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Blaneys on Business

This newsletter is designed to bring news of changes to the law, new law, interesting deals and other matters of interest to our commercial clients and friends. We hope you will find it interesting, and welcome your comments.

Feel free to contact any of the lawyers who wrote or are quoted in these articles for more information, or call the head of our Corporate/Commercial Group, Stanley Kugelmass at 416.593.3943 or skugelmass@blaney.com.

"...In both Canada and the U.S... when creative work is done by an employee within the scope of his or her employment... the employer is the first owner of copyright."

EMPLOYERS SHOULD BEWARE ASSUMPTIONS ABOUT COPYRIGHT OWNERSHIP

Bruno Soucy and Sheldon Inkol

Canadian knowledge-based businesses that employ people to create intellectual property – including advertising material and computer software, among many other things – should be careful to insure that expectations concerning the ownership of the copyright in the resulting products is defined clearly and in advance.

This renewed sensitivity is being animated by two recent high-profile American cases.

On July 28, 2011, the Southern District Court of New York ruled that Marvel Comics publications featuring famous characters like the Incredible Hulk are works made for hire - meaning that the lucrative copyright in them has belonged solely to the publisher from the moment of creation, and not to Jack Kirby, the artist and co-creator. Kirby's estate has filed a notice of appeal.

Around the same time, Victor Willis filed papers to regain his share of copyright control over "Y.M.C.A." and 31 other songs he co-wrote as a member of the Village People. He is being opposed by the two companies holding the publishing rights for the group's songs, who argue that Willis was a writer "for hire" and as such is not entitled to any share of ownership in the music. This claim is being called a significant test of U.S. copyright law.

The stakes are notable. In the U.S., when work is done for hire, the employer is deemed to be the legal author, entitling the employer to full copyright control for a term that is the lesser of 95 years from the year of first publication, or 120 years from the year of creation.

In the event that Willis or Kirby, from the examples above, are determined to be authors, then, even if they assigned all copyright in their work to the employer, they would still have the inalienable right to terminate any such assignment after a period of 40 years (or after 35 years from the date of publication, whichever ends first) and reclaim the copyright in the work. This termination right cannot be waived – but it does not apply to works made for hire.

Typically, copyright protection vests initially with the creator (or "author") of a work. In both Canada and the U.S., however, when creative work is done by an employee within the scope of his or her employment, then - absent an express agreement to the contrary, and with limited exceptions - the employer is the first owner of copyright. This holds true not only for cartoonists and songwriters, but also for

"...even though it is not a requirement in Canada that an employer stipulate contractually that the employer is the owner of copyright in any work, it is usually wise to set this out explicitly..."

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computer programmers, architects, interior designers and freelance writers.

The Marvel-Kirby decision was made on the basis of contextual factors because there was no express agreement between the two parties as to the precise nature of their relationship or the ownership of the work being created. This set of circumstances is common in both the United States and Canada.

The Canadian Perspective

The above matters, if litigated in Canada, would be subject to the application of a similar set of rules to determine both whether or not the creator really was an employee and whether or not the creation was within the scope of his or her employment. In Canada, however, the employee remains the author of the work, unlike the situation in the U.S. where an employer, even a corporate employer, is deemed to be the author.

The identity of the author has a significant impact on the duration of copyright in a work. In Canada, the term for most works generally lasts for the life of the author plus 50 years after the end of the calendar year of his or her death. Where there is no identifiable author, the term is generally limited to 50 years from the end of the year it was published.

The termination right being fought for by American creators like Kirby and Willis only applies to uses within the United States - meaning that any such termination would not have an impact on rights the creator had granted for exploitation in foreign territories.

Canadian creators have no termination right, but the Copyright Act does provide that any grant of interest in a copyright ends automatically 25 years after the death of the author and reverts back to the author's estate – except where the work was created in the course of employment. Such reversionary interest in the copyright cannot be assigned or waived by the author.

As in the U.S. and the examples cited above, the thornier issue relates to determining whether a work was in fact created in the course of a person's employment. As was the case in the U.S., a careful review of the underlying agreements and the surrounding circumstances will be made by the courts. Accordingly, even though it is not a requirement in Canada that an employer stipulate contractually that the employer is the owner of copyright in any work, it is usually wise to set this out explicitly, along with the parameters of the employee's employment and responsibilities regarding the creation of works.

Many countries around the world find the notion of a corporate author unpalatable and hold that authors' rights should belong to natural persons only. Some jurisdictions go even further and prevent assignment of any copyright by an author other than to his or her heirs.

In Canada, but not the U.S., authorship can also give rise to "moral rights" – the right to the integrity of the work and other rights of such nature. The author alone has moral rights in a work. Moral rights cannot be assigned but can be waived by the author, and they can be - and in most cases should be – waived in an employment or personal services contract, especially where the work product is artistic in nature.

"In July 2011, the Codex Alimentarius Commission, at its annual summit in Geneva, adopted guidelines that allow the labelling of genetically-modified food products."

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Crossing Borders

When a work crosses borders – and just think about how modern information technology has facilitated that – the rights that attach to such work vary from country to country. The challenge for employers therefore becomes determining whether, and to what extent, they need to address the rights to their employees' and contractors' work product and what consideration needs to be given to the differing copyright regimes where such works may come to be exploited.

Employers should be especially aware that the rights they own in Canada and the scope of such rights may vary significantly from those they may have elsewhere. Likewise, contractual arrangements that relate to the ownership of copyright in Canada may not be enforceable abroad. In this respect, the two U.S. cases discussed above could give rise to different results, if litigated in jurisdictions outside of the U.S. in terms of the copyright in such jurisdictions. ■

NEW LABELLING GUIDELINES FOR GENETICALLY MODIFIED FOODS MAY AFFECT SOME CANADIAN FOOD EXPORTERS

Henry Chang

In July 2011, the Codex Alimentarius Commission (Codex), at its annual summit in Geneva, adopted guidelines that allow the labelling of genetically-modified (GM) food products. GM food products are derived from organisms that have been modified by means of modern genetic engineering techniques.

This development is not likely to result in sweeping changes for Canadians in the near term, since the Government of Canada does not intend to require the labelling of GM food products domestically. However, the adoption of the guidelines may affect Canadian food producers who export GM food products to other countries because World Trade Organization (WTO) members that implement the GM labelling regime will be protected from complaints alleging that they are engaged in restraint of trade.

The Codex Commission was created in 1963 by the World Health Organization (WHO) and the Food and Agriculture Organization (FAO). It is responsible for leading the development of international food standards, guidelines and related texts, such as codes of practice, under the Joint FAO/WHO Food Standards Program.

The main purposes of this program are to protect the health of consumers, to ensure fair trade practices in the food trade, and to promote the coordination of all food standards work undertaken by international governmental and non-governmental organizations. The Codex therefore has a sometimes contradictory mandate of protecting the health of consumers while also facilitating international trade.

In 1993, the Codex Committee on Food Labelling (CCFL) began work on developing labelling guidelines for GM food products. However, several countries strongly opposed these guidelines. The United States was one of the strongest opponents of labelling for GM food products and was supported by several

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other countries, including Canada.

After 18 years of disagreement, the CCFL finally adopted labelling guidelines for GM food products at its 39th session, held in Quebec City, from May 9-13, 2011. The United States, Canada, Mexico, Argentina, Costa Rica and Australia had blocked earlier proposals for *mandatory* GM labelling but ultimately agreed to a much weaker version, which permitted the *voluntary* adoption of GM food product labelling. The guidelines were formally adopted at the annual Codex summit in Geneva, Switzerland, two months later.

The guidelines were referred to as the *Proposed Draft Compilation of Codex Texts Relevant to Labelling of Foods Derived from Modern Biotechnology* (the "GM Guidelines"). The GM Guidelines do not specifically endorse the labelling of GM food products, but this can be inferred from the language. For example, the GM Guidelines refer to the following considerations:

> Different approaches regarding labelling of foods derived from modern biotechnology are used. Any approach implemented by Codex members should be consistent with already adopted Codex provisions. This document is not intended to suggest or imply that foods derived from modern biotechnology are necessarily different from other foods simply due to their method of production.

Clearly, the GM Guidelines suggest that countries may implement one of the many different approaches regarding the labelling of GM food products, provided that they are consistent with already adopted Codex provisions.

The current list of official Codex standards includes *Principles for the Risk Analysis of Foods Derived from Modern Biotechnology* (CAC/GL 44-2003). Paragraphs 18 and 19 state the following:

18. Risk managers should take into account the uncertainties identified in the risk assessment and implement appropriate measures to manage these uncertainties.

19. Risk management measures may include, as appropriate, food labelling conditions for marketing approvals and post-market monitoring.

Therefore, countries should be able to implement GM labelling requirements for the purpose of risk management but not necessarily for the purpose of informing consumers.

As set out above, the GM Guidelines are considered voluntary so countries such as the United States and Canada are unlikely to adopt mandatory labelling requirements. Currently, Health Canada requires that GM food products be evaluated for food safety, but does not require them to be labelled in a manner that discloses their genetically modified nature.

As mentioned above, the most significant benefit of the GM Guidelines will be their expected effect on WTO trade disputes. The WTO agreement on sanitary and phytosanitary measures (the "SPS Agreement") states that "to harmonize sanitary and phytosanitary measures on as wide a basis as possible, Members shall base their sanitary or phytosanitary measures on interna-

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"The multi-billion-dollar patent purchases during the last several months involving large high tech companies illustrates the difficulties that small start-up companies potentially face when entering the marketplace with a new technology."

tional standards, guidelines or recommendations". The SPS Agreement names the Codex as the relevant standard-setting organization for food safety.

As a result, member countries who choose to adopt mandatory GM labelling requirements should avoid any WTO challenge, initiated by Canada or any other country, based on the claim that such requirements restrict international trade. ■

HIGH TECH GIANTS' APPETITE FOR PATENTS MAY CREATE HURDLES FOR INNOVATIVE STARTUPS

Jacqueline Chernys

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The multi-billion-dollar patent purchases during the last several months involving large high tech companies illustrates the difficulties that small start-up companies potentially face when entering the marketplace with a new technology.

Recently, Google purchased Motorola Mobility Holdings Inc., largely to gain ownership of Motorola's 17,000 patents. Among these 17,000 patents are patents that help to protect Google's Android software. A consortium of companies that included Apple, Microsoft and EMC Corp. spent $4.5 billion on the 6,000 patents belonging to now bankrupt Nortel Networks. Although these transactions involved big players in the high tech field, small companies may also be affected by the demand for patents and the willingness to enforce existing patents. For example, the Texas-based firm, Lodsys, generates revenue by enforcing its four patents that relate to online interactions and payment methods. Lodsys has sued large companies like HP and Motorola, and has now started demanding settlement from small application development companies.

In the high tech industry, patents are especially valuable because a single gadget such as the iPhone may consist of multiple elements of patented technology. It is often difficult to know whether a device or method infringes a patent. Small companies developing application software could unknowingly be infringing one or more patents owned by the larger high tech companies. For example, a device such as the iPhone could infringe a patent directed to a particular application or it could infringe a patent directed to the type of screen. As a means to better position themselves against these issues, companies are increasingly assembling patent portfolios they can use to argue they own the rights to their products.

In addition, some companies buy pools of patents and then charge companies a royalty to use them.

What lessons can be gathered from the recent large high tech patent transactions? The objective of a patent portfolio is to protect the core technologies, core products and business practices of the company. Patents provide exclusive rights for the patent owner to use and exploit the invention for 20 years from the filing date of the application. This, in turn, allows for strong market position because the patent owner is able to prevent others from commercially benefiting from the patented invention, thereby reducing competition in the marketplace. Additionally, patents may be obtained to enable the company to enter into reciprocal (i.e. cross) licensing arrangements with competitors who

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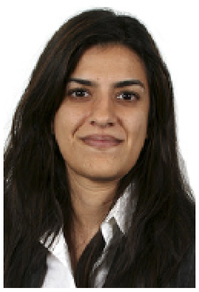

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assert patent infringement claims against the company in the same field of interest.

However, the high cost involved in obtaining patent protection means that some companies should consider either a defensive or offensive strategy in building a patent portfolio.

A defensive strategy should be considered if financial resources are limited and if competitors are unlikely to copy the company's products. Patent applications could be filed to protect core technologies embodied in core products that deliver the greatest advantage over rival products in the market. Provisional applications (i.e. preliminary applications that are not subject to examination) can be filed until financial resources can be secured.

An offensive strategy can be considered if significant resources are available to secure a new technology and create a wall of patent protection covering key differentiating features that reinforce the product's brand positioning and key performance. Specific patent strategies that may be considered in an offensive patent strategy are (a) obtain patents on all commercially available improvements or small incremental innovations around the core technology of a competitor. The owner of these patents is then in a position to force a cross-license of patents to acquire the competitor's core technology; (b) obtain patents based on efforts to design around a company's own patents in order to prevent competitors from inventing around the patents; (c) acquire key patents owned by others in areas of current and future interest; (d) survey existing patent landscape and monitor marketplace to identify infringing products and services. ■

COMPETITON ACT ENFORCEMENT BECOMING MORE PREVALAENT?

Sundeep Sandhu and Brittanny Tinslay

Changes to the *Competition Act* made in 2009 that gave the federal Commissioner of Competition a stronger mandate to administer and enforce the Act have been carried out by the Commissioner's office since then with marked vigour.

The Commissioner, Melanie L. Aitken, has become a thorn in the side of many organizations including the Canadian Real Estate Association (CREA) in connection with its multiple listing service, Rogers Chatr mobile phone brand in connection with a misleading advertising investigation, and Visa and MasterCard in connection with a price maintenance investigation.

The recent application to the Competition Tribunal by the Commissioner to dissolve a merger in the hazardous waste management field has further peaked the concern from organizations and the legal community alike as to whether smaller mergers as well as larger ones are about to come under closer scrutiny. The transaction that gives rise to the advisability of greater watchfulness is the acquisition of a secure hazardous waste landfill in Northeastern British Columbia.

CCS Corporation, the owner of the only two secure hazardous waste landfills in the area, acquired Babkirk Secure Landfill from Complete Environmental Inc. Babkirk had not yet opened at the time of the transaction and its primary asset was the permit it obtained to operate a secure landfill located near one of the other existing sites owned by CCS. The transac-

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tion was worth less than the book value/annual gross revenue "threshold" ($73 million for 2011) at which businesses are required to notify the Competition Bureau of their proposed merger.

The Commissioner's interest in this transaction came as a surprise. Historically, it has been rare to see the Commissioner investigate a transaction of any size and even rarer to see it challenged. In fact, this is the first challenge the office has mounted since 2005.

The Commissioner is challenging the transaction based on Section 92 of the Act, where a merger or proposed merger "prevents or lessens, or is likely to prevent or lessen competition substantially". It will be interesting to see how this case is dealt with as the Babkirk secure landfill never actually opened.

The Commissioner's application to the Competition Tribunal to dissolve the transaction argues that Complete Environmental was poised to enter the relevant market and that CCS considered Complete's entry a significant competitive threat which would have resulted in lower fees for producers of hazardous waste. The likely substantial prevention of competition would not be remedied by new competitors entering the relevant market because of the cumbersome process and costs associated with obtaining requisite approvals, as well as other barriers to entry for competitors.

To support the application, the Commissioner claims that there are internal documents of CCS that show that the company's sole purpose in acquiring Complete was to prevent a "price war" and losing substantial revenue. This would be a stunning example of the absolute need for businesses and their advisers to be exceptionally cautious in the language they choose to use in their preparation of internal assessments of potential transactions.

The Lesson

The CCS case illustrates a few great lessons for clients:

First, that the Commissioner is becoming more aggressive in respect of enforcing the Act despite the scale of the acquisition. Many people forget that the Commissioner of Competition has the authority to challenge any merger – which is a broadly defined term in the Act – regardless of whether its value is lower than the thresholds for mandatory notification., and

Second, that the Commissioner may be increasingly open to receiving the views on mergers from customers, suppliers and competitors of the parties to a merger and willing to give concerns and complaints serious consideration.

Both these point highlight the importance of the internal review process that parties to a transaction undergo to assess the competition issues of their transaction, even when formal advance notice to the Bureau is not required. As part of that, parties must consider, as a matter of course, whether there may be others in the industry likely to complain to the Commissioner and in turn potentially trigger an investigation.

It should also become more common practice for parties to review transactions very carefully in small or unique markets (those that are not-notifiable). In this case, for example, there are high barriers to entry in this particular market because of the costs of developing and maintaining a secure landfill and managing significant regulation. The issue, therefore, becomes whether any competition will ever be able to emerge in the market if transactions such as this one are not challenged.

Finally, it is important to remember that the closing of a merger is not necessarily final until the deadline for a challenge to the transaction – one year following the closing date – has passed. In this particular case, the merger transaction closed on January 7, 2011 and the Commissioner's application to dissolve it was filed January 24, 2011.

The outcome of this case is still unknown, but there is much that is instructive in it for all parties and advisers involved in mergers and acquisitions of any scale. ■

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