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Exhaustion in Canadian Intellectual Property Law

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EXHAUSTION OF INTELLECTUAL PROPERTY RIGHTS IN CANADA*

*Jeremy de Beer and Robert Tomkowicz***

ABSTRACT

Intellectual property rights protect valuable, intangible resources embodied in material objects. These “things” can be the objects of classic private property rights. Often, classic and intellectual property rights are in conflict with each other. Managing these conflicts by balancing classic and intellectual property rights is an important matter of public policy. One of the policy levers affecting this balance is the legal doctrine of exhaustion. The exhaustion doctrine dictates that the rights of intellectual property owners do not extend to enable control over uses of material objects embodying intellectual property.

Though the scope of the doctrine of exhaustion (and the terminology used to describe it) is somewhat different in the contexts of copyrights, trade-marks, and patents, as well as in different jurisdictions, the concept and function are universal in intellectual property law. The doctrine is also growing in social and economic importance around the world. The issue of exhaustion is also highly relevant to current debates about intellectual property reform in Canada.

This article looks at the laws of different jurisdictions to demonstrate the common threads underlying the doctrine of exhaustion. In Canada, the applicability of the exhaustion doctrine to copyrights, trade-marks, and patents seemed clear. But one recent Supreme Court of Canada judgment casts doubt on the nature of exhaustion in respect of biotechnology patents. This article identifies the case of *Monsanto v. Schmeiser* as an outlier in Canadian intellectual property law. We propose various hypotheses that might justify the Supreme Court’s distinct attitude toward the principle of exhaustion in Canadian patent law. None withstands the scrutiny of investigation. As such, we conclude that it is likely and appropriate that the Supreme Court of Canada will continue to use the concept of exhaustion in future cases.

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RÉSUMÉ

Les droits de propriété intellectuelle protègent d'importantes ressources intangibles cloîtrées dans des objets matériels. Ces « biens » peuvent faire l'objet de droits classiques de propriété privée. Souvent, les droits classiques de biens réels et les droits de propriété intellectuelle entrent en conflit les uns avec les autres. La gestion de ces conflits par la mise en place d'un équilibre entre les droits classiques de biens réels et les droits de propriété intellectuelle est une importante question d'intérêt public. La doctrine de l'épuisement est un des instruments d'intérêt public qui influencent cet équilibre. Cette doctrine dicte que les droits des titulaires de propriété intellectuelle ne vont pas jusqu'à permettre l'exercice d'un contrôle sur l'utilisation des objets réels incorporant la propriété intellectuelle.

Même si la portée de la doctrine de l'épuisement (et la terminologie employée pour la décrire) est quelque peu différente dans les contextes du droit d'auteur, des marques de commerce et des brevets, de même que dans divers pays, le concept et la fonction de cette doctrine sont universels en droit de la propriété intellectuelle. Cette doctrine gagne aussi énormément d'importance dans le domaine social et le domaine économique à travers le monde. La question de l'épuisement est par ailleurs particulièrement pertinente aux débats qui ont actuellement cours sur la réforme de la propriété intellectuelle au Canada.

Cet article analyse la législation de divers pays pour démontrer les éléments communs sous-jacents à la doctrine de l'épuisement. Au Canada, l'applicabilité de cette doctrine au droit d'auteur, aux marques de commerce et aux brevets semble claire. Par contre, un récent arrêt de la Cour suprême du Canada sème le doute quant à la nature de l'épuisement dans le cas des brevets biotechnologiques. Cet article présente l'affaire *Monsanto c Schmeiser* comme un cas particulier en matière de droit de la propriété intellectuelle au Canada. Nous proposons diverses hypothèses pour expliquer l'attitude divergente de la Cour suprême à l'égard du principe de l'épuisement dans le secteur du droit des brevets au Canada. Nul n'est à l'abri d'un examen méticuleux. À ce titre, nous concluons que la Cour suprême du Canada continuera fort probablement et à juste titre d'utiliser le concept de l'épuisement dans d'autres causes.

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1.0 INTRODUCTION

Intellectual property rights protect valuable, intangible resources, like brands, inventions, and expressions of ideas. Those intangible resources, however, are frequently embodied in material objects. These “things,” whether called goods, chattels, movables, or something else, can be the objects of classic private property rights. Often, classic and intellectual property rights are in conflict with each other.

Managing these conflicts by balancing classic and intellectual property rights is an important matter of public policy. One of the policy levers affecting this balance is the legal doctrine of exhaustion. Simply put, the exhaustion doctrine dictates that the rights of intellectual property owners do not extend to enable control over uses of material objects embodying intellectual property, unless specifically stated otherwise. One of the best definitions of the doctrine was given by the U.S. Federal Circuit Court in the context of patent law, where the court explained that the doctrine of exhaustion “stands for the proposition that, absent unusual circumstances, courts infer that a patent owner has given up the right to exclude concerning a patented article that the owner sells.”¹ In other words, the owner of intellectual property embodied in that object cannot generally restrict subsequent uses of the object by a purchaser.

The doctrine of exhaustion is often similar in result and confused with the doctrine of implied licence. But while application of the doctrine of implied licence leads to a similar conclusion, which is that “it can be properly assumed that as part of the bargain the seller of a device incorporating [intellectual property] ... authorizes the buyer to continue to use the device,”² the doctrines are conceptually different. The implied licence doctrine is based on the principles of contract law, which imply that unconditional and authorized sale of products subject to intellectual property rights grants the purchaser a licence to use those products.³ The doctrine of exhaustion is based on broader principles of public policy, which view intellectual property rights as exclusive but limited monopolies over valuable intangible resources. When an object embodying intellectual property rights “passes to the hands of a purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the [intellectual property rights].”⁴

Though the scope of the doctrine of exhaustion, and the terminology used to describe it, is somewhat different in the contexts of copyrights, trade-marks, and patents, and in different jurisdictions, the concept and function are universal in intellectual property law. The doctrine is also growing in social and economic importance around the world. Landmark cases have turned on the concepts underpinning exhaustion, whether or not courts have employed the jargon normally associated with this doctrine. Sometimes exhaustion is specifically mentioned, such as in a recent U.S. Supreme Court case involving the distribution of products containing patented computer parts. More often, especially in Canada, the public policy principles on which the exhaustion doctrine is based form the subtext for judicial analysis, such as in cases concerning physical alteration of copyright-protected posters, circulation of allegedly infringing chocolate bars, or use of molecularly engineered plant genes.

The issue of exhaustion is also highly relevant to current debates about intellectual property reform. Take copyright reform as an example, where policymakers are actively considering imposing prohibitions on the circumvention of technological protection measures applied to digital music, movies, or books. So-called anti-circumvention provisions would dramatically extend monopoly rights beyond the scope of existing intellectual property laws by providing distributors of digital products unprecedented levels of control over the physical products embodying intellectual creations. When such provisions are used to stifle competition in the market for universal garage door openers, interoperable printer ink cartridges, or unlocked mobile telephones, the tensions between intellectual and classic property owners are brought into sharp relief.

Section 2.0 of this article begins with an analysis of the laws of the United States, United Kingdom and Europe, and Canada to demonstrate the common threads underlying the doctrine of exhaustion. In Canada, the applicability of the exhaustion doctrine to copyrights, trade-marks, and patents seemed clear. But one recent Supreme Court of Canada judgment casts doubt on the nature of exhaustion in respect of biotechnology patents. This article identifies the case of *Monsanto v. Schmeiser* as an outlier in Canadian intellectual property law.

Section 3.0 proposes various hypotheses that might justify the Supreme Court's distinct attitude toward the principle of exhaustion in Canadian patent law. None withstands the scrutiny of investigation. As such, we conclude that it is likely and appropriate that the Supreme Court of Canada will continue to use the concept of exhaustion in future cases.

2.0 THE DOCTRINE OF EXHAUSTION

Exhaustion is one of the most important doctrines in intellectual property law, though the terminology surrounding it is somewhat confusing. In the context of copyright law, particularly in the United States, this doctrine is often referred to as a "first sale" doctrine. In 1909, when Congress legislated exhaustion into the *Copyright Act*,⁵ the wording of the provision linked application of the doctrine with "sale or conveyance ... of the material object" containing copyrighted work.⁶ Subsequent court decisions therefore used the term "first sale" when considering exhaustion issues in copyright law. This practice continues today even though the language of the U.S. *Copyright Act* does not require "sale" for the doctrine's application but rather "ownership," which can be acquired by any form of disposition, including gratuitous or forced transfer.⁷

Generally, outside the United States, the term "exhaustion" is most commonly used in the context of all intellectual property rights, including copyrights.⁸ Using a single term to describe an issue that affects the entire intellectual property system would be preferable for the sake of consistency, but varying terminology does not diminish substantive similarities: this doctrine, whether referred to as "exhaustion" or "first sale," involves limiting intellectual property rights on the transfer of owner-

ship of a material object. The transfer will often involve a sale, but the transfer of ownership is not limited to transactions for consideration.⁹

In addition to confusion over terminology, there are common misconceptions about the doctrine's scope. The doctrine is often seen as a narrow concept encompassing only distribution rights,¹⁰ most often parallel importation.¹¹ This limited view of the doctrine is prevalent even though it has little support in jurisprudence. While it is true that a large number of cases invoking the doctrine concern distribution of products with intellectual property protected components, the courts use broad language in those decisions, indicating broader application of the doctrine. In general, the doctrine limits intellectual property rights holders' ability to restrict any potential "use" of the product transferred,¹² unless otherwise dictated by a statute. Distribution is one potential use of a product, but not the only one.

Confusion surrounding the doctrine of exhaustion can also be explained by the uncoordinated approach in various segments of the intellectual property system. For example, in the United States, where both legislative and judicial consideration of the doctrine has been most extensive, various sources have contributed to its development. In patent law, for example, the doctrine is being developed only by the judiciary. In copyright law and trade-mark law, on the other hand, there are explicit statutory provisions, as well as jurisprudence, defining exhaustion.

Development of the doctrine of exhaustion in the E.U. is more consistent, but even there the Union's institutional framework does not facilitate a uniform approach to this issue. While E.U. law can regulate the exercise of intellectual property rights, it cannot affect the substance of those rights; that prerogative is exercised on the national level.¹³ Consequently, the doctrine of exhaustion is generally relied on by the European Court of Justice (E.C.J.) for protection of the Union's common market. Because of the E.C.J.'s narrow jurisdiction, most of the cases decided in this forum concern distribution rights, which has further led to confusion over the doctrine's scope.

Despite the lack of a uniform approach to the doctrine of exhaustion in different jurisdictions and in each segment of the intellectual property system, there are certain core elements of the doctrine that are common in all its variations. Consistently, the doctrine is a public policy tool that limits the economic exploitation of intellectual property rights following the first lawful transfer of a physical object in which the intellectual property is embodied, unless otherwise prescribed in the law.¹⁴ In essence, the doctrine is designed to ensure that acquirers of material objects materializing intellectual creations are free to use those objects without interference from intellectual property rights holders. It is based on the fundamental distinction between tangible and intangible, or classic and intellectual property and helps to reconcile the inherent conflicts between these two legal regimes.¹⁵ The reliance on a public policy rationale in limiting intellectual property rights is also what distinguishes the doctrine of exhaustion from the doctrine of implied licence. A closer look at the application of the exhaustion doctrine in three jurisdictions—the United States, the European Union/United Kingdom, and Canada—demonstrates this point.

2.1 The United States

The doctrine of exhaustion developed separately in different segments of the American intellectual property system. Generally, the doctrine is regulated federally,¹⁶ but state law can also affect its application.¹⁷

The development of the doctrine of exhaustion in U.S. patent law can be traced to a series of disputes over a patent involving a planning machine.¹⁸ The patentee, William Woodworth, granted large number of licences to his invention and then tried to limit their uses around the country with lawsuits. A barrage of litigation eventually reached the U.S. Supreme Court.¹⁹

In a series of cases, the Supreme Court delineated the doctrinal basics. The court indicated that by accepting consideration for the patented object, the patentee is divested of all his rights in that particular object.²⁰ The court also made a distinction between “using” and “making,” excluding the right to make the invention from application of the doctrine.²¹ A more recent pronouncement of the doctrine was made in *United States v. Univis Lens Co., Inc.*:

[The patentee’s] monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that the article and the patentee may not thereafter, by virtue of his patent, control the *use or disposition* of the article. [Emphasis added.]²²

The first copyright case applying the doctrine of exhaustion was *Bobbs-Merrill Co. v. Straus*.²³ The case involved a book publisher’s attempt to control minimum prices after initial distribution. A retailer, who bought books from a wholesale dealer at a discounted price, sold them below the minimum price set by the publisher. The publisher claimed infringement of copyright, but the court held for the defendant. The publisher’s action was characterized as an attempt to impose “a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title.”²⁴ In response, the court stated:

[T]he copyright statute, while protecting the owner of the copyright in his right to multiply and sell his production, [does] not create the right to impose, by notice, ... a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend. What the complainant contends for embraces not only the right to sell the copies, but to qualify the title of a future purchaser.²⁵

Soon after, Congress legislated the doctrine of exhaustion into copyright law.²⁶

Since the *Bobbs-Merrill* decision, the U.S. courts have consistently applied the doctrine of exhaustion to copyrights.²⁷ But the doctrine is not limitless. Exhaustion does not extend to certain uses, like “rental, lease, or lending” of a phonorecord²⁸ or use of computer programs²⁹ for commercial purposes. Those uses of material objects embodying a copyright-protected work are expressly stated rights of the copyright owner, limiting scope of the doctrine of exhaustion.

Trade-mark law was the latest of the major segments of the intellectual property system to adopt the doctrine of exhaustion. It was first referenced in 1921 in the *Bourjois v. Katzel* decision,³⁰ and developed in subsequent decisions.³¹ Today, although the trade-mark doctrine is similar to its patent and copyright counterparts, there are important differences. First, it has much more limited application to international distribution rights.³² And second, the doctrine does not apply to genuine products that differ materially from those sold by the trade-mark owner under her mark. In other words, once the purchaser materially changes the product bearing the mark after initial distribution, the doctrine ceases to apply.³³

In the most recent case, *Quanta Computer, Inc. v. LG Electronics, Inc.*,³⁴ the U.S. Supreme Court revisited the doctrine of exhaustion in the context of patents. LG, a patent holder, licensed some of its patents to Intel with a contractual limitation on their future use. In particular, the agreement required Intel to give its customers written notice that the licence did not extend to a product made by combining an Intel product with a non-Intel product. Quanta, a computer manufacturer, purchased microprocessors and chipsets from Intel and then manufactured computers using Intel parts in combination with non-Intel parts, but did not modify the Intel components. LG sued, claiming patent infringement. LG was successful at the Federal Circuit where the court found that the doctrine of exhaustion did not apply to method patents or, alternatively, LG did not license Intel to sell the Intel products to Quanta to combine with non-Intel products.

The Supreme Court reversed this decision on both grounds holding, in a unanimous decision, not only that the doctrine of patent exhaustion applies to method patents but also that because the licence agreement authorized Intel to sell the components that substantially embodied the patents in suit, the exhaustion doctrine prevented LG from further asserting its patent rights with respect to the patents substantially embodied by those products. In delivering this strong opinion the court confirmed the key elements of the doctrine of exhaustion. First, the court was not willing to exclude some categories of patents from the doctrine of exhaustion, instead confirming the doctrine's universal application to all inventions embodied in tangible property.³⁵ And second, once a product embodying a patented invention is sold by the patentee or under authority of the patentee, the doctrine of patent exhaustion prevents the patentee from further asserting its patent rights with respect to the patents substantially embodied by those products, leaving the patentee with possible contractual claims only.³⁶ The second point is particularly important in defining the scope of the doctrine of exhaustion because it suggests that the doctrine cannot be restricted contractually to affect the rights of the original purchaser or subsequent purchasers.³⁷ This conclusion is consistent with the doctrinal distinction between the doctrines of exhaustion and implied licence in emphasizing that public policy considerations are not affected by contractual provisions.³⁸

2.2 The United Kingdom and European Union

The doctrine of exhaustion has not yet been fully developed in the United Kingdom.³⁹ This is in contrast to the continental jurisdictions in Europe where the doctrine is well established.⁴⁰ Instead, the English courts have relied on the contractual doctrine of implied licence to limit intellectual property rights holders' ability to interfere with the use of tangible objects subject to their rights after the initial sale.⁴¹ There is, however, at least one House of Lords case verifying the existence of the doctrine of exhaustion in the United Kingdom.

In *Leyland v. Armstrong Patents*,⁴² the House of Lords was considering an action for copyright infringement against a defendant who manufactured car parts through reverse engineering. Rejecting the plaintiff's claim, Lord Bridge stated that "[b]y selling cars fitted with exhausts based on their copyright drawings [British Leyland] have already enjoyed the primary benefit which their copyright protects."⁴³ This comment, suggesting that intellectual property rights do not extend beyond the "primary benefit" derived from the sale of tangible property, is underpinned by a public policy rationale and closely resembles the doctrine of exhaustion.⁴⁴

U.K. law, however, cannot be determined in isolation from E.U. law. Development of the doctrine of exhaustion at the E.U. level is largely driven by the role and purpose of the Union. At its inception, the E.U.'s primary purpose was to create a free trade area, which would eventually lead to the creation of a single market. This purpose is somewhat reflected in the distribution of authority over intellectual property rights between the Union and the Member States. Intellectual property law has been affected by the founding treaties, which prohibit any restrictions on movements of goods within the E.U.⁴⁵ This rule, however, only applies to trade within the E.U. block and allows the Member States to impose restrictions on trade with non-Union countries for protection of industrial and commercial property.⁴⁶ Also, the E.C.J. has established a distinction between the exercise and existence of intellectual property rights—while decisions of the E.C.J. and legislation at the E.U. level cannot change the existing national intellectual property laws, they can affect how those substantive laws are created.⁴⁷

Dual authority over intellectual property in general and the doctrine of exhaustion in particular led to two parallel developments affecting the doctrine. On one hand, the doctrine has been developed by the E.C.J. under its authority to oversee the exercise of the intellectual property rights by the Member States. On the other hand, the executive branch of the Union, the Commission, became involved in an effort to harmonize intellectual property laws of the Member States by issuing directives mandating certain legislative changes. So far, two directives, concerning trade-marks and copyright, have been issued, and another one, concerning patent law, is being discussed.

The copyright directive states that the doctrine of exhaustion will apply "where the first sale or other transfer of ownership in the Union of that object is made by the right holder or with his consent."⁴⁸ However, the doctrine does not apply to

rental and lending rights,⁴⁹ as well as services and online services.⁵⁰ This doctrine in the E.U. seems narrower than the present doctrine of “first sale” in the United States and more like the previous American version. It seems to apply only to the distribution rights and only to consensual transfer of the copyright work, at least as far as the first transfer is concerned. While this language seems to leave general uses and forced but lawful transfers outside the doctrine’s scope, it is an open question whether the E.C.J. will interpret it so narrowly.⁵¹

The trade-mark directive established the exhaustion of trade-mark rights once the trade-mark holder puts goods bearing the mark on the market, unless legitimate reasons exist not to apply exhaustion principles, especially when goods’ condition has been changed or impaired.⁵² Thus, the trade-mark doctrine seems to be similar to its U.S. counterpart, although the provision for exceptions appears to be more open-ended.

Patent law is the only segment of the intellectual property system where no E.U. directive on harmonization has been adopted. In 2004, however, a draft regulation was tabled that promoted uniform E.U. patent laws, including the doctrine of exhaustion. It provided for exhaustion of patent rights in the Union after the product covered by that patent has been put on the single market by the patentee or with his consent, unless there are legitimate reasons to oppose further commercialization of the product.⁵³ While the future of this harmonization process is still uncertain, past jurisprudence of the E.C.J. has already delineated the patent doctrine of exhaustion. The E.C.J. indicated that a patentee “has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time.”⁵⁴ This approach implies that patentees’ rights to control subsequent use, including but not limited to distribution, of patented inventions are limited.

2.3 Canada

2.3.1 Implementing Exhaustion into Canadian Law

Canadian intellectual property law is rooted in British tradition.⁵⁵ Therefore, it should be surprising that the disposition of a tangible object embodying intellectual property is often seen as an issue of implied licence rather than exhaustion. A good example of this position is *Signalisation de Montreal Inc. v. Services de Béton Universels Ltée*, where the Federal Court of Appeal stated:

It is settled law that the purchaser of a patented article from a patentee acquires, at the same time, the right to use the article and the right to sell it, together with the same “right of use,” to another person. As long ago as 1871, this right was described as a “licence.”⁵⁶

By referring to “licence” rather than to “exhaustion,” the court apparently considered the issue to be a matter of contract law rather than public policy.

Although Canadian courts have usually invoked contract doctrine to reconcile conflicting rights of intellectual and classic property owners, there are several cases

that introduce public policy rationales to limit intellectual property rights. One of the most important cases is *Eli Lilly and Co. v. Apotex Inc.*,⁵⁷ where the Supreme Court of Canada adopted the principle that sale of a patented article exhausts the patentee's right in that article.⁵⁸ In *Eli Lilly* the Supreme Court also took the position that subsequent purchasers are not bound by contractual limitations imposed by an intellectual property right holder, unless brought to their attention at the time of acquisition.⁵⁹ In practical terms, in *Eli Lilly* the Supreme Court had introduced the doctrine of exhaustion into Canadian patent law. It also distinguished between the doctrine of exhaustion and the doctrine of implied licence by leaving patent holders with contractual remedies only for controlling subsequent use of patented inventions.

Even before *Eli Lilly* was decided, the Supreme Court of Canada adopted the language and logic of the doctrine of exhaustion into Canadian trade-mark law in *Consumers Distributing Co. v. Seiko Time Canada Ltd.*⁶⁰ It involved a manufacturer of watches trying to prevent an unauthorized sale of its products in Canada. The plaintiff had alleged trade-mark infringement but the court held for the defendant. Although the court's discussion focused mostly on the tort of passing off, the court made a statement that can be viewed as an express endorsement of the doctrine of exhaustion in trade-mark law, explaining that "the distribution of a trade-marked product lawfully acquired is not, by itself, prohibited under the *Trade-marks Act* of Canada, or indeed at common law."⁶¹ This approach was subsequently adopted by the Federal Court of Appeal in other cases.⁶²

Despite these trade-mark law and patent law rulings, there was still uncertainty about whether the doctrine of exhaustion was present in Canadian copyright legislation or jurisprudence. Even though several statutory provisions could reasonably be interpreted as supporting existence of the doctrine in copyright law,⁶³ their potential effect was largely ignored by Canadian scholars, practitioners, and courts.

A recent decision of the Supreme Court of Canada, however, can be interpreted to suggest that the doctrine of exhaustion does apply to copyright in Canada, though the precise term was never used in the judgment. *Théberge v. Galerie d'Art du Petit Champlain Inc.*⁶⁴ involved an art gallery that transferred ink from legally purchased posters onto canvases. These acts were done without authorization of the paintings' author and copyright owner, a renowned artist Claude Théberge. He claimed violation of his production or reproduction rights under the *Copyright Act*. In deciding the case, the Supreme Court distinguished the rights of the tangible and intellectual property owners.

In effect, the court was really deciding the issue of exhaustion, albeit hidden behind arguments about "reproduction" rights. The Supreme Court described the issue as follows: "We are required in this appeal to determine the extent to which an artist ... can control the eventual use or display of an authorized reproduction of his or her work in the hands of a third party purchaser."⁶⁵ The distinction between "use" and "making" or "reproduction" is at the heart of the doctrine of exhaustion. Using the language of the doctrine of exhaustion, the court had to decide whether "repro-

duction” in the *Copyright Act* really means a “use” of the copyrighted work or an act of “making.”

Neither the majority nor minority opinions in *Théberge* contain the word “exhaustion,” and the court did not expressly reference that doctrine. Yet the decision included language that clearly employs the concept of exhaustion:

[The art gallery] purchased lawfully reproduced posters of [the artist’s] paintings and used a chemical process that allowed them to lift the ink layer from the paper (leaving it blank) and to display it on canvas. They were within their rights to do so as owners of the physical posters (which lawfully incorporated the copyrighted expression).⁶⁶

What this statement really means is that use of tangible property containing intellectual property does not constitute infringement of copyright. It also implies that once the object containing copyrighted work is sold, or its ownership transferred, the copyright holder cannot control how it is used.

That the court was incorporating the doctrine of exhaustion into Canadian copyright law is made even clearer in light of the public policy issues articulated in the judgment. The court phrased the issue as “a balance between promoting the public interest in the encouragement and dissemination of works of the arts and intellect and obtaining a just reward for the creator.”⁶⁷ And this balance necessitates imposing limitations on the rights of intellectual property holders: “Once an authorized copy of a work is sold to a member of the public, it is generally for the purchaser, not the author, to determine what happens to it.”⁶⁸ The court also adopted the “making” *versus* “using” distinction in negotiating rights of tangible and intellectual property holders. The court stated:

The process began with a single poster and ended with a single poster. The image “fixed” in ink is the subject-matter of the *intellectual* property and it was not reproduced. It was transferred from one display to another. It is difficult to envisage any intellectual content let alone intellectual property embodied in the piece of blank paper peeled away, or in the piece of blank paper substituted for it.⁶⁹

There is one more aspect of *Théberge* that aligns the Canadian copyright doctrine of exhaustion with their counterparts in other jurisdictions. Speaking for the majority, Justice Binnie rejected the suggestion of Justice Gonthier, writing for the dissenting judges, that the plaintiff could use moral rights to control the use of tangible property after its disposition.⁷⁰ This approach is consistent with treatment of moral rights under the E.U. copyright doctrine of exhaustion. That point was considered in the *Music-Vertrieb* case,⁷¹ where the French government argued that copyright should not be subject to exhaustion because it protects moral rights.⁷² The E.C.J. rejected this argument and confirmed the universal nature of the doctrine of exhaustion in the intellectual property system, including economic and moral rights under copyright law.⁷³

The applicability of exhaustion in Canadian copyright law was lately narrowed through interpretation of the *Copyright Act* by the Supreme Court of Canada in

*Kraft Canada Inc. v. Euro-Excellence Inc.*⁷⁴ The defendant in that case began parallel importation of Kraft's genuine products to Canada from an unnamed source in Europe. Kraft claimed infringement of its copyrights in logos displayed on wrappers of the chocolates. The case is a classic example of misusing copyrights to fill gaps in trade-mark protection.⁷⁵ In particular, it illustrates how differences in the exhaustion doctrine among separate intellectual property regimes can be explored advantageously through overlaps in copyrights and trade-mark rights. But it also delineates the limits of the doctrine of exhaustion in Canadian copyright law.

Interpreting s. 27(2)(e) of the *Copyright Act*, Justice Rothstein, writing for the majority, decided that the section prevents unauthorized parallel importation of copyrighted works even if they are original.⁷⁶ This interpretation indicates that the doctrine of exhaustion in Canadian copyright law does not apply to international distribution rights. It does, however, apply to a non-international sale of copyrighted works, because s. 27(2)(e) is the only provision in s. 27(2) of the *Copyright Act* applying to genuine products.⁷⁷

The short review of Canadian intellectual property jurisprudence presented above suggests that, although the doctrine of exhaustion has not been expressly pronounced by the Supreme Court to exist in Canadian law, the functional concept certainly does exist. Moreover, exploring this body of jurisprudence through the lens of exhaustion reveals an internal coherence in Canadian intellectual property law that may not have been previously apparent.

The single notable exception in Supreme Court jurisprudence is the case of *Monsanto Canada Inc. v. Schmeiser*,⁷⁸ which appears on its face to deny the existence of the doctrine of exhaustion in patent law, as well as the balancing of classic and intellectual property rights that the doctrine promotes. That case and its broader implications are discussed in the following section.

2.3.2 Ignoring Exhaustion in Schmeiser

Only two years after *Théberge* appeared to incorporate the doctrine of exhaustion in Canadian copyright law, the Supreme Court issued another decision, *Schmeiser*, which is not only inconsistent with *Théberge* but also puts into question existence of the exhaustion doctrine in Canadian patent law.

Contextually, *Schmeiser* and *Théberge* are very different. Conceptually, however, they are identical. Monsanto, a manufacturer of genetically modified seed, accused Percy Schmeiser, a Saskatchewan farmer, of making, using, and selling its patented herbicide-resistant transgenic canola without a licence. Monsanto's private investigators discovered their patented genes in Schmeiser's crop, which he had planted with seed saved from the previous year, as was his customary practice. Schmeiser never purchased seeds from Monsanto; that would have required contracting not to save new seeds generated from his crop.⁷⁹ Schmeiser proposed various explanations for its presence, including adventitious spread by wind or insects.

The Supreme Court quickly dismissed the allegation of patent infringement by making the patented invention, without elaborating on this issue.⁸⁰ This conclusion was consistent with an earlier finding of the court that natural procreation cannot be considered manufacturing (making) in terms of the *Patent Act*.⁸¹ Controversially, however, the court found that Schmeiser used Monsanto's invention without a licence, thus infringing its patent rights. Five of the nine Justices of the Supreme Court of Canada upheld the lower courts' rulings that it did not matter how and why Monsanto's gene appeared in Schmeiser's crop because Schmeiser knew or should have known the seeds he saved and replanted were subject to Monsanto's patent.⁸²

According to the court, "[t]he *Patent Act* confers on the patent owner 'the exclusive right, privilege and liberty of making, constructing and using the invention and selling it to others to be used.'"⁸³ To determine infringement, one must ask: "*Did the defendant's activity deprive the inventor in whole or in part, directly or indirectly, of full enjoyment of the monopoly conferred by law?*"⁸⁴ The court went on to say that "the main purpose of patent protection is to prevent others from depriving the inventor, even in part and even indirectly, of the monopoly that the law intends to be theirs: only the inventor is entitled, by virtue of the patent and as a matter of law, to the full enjoyment of the monopoly conferred."⁸⁵ The statements made by the court did not mention the doctrine of exhaustion even once, yet by treating making, using, and selling an invention as absolute rights of the patentee, the court effectively rejected the basis of the doctrine of exhaustion in patent law.

Even more notably, when the time came to balance other considerations, for example Schmeiser's argument that he also had an ownership interest at stake—a classic property right in the seed itself, which begged for consideration of exhaustion principles—the court paid little attention. Both the Trial Division and the Court of Appeal disposed of Schmeiser's classic property claim in a few paragraphs.⁸⁶ The Supreme Court, however, missed the point entirely. The majority bluntly remarked: "the issue is not property rights, but patent protection. Ownership is no defence to a breach of the *Patent Act*."⁸⁷

While the court's conclusion regarding Schmeiser's use of Monsanto's patent without actual use of that patent's utility is highly controversial, ignoring effects of the doctrine of exhaustion is simply puzzling. The facts in *Schmeiser* were clearly suited for consideration, if not application, of the doctrine of exhaustion.

And contrary to the court's assertion, it *did* matter how and why Monsanto's gene appeared in Schmeiser's crop. If it were true, as Schmeiser alleges, that he acquired the seed containing Monsanto's patented genes through legal means, for instance by seed blowing or spilling onto his land, then he was simply a subsequent acquirer of another farmer's tangible property embodying Monsanto's patented invention. Though not a purchaser as such, that itself would not prevent the application of the doctrine of exhaustion.

As discussed in the previous sections, the doctrine applies when there is a lawful transfer or conveyance of tangible property containing intellectual property, whether

for consideration or not. It is important that Monsanto's seed had been sold to a farmer rather than leased and, therefore, there was an original transfer of ownership in the seed, prior to the seed being acquired by Schmeiser. When the seed was sold, the licence agreement signed by a purchaser may have been a valid contractual limitation on use of the seed, as between the licensor and the licensee. But when the seeds appeared on Schmeiser's land, they were not subject to the licence agreement specifying limitations on its use by Schmeiser—a subsequent acquirer. And because the Supreme Court expressly stated in *Ely Lilly* that contractual limitations “do not run with the goods,”⁸⁸ they had no effect on Schmeiser. If the doctrine of exhaustion would have been applied, Schmeiser's use of Monsanto's patented genes, whether standby or not, would not infringe the right to use the patented invention. Moreover, in the absence of contractual claims against Schmeiser, the outcome of the case could have been different.

3.0 THE FUTURE OF EXHAUSTION IN CANADIAN LAW

In light of the Supreme Court's inconsistent approach toward the concept of exhaustion in Canadian intellectual property law, it is worthwhile exploring which direction the court is more likely to move in, and which direction it ought to move in. The following section addresses those questions.

3.1 Exhaustion and the Principle of Balance

Although perspectives on intellectual property law have shifted from time to time, depending on the cultural and socioeconomic context,⁸⁹ balance has always been a part of legal analysis in this area. In part, this involved recognition that intellectual property rights must be balanced against the public interest.

In a series of recent cases, the Supreme Court of Canada has recognized public policy limits on intellectual property rights. One of the most important cases in Canadian copyright law, *CCH Canadian v. Law Society of Upper Canada*,⁹⁰ illustrates this position. That case involved a service provided by the Great Library of the Law Society of Upper Canada to its members, the judiciary and other authorized researchers. The service included photocopying legal materials and delivering them in person, by mail, or by facsimile transmission to persons who made a request for such materials. The plaintiffs, legal publishers, claimed copyright infringement. The Law Society argued, among other things, that reproducing the plaintiffs' works was fair dealing and, therefore, not an infringement of copyright.⁹¹

The Supreme Court unanimously agreed. As a starting point, Chief Justice McLachlin adopted the language of Professor David Vaver: “User rights are not just loopholes. Both owner rights and user rights should therefore be given the fair and balanced reading that befits remedial legislation.”⁹² Indeed, because copyright law “sets out the rights and obligations of both copyright owners and users,” the notion of balancing the rights of these two groups is intrinsically embedded in this area of law.⁹³

In *CCH*, the concept of users' rights seemed based on public interest limitations on copyrights. Libraries could fairly photocopy books but not, apparently, because they own the books or the machines. The court's interpretation of fair dealing was tied to public interests. Similarly, when interpreting the threshold for copyright—originality—the court was concerned not about those individuals whose freedom would be constrained by copyright, but with “*society's* interest in maintaining a robust public domain that could help foster future creative innovation.”⁹⁴ The removal of copyright constraints on the rights of classic property owners, and individuals' enhanced ability to access legal information, seemed to be a lucky byproduct of exceptions oriented toward social ends.

However, the principle of balance also has a more complex role to play in the area of copyright law. It is not enough just to consider those limits on copyright that can be justified as in the public interest. The rights of copyright owners must also be weighed against the countervailing rights of other individuals, including classic property owners.⁹⁵

This more robust understanding of the principle of balance was articulated by the Supreme Court in *Théberge*. When Claude Théberge sued the art gallery for transferring ink from its lawfully purchased posters onto canvases without his authorization, the conflict between the owner of the tangible object containing copyrighted work and the owner of the intellectual property was resolved in favour of the classic property owner—the art gallery that owned the posters. Justice Binnie wrote for the majority of the court:

The *Copyright Act* is usually presented as a balance between promoting the public interest in the encouragement and dissemination of works of the arts and intellect and obtaining a just reward for the creator (or, more accurately, to prevent someone other than the creator from appropriating whatever benefits may be generated).

The proper balance among these and other public policy objectives lies not only in recognizing the creator's rights but in giving due weight to their limited nature. In crassly economic terms it would be as inefficient to overcompensate artists and authors for the right of reproduction as it would be self-defeating to undercompensate them. Once an authorized copy of a work is sold to a member of the public, it is generally for the purchaser, not the author, to determine what happens to it.

Excessive control by holders of copyrights and other forms of intellectual property may unduly limit the ability of the public domain to incorporate and embellish creative innovation in the long-term interests of society as a whole, or create practical obstacles to proper utilization.⁹⁶

By dissecting this passage, we can see that Justice Binnie considered balance to be relevant in numerous ways. First, bestowing just rewards on creators is *itself* in the public interest, because doing so should lead to further creativity, which in the long run is good for most people. This is simply a restatement of the classic utilitarian model. By preventing free riding, lawmakers can provide incentives to create new

works. But just promoting creativity isn't enough to satisfy the public interest. Justice Binnie referenced the public's interest in the "encouragement *and dissemination*" of original works. Creativity does no good if society does not have adequate access to the works that are created. Moreover, Justice Binnie was concerned that the process of creation and dissemination take place as efficiently as possible. By mentioning the importance of incorporating and embellishing works from the public domain, he recognized that social progress can be made by "standing on the shoulder's of giants."⁹⁷

Despite Justice Binnie's clear recognition of the public-interest limitations on copyrights, the *Théberge* decision is actually most significant for what it adds to these social values—individualist considerations. Justice Binnie held that "[o]nce an authorized copy of a work is sold to *a member of the public*, it is generally for *the purchaser*, not the author, to determine what happens to it."⁹⁸ Here, the court was not merely balancing copyright against the public interest. It was balancing copyright against another individual's classic property rights. Justice Binnie expressly acknowledged that

[t]his case demonstrates the basic economic conflict between the holder of the intellectual property in a work and the *owner of the tangible property* that embodies the copyrighted expressions.⁹⁹

In this short passage, the court intertwined the doctrine of exhaustion with the notion of balance, as the public policy consideration addressed by the doctrine. The doctrine of exhaustion is the policy tool to calibrate the rights of the copyright holder to control use of a tangible object containing copyrighted work after transfer of the object's ownership.

Similar policies apply in the context of patent law. Most experts would agree that modern patents can be viewed as a bargain between an inventor and the public: the inventor gets a time-limited monopoly over a product or process, and the public gets a detailed description of the invention.¹⁰⁰ Justice Dickson has called this *quid pro quo* the heart of the whole scheme.¹⁰¹

In *Biolyse Pharma Corporation v. Bristol-Myers Squibb Company*,¹⁰² a majority of the Supreme Court confirmed that disclosure is fundamental to the balance struck under the *Patent Act*.¹⁰³ The case involved a synthetic medicine "paclitaxel" produced by Bristol-Myers and marketed under the name "Taxol." The drug was an equivalent of the naturally occurring paclitaxel, which was first discovered by the U.S. National Cancer Institute and put into the public domain.¹⁰⁴ Biolyse invented a method for extracting the natural medicine and applied to Health Canada for approval of its use under the Notice of Compliance (NOC) and New Drug Submission regulations.¹⁰⁵ In an attempt to prevent Biolyse from marketing its drug, Bristol-Myers claimed that the presence of paclitaxel prevented the issuance of an NOC.¹⁰⁶

Although the court framed the issue as a technical and narrow one—interpretation of s. 5(1.1) of the NOC Regulations—the real dispute concerned a much broader issue. At the core of the dispute was whether Bristol-Myers could claim its patent

monopoly over naturally occurring medicine “merely by demonstrating the presence of a public domain medicine like *paclitaxel* in its product.”¹⁰⁷

The court rejected this argument by stating that there would be “no value to the public in exchange for the monopoly.”¹⁰⁸ The court’s conclusion rested on its assessment of balance in patent law. Describing the notion of balance, the court referred to its earlier decisions in *Whirlpool Corp. v. Camco Inc.*¹⁰⁹ and *Free World Trust v. Électro Santé Inc.*¹¹⁰ to note that if the monopoly is granted for disclosure of something known, obvious, or useless “then the public is short-changed.”¹¹¹ According to the court, the notion of balance has both individual and social dimensions:

Parliament is concerned not only with the balance between inventors and potential users, but between the protection of intellectual property on the one hand and, on the other hand, the desire to reduce health care costs while being fair to those whose ingenuity brought the drugs into existence in the first place.¹¹²

This view of balance in patent law resembles the position of the Supreme Court on balancing rights in copyright law.¹¹³ And just like in copyright law, the doctrine of exhaustion in patent law is effective in addressing both concerns. Primarily, the doctrine is concerned with rights of individual purchasers of objects containing patented inventions to use those objects at will. In *Eli Lilly* the Supreme Court explained this aspect of the doctrine by quoting with approval from the court below:

If a patentee makes a patented article, he has, in addition to his monopoly, the ownership of that article. And the ownership of a thing involves, as everybody knows, “the right to possess and use the thing, the right to its produce and accession, and the right to destroy, encumber or alienate it.” ... If the patentee sells the patented article that he made, he transfers the ownership of that article to the purchaser. This means that, henceforth, the patentee no longer has any right with respect to the article which now belongs to the purchaser who, as the new owner, has the exclusive right to possess, use, enjoy, destroy or alienate it. It follows that, *by selling the patented article that he made, the patentee impliedly renounces, with respect to that article, to [sic] his exclusive right under the patent of using and selling the invention. After the sale, therefore, the purchaser may do what he likes with the patented article without fear of infringing his vendor’s patent.*¹¹⁴

While on cursory examination this fragment can be viewed as addressing the rights of the purchasers of patented inventions, there is a more subtle point underlying the court’s comment. By giving the acquirers of patented inventions the right to resell them and clarifying that any restrictions imposed by patentee on purchaser “do not run with” the objects sold by patentee,¹¹⁵ the court was also protecting the secondary market for patented inventions or rights of the public in general to redistribute goods containing patented inventions. The doctrine of exhaustion plays a prominent role in balancing rights by addressing concerns like accessibility and affordability of patented inventions.

Similar considerations are at the heart of trade-mark law where balancing has a prominent role. The Supreme Court recently confirmed this principle in *Mattel, Inc. v. 3894207 Canada Inc.*:¹¹⁶

The trade-mark owner ... may simply have used a common name as its “mark” to differentiate its wares from those of its competitors. Its claim to monopoly rests ... on serving an important public interest in assuring consumers that they are buying from the source from whom they think they are buying and receiving the quality which they associate with that particular trade-mark. Trade-marks thus operate as a kind of shortcut to get consumers to where they want to go, and in that way perform a key function in a market economy. Trade-mark law rests on principles of fair dealing. It is sometimes said to hold the balance between free competition and fair competition.

... Fairness, of course, requires consideration of the interest of the public and other merchants and the benefits of open competition as well as the interest of the trade-mark owner in protecting its investment in the mark. Care must be taken not to create a zone of exclusivity and protection that overshoots the purpose of trade-mark law.¹¹⁷

In this respect, trade-mark law appears to be no different from patent and copyright law. Its rights should be interpreted taking into consideration not only the interests of trade-mark owners but also those of the public in general and individual competitors in the market. In other words, the exercise of trade-mark rights in protecting the owner’s goodwill cannot be unfair, which in this context means undermining competition in the market.

The intersection of fair competition and exhaustion in trade-mark law was noticed by the Supreme Court in *Seiko*, where the court observed that allowing a trade-mark owner to control resale of its products after the owner “on terms presumably satisfactory to itself, released these watches into the distribution stream” and “with the profits from its sale ... in its pocket” would inevitably lead to “restraint of trade and free competition.”¹¹⁸ In this way the role of the doctrine of exhaustion in balancing rights of different stakeholders is also present in trade-mark law.

3.2 Principle of Balance and Tangible Property Rights

Increasing awareness of the public interest in the Supreme Court’s intellectual property judgments corresponded with development of the doctrine of exhaustion in all intellectual property segments. Starting with trade-mark law and later patent law, the doctrine appeared to be firmly established in the court’s jurisprudence. Copyright law was the last area where the doctrine was adopted; yet it was also the area where the voice of the court in *Théberge* was loudest in bonding the doctrine with public policy considerations. Shortly thereafter, in *Schmeiser*, the court took a contrasting and puzzling approach.

The Supreme Court’s decision in *Schmeiser* calls into question the existence of the doctrine of exhaustion in patent law, apparently reversing the court’s direction following *Eli Lilly*. At the same time it appears to indicate that the balancing of rights is or should be less relevant in patent law than in the other areas of intellectu-

al property. In this section, we look at the relationship between different intellectual property rights and tangible property and whether the discrepancy in treatment of the doctrine of exhaustion in *Schmeiser* can be explained by the different roles that tangible property plays in these areas. Some basic background concerning concepts of copyright, trade-mark, and patents are necessary to establish a basis for our subsequent analysis.

The scope of copyright protection is defined by the idea/expression dichotomy. It is the expression of an idea that enjoys copyright protection, not the idea itself.¹¹⁹ This distinction is apparent in two facets of copyright law. One is the idea/expression merger doctrine and the other is the defence of independent creation. Thus, when expressions of an idea cannot differ substantially, they will not be given copyright protection because to do so would amount to giving the copyright holder a monopoly on the idea itself.¹²⁰ And it is possible to create independently an expression identical to an already copyrighted expression, without infringing the existing monopoly rights.¹²¹

Expression of an idea is, generally, a necessary condition for copyright protection. While copyright arises automatically on creation of a copyright work, to be afforded protection a copyright “work must be expressed to some extent at least in a material form and having a more or less permanent endurance.”¹²² This requirement, although not expressed in the *Copyright Act* and not uniformly applied throughout the Act,¹²³ has been enforced by Canadian courts and strengthens the connection between the intellectual and classic property rights.

One of the most important aspects of trade-mark law is “use” of the mark. Indeed, actual use is essential for claiming trade-mark rights. The Supreme Court of Canada put it simply: “use it or lose it.”¹²⁴ A trade-mark is used in association with wares when, in the normal course of trade, it is marked on the wares themselves or on the packages in which they are distributed or in another manner gives notice to the transferee of the association.¹²⁵ In respect of services, trade-mark is deemed to be used when the trade-mark is used or displayed in the performance or advertising of those services.¹²⁶ Interruption in use may affect trade-mark rights and allow others to register the trade-mark at the time it is not used.

Underlying the definition of “use” is the connection between tangible property and trade-mark rights. In practical terms, one often cannot use trade-mark without embedding it in a form of tangible property. Even when the trade-mark is used to distinguish services provided by the trade-mark owner rather than products, the mark still has to be displayed to the public in some visible form, which implies use in association with tangible property. In most instances, there can be no protection without tangible property bearing a mark.

Unlike copyrights, patents protect ideas that meet the essential requirements of novelty, utility, and non-obviousness. Only one patent can be granted for utility of identical inventions and whether the patent system adopts the first-to-invent approach, as it does in the United States, or the first-to-file approach, as it does in

other countries, the monopoly granted is exclusive. For example, in 1876, Alexander Graham Bell filed a patent application for his invention, beating another inventor of the telephone, Elisha Gray, by only a few hours.¹²⁷ In the race for a patent monopoly, there is only one winner.

The protection of ideas without a legal requirement of fixation in a tangible medium is what, at first glance, distinguishes patents from copyrights. Even though the requirement of tangible existence for patented inventions can be implied from the definition of “invention,”¹²⁸ there is no formal requirement of physical embodiment. All that is required is for the invention to be capable of physical embodiment and meeting prescribed statutory requirements. However, eventually, inventions must become material because one of the requirements for patentability is “usefulness.” This element has two components—one is commercial or industrial usefulness, and the other is operability, which means that the invention works when put in practice.¹²⁹ In other words, the invention has to perform the function for which it was designed and this function has to have a practical application.¹³⁰ It must be directed to a practical use and indeed perform the way the inventor claims it does.¹³¹ Consequently, to become “useful,” the invention typically has to take material form thus combining intangible and tangible elements in one object. In this sense, the links between intellectual and classic property in patent law and trade-mark law are similar.

The bonding between tangible and intellectual property is strong in copyright law, trade-mark law, and patent law, yet these domains are separate and distinct. It is easy to distinguish between a book (classic property) and a copyrighted story spelled out in its pages (intellectual property). It is equally unlikely that somebody would conceptually intertwine a trade-marked logo on a wrapper with a chocolate inside. This distinction is also obvious when speaking of machine parts, plants, or other inventions. But even a molecularly engineered gene is the object of classic property rights. One may not be able to see the object with the naked eye, or touch it without the aid of technology, but the physical matter is nevertheless distinct from the patent right. A similar principle applies to a digital copy of a copyright-protected work. It may not seem as if there is a relevant classic property right to consider, but in fact, the owner of the computer hardware through which the work is manifested has an ownership interest distinct from any applicable intellectual property right. The Supreme Court, however, has ignored this doctrinal commonality between patents and other intellectual property rights.

Looking at a book and a plant, one might say that they have nothing in common and that comparing them is like comparing apples and oranges. From a conceptual perspective, various forms of intellectual property are similar in that they all constrain the rights of a classic property owner. There is no justification for recognizing this fact in one context and ignoring it in another.

Both copyrights and patents are based primarily on a utilitarian justification that recognizes the rights of creators as a means to achieving the goal of increased creativity for the benefit of the public. But the public is nothing more than a great number or individuals who become owners of the tangible property embedding in-

lectual property. Thus the attempts to balance the rights of intellectual property owners with the rights of the public must include consideration of the classic property rights exercised by individual users of copyrighted works and patented inventions. There is no philosophical distinction between patents and copyrights that justifies neglecting the role of classic property rights in limiting the patent monopoly, so eloquently expressed in *Théberge* in the context of copyright.¹³²

Doctrinal differences between the domains of intellectual property are obvious and numerous, but they exist in the context of similarities. And the common doctrinal characteristic shared by various types of intellectual property—the bonding of intellectual property with a tangible object—makes them seem alike.¹³³ It is only logical to employ a uniform approach in negotiating intellectual and tangible property rights in each area. Different modes of establishing these monopolies, their scope, and duration take nothing away from this argument.

There is no reason that the balance of rights in patent and copyright law must be identical. But the common characteristics of copyrights and patents should be recognized and considered. They should not be weighed in one context and ignored in the other. In both contexts, intellectual property rights must be balanced not only against the broad public interest but also against the rights of individuals. The clash of classic property rights with intellectual property rights in patent law is inevitable and should be thoroughly addressed by the Supreme Court, just as it was addressed in *Théberge*, in the context of copyright. In *Schmeiser* the Supreme Court of Canada missed a rare opportunity to take a consistent and holistic approach toward Canadian intellectual property law.

It is also unfortunate that by inconsistently approaching the public interests in copyright law and patent law, the Supreme Court undermined development of the doctrine of exhaustion in Canadian law. The key purpose of the doctrine is to prevent abuses of intellectual property rights from unduly encroaching on rights of classic property owners to freely use their legally acquired property. *Schmeiser* was a subsequent acquirer of tangible objects—seed or pollen—containing Monsanto's patented invention. To allege his acquisition was illegal because of Monsanto's question would be circular; whether Monsanto's patent rendered *Schmeiser's* actions illegal should be the question not the answer. The same doctrinal components of exhaustion that the Supreme Court had mentioned in *Eli Lilly* were present in *Schmeiser*, and yet the outcome was contrary. The doctrine of exhaustion could have been the analytical key to the dispute, but it was ignored.

Lack of any reference to the doctrine of exhaustion in *Schmeiser*, and to *Eli Lilly* in particular, was unfortunate. Whether intentionally or not, it raised doubts about application of the doctrine and its logic in patent law, which the Supreme Court itself had introduced in *Eli Lilly*. But looking at the development of the doctrine of exhaustion from the perspective of more than one case, it appears that *Schmeiser* was simply an unintended consequence of a specific set of facts and circumstances forcing the Supreme Court to make a decision that may have been economically justified in outcome, even if legally questionable. In this context, *Schmeiser* could

be considered a blip in the Supreme Court's jurisprudence surrounding the principles underpinning the exhaustion doctrine.

When an appropriate opportunity arises, the Supreme Court should expressly acknowledge that the doctrine of exhaustion remains part of Canadian intellectual property law and that *Schmeiser* did not change anything in this respect. Relevance of the doctrine of exhaustion should be growing, because it is an important tool for addressing misuses of intellectual property rights to encroach on the world of classic property. It is therefore desirable that future decisions of Canadian courts define the doctrine in more precise terms, which invites questions regarding its proper scope. The first step, however, is to acknowledge the existence of the doctrine in Canada. In this article, we have attempted to do so by analytically reframing a body of jurisprudence reflecting the public policy principles underlying exhaustion, though not necessarily the associated jargon.

ENDNOTES

- ¹ *Glass Equip. Dev. v. Besten, Inc.*, 50 U.S.P.Q.2d 1300, at note 1 (Fed. Cir. 1999).
- ² *General Electric Co. v. United States*, 572 F.2d 745, at 784-85.
- ³ *Sandvik Aktiebolag v. E.J. Company*, 121 F.3d 669, at 672 (Fed. Cir. 1997). (“[W]hen Sandvik sold its patented drills to its customers, it granted them an implied licence to use the drill for its useful life.”)
- ⁴ *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, at 549 (1852).
- ⁵ 17 U.S.C. (1909).
- ⁶ *Ibid.* § 27 (1909). (“The copyright is distinct from the property in the material object copyrighted and the sale or conveyance ... of the material object shall not of itself constitute transfer of copyright ... ; but nothing in this title shall be deemed to forbid, prevent or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.”)
- ⁷ See *Ibid.* § 109(a). (“[T]he owner of a particular copy ... lawfully made under this title ... is entitled, without the authority of the copyright owner to sell or otherwise dispose of possession of that copy.”) and 17 U.S.C. § 109(d) (“The privileges prescribed by ... [§ 109(a)] do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it.”).
- ⁸ See Darren E. Donnelly, “Parallel Trade and International Harmonization of the Exhaustion of Rights Doctrine” (1997), 13 *Santa Clara Computer & High Tech. L.J.* 446.
- ⁹ Some cases suggested that the doctrine of exhaustion applies only when the first sale of the object protected by intellectual property rights gives the right holder the full value of the sale, which would require the transfer to take the form of a purchase/sale agreement; see, e.g., *L’Anza Research Intl., Inc. v. Quality King Distributors, Inc.*, 98 F.3d 1109, at 1113 (9th Cir. 1996). (“[W]hen title passes does not necessarily indicate a ‘sale’ for the purposes of the ‘first sale’ defense to copyright infringement ... [O]nce the copyright owner has received his full value for the copy, the policy goal of protecting the copyright holder gives way to the policies disfavoring limitations on the alienation of property.”) Others apply the classic doctrine of contract law to consideration for intellectual property rights; see, e.g., *Denbicare U.S.A., Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143, at 1151 (9th Cir. 1996). (“Just as courts will not inquire into the sufficiency of consideration, there is no justification for reexamining the adequacy of the ‘reward’ received by the copyright owner in an alleged first sale where the owner has consented to the sale.”) However, limiting the application of

the doctrine to sale transactions is probably contrary to the language of § 109(d) of the *Copyright Act* and unreasonable. Such a narrow application would exclude all gratuitous and compulsory transfers authorized by law—for example, in bankruptcy proceedings. This difficulty was recognized in *United States v. Masonite Corp.*, 316 U.S. 265, at 278. (“[T]he “first sale” which terminates the exclusive right to vend patented or copyrighted objects need not be a truly voluntary one, but can consist of some reasonable and recognized form of compulsory transfer.”)

- ¹⁰ See, e.g., *Transfer of Technology*, UNCTAD/ITE/IIT/28 (New York: UN, 2001); Naomi Gross, “Trade Mark Exhaustion: The U.K. Perspective” (2001), 23(5) *E.I.P.R.* 224; Lisa Harlander, “Exhaustion of Trade-mark Rights Beyond the European Union in Light of Silhouette International Schmied v. Hartlauer Handelsgesellschaft: Toward Stronger Protection of Trade-mark Rights and Eliminating the Gray Market” (2000), 28 *Ga. J. Int’l & Comp. L.* 267.
- ¹¹ “Parallel importation” refers to goods produced and sold legally (genuine products), and subsequently exported. See, e.g., Christopher Heath, “Parallel Imports and International Trade,” online at http://www.wipo.int/edocs/mdocs/sme/en/atrip_gva_99/atrip_gva_99_6.pdf; Carsten Fink, “Entering the Jungle of Intellectual Property Rights Exhaustion and Parallel Importation,” in Carsten Fink and Keith E. Maskus, eds., *Intellectual Property and Development* (New York: Oxford University Press, 2005), at 172.
- ¹² See, e.g., *Holiday v. Mattheson*, 24 F. 185 (S.D.N.Y. 1885); *United States v. Univis Lens Co., Inc.*, 316 U.S. 241 (1942).
- ¹³ See, e.g., Joined Cases 56 and 58/64, *Etablissements Consten SARL and Grundig-Verkaufs GmbH v. Commission*, 1966 E.C.R. 299, C.M.L.R. 418 (1966) [*Grundig*].
- ¹⁴ See Heath, *supra* note 11; Julie E. Cohen and Mark A. Lemley, “Patent Scope and Innovation in the Software Industries” (2001), 89 *Cal. L. Rev.* 1, at 31; and David Gladwell, “The Exhaustion of Intellectual Property Rights” (1986), 8(12) *E.I.P.R.* 366.
- ¹⁵ Jeremy de Beer, “Reconciling Property Rights in Plants,” (2005), 8(1) *Journal of World Intellectual Property* 5; *Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154, at 159 (3d Cir. 1984) [*Redd Horne*]. (“[First sale] is an extension of the principle that ownership of the material object is distinct from ownership of the copyright in this material.”)
- ¹⁶ Federal government has the constitutional authority to regulate patent law, trade-mark law and copyright law. U.S. Constitution art. I, § 8, cl. 3 and cl. 8.
- ¹⁷ See, e.g., California Civil Code § 1797.81(a).
- ¹⁸ There are even earlier lower court cases employing the doctrine; see, e.g., *Boyd v. Brown*, 3 F. Cas. 1095, at 1096 (C.C.D. Ohio 1843) (“[T]he bedstead, which is the product, so soon as it is sold, mingles with the common mass of property, and is only subject to the general laws of property.”).
- ¹⁹ See, e.g., *Livingston v. Woodworth*, 56 U.S. (15 How.) 546 (1853); *Dean v. Mason*, 61 U.S. (20 How.) 198 (1857); *Brown v. Shannon*, 61 U.S. (20 How.) 55 (1857); and *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340 (1863). See also Mark D. Janis, “A Tale of the Apocryphal Axe: Repair, Reconstruction, and the Implied License in Intellectual Property Law” (1999), *Md. L. Rev.* 423, for a discussion of the early cases involving the doctrine of exhaustion in the U.S patent law.
- ²⁰ See, e.g., *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, at 549 (1852); (“[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress The implementation or machine becomes his private, individual property, not protected by the laws of the United States, but the laws of the State in which it is situated.”) and *Mitchell v. Hawley*, 83 U.S. (26 Wall.) 544, at 547 (1872) (“[After] the consideration has been paid to him for the thing patented, the rule is well established that the patentee must be understood to have parted to that extent with all his exclusive right, and that he ceases to have any interest whatever in the patented machine so sold.”).
- ²¹ See, e.g., *Adams v. Burke*, 84 U.S. 453, at 458-59 (1873); (“[T]he patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further

restriction on account of the monopoly of the patentees.”) and *Wilson v. Rousseau*, 45 U.S. (4 How.) 646, at 683 (1846) (“[W]hen in connection with the simple right to use, the exclusive right to make and vend being in another, the right to use the thing patented necessarily results in a right to use the machine, and nothing more.”).

²² *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, at 250 (1942). See also *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71 (2d Cir. 1920); *Fawcett Publications v. Elliot Publ'g Co.*, 46 F. Supp. 717 (S.D.N.Y. 1942); and *Sanofi, S.A. v. Med. Tech Veterinarian Prod., Inc.*, 565 F. Supp. 931 (D.N.J. 1983).

²³ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908) [*Bobbs-Merrill*].

²⁴ *Ibid.*, at 350.

²⁵ *Ibid.*, at 350-51.

²⁶ See notes 5 and 6, *supra*, and the accompanying text.

²⁷ See, e.g., *Quality King Dist. Inc., v. Lanza Research Int. Inc.*, 523 U.S. 135 (1988); *Redd Horne, supra* note 15; *Sebastian Int., Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988).

²⁸ 17 U.S.C. § 109(d). This limitation is a result of an amendment to the *Copyright Act* in 1984.

²⁹ 17 U.S.C. § 109(b). This limitation is a result of an amendment to the *Copyright Act* in 1990.

³⁰ *A. Bourjois & Co., Inc. v. Katzel*, 275 F. 539 (2d Cir. 1921); *rev'd.*, 260 U.S. 689 (1923).

³¹ See, e.g., *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947); *Olympus Corp. v. United States*, 794 F.2d 315 (2d Cir. 1986); and *NEC Elecs. v. CAL Circuit Abco, Inc.*, 810 F.2d 1506 (9th Cir. 1987).

³² This right involves parallel importation and the limitation is based on statutory regulations. See *Lenham Act*, 15 U.S.C. § 1124 (1988), s. 42 (“[N]o article of imported merchandise, which shall copy or simulate the name of the any [sic] domestic manufacture, or manufacturer ... which shall copy or simulate a trade-mark registered in accordance with the provisions of [the *Lenham Act*] ... shall be admitted to entry at any customhouse of the United States.”) and *Tariff Act* of 1930, 19 U.S.C. § 1526 (1988), s. 526 (“[I]t shall be unlawful to import into the U.S. any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trade-mark owned by a citizen of, or by a corporation or association created or organized within the U.S. and registered in the Patent Office.”).

³³ For the test of material difference see, e.g., *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986); *Mavic Inc. v. Sinclair Imports*, 1994 U.S. Dist. LEXIS 202 (E.D. Pa. 1994); *Grupo Gamesa S.A. De C.V. v. Dulceria El Molino, Inc.*, 39 U.S.P.Q.2d (BNA) 1531 (C.D. Cal. 1996); *Helene Curtis, Inc. v. National Wholesale Liquidators, Inc.*, 890 F. Supp. 152 (E.D.N.Y. 1995); and *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68 (2d Cir. 1987). See also Donnelly, *supra* note 8, at 454-58, for a general discussion of the exceptions to trade-mark doctrine.

³⁴ 128 S. Ct. 2109 (2008), U.S. Supreme Court, online at www.supremecourtus.gov/opinions/07pdf/06-1195.pdf.

³⁵ *Ibid.*, at 9-10 (“It is true that a patented method may not be sold in the same way as an article or device, but methods nonetheless may be “embodied” in a product, the sale of which exhausts patent rights. Our precedents do not differentiate transactions involving embodiments of patented methods or processes from those involving patented apparatuses or materials. To the contrary, this Court has repeatedly held that method patents were exhausted by the sale of an item that embodied the method. ... Eliminating exhaustion for method patents would seriously undermine the exhaustion doctrine.”).

³⁶ *Ibid.*, at 17-18.

³⁷ *Ibid.*, at 18 (“[T]he question whether third parties received implied licences is irrelevant because Quanta asserts its right to practice the patents based not on implied license but on exhaustion. And exhaustion turns only on Intel’s own license to sell products practicing the LGE Patents.”).

- ³⁸ Cohen and Lemley, *supra* note 14, at 32-33.
- ³⁹ As indicated above, each E.U. Member State has the authority to legislate in the area of intellectual property, including the doctrine of exhaustion. It is beyond the scope of this article to discuss all those jurisdictions. Consequently, only the U.K. jurisdiction is considered here. For an extensive survey of other European jurisdictions, see Warwick Rothnie, *Parallel Imports* (London: Sweet & Maxwell, 1993).
- ⁴⁰ See, e.g., Gladwell, *supra* note 14 for a discussion of the doctrine in the U.K. jurisdiction.
- ⁴¹ See, e.g., Shuji Sumi, "Purchasers' Rights to Patented Products Under the Common Law Doctrine of Exhaustion" (1998), 15 C.I.P.R. 81, presenting different approaches to the doctrine in Commonwealth and civil law jurisdictions.
- ⁴² *Leyland v. Armstrong Patents*, [1986] 2 WLR 400 (H.L.).
- ⁴³ *Ibid.*, at 416.
- ⁴⁴ See Gladwell, *supra* note 14, at 366.
- ⁴⁵ Consolidated Version of the Treaty Establishing the European Community (97/C 340/03), art. 28 (ex art. 30) ("Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between the states.") and art. 29 (ex art. 34) ("Quantitative restrictions on exports, and all measures having equivalent effect, shall be prohibited between Member States."), online at <http://eur-lex.europa.eu/en/treaties/dat/11997E/htm/11997E.html#0173010078G>.
- ⁴⁶ *Ibid.*, art. 30 (ex art. 36) ("[Articles 28 and 29] shall not preclude prohibitions or restrictions on imports, exports, or goods in transit justified on grounds of ... protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.").
- ⁴⁷ See, e.g., 78/70 *Deutsche Grammophon GmbH v. METRO-SB Grossmarkte GmbH & Co.*, 1971 E.C.R. 487, [1971] C.M.L.R. 631, at para. 11 ("[A]lthough the Treaty does not affect the existence of rights recognized by the legislation of a Member State with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down by the Treaty.") and *Grundig*, *supra* note 13 ("This Treaty shall in no way prejudice the rules in Member States governing the system of property ownership.").
- ⁴⁸ Article 4(2) of the Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society, O.J. L167/10, 22/06/2001, online at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32001L0029:EN:HTML>. See also ss. 28 and 29 of the preamble of the Directive clarifying the doctrine.
- ⁴⁹ *Ibid.*, s. 28 of the preamble.
- ⁵⁰ *Ibid.*, s. 29 of the preamble.
- ⁵¹ In the past, the E.C.J. did not extend the application of the doctrine to the distribution rights in the context of a compulsory licence of a patent, arguing that it was not a consensual first sale that exhausted the patent; see Case 19/84, *Pharmon BV v. Hoechst AG*, 3 C.M.L.R. 775, at para. 24 (1985) ("[W]hen the competent authorities in a member-State ... grant a compulsory license to a third party patentee which allows him to carry out manufacturing and marketing operations which the patentee would normally have the power to prohibit, the patentee cannot be regarded as having consented to the actions of the third party."). This approach, however, may be consistent with the purpose of the doctrine of exhaustion. The doctrine negotiates between the right of tangible and intangible property holders. Once a patentee sells her invention, she parts with her right over the tangible component of the object. This principle is reflected in application of the doctrine to "use" only, and not to "making." In the compulsory licence context, this principle is distorted, since the patentee never parts with her tangible property. The entire transaction, as between patentee and licensee, concerns intellectual property only.

- ⁵² Article 7 of the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade-marks, O.J. L 040, 11/02/1989 P. 0001-0007; online at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31989L0104:EN:HTML>.
- ⁵³ Article 10 of the Proposal for a Council Regulation on the Community patent, 7119/04 of 8 March 2004, online at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52000PC0412:EN:NOT> (“The rights conferred by the Community patent shall not extend to acts concerning the product covered by that patent which are carried out within the territories of the Member States after that product has been put on the market in the Community by the proprietor of the patent or with his consent, unless there are legitimate grounds for the proprietor to oppose further commercialization of the product.”).
- ⁵⁴ Case 15-74, *Centrafarm BV v. Sterling Drug Inc.*, 1974 E.C.R. 1147, [1974] 2 C.M.L.R. 480, at para. 9.
- ⁵⁵ W.L. Hayhurst, “Intellectual Property Laws in Canada: The British Tradition, the American influence and the French Factor” (1996), 10 *I.P.J.* 265.
- ⁵⁶ *Signalisation de Montreal Inc. v. Services de Béton Universels Ltée* (1992), 46 C.P.R. (3d) 199, at 208 (F.C.A.).
- ⁵⁷ *Eli Lilly and Co. v. Apotex Inc.*, [1998] 2 S.C.R. 129 [*Eli Lilly*].
- ⁵⁸ *Ibid.*, at para. 99 (“If the patentee sells the patented article that he made, he transfers the ownership of that article to the purchaser. This means that, henceforth, the patentee no longer has any right with respect to the article which now belongs to the purchaser who, as the new owner, has the exclusive right to possess, use, enjoy, destroy or alienate it.”).
- ⁵⁹ *Ibid.*, at para. 100, quoting with approval a statement of the Court of Appeal. (“Unless otherwise stipulated in the licence to sell a patented article, the licensee is thus able to pass to purchasers the right to use or resell the article without fear of infringing the patent. Further, any limitation imposed upon a licensee which is intended to affect the rights of subsequent purchasers must be clearly and unambiguously expressed; restrictive conditions imposed by a patentee on a purchaser or licensee *do not run with the goods* unless they are brought to the attention of the purchaser at the time of their acquisition.”[emphasis added]).
- ⁶⁰ *Consumers Distributing Co. v. Seiko Time Canada Ltd.*, [1984] 1 S.C.R. 583, 1984 CarswellOnt 869 [*Seiko*, cited to CarswellOnt].
- ⁶¹ *Ibid.*, at para.18.
- ⁶² See *Coca-Cola Ltd. v. Pardhan*, [1999] F.C.J. No. 484 (F.C.A.) and *Smith & Nephew Inc. v. Glen Oak Inc.* (1996), 68 C.P.R. (3d) 153 (F.C.A.).
- ⁶³ The Canadian *Copyright Act*, R.S.C. 1985, c. C-42, ss. 27(2)(e) and 27.1, contains the express provision against the international exhaustion of intellectual property rights, which excludes international distribution rights from the doctrine of exhaustion in copyright law but at the same time implies exhaustion of other rights, national distribution rights, and rights of use in particular. See G. Alexander Macklin and Jacques A. Léger, “International Exhaustion of Industrial Property Rights,” Report Q 156 of the Canadian Group, online at <http://www.robic.ca/publications/Pdf/341E-JAL%202001.pdf>, at 1.
- ⁶⁴ *Théberge v. Galerie d’Art du Petit Champlain Inc.*, 2002 SCC 34, 2 S.C.R. 336 [*Théberge*].
- ⁶⁵ *Ibid.*, at para. 1.
- ⁶⁶ *Ibid.*, at para. 2.
- ⁶⁷ *Ibid.*, at para. 30.
- ⁶⁸ *Ibid.*, at para. 31.
- ⁶⁹ *Ibid.*, at para. 38.
- ⁷⁰ *Ibid.*, at paras. 9-10.

- ⁷¹ Joined cases 55/80 and 57/80, *Music-Vertrieb Membran v. GEMA*, 1981 E.C.R. 174, [1981] 2 C.M.L.R. 44.
- ⁷² *Ibid.*, at para. 11 (“[T]he French government has argued that that case-law cannot be applied to copyright, which comprises *inter alia* the right of an author to claim authorship of the work and to object to any distortion, mutilation or other alteration thereof, or any other action in relation to the said work which would be prejudicial to his honor or reputation. It is contended that, in thus conferring extended protection, copyright is not comparable to other industrial and commercial property rights such as patents or trade-marks.”).
- ⁷³ *Ibid.*, at paras. 12-13 (“It is true that copyright comprises moral rights of the kind indicated by the French government. However, it also comprises other rights, notably the right to exploit commercially the marketing of the protected work While the commercial exploitation of copyright is a source of remuneration for the owner it also constitutes a form of control on marketing exercisable by the owner From this point of view commercial exploitation of copyright raises the same issues as that of any other industrial or commercial property right.”).
- ⁷⁴ *Kraft Canada Inc. v. Euro-Excellence Inc.*, 2007 SCC 37, online at <http://scc.lexum.umontreal.ca/en/2007/2007scc37/2007scc37.html> [*Kraft*].
- ⁷⁵ Robert Tomkowicz, “Copyrighting Chocolate: Kraft Canada v. Euro Excellence” (2007), 20 *I.P.J.* 399.
- ⁷⁶ *Kraft*, *supra* note 74, at para. 20.
- ⁷⁷ *Ibid.*
- ⁷⁸ *Monsanto Canada Inc. v. Schmeiser*, 2004 SCC 34 [*Schmeiser*].
- ⁷⁹ Licensed growers must sign a technology use agreement; see *Schmeiser*, *ibid.*, at para. 11.
- ⁸⁰ *Ibid.*, at para. 26 (“We are not inclined to the view that Schmeiser “made” the cell within the meaning of s. 42 of the *Patent Act*. Neither Schmeiser nor his corporation created or constructed the gene, the expression vector, a plant transformation vector, or plant cells into which the chimeric gene has been inserted.”).
- ⁸¹ See *Harvard College v. Canada (Commissioner of Patents)*, [2002] 4 S.C.R. 45, 2002 SCC 76.
- ⁸² *Monsanto Canada Inc. v. Schmeiser*, 2001 FCT 256, at paras. 119–120 (FCTD) [*Schmeiser* (FCTD)].
- ⁸³ *Schmeiser*, *supra* note 78, at para. 25.
- ⁸⁴ *Ibid.*, at para. 35 (emphasis in original).
- ⁸⁵ *Ibid.*, at para. 43. See also paras. 46, 49, 54, 71, 72, 79, 80, and 85.
- ⁸⁶ *Schmeiser* (FCTD), *supra* note 82, at paras. 91–92; *Monsanto Canada Inc. v. Schmeiser*, 2002 FCA 309, at para. 51.
- ⁸⁷ *Schmeiser*, *supra* note 78, at para. 96.
- ⁸⁸ See note 57 *supra*.
- ⁸⁹ Carla Hesse, “The Rise of Intellectual Property, 700 B.C.–A.D. 2000: An Idea in the Balance” (2002), *Daedalus Spring* 26.
- ⁹⁰ *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 S.C.R. 339 [*CCH*].
- ⁹¹ *Ibid.*, at paras. 1-3.
- ⁹² *Ibid.*, at para 41, citing David Vaver, *Copyright Law* (Toronto: Irwin Law, 2000), at 171.
- ⁹³ *Ibid.*, at para. 11.
- ⁹⁴ *Ibid.*, at para. 23 (emphasis added).
- ⁹⁵ de Beer, *supra* note 15.
- ⁹⁶ *Théberge*, *supra* note 64, at para. 30-33.

⁹⁷ In a letter dated February 5, 1676, Isaac Newton wrote to Robert Hooke: “If I have seen a little further it is by standing on the shoulders of giants.” Somewhat ironically, Newton had adapted this now famous quote from Didacus Stella in Lucan, 10, tom. ii: “*Pigmæi gigantum humeris impositi plusquam ipsi gigantes vident*” (Pigmies placed on the shoulders of giants see more than the giants themselves).

⁹⁸ *Théberge*, *supra* note 64, at para. 31 (emphasis added).

⁹⁹ *Ibid.*, at para. 33 (emphasis added).

¹⁰⁰ *Pioneer Hi-Bred Ltd. v. Canada (Commissioner of Patents)*, [1989] 1 S.C.R. 1623, online at <http://scc.lexum.umontreal.ca/en/1989/1989rcs1-1623/1989rcs1-1623.html>, at 1636 (“In Canada the granting of a patent means the kind of contract between the Crown and the inventor in which the latter receives an exclusive right to exploit his invention for a certain period in exchange for complete disclosure to the public of the invention and the way in which it operates.”).

¹⁰¹ *Consolboard Inc. v. MacMillan Bloedel (Saskatchewan) Limited*, [1981] 1 S.C.R. 504, at 517 [*Consolboard*].

¹⁰² *Biolyse Pharma Corporation v. Bristol-Myers Squibb Company*, 2005 SCC 26 [*Biolyse*].

¹⁰³ *Patent Act*, R.S.C. 1985, c. P-4.

¹⁰⁴ *Biolyse*, *supra* note 102, at paras. 25-26.

¹⁰⁵ *Ibid.*, at paras. 28-32.

¹⁰⁶ *Ibid.*, at para. 37.

¹⁰⁷ *Ibid.*, at para. 4.

¹⁰⁸ *Ibid.*

¹⁰⁹ *Whirlpool Corp. v. Camco Inc.*, [2000] 2 S.C.R. 1067, 2000 SCC 67.

¹¹⁰ *Free World Trust v. Électro Santé Inc.*, [2000] 2 S.C.R. 1024, 2000 SCC 66.

¹¹¹ *Biolyse*, *supra* note 102, at para. 1.

¹¹² *Ibid.* Justice Bastarache, in dissent, cautioned:

[77] This is a case of regulatory interpretation, and nothing more. The Court must always be careful not to overstep its boundaries. Public policy must be left to the legislature and government, especially when dealing with competing interests where the government has consulted stakeholders and asked Parliament to legislate.

Note how this resembles the Supreme Court’s comments about copyright law in *Compo Co. v. Blue Crest Music Inc.*, [1980] 1 S.C.R. 357.

¹¹³ See notes 92, 93, and 96 *supra* and the accompanying text.

¹¹⁴ *Eli Lilly*, *supra* note 57, at 186.

¹¹⁵ *Ibid.*

¹¹⁶ *Mattel, Inc. v. 3894207 Canada Inc.*, [2006] 1 S.C.R. 772 [*Mattel*].

¹¹⁷ *Ibid.*, at paras. 21-22.

¹¹⁸ *Seiko*, *supra* note 60, at para. 26.

¹¹⁹ See, e.g., *Moreau v. St. Vincent*, [1950] 3 D.L.R. 713, 12 C.P.R. 32 (Can. Ex. Ct.). Internationally, this distinction is expressed in art. 9(2) of the *TRIPS Agreement*, Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement establishing the World Trade Organization, Annex 1C, Results of the Uruguay Round of Multicultural Trade Negotiations: The Legal Texts, 1869 U.N.T.S. 299, 33 I.L.M. 1125, online at http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm, specifying that copyright protection extends to “expressions” but not to “ideas.”

¹²⁰ *Kenrick & Co. v. Lawrence & Co.* (1890), 25 Q.B.D. 99; *Delrina Corporation v. Triolet Systems Inc.* (2002), 17 C.P.R. (4th) 289, at 307 (Ont. C.A.) (“The merger doctrine is a natural extension of

the idea/expression distinction which, as I have said, is fundamental in copyright law in Canada, England and the United States. Clearly, if there is only one or a very limited number of ways to achieve a particular result in a computer program, to hold that way or ways are protectible by copyright could give the copyright holder a monopoly on the idea or function itself.”)

¹²¹ *Verge v. Imperial Oil Ltd.* (1988), 23 C.P.R. (3d) 159 (FCA).

¹²² *Canadian Admiral Corp. v. Rediffusion*, [1954] Ex. C.R. 382, at 396.

¹²³ A performer’s performance of music under s. 15(1) is protected even if unfixed. This is an anomaly in copyright law resulting from adoption of so-called neighbouring rights, which do not fit neatly into copyright law.

¹²⁴ *Mattel*, *supra* note 116, at para. 5

¹²⁵ R.S.C. 1985, c. T-13, as amended S.C. 1993, c. 49, s. 4(1).

¹²⁶ *Ibid.* s. 4(2).

¹²⁷ See “Inventing the Telephone,” online at <http://www.att.com/history/inventing.html>.

¹²⁸ *Patent Act*, *supra* note 103, s. 2, definition of “invention.” With the exception of “process,” which has the nature of a practical concept, all the other forms of invention will inevitably be embedded in a tangible object.

¹²⁹ Daniel Gervais and Elizabeth F. Judge, *Intellectual Property: The Law in Canada* (Toronto: Carswell, 2005), at 399.

¹³⁰ *Northern Electric Co. v. Brown’s Theatres Ltd.* (1939), 1 C.P.R. 180 (Can. Ex. Ct.); *aff’d.* [1941] S.C.R. 224 (“An invention to be patentable must confer on the public a benefit. Utility as predicated of inventions means industrial value. No patent can be granted for a worthless art or arrangement. Here there is described and claimed something that lacks utility because it is inoperable for the purpose for which it was designed.”).

¹³¹ *Consolboard*, *supra* note 101.

¹³² *Théberge*, *supra* note 64, at paras. 31-33.

¹³³ By recognizing property in abstract objects, intellectual property law gives the right holders authority to exercise power over an unlimited number of material objects similar in kind. See Peter Drahos, *Philosophy of Intellectual Property* (Aldershot: Dartmouth, 1996), at 21.

