



Why Should You or Your Client File Patent Applications in Canada?

Patent Filing Strategies:

Clearly, the decision of where to file a patent application has many factors which need to be considered. Cost is obviously an important consideration, as is the importance of the jurisdiction to the patentee (if you don't sell much into a jurisdiction, it probably doesn't make sense to file for patent protection there) and the ability to enforce a patent in that jurisdiction (there are still many jurisdictions whose legal systems provide little practical enforcement opportunities for a patentee).

By most peoples' analysis, the United States is probably the most important single market in which to have a patent, followed by the European Patent system (if the European Community is considered a single patent "market"). Historically, and apparently still, many companies decide to forgo filing in Canada based upon an analysis of the costs of filing and obtaining a patent in Canada, and the significance and size of the Canadian market. We believe that it is time to revisit this analysis, in view of recent developments in law and new economic trends.

Advantages of Having a Canadian Patent:

Canada's economy has traditionally been closely linked to that of the United States. The *Canada-United States Free Trade Agreement* of 1987, and the subsequent *North American Free Trade Agreement* of 1994 (which added Mexico), have only strengthened that linkage.

Despite this economic linkage, and the fact that Canada and the US have similar laws, the court systems in each country are markedly different, *especially in relation to civil litigation and the associated costs.*

As we explain below, it is possible in many circumstances to use patent litigation in Canada instead of, or in addition to, US litigation, to obtain a beneficial outcome in both Canada and the US (and/or Mexico).

Specifically, a moderately complex patent litigation action in the US can easily cost a plaintiff/patentee \$3.5 to \$5 million to obtain a decision at trial (with as much as \$2 to \$3 million necessarily spent before reaching a point where a settlement may be favorably negotiated). (Attempts to pursue alternative US strategies, such as ITC actions, which had been proposed to reduce costs and accelerate decision times, have not proved to be satisfactory. In many cases the costs of an ITC action will exceed those of a court action and backlogs at the ITC have negated any perceived time advantages.)

In contrast, a similar moderately complex patent litigation action in Canada should cost a plaintiff/patentee \$1 to \$2 million to obtain a decision at trial (with perhaps \$500,000 to \$750,000 being spent before reaching a point where a settlement may be favorably negotiated.) As a settlement to a Canadian patent law suit will often result in the plaintiff and defendant reaching a settlement with global effect, these potential cost savings can be a significant benefit.

In addition, there are several other potentially significant benefits which can be obtained from Canadian litigation:

- There are ***no juries*** in Canadian patent litigation. This can simplify litigation and improve predictability with respect to the outcome;
- Almost all actions occur before a single, Federal Court¹. This means you deal with one court, and one set of rules, irrespective of the geographic location of the parties within Canada. There is no “venue shopping”;
- Federal Court actions are case managed, so actions can be pursued quickly and efficiently;
- There are no ***depositions*** of multiple witnesses. Instead, a single representative is designated by each party for ***Discovery***. This can result in significant cost and time savings, compared to the US deposition process and, importantly, can reduce the impact on the time of the senior management of the plaintiff as, at worst, only one individual will be required to be available for Discovery;
- There is no “file wrapper” estoppel in Canada². Canadian Courts do not look beyond the “four corners of the patent document” and thus issues which have arisen in prosecution in Canada or other jurisdictions do not get considered by the Court;
- The ability of a plaintiff to seek an accounting of “profits”, rather than damages, allows a plaintiff to increase the litigation burden on a defendant. “Profits” in a Canadian patent litigation are not the same as profits as normally determined by accountants. An accounting of profits will typically require the defendant to expend significant efforts in order to produce the necessary accounting information. Further, because of the way “profits” are determined in a patent litigation, an accounting of profits can be significantly larger than damages that might otherwise be awarded by the Courts.
- A decision to commence litigation in Canada means that the plaintiff can select counsel and prepare for the litigation on their timeframe, whereas a US entity (or an entity expecting US litigation) will be caught unawares by a Canadian law suit.

¹ It is possible to litigate a patent in one of the provincial courts but, while such a court can rule on infringement and validity, only the Federal can have the patent office invalidate a patent. Very, very few actions proceed at the provincial court level.

² There have been several historical attempts to introduce file wrapper estoppel into Canadian patent litigation, but each has been disallowed at trial and/or on appeal to the Supreme Court. A recent Federal Court Trial Division decision (*Distrimed Inc v Dispill Inc*, 2013 FC 1043) has again attempted to introduce estoppel-like evidence into Canadian jurisprudence, but it is expected that an appeal in this case is imminent.

An obvious question to ask is, “So what if I get a cheaper/better outcome in Canada, the real economic value to me is in the US?” While, with some notable exceptions, the US is a more significant market, experience has shown that commencing a patent litigation action in Canada can often result in the parties reaching a North American, or even global, settlement on the issue at a reasonable cost and in a reasonable timeframe.

For disputes of a “bet the company” level of significance, it is possible that a Canadian patent litigation may not be the best, or only, way to proceed. However, many disputes are of lesser significance and the patentee will often be satisfied with a royalty or other commercial solution to the dispute. In such cases a favorable Canadian outcome (or even the appearance of an eventual favorable outcome of a patent trial in Canada) can give the patentee a significantly improved negotiating position to resolve the dispute and will almost always bring the defendant to the negotiating table looking for a solution too. Further, all defendants must content with the fact that a “win” in a patent litigation in one jurisdiction will often influence courts in other jurisdictions considering the same issues.

For “bet the company” litigation, having a parallel venue with similar, but not identical, laws can assist in putting pressure on the defendant. The defendant may have a preferred defense strategy which is suitable for use before a jury in the US, but which is less optimal for use before a Canadian judge. Frankly, in many parallel litigation cases the litigation strategy of the defense is dictated by the US case and their Canadian case can suffer accordingly. It can be the result that an imminent favorable decision for the plaintiff in Canada, and the possible effect of that on an ongoing US case, can drive the defendant to the settlement table.

As with any litigation strategy, there are of course some risks associated with pursuing a Canada-only (or Canada-first) patent litigation strategy. For example it is possible, but not certain by any means, that the defendant in a Canadian patent litigation will be deemed to have sufficient standing, as a result of that litigation, to file a Declaratory Judgement (“DJ”) action with respect to the validity and/or infringement of a corresponding US patent. Such a DJ action could effectively require the patentee to counter sue in the US for infringement and validity and thus the patentee would effectively be forced to pursue litigation in the US. However, we believe that for most actions, the potential cost savings, time efficiencies and more predictable outcomes of patent litigation in Canada will offset such risks.

Costs to Obtain a Canadian Patent:

To take advantage of the possibility of pursuing Canadian patent litigation, one must obviously have a Canadian patent. All of the costs over the lifetime of a Canadian Patent are significantly less than those associated with a corresponding US patent.

Estimates of the average lifetime cost of a US patent typically range from \$20,000 to \$25,000, including attorney's and government fees. A same-basis estimated lifetime cost of a Canadian patent is about \$13,000 (while it is more difficult to determine the estimated lifetime costs of a European patent, estimates of in excess of \$70,000 are common).

It is also expected that, in the very near future, Canadian regulations will be revised to effectively reduce the \$13,000 estimate by as much as \$3,000, as payment of maintenance fees for pending applications by any entity (including annuity payment agencies) will be permitted instead of the present rules which only permit payment of such fees by the agent of record.

Obtaining a Canadian Patent:

Patent applications which have been drafted to meet the standards of most patent offices (US, EU, etc) will meet Canadian standards with little, or no, modification. Professional fees and government fees for filing an application typically total about \$1,250. Within 5 years of filing, a Request For Examination must be made, typically at a cost of a further \$1,200. In many cases prosecution is relatively straightforward, especially if corresponding patents have issued in other countries and the fees for prosecution often do not exceed \$1,500 in total.

Also, the Canadian Patent Office has implemented a Patent Prosecution Highway ("PPH") program with several other patent offices around the world, including: the US, EU, DK, DE, JP, UK and other offices, as well as a PPH program based upon PCT applications. According to published Canadian Patent Office Statistics, an application making a PPH-based request for examination will, on average, have a final disposition³ within 6 months.

Thus, if an applicant takes advantage of the PPH program, issuance of a corresponding Canadian patent could occur within a year of filing in Canada. Similarly, if the applicant takes advantage of the available expedited examination options in other jurisdictions (e.g. – the US "Track 1" system) in combination with the PPH program, issuance of a corresponding Canadian patent could easily occur within two years of the filing of the priority application.

Conclusion:

Conventional wisdom with respect to patent application filing decisions in Canada should be revisited. It is no longer appropriate to make a filing decision for Canada based solely on considerations of the size of the Canadian market. Canada's close economic relationship with the US and Canada's efficient, predictable and inexpensive court system combine to provide a unique, viable and cost effective method for enforcing intellectual property rights in North America and globally.

³ Allowance or Final Rejection