



# Licensing

in 26 jurisdictions worldwide

# 2013

Contributing editor: Bruno Floriani



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### Licensing 2013

Published by  
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Tel: +44 20 7908 1188  
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ISSN 1759-9830

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Printed and distributed by  
Encompass Print Solutions  
Tel: 0844 2480 112

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# Canada

Allen D Israel, Bruno Floriani, Kiran Singh and David Kyffin\*

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## Overview

- 1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?

A foreign licensor that simply grants a licence to a Canadian entity without a permanent establishment or employees in Canada faces no restrictions. In addition, Canadian law imposes no requirement on foreign licensors to proceed by establishing a subsidiary or branch office, or have employees, in Canada. However, a foreign licensor that establishes a business entity or enters into a joint venture in Canada must, pursuant to the Investment Canada Act (Canada), notify Industry Canada no later than 30 days following such acquisition or establishment. Additionally, a more onerous and thorough review process applies to non-World Trade Organization investors where the asset value of the acquired Canadian business is at least C\$5 million for direct acquisitions or C\$50 million for indirect acquisitions. A similar review process is also applicable to World Trade Organization investors acquiring control of a Canadian business, but only in cases of direct acquisitions where the asset value of the Canadian business is at least C\$330 million for 2012 (2013 threshold to be published in February 2013). Draft regulations that would gradually raise the threshold to an 'enterprise value' of C\$1 billion are under consideration and not yet in force.

Canada is a federal system of parliamentary government, and as such the regulation and administration of certain trans-provincial industries fall within the sphere of federal legislative powers. As for those under provincial jurisdiction, various provinces have regulated certain industries viewed as having particular importance or significance. Thus, several federal and provincial statutes place restrictions on foreign ownership in specific industries, such as aviation, collections, engineering, farming, fisheries, banking, trusts and loans, securities, broadcasting, telecommunications, insurance, liquor sales and industries that involve the exploitation of Canada's natural resources. However, these restrictions do not typically affect international licensing agreements.

Other than as described above, there is no specific filing or regulatory review process applicable to foreign licensors looking to establish a business entity or joint venture in Canada.

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## Kinds of licences

- 2 Identify the different forms of licence arrangements that exist in your jurisdiction.

Licensing is used in Canada to allow others to use any form of intellectual or industrial property rights, as well as the notoriety that

attaches to certain individuals. Thus, traditional forms of licences in respect of trademarks, patents, copyrights (for artistic works, photographs and software), trade secrets and know-how are very common, as well as combinations thereof in the form of technology transfer agreements (which may even include the establishment of a plant for the production of licensed products). In addition, celebrities have taken to licensing their likeness, signature and other forms of endorsement, and well-known cartoons and other characters have been successfully licensed in Canada as well.

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## Law affecting international licensing

- 3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.

No legislation directly governs international licensing relationships or expressly requires the registration of a licence from a foreigner with any authorities. However, certain Canadian provinces, namely Ontario, Alberta, Manitoba, New Brunswick and Prince Edward Island, have enacted legislation that specifically governs franchise relationships (collectively, the Franchises Acts). Given that the term 'franchise' is broadly defined under the Franchises Acts, a variety of other contractual relationships, including licensing agreements, may possibly be encompassed. Therefore, particular care should be taken when drafting licensing agreements to avoid falling within the sphere of franchising legislation. These issues are more particularly addressed in question 6. Additionally, there may be specific regulations that govern the sale of certain products in Canada, such as medication, alcohol and food. In addition, certain intellectual property rights may require registration, as is more fully discussed in questions 7 to 20.

- 4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

No disclosure or registration requirements pertain specifically to international licensing arrangements. However, as mentioned in question 3, the broad definition of a franchise under provincial franchise legislation may, in certain circumstances, encompass licensing arrangements. If a licensing arrangement falls within the definition of a franchise under any of the Franchises Acts, certain disclosure and registration requirements must be met, namely the franchisor's obligation to provide certain pre-signing disclosure to potential franchisees. Furthermore, the Franchises Acts also impose a duty of fair dealing on both franchisor and franchisee in the performance and enforcement of their obligations. The Civil Code of Quebec imposes on contracting parties a general duty to disclose material factual matters that may incite a reasonably prudent person not to enter into the contract. This obligation to provide information flows from the

general obligation of good faith which is codified. In the context of a licensing relationship, this would likely entail an obligation on the licensor to disclose all material information relating to the licensing arrangement to potential licensees.

- 5 Are there any statutorily or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

As mentioned in question 4, the Franchises Acts impose a duty of fair dealing on all parties, which includes a duty to act in good faith and in conformity with reasonable commercial practice.

Many common law courts have held that there exists an implicit obligation of good faith in contractual dealings. A concurrent obligation exists under articles 6, 7 and 1,375 of the Civil Code of Quebec, which impose a duty on all parties to conduct themselves in good faith during contractual dealings. Furthermore, in circumstances where the essential stipulations in an agreement were imposed or drawn up by one of the parties and were not susceptible of being freely negotiated, the contract may qualify as an adhesion contract. The qualification of an agreement as an adhesion contract under the Civil Code of Quebec provides principles of interpretation more favourable to the party on whom the agreement was imposed and a significantly broader margin of redress for the adhering party than would otherwise be available.

- 6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Given the breadth of the definition of a franchise under the Franchises Acts, franchise legislation may be applicable to licensing arrangements, in which case all of the rules and requirements applicable under franchise legislation would apply.

Each of the Ontario, Manitoba, New Brunswick and Prince Edward Island Franchises Acts defines a franchise as a right to engage in a business where the franchisee is required to make one or several payments to the franchisor in the course of operating the business or as a condition of acquiring the franchise or commencing operations, pursuant to which the franchise is granted either:

- the right to sell goods or services substantially associated with the franchisor's trademarks, in circumstances where the franchisor has significant control over, or offers significant assistance in, the franchisee's method of operation; or
- representational or distribution rights to sell the goods or services supplied by the franchisor or its designated supplier, and the franchisor provides location assistance to the franchisee.

The Alberta Franchises Act has a similar definition that requires a marketing or business plan substantially prescribed by the franchisor and that is associated with its trademarks, the continuing obligations by the franchisee to the franchisor, significant continuing operational controls over the franchised business, or any direct or indirect payment to purchase or operate the franchised business.

Careful consideration of the licensing structure is required in order that the licensing arrangement does not qualify as a franchise under the Alberta Franchises Act. Thus, while the licensor may control how the licensee uses its patents, know-how or trademarks (or both), the licensor should be careful not to dictate the licensee's method of operation or how the licensee carries on business.

## Intellectual property issues

- 7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Canada is party to all three of the aforementioned treaties.

- 8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

A licensor may contractually prohibit a licensee from contesting the validity of a foreign licensor's intellectual property rights.

- 9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The effect essentially depends on the nature of the intellectual property right and the terms of the licence agreement. Copyright exists and subsists upon creation of a work and independently of registration. The absence of a registration will therefore not affect the licence, unless contractually stipulated.

Similarly, the existence of a copyright registration will not impact on the existence or waiver of the moral rights of the author to the licensed work.

Patents and industrial designs, on the other hand, require application, registration and maintenance to establish a continued right. If the patent or design registration lapses, is ruled invalid or expires during the term of the licence, a lapse of consideration may arguably have occurred resulting in termination of the licence. It is recommended that a licence agreement make provision for such events. Often, all aspects of an invention may not be entirely patentable. In such cases, the 'unpatentable' aspects may be protected by trade secrets or know-how that can be licensed jointly with, and may survive the expiration of, the patent. The subject matter of the licence may also deal with confidential information and a fiduciary obligation with respect to know-how and trade secrets. In some instances, the licence will terminate if the information falls into the public domain or is disclosed by the licensee without authority.

Even upon expiry of a registered right, the licence may contractually stipulate a period of non-competition and an ongoing obligation not to use trade secrets or confidential information obtained from the licensor.

A trademark licence may exist in relation to acquired or residual goodwill of a trademark despite an invalid or lapsed registration. However, if invalidity of the registration is due to abandonment or non-use, the licence may arguably have lapsed on the basis of an exhaustion of consideration or by its terms. To the extent that a licence remains in effect under the above-mentioned guideline, royalties can continue to be levied.

- 10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

As a general rule, a foreign licensor may register a trademark in Canada without prior registration in the country of origin.

Nevertheless, a licensor may base a Canadian trademark application on the existence of use and registration of the trademark in the country of origin – in such circumstances it is important to ensure that, as at the date of application in Canada, the mark was in use and registered in the foreign jurisdiction. The objective is to avoid a

technical flaw in the Canadian application at the date of filing that can result in a successful ground of opposition or a possible invalidity challenge to the registration. A certified copy of the foreign trademark registration will be required during prosecution of the application to permit advertisement in the Canadian Trade-marks Journal.

- 11** Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

A trademark, whether registered or unregistered, may be licensed along with the associated goodwill. All other intellectual property rights, whether registered or unregistered, may also be licensed.

- 12** Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

There are no requirements as to the form of a trademark licence as long as there is consent among the parties to, and consideration for, the licence. There are no particular restrictions against the licensing of an unregistered trademark. However, unregistered trademarks can only be protected by common law and statutory rules and limitation of a passing-off action, rather than the statutory remedies in the Trade-marks Act (Canada) available for the protection of registered trademarks. For the trademark to remain valid and distinctive of the source of the goods or services, the owner must be given (and exercise) some direct or indirect control of the character or quality of the wares and services licensed. Public notice of ownership of the trademark and the fact that the mark is used under licence will create a presumption that the licensor is the owner of the trademark and exercises control over the character and quality of the goods or services.

There is no requirement to register a trademark licence and there appears to be no legal consequence for not doing so or for being first to do so. The Trade-marks Office will simply note that a licence has been placed on the official file.

Under section 13(4) of the Copyright Act (Canada), a copyright licence must be granted in writing and must be signed by the owner of the right in respect of which the licence is granted, or by the owner's duly authorised agent. The grant of a copyright licence may be registered, and any registered licensee will take priority over a prior unregistered licensee without notice.

Section 57(3) of the Copyright Act (Canada) stipulates that any assignment or licence granting an interest in a copyright shall be judged void against any subsequent assignee or licensee for valuable consideration without actual notice, unless the prior assignment or licence is registered as prescribed by the Copyright Act before the registration of the instrument under which the subsequent assignee or licensee claims.

The perfection of security interests in personal property, whether tangible or intangible, is regulated under provincial legislation, which will require registration of the security interest with provincial registers of security interests in order to be perfected or opposable against third parties. However, unregistered trademarks can only be protected through the institution of a passing-off action at common law and as otherwise governed by the Canadian Trade-marks Act. Such actions require the establishment of goodwill, and protection will generally be limited to those geographic areas in Canada in which a reputation and goodwill have been acquired for the trademark. Registration under the Canadian Trade-marks Act allows a trademark owner to enforce its rights throughout Canada even in those areas in which reputation and goodwill have not been acquired, thereby reserving the field for a trademark owner and potential licensees.

- 13** Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

Under section 50(3) of the Trade-marks Act (Canada), unless otherwise contractually stipulated, the licensee may call upon the owner of a trademark to institute proceedings for trademark infringement. If the owner refuses or neglects to institute proceedings within two months of being so requested by the licensee, the licensee may institute proceedings for trademark infringement in its name as if it were the owner, making the owner a defendant.

Unless otherwise contractually stipulated, section 55 of the Patent Act (Canada) provides that a person who infringes a patent is liable to the patentee and to all persons claiming under the patentee for acts of infringement. The patentee must bring the action, be joined as co-plaintiff or, if the patentee refuses, be joined as a defendant. There is Canadian case law to the effect that a person claiming under the patentee includes exclusive and non-exclusive licensees. Accordingly, a licensee may institute patent infringement proceedings, joining the patentee as a co-plaintiff or as a defendant if the patentee refuses to be joined. As such, it is strongly suggested that this issue be addressed in the licensing agreement.

In Canada, a licensee of either a patent or a trademark may be contractually prohibited from instituting proceedings or being joined to proceedings against a third party for infringement.

- 14** Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

As a rule, the right to sub-license is not specifically addressed under statute. Thus, unless such rights have been granted in the licence agreement, a licensee may not sub-license its use to a third party. Again, given that a licensor may want to control sub-licensing, it is recommended that this issue be addressed in the licensing agreement.

- 15** Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Canada is a 'first to file' jurisdiction in relation to patents. However, it is a 'first to use' jurisdiction in relation to trademarks where the first user is paramount in relation to subsequent use or filing.

A patent licence can be granted over an invention in respect of which a patent application has been filed but not yet issued in Canada.

- 16** Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Under guidelines adopted in October 2010 by the Canadian Intellectual Property Office, computer software is not generally considered to be a stand-alone patentable invention. However, to the extent that the program, when run by a computer, provides a novel and inventive technological solution to a technological problem, it may be seen as changing the nature of the computer as a whole and render the entire computer patentable, though not the program itself as a discrete element of the computer.

Living organisms are generally not protectable by patents in Canada.

Until very recently, this was also the case for business processes. However, following an unexpected decision of the Federal Court of Canada calling into question long-standing assumptions about the non-patentability of business methods, that was confirmed on appeal, the Canadian Intellectual Property Office has issued a patent to Amazon, the online retailer, for its 'one-click' method of purchase as a business process (see additional details in 'Update and trends').

- 17** Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

No specific legislation governs trade secrets or know-how. Parties must therefore rely on common law tort claims or contractual undertakings to protect know-how from unauthorised disclosure or use.

Although there is no comprehensive definition under Canadian law, a trade secret is generally recognised by our courts as a right of property consisting of a mechanism, tool, process, compound, pattern, device or compilation of information that is known to one person and that gives that person a benefit or advantage. The essence of a trade secret is the quality of secrecy that surrounds it. A trade secret is protected through the creation of a fiduciary obligation on the recipient of confidential information not to disclose that information or misappropriate it for his or her own benefit. This is accomplished by means of written confidentiality or non-disclosure agreements and the creation of a fiduciary relationship between the owner of the trade secret and the recipient of the confidential information.

Know-how is a form of confidential information that licensees will receive from licensors as an integral part of the relationship. One of the most important aspects of a licence relationship is the imparting of confidential information to a licensee that gives that business an advantage over its competitors in a particular industry or market. It is imperative that the confidential information is clearly identified so that if the relationship is terminated, the former licensee is under no misapprehension as to what constitutes confidential information and is aware that it cannot be used or disclosed. The legal consequences of a confidentiality breach should also be clearly stipulated in a licence or trade secret agreement.

- 18** Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

The law allows a licensor to restrict disclosure by the licensee as long as the fiduciary relationship with the recipient of the confidential information exists both before and after termination of the licence agreement. It is recommended that third parties that are not privy to the licence agreement enter into a confidentiality or non-disclosure agreement with the disclosing party.

The law makes no reference to improvements to which the licensee may have contributed. It is recommended that this aspect be dealt with on a contractual basis between the parties.

- 19** What constitutes copyright in your jurisdiction and how can it be protected?

Copyright consists of the exclusive right of an owner of copyright to reproduce a work in any substantial form and arises upon the creation of a work in a fixed form; it may subsist in artistic, literary and musical works. The author of a work is deemed to be the owner of copyright unless the work was created in the course of employment or assigned to another in writing.

A licensor may own copyright in business plans, the design

aspects of a trademark, manuals, publicity, promotional materials, design of premises and similar concepts. Although registration of copyright is not mandatory, it is recommended to create a presumption of the existence of copyright and of ownership in the name of the registered owner.

- 20** Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

To consolidate ownership in the hands of the licensor regarding the subject matter of the licence that has been created within the scope and during the term of the licence, and thereafter as applicable, such a provision is advisable. This will avoid uncertainty and potential disputes regarding ownership and may assist in clarifying enforcement clauses.

A waiver of moral rights by the individual authors is also recommended. Moral rights are recognised in Canada, and although such rights can be waived in writing, they cannot be assigned.

### Software licensing

- 21** Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

There is no published case law under which a Canadian court has denied the validity of a perpetual software licence. However, case law has held that agreements of a different nature than a licence, without a specified duration, are generally terminable even without cause, upon reasonable notice.

- 22** Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

There are import requirements and restrictions affecting a variety of Canadian products that require permits, authorisations and examinations. Moreover, the Export and Import Permits Act (Canada) permits the establishment of an Import Control List and an Export Control List, which list a variety of software pertaining to various categories of goods for which an export permit is required. There are also various other federal and provincial legislative requirements that must be complied with prior to consumer distribution, such as consumer packaging and labelling requirements, consumer protection and French language requirements in Quebec.

- 23** Who owns improvements and modifications to the licensed software? May a software licensee obtain bug fixes, upgrades and new releases from the licensor in the absence of a contractual provision to that effect?

Determination of the ownership of improvements and modifications is generally governed by the express wording of the licence agreement. In Canada, the tendency is for licence agreements to provide that ownership of all improvements and modifications reverts back to the licensor.

There is no legal entitlement to upgrades, new releases or bug fixes in the absence of a contractual agreement.

- 24** May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

There is no legislation that expressly prohibits a software licensor from including a process or routine to disable or cause unauthorised

access to disable, erase or otherwise affect the licensed software (eg, 'time bombs' or 'Trojan horses'). However, it is questionable as to whether such practice is permitted under the civil law of Quebec. Additionally, section 342.1 of the Criminal Code (Canada) prohibits the interception of any function of a computer system and may possibly also apply to automatic set-offs.

- 25** Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

To date, Canadian courts do not appear to have decisively opined over this particular issue, hence the importance of dealing with liability issues associated with the performance of the software directly in the software licence agreement. Generally, the licensor will not warrant that the licensed software will run error-free, but will warrant that it will conform to all published specifications and may agree to fix and repair any glitches that do not conform within a specific time period. Furthermore, most licensors will attempt to limit their liability for damages in the software licence agreement.

- 26** Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

Again, Canadian courts do not appear to have dealt with the issue of enforceability or applicability of these terms and conditions, although the legal community in Canada generally views such public licences as being enforceable to the extent that the facts disclose awareness by the users of the existence of such a licence prior to use of the open source software, that may be tantamount to consent. A host of issues are raised by open source software, which often encourage improvements but also require that such improvements be made available to the public.

There do not appear to have been any major recent legal developments relating to open source software.

### **Royalties and other payments, currency conversion and taxes**

- 27** Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

While there are no general restrictions of this nature, the sale of certain products is regulated (eg, liquor), which may result in the licensor not being able to collect royalties on their sale. Other restrictions may apply where the royalties or fees are to be paid in respect of professional services (eg, medical and certain other professions) by a member of a professional or regulated order for such services, who are generally prohibited from sharing revenues earned from their professional activities with anyone who is not a member in good standing of the same order.

As regards interest on late payments, where the parties fail to set out an interest rate in their agreement or where a stipulated rate does not comply with the requirements of the Interest Act (Canada) (eg, an interest rate must be expressed as an annual rate, or on an annualised basis, to be enforceable), the Interest Act imposes an interest rate of 5 per cent per annum. Additionally, the Criminal Code (Canada) precludes a party from requiring interest payments that yield an effective annualised interest rate in excess of 60 per cent. Interest is broadly defined under the Criminal Code to include any fee, penalty, charge, etc, for failing to make payment as and when required.

- 28** Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

There are no general restrictions of this nature, except pursuant to the Proceeds of Crime and Terrorist Financing Act (Canada), which establishes a reporting mechanism pursuant to which certain monetary transactions surpassing prescribed thresholds must be automatically reported to the Financial Transactions Reports Analysis Centre of Canada.

- 29** In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

When a foreign licensor deals directly with a Canadian licensee at arm's length, without involvement in the licensee's operations and without having a permanent establishment in Canada, the foreign licensor will only be taxed on initial licence fees, royalties, rental or interest income earned in Canada, which is characterised as passive income and subject to a withholding tax. The withholding tax rate is usually 25 per cent where there is no tax treaty between Canada and the licensor's country of residence, and is often reduced to 10 per cent if a tax treaty exists. The licensee is statutorily required to remit the withholding tax directly to fiscal authorities in Canada, failing which it incurs primary liability to them.

If a foreign licensor carries on business in Canada directly through a branch or a division or is otherwise involved in the operations of its licensees, its business income resulting from its operations in Canada may be taxable on a net income basis, payable at the time when such income is accrued.

Passive income earned in Canada by a foreign licensor may qualify for a foreign tax credit, subject to the existence and particular provisions of the tax treaty in force between Canada and the licensor's country of residence.

- 30** Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

While the parties to a licensing agreement are free to choose the currency of payment and the rules of conversion from one currency to another, the Currency Act (Canada) prohibits Canadian courts from rendering judgments in any currency other than Canadian currency.

A contractual indemnity related to exchange rate fluctuations would be enforceable insofar as its payment is required to be made in Canadian dollars, as calculated given the exchange rate at a specified time.

### **Competition law issues**

- 31** Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Part VIII of the Competition Act (Canada) contains many restricted practices, including price maintenance, exclusive dealing, tied selling, market restrictions and abuse of dominant position. The practices set out in part VIII of the Competition Act are not criminally prohibited as is the case for fraud, collusions or conspiracies, but are subject to review by the Competition Tribunal pursuant to an investigation of the commissioner of competition. The Competition Tribunal may make an order prohibiting a party from engaging in conduct that contravenes these provisions.

These practices are problematic where the licensor is a dominant participant in a particular market, or where the conduct is widespread and where the practice impedes entry or expansion of a participant or a product in a market or has another exclusionary effect whereby competition is or is likely to be lessened substantially.

Where the parties are affiliated, exclusive dealing restrictions

### Update and trends

On 11 September 1998 Amazon, an online retailer, filed a patent application in Canada in respect of its 'one-click' method of purchase as a business process. Following its rejection by the patent office of Canada, Amazon challenged the decision by hearing before the Patent Appeal Board in 2005 and then took the matter before the Federal Court of Canada. The Federal Court of Canada ordered in October 2010 that the patent commissioner reconsider her rejection of the patent application in light of the claimed invention as a substantive whole. This decision was affirmed on appeal to the Federal Court of Appeal (FCA).

The FCA decision was much awaited by the legal community insofar as the prevailing view had been that business processes or methods were not patentable in Canada, unlike the United States. Interestingly, the FCA held that there was no basis to determine conclusively that a business method should not be patentable subject-matter in Canada, and clarified that it is the language of the claim that is important rather than the underlying concept behind the invention. The court held that if the claim, which must be read purposively, defines 'new, useful and non-obvious subject matter that falls within

one of the categories of the statutory definition of 'invention' (art, process, machine, manufacture or composition of matter) then the claim describes patentable subject-matter'.

The FCA thus confirmed that business methods can be patentable subject-matter and that business methods should be evaluated, in terms of their patentability, in the same manner as inventions, a notable shift in tone from the previous focus on an invention's tangible embodiment. The patent commissioner had 60 days to appeal the FCA decision to the Supreme Court of Canada; however it instead chose to issue the patent less than one month after the FCA decision. Regrettably, the Canadian Intellectual Property Office does not provide reasons when granting a notice of patent allowance, as such an analysis of patents issued following this decision and future decisions of the FCA and Supreme Court will be required to determine what the patent office considers to be a patentable business method. Nevertheless, businesses in less technical or scientific fields should give greater consideration to the patentability of their business methods.

are not applicable. Affiliates may include agreements whereby the licensor grants trademarks or trade-name rights to the licensee in respect of a product, provided that, inter alia, the licensee has multiple sources of supply for that product.

Price discrimination and promotional allowances, through discounts, rebates, allowances, price concessions or other advantages, remain an offence where a licensor of a product (ie, not a service) discriminates in the supply of same between competitor licensees with similar purchases in quality and quantity. Volume discounts, however, may be permitted under the Competition Act.

Price maintenance and refusal to deal are penal offences under the Competition Act. No person may by agreement, threat, promise or any like means attempt directly or indirectly to influence upward or discourage the reduction of a price of a product sold in Canada. Setting ceiling prices, however, may be an acceptable practice under the Act. If an application is made by the commissioner of competition, pursuant to the price maintenance provision in part VIII of the Competition Act, no criminal proceedings may be commenced on the basis of facts that are the same or substantially the same as those on the basis of which the commissioner sought the order under part VIII.

Section 32 of the Competition Act provides for special remedies that are specific to intellectual property. The section provides that where use has been made of the exclusive rights conferred by patent(s), trademark(s) or copyright(s) so as to:

- limit, unduly, the facilities for transporting, producing, manufacturing, supplying, storing, or dealing in any article;
- restrain or injure, unduly, trade or commerce in relation to any article;
- prevent, limit or lessen, unduly, the manufacture or production of any article or unreasonably enhance the price thereof; or
- prevent or lessen, unduly, competition in the production, manufacture, sale or transport of an article,

the Federal Court may make an order to declare void a section or the entirety of a licence, restrain a person from exercising all of the terms of the licence or directing the grant of additional licences. However, the Competition Bureau's policies provide that it will not seek such an order if an appropriate remedy is available under the relevant intellectual property statute.

- 32** Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

There are no other legal restrictions in respect of duration, exclusivity, internet sales, grant-back provisions (irrespective of whether

such grant-back provisions are effected with or without consideration) and other similar restrictions, other than those contained in the Competition Act and indicated in question 31.

As regards non-competition covenants, they are civil in nature and therefore fall within the jurisdiction of the provinces. In general, non-competition covenants are sustained by courts where they are reasonable as to the scope of restricted activity, the duration and the geographical area covered. If unreasonable, courts have generally not rewritten such clauses but have struck them down in their entirety, hence the importance of a reasonable non-competition clause.

However, in a handful of recent cases, whose universal application may be questioned, some courts have created the concept of 'notional severance' that would allow only certain offending words or portions of a clause to be severed if, as a result of the severance, the restrictive clause would otherwise be enforceable. To achieve this, the covenants in the clause would need to be grammatically separate and distinct.

### Indemnification, disclaimers of liability, damages and limitation of damages

- 33** Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are legal, enforceable and commonly used. Insurance coverage for the protection of a foreign licensor is also available in support of an indemnification provision with respect to acts and omissions of the licensee.

- 34** Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers of liability generally enforceable? What are the exceptions, if any?

The parties may generally agree to waive or limit certain types of material compensatory damages.

However, disclaimers of liability, while generally valid and binding under the Civil Code of Quebec, will not be enforceable with respect to gross negligence, wilful misconduct and bodily harm. Under common law, such disclaimers may be invalidated in circumstances where they are deemed unconscionable, unfair or unreasonable. Furthermore, such covenants are civil in nature, thus the mechanisms of the law and its reach may differ from province to province.

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**Termination**

- 35** Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Canadian law does not generally impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship, or require the payment of an indemnity or other form of compensation upon termination or non-renewal. However, both civil law in Quebec and the common law elsewhere in Canada generally prohibit termination of any contractual relationship based on an immaterial default. In addition, while not constituting a compensation or indemnity for the exercise of termination rights, both legal systems require that reasonable prior notice be given by a party wishing to terminate a contract with an indefinite term.

- 36** What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue?

In the absence of express contractual provisions addressing this issue, it would seem that if a master licensee loses all of its rights under the master licence agreement, whether by termination or expiration, the master licensee concurrently loses its right to sub-licence, and therefore, such termination or expiration of the master licence agreement should automatically result in termination of the sub-licence agreement granted by the master licensee. However, given that there is some divergence of opinion on this matter, it would be advisable to ensure that the master licensee includes a provision in its sub-licence agreements to the effect that such agreements automatically terminate upon termination or expiration of the master licence agreement.

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**Bankruptcy**

- 37** What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

The Bankruptcy and Insolvency Act (Canada) grants the right to a trustee to realise the value of any and all assets that a bankrupt may

have in its patrimony; a licence may be construed as a valuable asset that the trustee will wish to protect by staying any attempt of the licensor to terminate it. Canadian case law has over time permitted careful drafting of default clauses, which can allow the termination of the licence agreement before the bankrupt licensee's rights fall in the patrimony of the trustee. However, reforms to the Bankruptcy and Insolvency Act as well as to the Companies Creditors' Arrangement Act (Canada), that were recently proclaimed in force, would now prevent a licensor from terminating a licence solely because the licensee (i) files a notice of intention to file a proposal, (ii) files a proposal or (iii) fails to pay royalties, or other payments of a similar nature, in respect of a period preceding the filing of a notice of intention to file a proposal or the filing of a proposal, subject to the licensee continuing to perform all of its obligations under the licence agreement. However, a licensor is not prohibited from requiring payment of royalties, or other payments of a similar nature, which become due after the filing of a notice of intention to file a proposal or the filing of a proposal.

Section 84.1 of the Bankruptcy and Insolvency Act grants a trustee the right to apply to court for an order assigning the rights and obligations of a bankrupt under an agreement. In deciding whether to make the order, the court must consider, among other factors, whether the person to whom the agreement is to be assigned can perform the obligations incumbent on it pursuant to the agreement and whether it is appropriate to assign the agreement to said person. Such an order may be made even in the presence of a contractual consent. If a trustee opts to apply to court under section 84.1, he or she would be required to provide notice to every party to the agreement he or she wishes to assign, and as such the parties would have the right to oppose the application for assignment. This provision has yet to be tested by courts in a licensing context, and as such it remains to be seen whether this provision can be utilised by trustees to assign a licence agreement.

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**Governing law and dispute resolution**

- 38** Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

The parties are free to choose the laws that will govern their relationship. However, laws or provisions of public order in Canada may not be set aside by the choice of the law of another jurisdiction.



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**39** Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another?

The parties may contractually agree to arbitrate their disputes instead of resorting to Canadian courts, provided that the parties' intent to exclude all recourse to civil courts (other than for injunctive or equitable relief) is manifest in the agreement. The parties are also free to agree to the arbitration venue.

**40** Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

A final monetary and conclusive judgment on the merits is usually enforced by Canadian courts. In Quebec, the situation is slightly more complex as defendants have the right to raise defences that may have been available in the initial action, before an order enforcing the foreign judgment is made.

Certain provinces, such as British Columbia and Ontario, have enacted legislation that provides a simplified procedure for registering and enforcing foreign judgments and arbitration awards. Arbitration awards are more readily recognised throughout the country as Canada is party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

**41** Is injunctive relief available in your jurisdiction? May it be waived contractually? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in all provinces and may be granted on an interim, interlocutory or permanent basis. The right to seek relief is always within the discretion of the court and cannot be waived.

\* *David Kyffin is no longer with Lapointe Rosenstein Marchand Melançon LLP.*

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