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PROTECTING AND EXPLOITING U.S AND CANADIAN INTELLECTUAL PROPERTY ABROAD ON A GLOBAL BASIS IN A TECHNOLOGICALLY CHANGING WORLD – A CANADIAN PERSPECTIVE

T. Gary O'Neill*

I was born and raised on a farm sixty miles from here, across Lake Erie in southwestern Ontario. We got Cleveland television, and certainly, I followed a lot of things that happened in Cleveland, particularly the Cleveland Indians. I followed the Cleveland Indians in 1954. It was a wonderful year, except they lost to the New York Giants in the World Series in four straight games, and I have never gotten over that. Maybe I will get over it soon because the Indians are back on top, and I am just delighted that Cleveland is going to get the Browns back.

The official title for this session is a bit of a tongue twister. I have a lot of trouble just getting it out coherently. I thought maybe I would shorten it a little bit. I thought an interesting title would be “Global IP and the Technological Tsunami.” What is happening here is really more than just a sea of change, it is really a tidal wave of change.

Intellectual property is important. It is becoming more important as technology continues to evolve. Just how important is it? In 1980, U.S. companies gained less than three billion dollars in revenues from licensing patents.1 By 1997, that figure had ballooned to more than ninety billion dollars.2 Revenues from intellectual properties will continue to expand. IBM, in 1997, was granted 1,724 patents, the most patents of any company in the United States.3 Before I came to Cleveland, I checked the U.S. Patent Office Web site,4 and for 1998, IBM is still number one. Interestingly enough, they were issued 2,657 patents, an increase of fifty-four percent over the previous year.

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2 See id.
3 See C.W. Bucholtz, Information Age Has a Price, DENVER ROCKY Mtn NEWS, Mar. 14, 1999, at 3E.
IBM regards its patents as important assets and expects a return from those assets, and it has adopted a policy of licensing its patents. They have been very successful in generating revenues in that regard. In 1996, those revenues were in excess of one billion dollars.

I want to emphasize that, in a time of rapidly changing technology, you can protect and prosper, or you can not protect and perish. I will address that topic today and the issues of prospering and perishing in four steps. First, I intend to identify the technological change that I think is important to this particular topic. We will then consider the acquisition of rights and the impact of change on those rights. We will consider the exploitation of those rights and the impact of change on them. Finally, we will look down the road a little bit and paint a picture of what is going to happen in this area. In the end, I hope that you will have a feel for the impact of technological change in the IP field, and what one should try to emphasize if one wants to prosper rather than perish.

First, let us consider prospering or perishing in the context of technological change. What kind of IP and what kind of technological change are we talking about? To put things in perspective, we will look briefly at the full range of IP rights. But, given the scope of this topic in the time allotted for it, I think that I want to concentrate on one type of IP, mainly patents. Patent protection is the most important, in my view, for two reasons. Number one, it is the field I know the most about, and, number two, it is an area that potentially offers the most powerful and far-reaching protection.

One can avoid copyright infringement by avoiding copying materials. Trademarks can be obtained by your client as long as they are not confused with other peoples' trademarks. So, on the copyright and trademark side, my submission is that it is fairly easy to stay out of trouble. Not so with patents. You can run afoul of a patent about which you have never been aware, or you can run afoul of a patent that may not have been issued or may never have been published when you developed your products. Patents can prevent you from carrying on your business selling products that you have independently developed.

Unintentional infringement is still infringement and is subject to the usual remedies, including damages and injunctive relief. If you infringe a patent, you can be subject to an injunction which will prevent the manufacture, use, and sale of the infringing article; and, on top of that, you can face damages and an accounting of your profits. Also, you can be ordered to deliver up and/or destroy all of your stock of infringing items. It is pretty serious business. Patent infringement trials for those who are counsel in them are great things. For those who are not, it is questionable. They are lengthy, greedy consumers of executive time, and they are very costly. In Canada, a moder-
ately complex two-week patent trial would cost on the order of $500,000. In U.S. terms, that would be about $750,000. For U.S. litigation, you can multiply that by three to five times.

What are the key technologies? I know that I have a bit of a bias here because of the area in which I practice. This is only my opinion. If I had to list what I think to be the most important changes in technology, I would rank them as follows: the emergence of powerful, cheap computer processing units, which in turn gives rise to the all-pervasive computer chip in everything from our automobiles to our television sets and the software that goes along with that. Software is the operative word. And, the emergence of high-speed communications and the Internet. The speed of change is really quite breathtaking. It will continue in an exponential fashion, new technologies will continue to evolve quickly. It used to be an option to ignore securing patent protection by being ahead of the curve in terms of product development. Just keep out in front of new products, and you will survive. That option is running rapidly out of favor.

A well-drafted patent can cover a field so well that there is very little room for incremental innovation. If you are up against a substantial patent portfolio, and somebody wants to enforce it against you, it is going to be hard enough just to fight off that onslaught without trying to develop new products as well.

There are many other fields of rapidly changing technology, such as biotech and pharmaceuticals, which may have a major impact on our health, and I do not want to downplay this factor at all. There are many important new drugs, but in my view, they are not part of the innovative technological changes that are revolutionizing our everyday lives. The aforementioned three changes are having major impact on intellectual property from three different perspectives, mainly the subject matter of patents and the exploitation of patent rights.

In 1997, the top ten companies that were issued patents included IBM, Canon, NEC, Motorola, Mitsubishi, Hitachi, Toshiba, Sony, and Eastman Kodak. The technologies of these companies are closely related to computing power, communications, and the Internet. These are hot areas. The same companies had even more patents in 1998. Technological change in these areas will continue at a fast pace, computers will get more powerful and faster, communication links will be faster and able to carry more information, whether video, voice, data, images, or music. The Internet is predicted to be the way of doing business in the future, and it is going to be rather interesting.

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to see how people come up with new ways of doing business on the Internet. They will be moving to patent those ways.

All of these changes affect IP, and I would like to go to Step 2 of our prosper or perish consideration by discussing the acquisition of rights. First, I would like to talk a little bit about what intellectual property rights are all about, and then zero in on patents. First of all, if you go to the WTO Web site, when they refer to intellectual property, they mean the blue-collar rights. The patents, trademarks, industrial designs, and intellectual property are generally referred to as copyright, the more white-collar rights, if you will. That traditional distinction has now basically gone by the boards. Now, the common parlance is to use "intellectual property." So, when I say "intellectual property," I mean the whole thing.

Basically, patents cover inventions and ideas, and they must be new, useful, and inventive, or non-obvious. It can be anything from a method, to an art, process, manufacturer, a machine, composition, or matter. A trademark basically sets your product aside from those of other people by giving it a catchy name or logo. Usually it sets out the origin of the goods, and can be a market quality as well. Industrial designs deal with ornamentation of an object rather than its functionality. A microphone is used for picking up sound and conveying it over to the audience, but the functionality would not be protectable by an industrial design. However, a unique shape, a unique pattern, or unique ornamentation would be protected. As for trade secrets, as long you can keep it secret, it is yours and you can use it. It does not, however, protect you from independent development. Somebody else can independently develop it and get a patent on it, and if you kept it a secret, at least in Canada, you are in trouble. I am not sure about the situation in the United States.

Let me make a disclaimer right here. If I make a comment about U.S. law, take it from the perspective that I am a Canadian lawyer making the statement. I need to make a waiver of liability here.

I wrote a paper in 1997 about patenting software in North America. I was asked to do that in the U.K., and I was asked to give the U.S. perspective. I boldly did so. One of the materials I was asked to include in my paper was the State Street Bank decision. There are various other statutory rights that I did not go into. These rights are national in scope and are limited to the

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7 See T. Gary O'Neil, Patenting Software in North America (Sept. 18, 1997) (unpublished manuscript on file with author).

geographical boundaries of the state enacting them. Various treaties establish reciprocal rights between and among states, the aim being to simplify and accord similar rights to the citizens of the countries which are signatories to the treaty.9

When you have an invention and you wish to obtain patent rights, you normally fill out a written or electronic form and file it at a patent office. It has to meet certain criteria. You have to disclose what your invention is about, how your invention works, and, at the end of it, you set out a group of claims. These claims determine your monopoly, which is what a patent does. It gives you a limited monopoly, usually twenty years from the date of filing, and is limited geographically as well.

One of the most important things in obtaining a patent is doing a patentability search to see whether or not there is any "prior art" already out there. Patentability searches are important. You do not want your client wasting a lot of money on a patent for something that is already in existence. The job of the patent attorney, typically, is to do the patentability search, review the search, and craft the patent in such a way that he gets as much protection for the client as he can without taking in something that is old so as to invalidate the patent.

What is protectable? This is where recent technological changes have become important. There are two developments in patentable subject matter that are having and will continue to have far-reaching effects on the North American and global economy. The first is the recognition that computer software is patentable. There was a major fight to have computer programs considered to be literary works. We are past that. We went through the same type of thing with software. The scope of patent protection for computer software was in serious doubt through the 1980s and early 1990s, but it has been clarified recently in both the United States and Canada. The U.S. Court of Appeals for the Federal Circuit and the U.S. Supreme Court had ruled on a number of cases related to software, where these cases were easy to reconcile.10

As a result, the U.S. Patent and Trade Office issued a set of guidelines for the patenting of software. I believe those were published in 1996 or thereabouts. They clarified the process regarding how inventions could be claimed and designated safe harbors for obtaining software patents. If you do things a certain way, you get a patent. In short, software could be patented. Now, thousands of software patents are granted each year to giants such as IBM, Microsoft, and others. Lots of small companies are being granted patents as

10 See State Street Bank, supra note 8.
well. As I indicated, IBM has parlayed its patent portfolio into a major revenue-producing asset through an aggressive licensing program. The software development industry is waking up to this brave new world.

It is no longer sufficient to refrain from copying other software. Independently developed software can infringe, as I said. What a surprise it would be to find that your major line of business is threatened by somebody holding a patent whose ultimate remedy is an injunction to prevent the sale of the most important product in your business. That kind of an event tends to promote clarity of thought. More and more companies are moving to patents, not just to keep others out, to have a monopoly, or to license others to gain revenues, but simply to be able to continue doing what they are doing.

The United States, not surprisingly, has led the way in expanding protection for software patents. Software can be claimed in a variety of ways. It can be claimed as a method or a computer system. But, one of the unique ways it can be claimed is as a product. This is where you have a computer-readable medium with a patentable computer program stored on it. That is itself a subject of a patent claim. You can see the benefit of that because you can prevent developers and distributors from selling software and CD-ROMs and things like that. Canada has similar protection, and I think Europe is moving that way as well.

The second most important development arises out of the decision gained in the United States Court of Appeals for the Federal Circuit. The Court of Appeals for the Federal Circuit, for those of you who are not familiar with it, is a Court set up in the United States to try to bring in line all of the various district courts' decisions with respect to intellectual property, and it has done a wonderful job. It is one of the leading courts in the world, as far as decisions in intellectual property are concerned. For those of us in Canada today who practice in the field, the United States is the most important market for most of our clients, and most of the patents that we write are written first for the United States, and then for other countries, so we have to keep up with what is going on in the United States.

The State Street Bank decision reiterates the principles espoused by the United States Supreme Court that everything under the sun made by man is patentable. The subject matter of the patent in that case was software that kept track of a financial pool and resources for investment purposes. That was called a hub-and-spoke configuration. Several companies pooled their financial resources and invested in securities. The program kept track of allocated income, capital gains, and expenses. I think they were a mutual fund company, so they had to do this quickly because they had to know what the value of their assets were at any one particular time.
One of the attacks on the patent that found favor with the trial judge was the fact that there was no patentable subject matter because the invention was nothing more than a method of doing business, and that is not patentable. The Appeals Court laid that exception to rest. There is no such exception. Methods of doing business are patentable in the United States. This has far-reaching implications for businesses of all kinds. It is of particular significance for the Internet and also for financial institutions.

In Canada there is judge-made law that is noted in the *Manual of Patent Office Practice*, which is the guideline document of the Canadian Intellectual Property Office, stating the methods of doing business are not patentable. It is not clear at this time what course the Canadian Intellectual Property Office (CIPO) will take, but there is clearly pressure to follow the lead of the United States.

The degree of integration of the two markets makes this imperative. We are proceeding on the basis that business methods are patentable in Canada, and if the Patent Office disagrees with us, I guess we will be fighting that one out in the Federal Court. It will also be interesting to note the effect of this decision in Europe and elsewhere. Clearly, it is one of the most important developments in patent law in this millennium.

There are two schools of thought on where to protect. You can protect where your manufacturing base is or where your competitors are, or you can protect new markets. The latter one is probably the one that is most important.

Changing technology is having its effect on obtaining rights. Quite clearly, instantaneous communication around the world is making it easier to instruct foreign agents. We are able to do that quickly and effectively. The most important thing from a patent practitioner’s viewpoint right now is the Internet and the patent databases that are available all over the place. Australia just got a substantial portion of their patents put on-line. There is a positive obligation in the United States Patent Office to make available to the examiner all of the known prior art. Then, the question becomes, if you have a patent on your desk, but it is turned down and you have not looked at it, do you have to tell them about it? Well, jeepers, it is there. You should be able to look at it and tell them about it. Now they have all the patents in the world on their desk. They are all sitting there face down, and we can lift them up, making this an extremely powerful tool. It is terrific, as far as determining patentability. It is also terrific for looking at what competitors are doing; and also for doing searches to find out whether or not you have freedom to do what you want to do. There are also many technological databases and jour-
nals out there that will keep you up to date on the technological developments and prior art in that regard.

For software patents, it is extremely difficult to find prior art because it is such a new phenomenon. There are just not many patents out there for software. Some of the large patent companies, IBM and Microsoft, have put together a software patent institute. They are trying to get together what is called folk art, old computer listings and things like that that have been hanging around in people's desk drawers.

How important this is? Carleton University, which is the University in my home city of Ottawa, is now establishing, under a grant from Corel Corporation, a chair in software patents. Basically, the idea is to provide research facilities in order to be able to technologically, from a patent perspective, provide prior art to get the strong patents, and also to try to invalidate other patents. It is a very interesting concept and development in that regard.

Now let us consider the exploitation rights. There are at least four ways of exploiting IP rights. Nortel Networks is one of the crowning jewels in our corporate environment in Canada, and it is now a worldwide leader in communications. We are very proud of that company. Exploiting rights, enforcing your monopoly rights, and using the court system to prevent infringers from encroaching on your rights are rather costly to carry out and there is varying effectiveness, depending on jurisdiction, in my opinion.

If I were litigating for my clients, I would be concerned about litigating in the United States for two reasons: the jury system and the cost. I think there is an unknown factor there. In Japan, I would be very concerned about the cost of the litigation, as well as the fact that it is a very unfamiliar legal system. In Mexico, as I understand, you need the state prosecutors to enforce some of your intellectual property rights. That may be difficult to achieve.

For a really good invention for which there is a great market, competitors will want a share of the market and will go to great lengths to be players, including trying to invalidate your patent and trying to get around it. Perhaps you will remember the VCR format fight. The Beta format that Sony had was patented, and they refused to license anybody else. So, the competition came up with an inferior product, VHS, and Sony lost the standard.

So there is a lesson there somewhere. You can license others to use your product, and that does not put your patent at risk. You can swap patent portfolios or families of patents, which gives you a group of rights you would not otherwise have, which you do not have to enforce. Plus, you have added insurance that your business will not be disrupted. Finally, building up a patent portfolio to assert against a potential claim is a great idea, and I think a lot of people are doing that these days. There is no defense like a good offense. It is always nice to have another arrow in your quiver. There is nothing worse
than somebody throwing balls, and all you can do is bat them around. It is nice to have a few to throw back.

Where are we heading? I think that business and commerce will drive the direction of changes in the patent system. There will continue to be tension between profit-oriented business and other interests such as developing countries, environmentalists, and those involved in humanitarian endeavors. I think businesses would like to file one patent and have it cover the globe. There will be pressure to achieve this, and national and professional interests will, of course, continue to put the brakes on this endeavor. Nevertheless, we are on that track. There have been moves in this direction with the Patent Cooperation Treaty that allows the filing of one application to cover most of the important global markets. A common search and examination report is possible with an entry. During the moves around the globe to bring national systems closer together for the benefit of patentees, in 1989, Canada moved from a first-to-evolve country, thus coming into step with the rest of world. The United States is a step above the rest of world and probably will remain so for a long time. The United States has moved to making a patent term twenty years from the date of filing.

What difference does that make? I think it makes a lot of difference because it does away with what is called “submarine patenting,” those situations where somebody in 1950 files a patent application, and keeps it alive with continuation after continuation for years and years and tailors the claim so it covers the technology that is out there. All of a sudden, in 1993, you have a patent with which to contend.

Finally, looking for moral alternatives to litigation, the litigation law with its uncertainty links the process under pressure. High-tech companies want certainty and quick resolution of disputes at low cost. There is an Internet newsletter put out by a fellow by the name of Greg Gorany to report about certain companies, like Proctor and Gamble, who are establishing a National Patent Board. The members will put any disputes to that National Patent Board, which will be comprised of three experts in the field. There will be no depositions, there will be no witnesses. Counsel will make submissions, and results will be binding. It is rather interesting.

The technological tsunami will continue. Those who use IP wisely will protect and prosper, and those who ignore IP protection may not survive. Do not protect, and you may perish.

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