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CUSMA and regulatory amendments create challenges and opportunities for IP owners in 2018

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There is perhaps no better illustration of the stunning rise in value of intellectual property (IP) assets than the recent trade negotiations between Canada and the United States, which yielded the Canada-United States-Mexico Agreement (CUSMA) on October 1, 2018. Even amidst politically charged, clashing demands relating to car manufacturing, dairy farming and dispute resolution, the U.S. administration turned to increased IP protection to extract ever more value from Canada. Recent international trade agreements, such as the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), have sought to harmonize IP rights among jurisdictions by prescribing minimum standards of protection. The CUSMA extends this trend by requiring material amendments to Canadian laws in favour of IP rights holders. The question now is: how will Canada incorporate these rising standards into its law? More importantly, will Canadian businesses take full advantage of the enhanced protections offered to IP assets? Unless Canadian companies start investing more in the development and enforcement of their own IP, enhanced IP protections may only result in additional costs for Canadian businesses and taxpayers, to the benefit of predominantly foreign IP owners.

Enhanced protection for trade secrets under the CUSMA

The CUSMA enhances protection and enforcement measures for trade secrets, i.e., valuable business information that derives its value from being kept confidential. Businesses often overlook the significance of trade secrets because they do not require official registration. However, trade secrets encompass all valuable confidential processes, business methods and formulas, which may well be key to a company's competitiveness. These assets are particularly vulnerable to being lost or misused following a data breach or a key employee's exit, unless they are protected from the outset.

The CUSMA directs that member countries provide civil and criminal protections for the unauthorized and wilful misappropriation of trade secrets, which might require the Canadian federal and provincial governments to adopt new legislation. Under the CUSMA, Canada must ensure that any trade secrets legislation it adopts does not discourage or impede voluntary forms of licensing or transfer of rights.

Extended copyright term under the CUSMA

The CUSMA requires Canada to institute a term of copyright protection of not less than 70 years after an author's death. Since the current term of protection under the *Copyright Act* is 50 years, this amendment will grant an additional 20 years of protection to copyright owners,

a longer term that already applied to some performances and sound recordings in Canada. This new, longer term will probably be most valuable in the media and cultural industries. However, it will also increase costs for content producers who rely on public domain works because copyright in these works will expire later.

Expanded measures against counterfeit goods under the CUSMA

The CUSMA also requires Canada to further bolster its anti-counterfeiting measures. Despite the adoption of new anti-counterfeiting measures in the *Combating Counterfeit Products Act*, which came into force in 2015, Canada was again included in the U.S. Trade Representative's "Priority" Watch List Special 301 Report in 2018. Canada's repeated inclusion in the Special 301 Report reflects the United States' persistent view that Canada serves as a point of trans-shipment for counterfeit goods and is not doing enough to prevent these wares from later entering the United States.

The legislative amendments required by the CUSMA will provide Canadian border officials with authority to initiate measures to detain suspected counterfeit goods in transit through Canada. These enhanced rights will provide additional enforcement tools for trademark owners, as Canada is believed to be a preferred port of entry for counterfeit goods arriving from Asia.

Recourse for Canadian patent office delay and longer data protection for biologics under the CUSMA

The CUSMA also requires material changes to Canada's patent regime. Patent applicants will gain a term extension if the issuance of a Canadian patent is unreasonably delayed by the patent office. Canada will need to amend the *Patent Act* to provide for patent term adjustments following delays of more than five years from the date of filing a patent application or three years following a request for examination of the application.

In addition, as a result of the CUSMA, the *Patent Act* will need to be amended to give innovative biologic drugs — i.e., drug products produced through biotechnology processes — a longer term of data protection. Data protection shields an innovator's research and development, as well as clinical trial data, from use by subsequent or biosimilar drug developers. More specifically, the current eight-year data protection term, which applies to both small molecule and biologic drug products, will be increased to a 10-year term for biologic pharmaceuticals. In practice, Canadian provincial governments and insurers will incur additional costs as a result of this longer data protection.

Modernized industrial design protection

Not all 2018 legal developments relating to IP were the result of the CUSMA. For example, Canada also updated its industrial design legislation with amendments that came into force in early November 2018.

Industrial designs protect the visual features of shape, configuration, pattern or ornament, or any combination of these features, which are applied to a useful article or product. Protection of these distinguishing features — which are crucial in particular to the marketing of many consumer products — is not available to businesses through other forms of IP registration, such as patents or trademarks. However, Canadian businesses have been slow to adopt industrial design protection.

Although industrial design registrations increased by 66% worldwide between 2006 and 2015, Canadian applications lag behind those filed in other countries. Based on the Canadian Intellectual Property Office's (CIPO) 2017 IP Canada Report, CIPO received 6,170 industrial design applications in 2016, while the World Intellectual Property Organization statistics show that 42,762 applications were filed in the United States and an astounding 650,344 applications were filed in China over the same period. The annual number of Canadian industrial design applications also pales in comparison to the number of Canadian patent applications (35,000) and trademark applications (55,000) filed over the same 2016 period. In 2016, only 15% of industrial design applications filed with CIPO came from Canadian residents. By comparison, only 12% of patent applications and 43% of trademark applications were filed by Canadian residents in 2016.

Recent amendments to the *Industrial Design Act* and its regulations, which came into force on November 5, 2018, finally allow Canada to accede to the Hague Agreement, which simplifies the application process for businesses seeking protection for designs in multiple countries. Industrial design applicants seeking registration in several Hague member countries will only need to submit a single application and filing fee to the World Intellectual Property Organization for applications to be filed in multiple countries.

The new regulations also implement an extended 15-year term of industrial design protection, as compared to 10 years under the 2014 amendments to the *Industrial Design Act*. Another important amendment gives businesses the option to seek protection for similar industrial designs, as long as they are filed within 12 months of one another.

More IP legislative changes before the Canadian parliament

Even in these closing weeks of 2018, the Canadian government has continued to expend considerable resources to implement its "IP Strategy." On October 29, the government introduced Bill C-86, an omnibus bill into the Canadian House of Commons which incorporates a myriad of IP provisions, including:

- new rules governing the issuance of demand letters sent to Canadian companies regarding patents, whether granted in Canada *or elsewhere*;
- a reversal of longstanding Canadian law on the inadmissibility of prosecution history to construe patent claims;
- the codification or expansion of exceptions to patent infringement;
- the addition of bad faith as a ground of opposition and a basis for invalidating registered trademarks;
- a new rule providing that non-use of a trademark for three years following registration will preclude a claim for trademark infringement;
- provisions modernizing the Copyright Board;
- new rules about content within copyright notice-and-notice letters; and
- amendments to bankruptcy and insolvency legislation to clarify that users/licensees of IP may continue to use such IP despite the insolvency of its owners or a change in ownership.

Overall, these provisions appear to be intended to offer both new measures to protect Canadian companies using IP and safeguards against overly aggressive assertions of rights. Although the omnibus bill is intended to move quickly through Parliament, it is unclear at the time of writing whether these various provisions will be adopted as currently drafted.

As a result of all of these changes, 2018 was another highly beneficial year for IP owners in

Canada. For Canadian businesses, these developments point to an inevitable conclusion: start creating and protecting your own IP assets now, or risk paying more to use the IP rights of others in the future.