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Intellectual Property Licence Agreements

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Can a patent licensee get immunity from an infringement suit and challenge the patent's validity? Not in Canada!

Although Canadian and American intellectual property licensing business practices are very similar, the laws that govern the licences are very different. Developments in U.S. law are often noticed by the media, but not the equally noteworthy features of Canadian law. This article reviews the rights of a licensee to challenge the validity of a patent licensed to it by a patent holder on a U.S. licensor; there is a significant difference under Canadian laws.

Until 1969, U.S. law required a trade-off. In exchange for freedom from an infringement lawsuit, the licensee had to relinquish its right to challenge the validity of the patent. Even if the licensor terminated the licence, the validity of the patent could not be challenged. From 1969 to 2006, U.S. law required the licensee to terminate or breach the licence agreement in order to challenge a patent's validity. Thus, the licensee was forced to risk the treble damages that can be awarded in the United States for wilful infringement of a licensed patent. The licensor had the assurance that the licensee would be discouraged from engaging in a potentially expensive patent validity lawsuit.

However, on January 9, 2007, the U.S. Supreme Court ruled that a licensee who wanted to challenge the validity of a licence patent did not have to risk an

infringement or treble damages. Instead, it could challenge the patent while continuing to pay royalties and while complying with the licence agreement.

Canadian law has not evolved in the same way. Although the law is unclear, it may still be the rule that the licensee must terminate the agreement in order to challenge the validity of the licensed patent. And the law may even prohibit the licensee from challenging the validity of the patent at all. Therefore, the rules are different for Canadians doing business in the United States with U.S. licensors than for Canadians doing business in Canada with Canadian licensors. In Canada, it is possible for agreements to be more flexible than in the United States. As a result, there may be more opportunity for creative approaches to the business risk of not getting value as a result of an invalid patent.

In Canada, the parties could consider whether they want the Canadian or U.S. rules to apply, or whether some intermediate process should take place. Perhaps the licensee should be required to give something up if it wants to challenge, and be prepared to surrender even more if the challenge is unsuccessful. Many techniques developed in the United States before 2007 that are now disallowed south of the border, can still be used by Canadian licensors, and represent perfectly good business practices.