines what the UK government considers is a clear path to addressing the problem, aiming to reduce the incidence of unlawful file-sharing by 70 to 80 per cent. The action plan and report detail a number of steps toward achieving this target including:

- Consulting further on proposals to give Ofcom (the independent regulator and competition authority for the UK communications industries) a duty aimed at reducing copyright infringement. The current proposal is that Ofcom will be obligated to take steps aimed at reducing online copyright infringement by requiring ISPs to:

Giving Ofcom "backstop" powers to specify other conditions to be imposed on ISPs, if the notification process outlined above has not been successful after a year in reducing infringement by 70 per cent of the number of people notified. These conditions might include:

- blocking (Site, IP, URL);
- protocol blocking;
- port blocking;
- bandwidth capping (capping the speed of a subscriber's Internet connection and/or capping the volume of data traffic that a subscriber can access);
- bandwidth shaping (limiting the speed of a subscriber's access to selected protocols/services and/or capping the volume of data to selected protocols/services); and
- content identification and filtering.

The UK government recognizes that the obligations will need to be underpinned by a detailed code of practice and hopes that an industry body (the 'rights agency' envisaged in the Interim Report) will draft these codes for Ofcom to approve. Pragmatically, the government recognizes in the report that Ofcom needs the ability to impose its own code if it is satisfied that the industry cannot produce a code itself and has no immediate prospect of producing one.

- Consulting further on the trigger mechanism that will give both rights holders and ISPs strong incentives to make the notification system work. The current proposal is for a trigger that the UK government suggests should be calculated by:
  - taking the number of unique individuals notified; and
  - assessing what percentage of those notified have stopped unlawful file-sharing, either voluntarily or due to prosecution.

If that percentage does not exceed or is not significantly close to 70 per cent, the Ofcom "backstop" powers will be triggered.

More recently, the UK government outlined how its thinking has evolved since the publication of the final report, particularly with respect to the proposed use of a 70 per cent trigger, which it now believes would be inappropriate due to the difficulties of measuring unlawful file-sharing activity and the length of time that it would take to implement the proposed measure.

As an alternative, the government has proposed that the Secretary of State have the ability to impose additional powers on Ofcom, taking into account all evidence available to him. The government also included in its follow-up consultation a request for responses on its ideas that:

- the technical measures or "backstop" powers outlined above be extended to include the ability to suspend a subscriber's account as a last resort; and
- costs relating to the notification and collection of data on notifications be borne by individual parties, except in relation to the costs of sending notifications, which would be split between rights holders and ISPs.

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### Europe: **French Graduated Response Law Passes Constitutional Hurdle**

Earlier this year, the French Assemblée Nationale produced a draft law that would have required Internet Service Providers (ISPs) to implement graduated response systems for subscribers found to be downloading copyright-protected materials over the Internet. Subscribers infringing copyrighted works would be sent a series of warnings that, if persistently ignored, would culminate in the termination of their account with the ISP. In June, the French Constitutional Council sent the draft of this law

(known as the “HADOPI” law) back to the legislators, ruling that the law would have disconnected French Internet users without sufficient judicial oversight.

Earlier this fall, the Assemblée Nationale produced a revised draft of the law, known as HADOPI 2. Under the revised law, ISPs are now required to obtain judicial consent through an expedited process before disabling Internet access to repeated copyright infringers. The French Constitutional Council recently assented to this version of the law and the first warning notices are expected to be sent in early 2010.

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## TRADE-MARKS

### Canada: **Countdown to the Olympics – Proper Use of Olympic Marks**

Companies thinking of leveraging the 2010 Winter Olympics in their marketing and advertising campaigns should be aware of the complex legislative regulation surrounding use of marks relating to the Olympic Games and the Paralympic Games (Olympic Marks).

The Canadian *Trade-marks Act (TMA)* affords registered Olympic Marks the same protection as other trade-marks registered under the *TMA*. However, the majority of Olympic Marks are protected as official marks, which have the advantages of not being subject to substantive examination by the Trade-marks Office and not being restricted by wares and services. The *TMA* also prevents anyone from adopting a mark that so nearly resembles the official mark it is likely to be mistaken for one. Examples of Olympic Marks that are official marks are WHISTLER 2010, ROAD TO VANCOUVER, and 2010 GAMES.

Since 2007, Olympic Marks have also benefitted from special protection under the *Olympic and Paralympic Marks Act (OPMA)*. The Canadian government enacted the *OPMA* mainly to help curtail “ambush marketing,” a practice common around major sporting events, whereby a business intentionally deceives consumers into thinking that it is an official event sponsor, thereby undermining the businesses that do hold official sponsorship titles.

The *OPMA* protects not only ‘obvious’ Olympic Marks, but also the use of certain words or expressions, which, if combined, may be a consideration in finding whether someone has acted in a prohibited manner. For instance, where a business uses the words ‘medals’ and ‘gold,’ which are covered by the *OPMA*, in its advertisements, the *OPMA* requires a court to take into account evidence of use of the combination of ‘gold medals’ when determining whether the business has acted contrary to the *OPMA*. Protection for Olympic Marks pertaining exclusively to the Vancouver Olympics ends on December 13, 2010.

The *OPMA* contains two distinct prohibitions: one regarding the use of Olympic Marks themselves, and the other regarding passing off.

#### **Prohibited Uses**

No person other than the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC), the Canadian Olympic Committee (COC) or the Canadian Paralympic Committee (CPC) can adopt or use in connection with a business, as a trade-mark or otherwise, an Olympic Mark (or a translation thereof) or a mark that so nearly resembles an Olympic Mark it is likely to be mistaken for one.

There are, however, several exceptions to this rule:

- **Consent.** Use with VANOC, COC or CPC consent.

- **Prior use or rights.** Use consistent with use as of March 2, 2007 or existing rights pursuant to trade-mark registration or official mark publication prior to March 2, 2007.
- **Geographical indication.** Use of a protected geographical indication identifying a wine or spirit, if the wine or spirit originates in the territory indicated by the indication.
- **Descriptive element.** Use by a person of their address, the geographical name of their place of business, an accurate indication of the origin of their wares or services, or an accurate description of their wares or services to the extent that the description is necessary to explain those wares or services to the public.
- **Athletes.** Use by an individual who has been selected by the COC or the CPC to compete, or has competed, in an Olympic Games or Paralympic Games, or another person with that individual's consent, of the certain Olympic marks only in reference to the individual's participation in, or selection for, those Games.
- **News reports.** Publication or broadcasting of a news report relating to Olympic Games or Paralympic Games, including by means of electronic media, or for the purposes of criticism or parody relating to Olympic Games or Paralympic Games.
- **Artistic work.** Inclusion of an Olympic Mark in an artistic work, within the meaning of the *Copyright Act*, by the author of that

work, as long as the work is not reproduced on a commercial scale.

### Passing-Off

Up to December 31, 2010, the *OPMA* also prohibits a person from promoting or otherwise directing, in association with a trade-mark or other mark, public attention to a business, products or services in a manner that misleads or is likely to mislead the public into believing that such business's products or services are approved, authorized or endorsed by VANOC, the COC, or the CPC – or that a business association exists between such business and the Olympic Games, the Paralympic Games, VANOC, the COC, or the CPC.

### Remedies

A variety of remedies are available under the *OPMA*, such as recovery of damages and profits, punitive damages, detention of imported products, the publication of corrective advertisement and injunctions. It is noteworthy that the *OPMA* makes it easier for an applicant (e.g., the COC, CPC, VANOC or official Olympic sponsors) to get interim or interlocutory injunctive relief because the legislation removes the common law requirement for the applicant to prove that it will suffer irreparable harm if the relief is not granted.

### VANOC Branding Guidelines

In view of the complex legislative framework, VANOC issued the 2010 Olympic and Paralympic Brand Management Guidelines. These provide guidance to the public as to how VANOC intends to protect Olympic Marks and set out the framework VANOC uses to interpret and

consider enforcement actions. The framework involves a two-stage process: an assessment of whether there has been an infringement or passing-off of the Olympic Marks; and a determination of the appropriate remedial action where there is infringement or passing-off.

In performing the infringement/passing-off assessment, VANOC considers the following six factors:

1. **Factually accurate use.** Have the Olympic Marks been accurately used without distortion or modification?
2. **Relevant use.** Is use of the Olympic Marks relevant to a larger initiative or storyline? Or, does the use constitute a gratuitous reference to the Olympic or Paralympic movements in an overly promotional manner?
3. **Commercially neutral.** Are the Olympic Marks used in a commercially neutral manner that does not contribute to creation of an unauthorized business association between the Olympic/ Paralympic Movement and a commercial entity or otherwise commercially exploits the Olympic Marks?
4. **Undue prominence.** Are the Olympic Marks used in a way so as not to enjoy undue prominence within the overall initiative or storyline?
5. **Use of Olympic and Paralympic visuals.** Are Olympic or Paralympic visuals (e.g., Olympic logos, team uniforms, or Olympic

medals) being used in connection with the business? (This use will typically be of high concern.)

6. **Unauthorized association.** Are there any other elements that constitute an infringement of the Olympic Marks or an unauthorized business association?

VANOC will perform a numerical assessment for each factor, ranging from "1" (low concern) to "3" (high concern), and the aggregate score is calculated. A total score of "8" or below is considered, in most cases, to be unlikely to infringe. A total score that is between "9" and "13" is considered by VANOC to be potential infringement and subject to further review, and any aggregate score above "14" would be considered a likely infringement.

The guidelines also contain a number of examples in which VANOC uses the framework to assess infringement, and these examples can assist businesses in determining whether any proposed advertising or marketing plans would cause concern to VANOC.

**McCarthy Tétrault Notes:**

Due to the complex legislative regime involving the *TMA* and the *OPMA*, businesses must be careful when marketing products and services around the 2010 Winter Olympics. In addition to the general Olympic logos, indicia and marks, the marks and expressions covered by the *OPMA* are quite broad. For instance, the *OPMA* covers words like "Games," "2010," "21<sup>st</sup>" and "Medals." Combining those words with other expressions such as "Winter," "Gold," "Sponsor," "Bronze,"

“Silver,” “Vancouver” and “Whistler” could also give rise to potential claims on the basis of a breach of the *OPMA*. Therefore, a business might not be using any Olympic logo, indicia, or mark but could still fall within the ambit of the *OPMA*.

While the guidelines are not legal rules *per se*, they are useful in helping to determine whether VANOC would be sufficiently concerned with certain proposed marketing or advertising plans such that infringement actions might be taken. That said, VANOC could seemingly consider many advertisements or use of any type of Olympic Mark as potentially infringing and warranting further internal review since any advertisement, even without any Olympic Mark, would appear to have a base score of “6” under VANOC’s scoring system. Since VANOC’s internal review procedures are unknown, it becomes difficult for companies to assess whether their proposed plans are offside the guidelines and therefore be subject to enforcement actions by VANOC.

In summary, businesses should be prudent and cautious when deciding whether to incorporate any Olympic Marks or any words or expressions covered by the *OPMA* in their advertising and marketing campaigns.

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## PATENTS

### North America: The Patent Pendulum – Part I

In the past 12 months, two significant decisions (one in Canada, the other in the United States) have the potential to dramatically recalibrate the scope of patent protection for so-called “business methods” (and possibly “software inventions” as well). These cases may herald a backward swing of the patent law pendulum towards less protection for business methods.

In Canada, the Canadian Patent Appeal Board rejected a patent application of Amazon.com Inc. for its novel “one-click” online product ordering system. In the US, the Court of Appeals for the Federal Circuit in the *Bilski* case has narrowed extensively the ambit of patent protection in a decision involving a commodities-hedging system.

The *Bilski* decision is under appeal to the US Supreme Court, and the Amazon decision is also being appealed to the Federal Court of Canada. This is welcome, because each decision is unsatisfactory. But the importance of their ultimate respective determinations cannot be underestimated. Therefore it is worth taking stock, even at this interim stage, of the issues presented by them – and of what exactly is at stake in what will be their final judicial resolutions.

#### Importance of Patents

Before going into the two decisions, just a reminder of why patents are so incredibly important: in essence, it is because they afford the strongest form of intellectual property (IP)

protection. While copyrights and trade secrets are useful as far as they go, they actually do not go that far because they protect only against copying. For example, independent creation is always a full defence to a copyright or trade secret claim.

By contrast, independent creation (subject to some nitty-gritty nuances) is generally not a defence in a patent claim. That is, you can never successfully be sued under copyright/trade secret law for ripping off someone else’s software if you never had access to it; but you certainly can be sued for infringing a third party’s patent even if you know nothing about it. Therefore, for the duration of the patent (roughly 20 years), the patent holder can assert an effective monopoly on the invention it covers (and presumably charge monopoly profits on its sale or licensing for such time period). Patents, in a word, are incredibly valuable IP assets.

#### Hurdles to Patenting

Not surprisingly, given their significant value, the government agency that issues patents – in Canada, the Canadian Patent Office (CPO) – does not hand them out willy-nilly, but only very carefully and selectively, applying the patentability criteria with rigour and discipline. By contrast, copyright arises automatically, as does trade secret protection so long as you take appropriate steps to keep secret your proprietary information.

In general terms, the invention for which you desire to be issued a patent must be new and inventive. In terms of novelty, essentially this

means that no one, anywhere in the world, can have disclosed or used something similar to what you want patented. And even if you satisfy this requirement, then your invention must not be obvious — it has to embody some degree of inventive spark that an average technical person in your space would not have come up with (in short, there has to be some creative ingenuity buttressing your invention).

In addition, your invention must come within one of the categories of patentable subject matter permitted by the *Patent Act*; namely, it has to be a “new and useful art, process, machine, manufacture or composition of matter.” It was this latter requirement that was found to be missing in the Amazon case.

### Amazon’s One-Click Invention

To understand the genius behind Amazon’s “One-Click” online ordering invention, you have to cast back your mind to the mid-1990s, and the infancy of business-to-consumer e-commerce. Unlike today (when Amazon is a leading online retailer — or “e-tailer”), back then, Amazon was one of many struggling new online businesses, each trying to set themselves apart from the others in a new, crowded and difficult marketplace.

One particular difficulty was that more than 60 per cent of online prospective consumers who started to order products from websites never completed the purchase because they found the “shopping cart/checkout line” process cumbersome, frustrating and time-consuming. Finding something to buy online was easy, particularly given the cookie technology that most e-tailers used (by sending your computer a cookie — a bit of software

code — when you first visited their site, the next time you came back to the site, the cookie would allow the e-tailer to “recognize you” so that ads tailored to your own preferences — based on what you looked at last time — would be served up to you). It seems like magic — “My, how fortuitous that all of these ads showcase books that are of interest to me! It’s as though they know me!” But it’s not magic, of course; it’s just simple cookie technology at work.

While the new e-consumer was wowed by the personalization features of e-tailers’ websites, they were underwhelmed by the check-out buying process. Each time the “shopping cart” was ready to be pushed through the online cash register process, multiple screens confronted the customer with information to complete, instructions to follow, and precious time to waste (usually typing in the same information they had given on their previous visits). As noted above, the statistics showed that well over half the people who started this check-out process never completed it.

To address this real, practical problem, the clever folks at Amazon.com invented, developed, perfected and deployed on their own website their so-called “One-Click” product-ordering system. Essentially, when you wanted to purchase something from their site the second and subsequent time, you could do so by merely clicking the “One-Click” button (this would populate your order with the same information you used the last time you ordered something, thereby getting you through the check-out process in a fraction of the time). In essence, if you used Amazon, you only had to endure the check-out hassle once; after that the Amazon computer remembered who you

are (courtesy of the cookie they put on your computer that first visit) and, by using your previously provided check-out data, could give you a much more satisfying online purchasing experience.

### **Amazon's US One-Click Patent**

Amazon obtained a US patent for the One-Click invention. In the fall/Christmas season of 1999, it used this patent to great effect when, on the strength of it, Amazon successfully obtained an injunction against Barnes and Noble, preventing them from using a similar one-click check-out system on the B&N website (at the time B&N was a key rival of Amazon).

In this injunction case, B&N argued that the Amazon patent should be found invalid given all the other online ordering systems that B&N brought to the court's attention (that B&N argued proved that Amazon's system was neither novel nor inventive). The court considered each of these examples of prior art, but concluded that none actually implemented a "one-click" type functionally.

This was an important patent victory for Amazon, and forced B&N to redesign its check-out system for that critical 1999 Christmas e-commerce season. (It should be noted that subsequent litigation ensued, and the parties ultimately settled their dispute in 2002).

### **Amazon's Canadian Patent Application**

Amazon filed for a Canadian patent for the One-Click invention, but so far has been unsuccessful in having it issued. The initial review was undertaken by an Examiner at the CPO. In Amazon's case, the Examiner concluded that the One-Click idea was not

inventive, and moreover that it did not constitute patentable subject matter.

Amazon appealed to the Canadian Patent Appeal Board and the Commissioner of Patents (collectively, the "Board"). Interestingly, on the issue of inventiveness, the appeal was successful. There was one particular book on the subject of online e-commerce that pre-dated the patent application, and the Examiner held that various references in this book anticipated what Amazon had developed in its One-Click invention.

The Board carefully reviewed the book, and concluded otherwise. While use of cookies to enhance the e-consumer experience was at that time obvious, the Board found that Amazon's single-action ordering system was not obvious: the Board concluded that a skilled technician would not have directly and without difficulty conceived of the One-Click system.

### **Canadian Subject Matter**

On the other hand, in what cannot be termed anything but a surprising decision, the Board concluded that a patent should not be issued to Amazon for the One-Click invention because it did not constitute patentable subject matter. In essence, the Board stated unequivocally that in its view, a pure business method that has no "technological effect" is not patentable in Canada.

This is startling for several reasons. First, the current *CPO Manual of Patent Office Practice* expressly states that business methods are not automatically excluded from patentability by jurisprudence or statute. In its decision, the Board considered and rejected that statement

in the *Manual*. Therefore, for the Board to take such a hard and unnuanced view of business methods is disappointing (more recently, a proposed amendment to the *Manual* would bring it in line with the *Amazon* decision, also denying patentability to business methods).

The second surprising aspect of the *Amazon* decision is that the Board found that the term “art” and “process” in the *Patent Act* are confined to acts performed by “some physical agent upon some physical object and producing in such object some change of character or condition.” That is, the Board believes that all categories of invention in the *Patent Act* are physical in nature; they involve tangible object or instruments. The decision also seems to ignore the prevalence of computers and processing systems in today’s environment in assessing the “technological effect” issue.

Describing this conclusion in another way, the Board stipulates that the common characteristics of the five categories of invention is that they are “technological” in nature. And the Amazon One-Click invention does not qualify because it is only a retailing concept and some rules for ordering items. (As the Board stated, “Single-action ordering without checkout ... involves streamlining the rules for practice for shopping, that is, it relates to a business decision with business implications. There is nothing technical about this aspect of the claimed invention.”)

The authorities relied upon by the Board for its conclusion on patentable subject matter are strange, particularly in terms of its use of American authorities. For example, it cites the dissent in a Canadian Supreme Court decision that refers to the *State Street Bank* case,

which did not involve a physical system! And the Board cites the *Bilski* decision, which as we shall see in the next *TLQ*, actually takes a much more nuanced view of business method patents. (After reviewing *Bilski*, we will also draw some conclusions about the practical – and strategic – impact of these two cases.)

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# Privacy

## CASES/LEGAL DEVELOPMENTS

### US:

#### **Credit Card Data Theft: TJX and Hannaford Brothers Inc. Hacker Pleads Guilty to 19 Charges**

A hacker recently pled guilty to 19 charges related to the theft of 41 million credit and debit card numbers from several retailers, including Barnes & Noble, BJ's Wholesale Club, Boston Market, Forever 21, OfficeMax, Sports Authority and the TJX Companies (TJX attack). Albert Gonzalez was arrested for these thefts in 2008, and has also been charged in connection with another high-profile data breach. These attacks and their aftermath underscore the need for retailers to be vigilant in adequately monitoring, auditing, testing and updating their security measures. They also highlight the importance of having an action plan in place to respond to a data breach, and that plan should contemplate any statutory notification requirements.

Under the plea agreement for the TJX attack, Gonzalez is to serve a sentence of 15 to 25 years after pleading guilty to the 19-count indictment. Those charges include unauthorized access to computers, fraud in connection with computers, damage to computers, conspiracy to commit wire fraud and aggravated identity theft. Gonzalez must also forfeit some \$2.8 million in cash, a Miami condo, a car and expensive jewellery. He is scheduled to be sentenced in December in Boston, Massachusetts.

While awaiting trial for the TJX attack, Gonzalez was indicted yet again – this time with two others, in New Jersey, for a data breach affecting up to 130 million credit cards from Hannaford Brothers Inc., Heartland Payment Systems, the 7-Eleven retail chain and two other unnamed retailers (Hannaford attack). The Hannaford attack, which is now considered the largest data breach in history, occurred approximately one year after the TJX attack.

The plea agreement for the TJX attack does not apply to the charges Gonzalez faces in connection with the Hannaford attack.

### Privacy Law

One of the issues raised following both attacks was the obligation for a retailer or payment card industry operator to disclose a breach to its customers.

In 2007, the State of Massachusetts passed a law that requires companies to disclose to officials and residents any loss of control of records that could lead to theft of “personal information.” Thirty-nine states have similar laws, but most of them, including Massachusetts, only require disclosure if the stolen credit card data is linked to a customer’s name or personal details. The general assumption is that credit card data alone is less of a threat since it is harder to abuse, and card issuers have a strong tendency to forgive many fraudulent charges. Ironically, Massachusetts passed this law following the TJX attack.

In the case of the Hannaford attack, some accused Hannaford Brothers Inc. of not

appropriately disclosing the attack to the public. The retailer issued a press release approximately two and a half weeks after learning of the unusual credit card activity, and a week after it had controlled the damage.

It was Hannaford's position that loss of credit card information alone did not amount to loss of "personal information" under Massachusetts law. Indeed, since Hannaford did not affiliate any credit card data to a person's name or personal details, this was not a case of "identity theft." Therefore, it had no obligation to disclose the data breach to its customers and only did so in an act of good faith.

### Security Measures

Another issue raised by the TJX and Hannaford attacks, in light of their magnitude and proximity in time, was whether the affected retailers or payment card industry operators had put in place appropriate security measures to protect their costumers.

To conduct the attacks, Gonzalez allegedly maintained servers in New Jersey and around the world (including in California, Illinois, Latvia, the Netherlands and Ukraine) that stored malware (malicious code) and other information necessary to the operation. It is reported that Gonzalez used a well-known method, SQL injection attacks, which exploit security vulnerabilities between an online interface and the back-end customer database. Since Hannaford did not store credit card information, it used a wired network to transfer information. The attack thus occurred during such transfer.

The Payment Card Industry (PCI) has established certain security guidelines for retailers such as Hannaford. While the PCI sets out rules on how employees should be screened and what precautions should be taken against hackers, it does not conduct audits. Rather, audits are performed by third-party assessors.

Though Hannaford was apparently in compliance with PCI's security requirements, one media report has questioned whether the assessors properly evaluated compliance.

### McCarthy Tétrault Notes:

According to the U.S. Federal Trade Commission, SQL injection attacks have been "commonly known or reasonably foreseeable" since at least 2000.

Accordingly, a company that does not take the necessary steps to implement strict measures to protect itself against such attacks is assuming undue risk and exposes itself to a slew of costs and lawsuits. The TJX breach allegedly cost the TJX companies up to \$200 million. The Heartland Payment Systems, as a result of the Hannaford attack, has reportedly already spent more than \$12 million and is now facing multiple lawsuits.

Companies are urged to take the appropriate steps to protect themselves and their customers from attacks such as the TJX and Hannaford attacks. One way companies may go about this, according to Gartner Inc., a leading information technology research and advisory firm, is requiring PINs for credit card transactions. This would

considerably lessen the threat of data theft.

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# Communications

## CASES/LEGAL DEVELOPMENTS

### Canada: **CRTC Shapes Canadian "Net Neutrality" Rules**

The Canadian Radio-television and Telecommunications Commission (CRTC) recently issued decisions to conclude two important Internet-related proceedings linked closely to concerns over "net neutrality." The first decision, which pertained to Internet traffic management by ISPs, set out ground rules that:

- prohibit content-blocking,
- require prior approval for throttling or shaping wholesale connections sold to other ISPs,
- require advance notice followed by a waiting period before shaping traffic on retail connections, and
- establish a framework for reviewing traffic management practices on the grounds that they are not necessary or proportional.

The second decision, which pertained to audio and audiovisual content on the Internet, created a similar framework for reviewing discriminatory behaviour in respect of the making available and delivery of such content.

Together, the decisions establish a regulatory framework that clarifies the remedies available

to content providers, consumers, and service providers against discriminatory or anti-competitive behaviour related to Internet access and audiovisual content. The decisions do not provide a complete code of conduct. Parties feeling aggrieved will likely have to apply to the CRTC for a remedy against what they perceive to be discriminatory or anti-competitive behaviour, just as they would to a court. Also, additional pieces of this regulatory framework remain to be determined later. These include a Federal Court of Appeal decision that will determine whether undue preference rules for audiovisual undertakings apply to the provision of Internet access.

However, particularly in the context of growing public concern over the state of Canadian broadband adoption, the CRTC's emerging Internet regulatory framework provides an unusually detailed set of rules for Canadian market participants to follow and for foreign jurisdictions to review in establishing their own rules-based frameworks.

To learn more about this framework, read our [detailed analysis](#) of the two CRTC decisions.

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# Clean Technology

## CASES/LEGAL DEVELOPMENTS

### BC: **Pacific Carbon Trust – Market for Carbon in BC**

Thanks to the Pacific Carbon Trust set up by the provincial government, low-carbon projects in BC are monetizing their carbon emission reductions. Selling the reductions to the Carbon Trust provides the owners of low-carbon projects in BC with an additional revenue stream to improve the return on investment and make these projects more profitable.

The Carbon Trust was established in 2008 as part of BC's Climate Action Plan. As the province's newest Crown Corporation, the Carbon Trust operates to secure emissions offsets on behalf of both the provincial public sector and any interested private sector clients. Initially, the Carbon Trust is focusing on its public sector mandate as the agency is charged with helping the provincial government become carbon neutral by 2010, in accordance with the *Greenhouse Gas Reductions Target Act*. But the Carbon Trust is also delivering emissions offsets to private sector clients that want to mitigate their own greenhouse gas emissions.

To ensure that the Carbon Trust only purchases high-quality offsets, the Ministry of Environment developed an Emission Offsets Regulation that is based on internationally recognized criteria and standards common to offset systems. The superior quality of these BC-based projects is

guaranteed by requiring each offset project to be subject to independent third-party verification of its emission reductions according to the ISO 14064-3 standard. And to help ensure accountability and transparency, the Carbon Trust also tracks all retired offsets on its website.

The Carbon Trust only purchases offsets that support BC-based projects and that would not have been financially viable without the Carbon Trust's support. This requirement provides BC with a two-fold benefit: it provides British Columbians with a cleaner environment, and it ensures that the provincial economy receives substantial economic stimulus. By only procuring offsets locally, the Carbon Trust is encouraging innovation in the province's clean tech sector and fostering the growth of a BC-based offset industry. Currently, the Carbon Trust charges a transaction charge of \$25 per tonne offset and the collected funds are used to finance local projects that use new processes and technologies to address climate change. At this price, the Carbon Trust will quickly provide the province with substantial economic stimulus.

The Carbon Trust's first delivery of 34,370 tonnes of offsets was only directed at offsetting the emissions related to government business travel. But by 2010, all government-related emissions will require offsetting, expanding the scope of the Carbon Trust's client base to include school districts, colleges, universities, health authorities, other Crown corporations and other government agencies. Because of this expanded scope, the Carbon Trust expects that it will be delivering between 700,000 and 1,000,000 tonnes of offsets annually by 2011.

At \$25 per tonne offset, BC's clean tech sector stands to receive a considerable financial boost.

So far, the Carbon Trust has agreed to acquire offsets from 15 facilities in BC. This includes 330,000 tonnes of offsets over five years from Offsetters Clean Technology Inc., a BC-based private offset business. To put this in perspective, 330,000 tonnes of offsets is equivalent to taking 85,800 cars off the road for a year. Offsetters will use the funds from the Carbon Trust to facilitate technology upgrades to four local greenhouses and a cement plant that will substantially cut the carbon emissions from all of them.

#### **McCarthy Tétrault Notes:**

In the near future, expect the Carbon Trust to offer offsets directly to businesses or individuals who are interested in offsetting their emissions-producing activities. Although no specific details are available yet, the Carbon Trust expects to provide the private sector with a variety of easy-to-use ways to purchase high quality BC-based offsets. But currently, the Carbon Trust requires interested businesses or individuals to contact the Carbon Trust directly for more information.

Private sector companies that are interested in supplying offsets to the Carbon Trust should get involved with the Carbon Trust's procurement process. The Carbon Trust issues procurement calls through its own website and on BC Bid. Clean tech companies are advised to monitor these procurement calls closely, as support from the Carbon Trust may rapidly take an

emissions-reducing project from drawing board to reality.

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### **Canada: Clean Tech – Explosive Growth & Creates More Jobs than Tax Cuts**

Investment in clean tech is one of the best ways to create jobs. Combine that with the explosive growth in this sector, and it's easy to understand the focus it's receiving worldwide from both governments and businesses.

#### **Clean Tech Investment Creates More Jobs than Tax Cuts**

While it's commonly known that clean tech investment drives job creation, the value of such investment has been summarized in a recent report by the United Nations, titled "Why Clean Energy Public Investment Makes Economic Sense – The Evidence Base." The data reveals some striking results, including the fact that green spending creates approximately three times as many jobs as traditional economic stimulants, such as tax cuts. For example, investment in biomass creates nearly three times as many jobs as tax cuts, and energy-efficiency programs such as "smart grid" create 50 per cent more jobs than tax cuts. Further, energy-efficiency programs also reduce operating costs and, over time, save businesses money.

Not surprisingly, energy-efficiency companies, primarily in the building and retrofit sectors, are one of the hot investment areas for venture capitalist and private equity. While these types of investments result in lower energy usage and lower operating costs, they usually require a higher upfront capital investment. This means that even if the net present value is positive and the return on investment (ROI) is strong, it can be challenging for businesses from a cash flow perspective — especially over the last 18 months. As such, many of the clean tech stimulus programs focus on reducing the cost of the upfront capital investment or on similar economic incentives such as accelerating tax deductibility.

From a Canadian perspective, both the Ontario and British Columbia provincial governments are focused on developing new green industries, exports and jobs — ranging from a technology focus, such as smart grid and electric vehicle solutions, through to commodity products for export such as green electricity and low-carbon fuels.

While Ontario and British Columbia both have a strong emphasis on smart grid and energy conservation, Ontario is also focused on manufacturing aspects — for example, in the area of electric vehicles. Due to British Columbia's very low electricity prices, the uptake of electric vehicles is only a matter of time because switching to electric and hybrid vehicle tops the list in North America (with Québec) for the greatest cost savings (i.e., the difference between gas fuel and electricity costs). The fuel costs savings in British Columbia for a passenger vehicle is approximately \$1,200 per year — a substantial savings for consumers.

Owners of clean tech projects located in British Columbia can also generate an additional revenue stream through monetizing the project's carbon offsets under The Pacific Carbon Trust program, which improves the ROI on these projects. The Carbon Trust, a BC crown corporation, has been sourcing offsets since early 2009 and expects to be sourcing approximately 1,000,000 tonnes of offsets by 2011.

Ontario recently passed the *Green Energy Act*, a statute that aggressively promotes renewable energy projects and conservation. The provincial government expects that this Act will create 50,000 well-paid green jobs over the next three years and will spur billions of dollars of investment. The Ontario government also launched a \$250-million Emerging Technologies Fund. This fund matches investments from private sources in Ontario-based companies, making it easier for clean tech companies to secure needed funding.

After China, the 800-lb gorilla for clean tech stimulus is the US government, which is one of the biggest proponents for using clean tech to rebuild the lagging economy. American legislators have earmarked over \$100 billion for clean tech spending and tax breaks in their last two stimulus packages. President Obama aims to create five million green-collar jobs over the next decade. And the US recently passed the Waxman-Markey Bill, which will promote clean energy and efficiency, implement a cap-and-trade system for emissions, and help that nation shift to a low-carbon economy.

## Clean Tech's Explosive Growth

Despite the recent decline in oil and gas prices, analysts predict that clean tech growth will continue on an exponential curve as the fundamental drivers, such as energy security and carbon reduction, remain relevant.

Governments worldwide have made significant long-term commitments to adopting green energy mixes, both for electricity and fuels. Even countries that previously were reluctant to engage in this area – such as China and the US – now have renewable energy policies. New Energy Finance, a leader in the clean tech analysis sector, estimates that such measures will drive annual global investment in clean energy from US\$155 billion in 2008 to \$348 billion by 2020.

While Europe has been ahead of the curve in green investment, the Asia Pacific region is moving ahead rapidly. In 2009, China topped the list for government green stimulus investment at \$221.3 billion, and South Korea allocated just over 80 per cent of its stimulus money to green industries, with just over \$30 billion invested by government.

Government stimulus and direct investment are driving the clean tech sector to the forefront of the global economy. Despite the recent economic downturn, clean tech companies continue to be funded and grow at rates that are exceeding most other industry sectors, and we in Canada have reason to be optimistic regarding the future of developing and exporting clean technology as well as green electricity and low-carbon fuels.

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# Biotechnology/Life Sciences

## CASES/LEGAL DEVELOPMENTS

### Canada: **Life Sciences Collaborations – Recent Amendments to the *BIA* and the *CCAA* and the use of Bankruptcy Remote Entities**

Amendments to the *Bankruptcy and Insolvency Act (BIA)* and the *Companies' Creditors Arrangement Act (CCAA)* have recently come into force that purportedly protect licensees of intellectual property (IP) if their licensors become insolvent or bankrupt. There are, however, a number of uncertainties surrounding the scope of protection afforded by these amendments. Until these uncertainties are resolved, licensees may wish to consider augmenting their statutory rights by contractual and other legal mechanisms. A Bankruptcy Remote Entity (BRE) is one potential mechanism.

In the life sciences industry, a licensee's rights upon bankruptcy or insolvency of a licensor are particularly important for two reasons: (i) licensing has long been prevalent as a development and commercialization strategy in the life sciences industry; and (ii) pharma and big biotech are increasingly looking to biotech companies for new drugs and technology at a time when biotech companies are experiencing a restricted access to capital markets that may lead to heightened concern over their long-term viability.

### *BIA* and *CCAA* Amendments

The recent *BIA* and *CCAA* amendments seek to answer the following question: if a company becomes insolvent, what happens to the licences it has granted to its technology? Historically, licensees whose Canadian licensors became insolvent or bankrupt were vulnerable under the *BIA*, *CCAA* and relevant case law to two risks: (i) their licence may be disclaimed, regardless of the terms in the licence; or (ii) the IP assets of a licensor may be sold under a vesting order by the court, effectively making the licence rights held by the licensee meaningless since the licensor no longer holds the IP. Under either scenario, the licensee is left with an unsecured or compromised damages claim against the licensor.

The *BIA* and *CCAA* amendments seek to provide greater security to IP licensees. The amendments provide for an express ability of debtor licensors to disclaim contracts, including IP licences, if those contracts are not economically beneficial or could impede the debtor's ability to restructure. However, an IP licensee whose licence is disclaimed has the option of maintaining the right to "use" the IP for the term of the licence agreement, including any extensions and including on an exclusive basis, if the original licence is exclusive – subject to the licensee continuing to perform its obligations in relation to "use" of the IP. If the licensee chooses to accept the disclaimer, it would lose the licence and have a provable claim for losses against the licensor.

## Uncertainty over the Scope of Protection to Licensees under the *BIA* and *CCAA* Amendments

While the *BIA* and *CCAA* amendments purport to protect licensees if their licensors become insolvent or bankrupt, there are a number of uncertainties or unanswered questions around the scope of the protection:

1. The amendments protect a licensee's right to "use" the licensed IP. Are other commonly licensed rights, such as the right to develop, enhance, commercialize or distribute the IP, also protected – or could those other types of rights still be disclaimed? If these other types of rights can be disclaimed, does this mean that the licensee would be relieved from its obligations related to the disclaimed rights, such as an obligation to develop the licensed IP and make milestone payments based upon achieving development milestones?
2. The amendments do not expressly address whether other continuing obligations on the licensor (e.g., indemnification, technical assistance, new developments) continue, or whether the licensor is relieved from these continuing obligations.
3. The amendments do not expressly exclude or otherwise protect IP licences from the sale of the IP assets to a third party under a vesting order. Can a court still sell the underlying IP to a third party under a vesting order free and clear of the licensee's protected licence? This possibility may seem remote given the

intent of the *BIA* and *CCAA* amendments to protect licensees. However, since those amendments do not foreclose this possibility, the question can still be asked until the courts have had the opportunity to consider the issue.

## BRE – Rationale

Given these uncertainties and potential gaps concerning the protection offered by the *BIA* and *CCAA* amendments, licensees may still wish to consider contractual and other legal mechanisms to better protect themselves. One such mechanism is the BRE, which originated in the US to provide additional protection to a licensee over and above the protected statutory licence that is available under s. 365(n) of the *United States Bankruptcy Code*.

Section 365(n) of the *United States Bankruptcy Code* has offered licensees in the US statutory protection to their licences since the provision was passed in 1988. The protection is very similar to that contained in the Canadian *BIA* and *CCAA* amendments discussed above. Under Section 365(n) of the *United States Bankruptcy Code*, a licensee whose licence is rejected due to the insolvency of its licensor has the right to retain its licence rights as they existed at the time of the commencement of the insolvency proceedings, including the right to enforce any exclusivity, subject to a continued obligation to perform the licensee's obligations (e.g., make royalty payments), but without the right to compel the trustee in bankruptcy to perform the licensor's other, non-licence obligations under the licence. Alternatively, under the US statute, if the licence is rejected, the licensee may opt to treat the licence as terminated and make a claim against the

insolvent licensor's estate for losses caused by loss of the licence.

Why did the BRE mechanism develop in the US, even though licensees have the protection of Section 365(n) of the *United States Bankruptcy Code*? The reason is primarily that the US statute on its face only protects licences to US patents and copyrights, and therefore arguably does not protect non-US patent and copyright licences, and does not protect trade-mark licences at all. In situations where these unprotected licence rights are particularly important, the BRE can be used to reduce the risks that these licence rights be rejected on an insolvency.

A similar analysis is possible for licensees of Canadian licensors with regard to the *BIA* and *CCAA* amendments: for example, a licensee who is concerned that the protected right to "use" the IP is not broad enough for the licensee's business, or who is concerned that an insolvent licensor may still attempt to obtain a vesting order to sell the licensed IP to a third party free of the licensee's licence, may wish to consider private means of providing stronger protection to its licence, such as a BRE.

### **BRE – Structuring**

The BRE is a subsidiary formed to own and then license the IP to the licensee. The BRE protects the licensee since the BRE is structured to minimize the risks that the BRE can go insolvent, and therefore it also minimizes the risk that the licence could be disclaimed.

It does this as follows:

1. The licensee is granted at least one share in the BRE, and the BRE's corporate articles are drafted to provide that no voluntary bankruptcy, sale of the IP, or change of control can occur without the vote of the licensee's share.
2. Restrictions are placed on the BRE incurring liabilities (e.g., the BRE is prohibited against carrying on material business activities, other than licensing IP).
3. In order to shelter the BRE from any insolvency of the parent, the BRE is set up and operated to have its own offices, management, corporate records, books of account, assets, facilities, and business separate from those of the parent, and to conduct business in its own name and not that of the parent, so that the BRE is not an "alter ego" of the parent.
4. The licence to the licensee is structured as a "bare" licence, i.e., one without warranties, indemnities or obligations. These are instead placed in a separate contract between the licensee and the parent. The BRE then grants a licence back to the parent of any rights the parent requires in order to fulfill the warranties, indemnities or obligations, and also for any rights to the IP that are not licensed by the BRE to the licensee.

The BRE structure minimizes the risk of insolvency of the IP licensor, and therefore, of the licensee's licence being disclaimed.

However, since it is not possible for the BRE to operate without assuming any debts or liabilities, the risk of its insolvency is not completely removed. The BRE structure requires careful planning and initial and ongoing transaction costs and efforts. Since the IP is transferred from the parent to the BRE, tax considerations will also apply to ensure that the transfer is done on a tax-free or tax-deferred basis. For these and other reasons, the BRE structure will not be viable for all transactions. Indeed, the structure (which originated in the US) is relatively unknown in licensing transactions in Canada.

Canada has at long last legislated to provide protection to licensees whose licensors become bankrupt or insolvent. Recent amendments to the *BIA* and *CCAA* provide licensees whose licences are disclaimed in an insolvency or bankruptcy of the licensor with the right to elect to continue to “use” the licensed IP. Whether BREs will come to be used in Canada as a means of augmenting this statutorily protected licence right remains to be seen.

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## Canada: Federal Court Upholds Canadian Drug Data Protection Provisions

The Federal Court of Canada, in its recent decision in *Canadian Generic Pharmaceutical Association v. Canada (Health)*, upheld the constitutionality of the data protection provisions of the *Food and Drug Regulations* (the *Data Protection Regulation*).

By way of background, the *Data Protection Regulation* came into force in 2006 and was enacted to comply with Canada’s obligations under the World Trade Organization’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the North American Free Trade Agreement (NAFTA).

In Canada, drug manufacturers apply to the government for authorization to market new drugs. To obtain the approval, known as a Notice of Compliance (NOC), drug manufacturers often file data that contains confidential or trade secret information. The *Data Protection Regulation* recognizes that this data should be afforded some protection/degree of exclusivity before a third party can directly or indirectly rely on it.

The regulation shields the data relating to “innovative drugs” (drugs comprising medicinal ingredients that have not been previously approved in Canada and that are not a variation of a previously approved medicinal ingredient such as a salt, ester, enantiomer, solvate or polymorph) for eight years, with a possible six-month extension if pediatric studies are conducted. During the first six years, a third-party manufacturer is prohibited from filing a

drug submission that directly or indirectly makes a comparison with an innovative drug. In the subsequent two years, a third-party manufacturer can file a drug submission but market approval will not be granted until the expiration of the “protected period.”

Data protection does not apply if the drug is not being marketed in Canada or if the innovator consents to the issuance of the NOC to the subsequent manufacturer. The term of data exclusivity/protection is available irrespective of whether the drug is protected by a patent.

In this case, the Canadian Generic Pharmaceutical Association challenged the *Data Protection Regulation* in the Federal Court, alleging that the federal government did not have the constitutional power to enact the regulation, and that the regulation was therefore invalid. Research-Based Pharmaceutical Companies (Rx&D), an association of drug manufacturers and related companies, were granted intervenor status. Apotex brought a similar and parallel application, with Eli Lilly as intervenor. As the two applications raised the same issues, they were consolidated and heard together.

Justice Mandamin started his analysis by looking at the purpose of *Data Protection Regulation* to see whether the regulation fell within the federal criminal law power in subsection 91(27) of the *Constitution Act, 1867*. He determined that the data protection provisions were geared at balancing “the commercial considerations between the protection of an innovator drug manufacturer’s investments in preparing the ... information in order to obtain a NOC for a new drug and the eventual NOC approval of generic drug

manufacturer’s [submission] for a lower cost generic version of the new drug.” While he accepted that the drug regulatory scheme has a public health and safety purpose, he determined that the *Data Protection Regulation* was not integral to that scheme.

Since the *Data Protection Regulation* did not have a public safety purpose, the court held that the regulation could not be upheld under the criminal law power. However, the court ruled that the federal government did have power under the trade and commerce branch of subsection 91(2) to enact the *Data Protection Regulation*. The court held that:

The *Data Protection Regulation* rounds out the valid federal drug regulatory scheme, has a national economic dimension because of Canada’s obligations pursuant to international trade agreements NAFTA and TRIPS, and is a matter which the provinces cannot address legislatively individually or collectively.

Further, the court held that that the *Data Protection Regulation* was not beyond the Governor in Council’s regulatory authority, concluding that:

... the regulation is properly concerned with data protection for innovator drug companies which are required to provide confidential commercially valuable data to secure a NOC to introduce new drugs to the Canadian market. This is consistent with the requirement in the NAFTA and TRIPS provisions.

Lastly, Justice Mandamin rejected the argument that the *Data Protection Regulation* was an improper delegation of Parliament's international treaty implementation obligations to the Governor in Council. He noted that "Parliament has given the Governor in Council the authority to enact regulations in a narrow area specified by the boundaries of the NAFTA and TRIPS provisions."

The Canadian Generic Pharmaceutical Association and Apotex are appealing the decision.

#### McCarthy Tétrault Notes:

For now, Canada has primarily three regulatory mechanisms to maximize drug exclusivity in Canada: (1) Data Protection; (2) Patents; and (3) Patent/Drug Regulatory Linkage Provisions under the *Patented Medicines (Notice of Compliance) Regulations (PM(NOC) Regulations)*.

#### Data Protection Regulation

The amended data protection provisions apply to drugs that have received NOCs following pre-publication of the regulations in the *Canada Gazette*, Part 1 on June 17, 2006.

Unlike the United States and Europe, no additional data protection is available for new uses or combinations of previously approved drugs beyond the remaining term of data exclusivity existing for that drug.

#### Patents

Patent protection in Canada, for patents with a filing date prior to October 1, 1989, is the longer of 17 years from the date of issue or 20 years from the Canadian filing date. For patents that have a Canadian filing date after October 1, 1989, the patent term is 20 years from the Canadian filing date. Unlike the United States and Europe, no patent term extensions are available.

Irrespective of whether a patent is eligible for listing on the Patent Register, patent owners can enforce their patents against third parties in patent infringement actions through the courts; however, preliminary injunctions are rarely awarded.

#### Patent/Drug Regulatory Linkage Provisions

The *PM(NOC) Regulations* enable a drug manufacturer to file a patent list before Health Canada to place "eligible" patents on the Patent Register (which is similar to the Orange Book in the United States). A third party who files a drug submission for a drug on which a patent is listed must file a notice of allegation stating that:

- it accepts the fact that market authorization will not be granted until the patent expires,
- its drug does not infringe the patent,
- the patent is not valid, or
- the patent is improperly listed on the Patent Register.

The drug manufacturer (originator) who has the patent listed for the drug can then prevent a third party (a generic) from obtaining market approval until:

- the patent expires,
- the Federal Court decides in favour of the third party with respect to its allegations; or
- 24 months has elapsed.

Thus, the originator can get a preliminary injunction that is not normally obtainable through a regular patent infringement action. However, as a third party only needs to address patents listed on the register at the time it files its drug submission (otherwise known as the frozen register), multiple or sequential 24-month stays are not available. As stated above, whether a patent is listed on the Patent Register or not does not preclude the patent holder from bringing a patent infringement action in the courts against the third party.

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## Europe: **The European Commission Issues its Final Report on Competition in the Pharmaceutical Sector**

The European Commission (EC) recently issued its Final Report on its inquiry into competition in the pharmaceutical sector. The inquiry, which began in January 2008 under Articles 81 and 82 of the EC Treaty, was mandated to examine why fewer novel medicines were being brought to market and why generic entry was frequently delayed.

The Final Report reiterates many of the findings from the preliminary report, which we discussed in [TLO 4:4](#). In the preliminary report, the EC identified a “tool box” of methods that originator companies could use to block or delay generic entry or that may explain the difficulties in bringing new medicines to market; these methods include creating multiple patent applications for the same medicine (i.e., patent clusters or patent thickets and evergreening), initiating disputes and litigation, negotiating patent settlements that constrain generic entry (i.e., reverse payment settlements), and intervening during the generic regulatory approval process.

In the Final Report, the EC stated that it is able to identify areas of action and set priorities for future attention by quantifying industry practices and setting out a factual basis for its findings. The EC has toned down the criticism of originator companies that was present in its preliminary report, and has instead turned its attention towards the influence and reform of the regulatory framework. Specifically, the Final Report suggests:

- **Intensifying competition law scrutiny.** The EC pledged to make full use of its powers under antitrust rules, noting specific areas of focus will be market concentration (e.g., mergers between originators and acquisitions of generic companies) and company practices (e.g., defensive patenting strategies and reverse payment settlements).
- **Establishing a European-wide community patent system and a unified litigation system.** This would reduce administrative burden and uncertainty.
- **Streamlining the marketing authorization process for generics.** This would include mutual recognition of Member States' authorizations as well as coordination between agencies to avoid discrepancies in the application of the legal framework. Further harmonization between Europe and the US is also encouraged.
- **Improving pricing and reimbursements systems and developing a pro-competitive environment for generic uptake.** National authorities should introduce provisions granting pricing and reimbursement status to generics without requiring detailed assessment where the corresponding originator already benefits from such status, and Member States should respect time limits for pricing and reimbursement decisions.

EC Competition Commissioner Neelie Kroes has indicated that the Final Report is just the beginning: with the insight gained from the inquiry, the EC will now step up its antitrust

enforcement work, and regulatory adjustments are expected to follow. Indeed, at the time the Final Report was issued, the EC announced the opening of an investigation against an originator company and five generic companies related to a cardiovascular medication on the basis that they may have conspired to delay generic entry.

#### McCarthy Tétrault Notes:

The EC's focus on the competitive relationship between originator and generic companies and among originator companies is in stark contrast to the approach taken by the Canadian Competition Bureau, which has so far focused its attention on competition in the generic drug sector. While the EC has examined practices that could affect or delay generic entry, the Competition Bureau has found that healthy competition exists among generic drug manufacturers but that the benefits of this competition are not being passed on to consumers.

With respect to enforcement, the EC's Final Report gives a comprehensive description of the current state of competition in the pharmaceutical sector and areas that require attention and action. Unfortunately, however, the Final Report provides little in the way of guidance on how companies' practices will be examined under EC competition rules. Some guidance may come, should the EC follow through on its stated intent to increase enforcement activity.

In the Canadian context, the Competition Bureau does not have jurisdiction under its

investigatory powers to undertake industry examinations and issue binding recommendations.

Instead, the Competition Bureau would have to address the alleged anti-competitive activities, like those noted by the EC in its report, on a case-by-case enforcement basis under either the criminal or civil provisions of the *Competition Act*, applying the principles set out in the Competition Bureau's *Intellectual Property Enforcement Guidelines*. We would expect, for example, that the Competition Bureau could address delay tactics, such as the initiation of disputes and litigation, under the abuse of dominance provisions of the *Competition Act*.

Reverse payment settlements may raise issues under the abuse of dominance provisions. Those settlements might also potentially engage the criminal, and — as of March 2010, following their enactment — the civil provisions dealing with collaborations between competitors. The area of patent settlements, particularly reverse payment settlements, will be especially interesting to monitor in the near future as both the EC and the new US administration have stated their intention to focus on this issue. Notably, the US Department of Justice recently aligned itself with the Federal Trade Commission's position that such payments are presumptively unlawful. It is not clear that there will be a change in the law; however, US courts have generally taken a permissive approach to these payments. It also remains to be seen how this area will be addressed in Canada and whether it will

be accorded any greater attention in light of developments in the EC and the US.

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