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Centre for International  
Governance Innovation

# NAFTA 2.0 and Intellectual Property Rights

Insights on Developing Canada's Knowledge Economy

SPECIAL REPORT



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Insights on Developing Canada's Knowledge Economy

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# Acronyms and Abbreviations

<b>CBD</b>	Convention on Biological Diversity
<b>CETA</b>	Comprehensive Economic and Trade Agreement
<b>CIPO</b>	Canadian Intellectual Property Office
<b>CUSFTA</b>	Canada-United States Free Trade Agreement
<b>EPC</b>	European Patent Convention
<b>GI</b>	geographical indications
<b>IGC</b>	Intergovernmental Committee on Intellectual Property
<b>IP</b>	intellectual property
<b>ITC</b>	International Trade Commission
<b>NAFTA</b>	North American Free Trade Agreement
<b>R&amp;D</b>	research and development
<b>RIAA</b>	Recording Industry Association of America
<b>SCC</b>	Supreme Court of Canada
<b>TK</b>	traditional knowledge
<b>TPP</b>	Trans-Pacific Partnership Agreement
<b>TRIPS</b>	Agreement on Trade-Related Aspects of Intellectual Property Rights
<b>UNDRIP</b>	United Nations Declaration on the Rights of Indigenous Peoples
<b>USPTO</b>	United States Patent and Trademark Office
<b>USTR</b>	United States Trade Representative
<b>WIPO</b>	World Intellectual Property Organization
<b>WTO</b>	World Trade Organization





## Introduction

**Bassem Awad**

**W**ith increased global and domestic attention on the renegotiation of the North American Free Trade Agreement (NAFTA), uncertainty remains around several aspects of the negotiations. This ambitious pact, in place for 23 years, established one of the world's largest free trade zones, one that covers a market output of well over US\$17 trillion. The current opportunity to renegotiate the agreement calls for thought leadership in reaching a deal that works for Canadians and advances some of this country's core values within the trading zone.

NAFTA has been widely credited for achieving its two primary objectives: expansion of trade among Canada, Mexico and the United States; and advancing the trio's competitiveness within the global marketplace. Yet domestic economic and political interests within the respective trading countries have sought to highlight

the negative impacts of the trade deal, with several critics calling for its revision in line with modern facts and realities.

On January 23, 2017, US President Donald Trump signed an executive order to renegotiate NAFTA, aimed at restoring parity in the trade balance between the United States and its neighbours. While the United States has taken the lead in demanding the renegotiation, Canada and Mexico have also identified opportunities to advance some of their core interests within the renegotiation exercise. The first round of talks opened on August 16, 2017, and it is expected that the aggressive renegotiation agenda will see the talks concluded by the end of the year.

Given the fast-paced negotiations, and as part of efforts to support Canada's negotiators and policy makers with clear, simple and factual analyses of Canada's key interests within the negotiations, the International Law Research Program at the Centre for International Governance Innovation has commissioned a series

of essays addressing intellectual property rights. A modernized chapter for intellectual property rights could have a deep impact on the emerging knowledge economy in Canada and for the people who turn ideas into innovations.

In this series, the authors provide important recommendations to support the development and growth of an innovation economy in Canada with respect to the copyright system, the patent system, as well as Canada's geographical indications rules. The essays also point to some emerging issues that have yet to be considered within the existing NAFTA. In light of Canada's recent international dealings and domestic commitments, these areas — big data and Indigenous traditional knowledge, in particular — form important considerations.

Although there are convergences between aspects of Canada's IP system and those of the United States and Mexico, there are also stark differences in each economy's market and IP landscape. This series brings together a community of scholars and practitioners to share, through a variety of contexts, some of the requirements of a modernized NAFTA Chapter 17.

## About the Author

Bassem Awad is deputy director of international intellectual property (IP) law and innovation with CIGI's International Law Research Program. In this role, Bassem provides strategic guidance and operations coordination and management of the thematic area.

A specialist in intellectual property law, Bassem has served as a judge at the Appeal Court in Egypt. He also works as a head tutor and professor at the World Intellectual Property Organization Academy and an instructor with the Institute for Training and Technical Co-operation at the World Trade Organization. He teaches advanced courses on IP rights at the Faculty of Law, Western University. He has also been working for several years as a consultant for the African Union and as a counselor at the Judicial Department of Abu Dhabi in the United Arab Emirates on IP topics.

Bassem holds Ph.D. and LL.M. degrees in IP from the University of Montpellier in France, and an LL.M. in international business law from l'Université Paris 1 Panthéon-Sorbonne. His research interests include copyright law, patent law, comparative IP and IP governance. He has published several papers on copyright and access to knowledge, patents and green energy technology innovation, biotechnology and IP, patents and access to medicines, IP and consumer protection, IP in the digital environment and enforcement of IP rights.



## No Time for Tinkering

How a “more progressive” NAFTA could break the vicious circle of global inequities in the ownership of knowledge

Ariel Katz

The postwar international trading order reflected the assumption that reducing various state-imposed restrictions on trade, and promoting free and competitive markets, would be mutually beneficial to trading nations and to the world as a whole.

As Canadian Foreign Affairs Minister Chrystia Freeland stated in a recent address to the House of Commons: “Far from seeing trade as a zero-sum game, we believe in trading relationships that benefit all parties.”<sup>1</sup> But Canada’s belief in the benefits of free trade, Freeland told us, should not be confused with a belief in trickle-down economics.

Canada appreciates that continued growth, as well as the political stability it requires, depends on domestic measures that share the wealth and assure working people and the middle class that the globalized system can help them better their lives, as part of what she calls a “progressive trade” agenda.<sup>2</sup>

Freeland’s position, of course, does not come out of thin air. It reflects a growing recognition that the present crisis of liberal democracy stems from its abandonment of progressive values, resulting in a global trading system that has become regressive: preoccupied with wealth creation, while being oblivious to the growing inequality that it generated.

“If we don’t act now, Canadians may lose faith in the open society, in immigration and free trade — just as many have across the Western industrialized world. This is the single biggest economic and social challenge

1 Global Affairs Canada, “Address by Minister Freeland on Canada’s Foreign Policy Priorities” (6 June 2017), online: <[www.canada.ca/en/global-affairs/news/2017/06/address\\_by\\_ministerfreelandoncanadasforeignpolicypriorities.html](http://www.canada.ca/en/global-affairs/news/2017/06/address_by_ministerfreelandoncanadasforeignpolicypriorities.html)>.

2 *Ibid.*

we face,” Freeland said in fresh remarks<sup>3</sup> on the eve of the renegotiation of the North American Free Trade Agreement (NAFTA).

If Freeland's public pronouncements reflect sincere recognition that the premises and institutions of the current global economic order need some recalibration, then this should be reflected in the country's approach to one of the most consequential trade negotiations in a quarter century.

As Canada's chief diplomat sets out her priorities for the renegotiation of NAFTA, she must do more than appeal to the concerns of existing industries. In a knowledge economy, a progressive trade agenda must tackle the thorny question of the ownership of ideas.

The relentless extension of intellectual property (IP) rights through international trade agreements has not historically been a banner issue for advocates of a progressive trade agenda, but the data suggests it warrants attention.

The evidence from most reliable studies currently available fails to provide support to the claim that the expansion of IP has contributed to greater innovation, productivity or growth.<sup>4</sup> Moreover, some signs indicate that the expansion of IP has already contributed to global economic stagnation, accelerated inequality and depressed wages, and that it already hampers governments' ability to implement measures for countering those trends.

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The evidence from most reliable studies currently available fails to provide support to the claim that the expansion of IP has contributed to greater innovation, productivity or growth.

The consensus emerging from the best available scientific theory and evidence strongly suggests that our current international IP system already overshoots the mark.<sup>5</sup> Many studies have found, over a wide array of industries and circumstances, that IP rights are not as important to ensure the production of knowledge as we often assume

they are.<sup>6</sup> Indeed, in all but a few exceptions, competition appears to be the main driver of innovation, while individuals and firms rely on mechanisms other than IP rights to obtain return on their investment in knowledge.<sup>7</sup>

## IP Expansion and Economic Stagnation

After being on the rise for several decades, global business investment (not only in R&D) began dropping around 1999. It declined further during the economic crisis of 2008-2009 and has remained at historically low levels since then. This “investment slump” is predicted to persist, notwithstanding the various policies designed to stimulate the economy.<sup>8</sup>

The persistence of the investment slump has been a vexing puzzle for economists. Some economists have suggested that the global expansion of IP has been an important contributor. The reason is simple. Since knowledge is the main input for any knowledge-based production, as more knowledge gets owned, investing in activities that require the use of such knowledge becomes more costly and risky (and hence less attractive) or outright illegal. Just as over-taxation by government could reduce incentive to invest, so could over-protection of knowledge through IP.<sup>9</sup>

## IP Accumulation, Increased Concentration and Forced Specialization

While numerous studies have shown that the commercial value of most patented inventions or works protected by copyright is low to zero, many firms continue to accumulate them aggressively because by strategically collecting large amounts of distinct-but-related individual patents a company may dominate an entire field.

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3 Global Affairs Canada, “Address by Foreign Affairs Minister on the modernization of the North American Free Trade Agreement (NAFTA)” (14 August 2017), online: <[www.canada.ca/en/global-affairs/news/2017/08/address\\_by\\_foreignaffairsministeronthemodernizationofthenorthame.html](http://www.canada.ca/en/global-affairs/news/2017/08/address_by_foreignaffairsministeronthemodernizationofthenorthame.html)>.

4 Michele Boldrin & David K Levine, “The Case Against Patents” (2013) 27:1 J Econ Perspectives, at 3. Joseph E Stiglitz, “Intellectual Property Rights, the Pool of Knowledge, and Innovation” (2014), NBER Working Paper 20014.

5 Dean Baker, Arjun Jaydev & Joseph E Stiglitz, *Innovation, Intellectual Property, and Development: A Better Set of Approaches for the 21st Century* (Cape Town, South Africa: University of Cape Town IP Unit, 2017) at 36.

6 Wendy Dobson, Julia Tory & Daniel J Treffer, “NAFTA Modernization: A Canadian Perspective” in C Fred Bergsten & Monica de Bolle, eds, *Path Forward for NAFTA* (Washington, DC: Peterson Institute for International Economics, 2017) at 39.

7 Boldrin & Levine, *supra* note 4; Australian Government Productivity Commission, *Intellectual Property Arrangements: Productivity Commission Inquiry Report* (2016) at 62, online: <[www.pc.gov.au/inquiries/completed/intellectual-property/report](http://www.pc.gov.au/inquiries/completed/intellectual-property/report)>.

8 Franziska Ohnsorge, “Investment slump clouds growth prospects” (23 January 2017), *Let's Talk Development* (blog), online: <<http://blogs.worldbank.org/developmenttalk/investment-slump-clouds-growth-prospects>>.

9 Ugo Pagano & Filippo Belloc, “Knowledge Enclosures, Forced Specializations and Investment Crisis” (2012) 9:3 *European J Comp Econ* 445; Ugo Pagano & Maria Alessandra Rossi, “The Crash of the Knowledge Economy” (2009) 33:4 *Cambridge J Econ* 665.

From an international trade perspective, this trend, fuelled by the global expansion of IP rights, has allowed IP-rich countries (i.e., countries whose firms own large IP portfolios) to lock in their comparative advantage, exploit larger investment opportunities and acquire new proprietary knowledge, and limit the economic opportunities available to firms from IP-poor countries.

The consequence might be a global vicious cycle, whereby IP-rich countries become IP richer, while IP-poor countries (which include not only less developed countries, but also developed countries such as Canada) tend to stagnate in a low-investments/low-IP equilibrium.<sup>10</sup>

## IP Expansion, Labour and the Middle Class

But perhaps the greatest obstacle to the Liberals' progressive trade agenda on this front comes from the contribution of IP expansion to downward pressure on wages.

Knowledge possesses several unique features. First, not only do its value and utility not diminish when shared by others, they tend to increase. Second, once imparted, it can't be untaught.

This unique feature of knowledge implies that in knowledge-based production, every worker (or partner, or subcontractor) who acquires knowledge can become a competitor, or work for one. Accordingly, where IP rights are limited and non-compete clauses are generally unenforceable, an employer wishing to retain its workers and discourage them from starting their own business or working for a competitor must treat them well and pay them handsomely.

However, ownership of knowledge allows employers to limit workers' mobility with legal sticks instead of labour carrots. It reduces a worker's individual bargaining power as well as her liberty.<sup>11</sup>

The global expansion of IP also reduces workers' collective bargaining power. Where IP rights are limited, an employer would be reluctant to outsource production to low-wage subcontractors because after acquiring the knowledge, the contractor or its workers might become competitors. However, the global expansion of IP has allowed employers to reduce the risks associated with outsourcing.<sup>12</sup>

<sup>10</sup> Pagano & Belloc, *supra* note 9.

<sup>11</sup> Orly Label, *Talent Wants to Be Free: Why We Should Learn to Love Leaks, Raids, and Free Riding* (New Haven: Yale University Press, 2013).

<sup>12</sup> Ugo Pagano, "Knowledge as a Global Common and the Crisis of the Learning Economy" (Paper written for "A Just Society" – Celebrating 50 years of teaching of Joe Stiglitz, Columbia University, 16–17 October 2016) at 9.

Thus, the global strengthening of IP rights has had two related effects: it has decreased wages by reducing labour mobility and workers' bargaining power, and it has enabled employers to outsource more elements of production to low-wage countries and decrease workers' bargaining power even further.

## How Did We Get Here?

If the connections between stronger IP, investment in innovation and economic growth are indeed tenuous, what explains the steady expansion of IP, and why do the demands for further expansion persist? The answer doesn't lie in the economics of innovation but the political economy of IP, domestically and globally.

Those who lobby for stronger IP rights are usually aware that displays of sheer power and self-interest may not always be politically palatable and that purporting to speak in the name of *future* creators and innovators would make their demands more legitimate.

But herein lies the catch. Future creators and innovators, by definition, do not yet exist, and hence cannot hire lobbyists. Accordingly, those who lobby for stronger IP laws tend to be those who have already acquired it and already accumulated sufficient economic and political power necessary for lobbying. We could pretend that today's IP owners serve as good proxies for future creators and innovators, but they don't. Corporate managers focus on maximizing the profit from selling their existing mousetraps. Accordingly, they will lobby for rules designed to entrench their dominance, not for laws that truly encourage their future competitors to develop better mousetraps.<sup>13</sup>

Because the negative impact of IP expansion is felt by future creators, competitors or consumers, there is an inherent challenge in organizing an effective coalition to resist this trend. This is the main reason why linking IP expansion to trade agreements has been so effective. Is it any wonder that the breadth, length, scope, geographic reach and enforcement powers of IP have been growing steadily over the past several decades?<sup>14</sup>

Over the last two decades, concentration levels in most industries have increased. Higher concentration increases the ability to collect supra-competitive rents, and it also makes it easier to organize and lobby for laws and policies that will protect this rent-collection capacity. It distorts not only market outcomes but also tends to corrupt government.

<sup>13</sup> Boldrin & Levine, *supra* note 4 at 4.

<sup>14</sup> William M Landes & Richard A Posner, *The Political Economy of Intellectual Property Law* (Washington, DC: American Enterprise Institute Press, 2004) at 14.

University of Chicago economist Luigi Zingales described this process as the “Medici vicious circle,” in which money is used to gain political power and political power is then used to make more money, and which, in the case of medieval Italy, turned Florence from one of the most advanced and powerful cities in Europe to a marginal province of a foreign empire.<sup>15</sup> Chrystia Freeland aptly described the same phenomenon in her 2012 book, *Plutocrats*.<sup>16</sup>

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Ownership of knowledge allows employers to limit workers' mobility with legal sticks instead of labour carrots. It reduces a worker's individual bargaining power as well as their liberty.

This vicious circle needs to be broken, and the ways in which the expansion of IP has contributed to it deserve greater attention.

## A Moment of Opportunity

The current US demands on IP are almost identical to those of the Obama administration. This is hardly surprising, because the US global IP policy has always been dictated by the lobbyists of its IP-rich corporations. But even when the United States played a game of sheer power and self-interest, previous administrations, Republican and Democratic alike, have always been able to sugarcoat it with liberal ideology and irresistible rhetoric on shared global interests, promoting common progress and the rule of law. This is no longer the case. The Trump administration's explicit contempt for these values, therefore, makes marshalling resistance easier.

Accordingly, Canada could and should choose a fresh path in NAFTA talks, along the same lines that Minister Freeland has already signaled she intends to pursue. She has lamented the fact that the United States “has come to question the very worth of its mantle of global leadership,” but emphasized that this “puts into sharper focus the need for the rest of us to set our own clear and sovereign course. For Canada that course must be

the renewal, indeed the strengthening, of the postwar multilateral order.”<sup>17</sup>

Minister Freeland recognizes that the United States, at this time, might not always be a partner, and this requires Canada to continue working “with other like-minded people and countries who share our aims.”<sup>18</sup>

To this end, instead of tinkering at the margins of US proposals, when it comes to IP, Canada should adopt a bold and principled approach based on the following three principles: a moratorium on any further expansion of IP via trade agreements; reorienting the global conversation of IP to the multilateral frameworks of the World Trade Organization and the World Intellectual Property Organization; and initiating a review of the current international IP frameworks with an eye toward scaling back some of its unnecessary and counterproductive aspects.<sup>19</sup>

The benefits of such an approach are twofold: tactical and strategic. Tactically, without challenging the premise of further IP expansion, Canada will already have tied its negotiating hand. But strategically and more importantly, pursuing this approach would be the right and necessary thing to do.

The first step in breaking a vicious circle is to stop spinning. President Trump gave Canada an opportunity to make this first step. If Canada leads, it will be surprised to find that many like-minded people and countries will follow.

## About the Author

Ariel Katz is an associate professor with the University of Toronto Faculty of Law, where he holds the Innovation Chair in Electronic Commerce. He received his LL.B. and LL.M. from the Hebrew University of Jerusalem and his S.J.D. from the University of Toronto. His general area of research involves economic analysis of competition law and intellectual property law, with allied interests in electronic commerce, pharmaceutical regulation, the regulation of international trade and particularly the intersection of these fields. Between 2009 and 2012, Ariel was director of the University of Toronto's Centre for Innovation Law and Policy. Prior to joining the University of Toronto, he was a staff attorney at the Israeli Antitrust Authority.

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15 Luigi Zingales, “Towards a Political Theory of the Firm” (2017) 31:3 J Econ Perspectives 113 at 120–21.

16 Chrystia Freeland, *Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else* (Toronto: Doubleday Canada, 2012).

17 Global Affairs Canada, *supra* note 1.

18 *Ibid.*

19 The highly regarded Australian Productivity Commission made similar recommendations in its recent report on IP; see Australian Government Productivity Commission, *supra* note 7 at 39–40.



## Five Ways NAFTA Talks Can Level the Innovation Playing Field

After years of ceding to US demands for tough anti-piracy rules, it's time for Canada to fight for its interests

Michael Geist

The intellectual property (IP) chapter of the North American Free Trade Agreement (NAFTA) promises to be among the most contentious aspects of the trade talks about to get under way.

Canada has enacted major amendments to its laws on copyright and patents in recent years, but the United States is still likely to seek further concessions.

After years of “playing defence” in the face of US demands, the challenge for Canada in this round of negotiations is to pivot onto the front foot and proactively ensure the country’s priorities and policies are reflected in the agreement.

The list of capitulations by Canada in the last decade is long, starting with new criminal liability for using a camcorder to record a film in a movie theatre — despite

previous ministerial insistence that Canadian law already effectively addressed the issue.

In the past five years alone, Canada has added anti-circumvention laws similar to those found south of the border, enacted anti-counterfeiting laws, extended the term of protection for sound recordings, engaged in patent and trademark reforms and added stronger enforcement measures — including “enabler” provisions aimed at websites accused of enabling piracy.

When seen together with recent court decisions that addressed US concerns about patent rules, the record shows that Canada has acquiesced to many demands from Washington.

As the country embarks on a new round of NAFTA talks, it should be recognized that Ottawa already meets its international obligations when it comes to respect for copyright and patents and has largely addressed long-standing US demands regarding additional reforms.

At a broad level, the Canadian negotiating goal should be to retain an appropriate balance, one that fosters creativity and access while ensuring that there is room for Canadian-specific policies that sit within the flexibilities of the international IP framework.

Translating that goal into negotiating priorities means using NAFTA to establish a level playing field for innovative Canadian business across the North American market. How can a renegotiated NAFTA address the current barriers? There are at least five ways.

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Canada has enacted major amendments to its laws on copyright and patents in recent years, but the United States is still likely to seek further concessions.

## Inclusion of Balance as an Objective

The initial drafts of the Trans-Pacific Partnership (TPP) agreement included language on objectives within the IP chapter that emphasized balance. Canada was supportive of this approach. NAFTA should include similar language on maintaining balance across all IP rights, the legitimate interests of users, promoting access to and preserving the public domain, ensuring that IP rights do not create barriers to legitimate trade, and facilitating access to affordable medicines.

The objectives provision may not carry the same weight as positive obligations in the treaty, but they are important, reflecting the goals of the negotiating parties and providing a lens through which all other provisions can be interpreted. Canada and many other countries wanted to ensure that the language maintained a pro-innovative balance between rights holders and users on all IP provisions within the TPP. The government should support that approach in NAFTA.

## Fair Use and Flexible Fair Dealing

Led by the United States, several countries around the world, including Israel, Singapore and South Korea, have established fair use provisions within their copyright laws. Fair use does not mean free use — rather, it means that there is a balance that allows certain uses of works without permission, as long as the use is fair.

The Supreme Court of Canada has already ruled that Canada's fair dealing provision must be interpreted in a

broad and liberal manner. Yet the current law features a limited number of purposes (research, private study, criticism, news reporting, education, parody, satire and review) that risks rendering innovative activities illegal.

US creators and businesses have a significant competitive advantage because of the American approach to fair use. To ensure a level playing field for innovation, the NAFTA IP chapter should require that all parties feature a fair use or fair use-equivalent provision.

## Anti-circumvention Legislation Exceptions

Canadian copyright law's anti-circumvention provisions are among the most restrictive in the world and badly undermine the traditional copyright balance in the digital world, creating unnecessary restrictions on innovation. Canadians can freely exercise their fair dealing rights in the analog world, but a set of 2012 reforms went far beyond the treaty requirements of the World Intellectual Property Organization by creating unnecessary restrictions on fair dealing in the digital environment. This creates a "fair dealing gap," where there is a gross mismatch between user rights in the analog world and the digital sphere.

While the Canadian exceptions were narrowly constructed and limited to a handful of circumstances, the United States has actually been expanding its digital lock exceptions. It recently introduced exceptions for innovative activities, such as automotive security research, repairs and maintenance, archiving and preserving video games, and remixing videos from DVDs and Blu-ray sources.

The imbalance in exceptions creates an uneven playing field for innovation and should be remedied by NAFTA. Canada has the power to introduce new digital lock exceptions but has yet to do so. NAFTA should prescribe statutory minimums for anti-circumvention exceptions, including one for fair use and fair dealing.

## IP Abuse and Misuse

The NAFTA IP chapter should also address the abuse of intellectual property rights that may inhibit companies from innovating or discourage Canadians from taking advantage of the digital market. The benefits of an anti-IP abuse law could be used to touch on the three main branches of IP: patents, trademarks and copyright.

For example, leading technology companies have issued repeated warnings about patent trolling, which

refers to instances in which companies that had no involvement in the development of a patent seek payments from legitimate companies by relying on dubious patents. Patent trolls have a negative impact on economic growth and innovation, with millions spent on unnecessary litigation.

Canadian companies have faced the daunting prospect of expensive US-based patent litigation that can have a chilling effect on innovation and create barriers to market entry.

NAFTA provisions against patent trolling and other IP abuses would benefit the full North American market by creating much-needed safeguards against abusive patent behaviour.

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Canadian copyright law's anti-circumvention provisions are among the most restrictive in the world and badly undermine the traditional copyright balance in the digital world, creating unnecessary restrictions on innovation.

## Copyright Term

One of the chief concerns with past trade negotiations is the expectation that the United States requires other countries to mirror its IP laws, even if those laws extend far beyond international law requirements. The Canadian approach should be to require NAFTA parties to meet international law, but to retain the full flexibility found within those laws.

For example, the term of copyright in Canada is presently the life of the author plus an additional 50 years, a term compliant with the international standard set by the Berne Convention.<sup>1</sup> The term is life plus 70 years in the United States.

From a policy perspective, Ottawa's decision to maintain the international standard of life plus 50 years is consistent with the evidence that term extension creates harms. Switching to a term of 70 years would leave Canadians with an additional 20 years of no new works entering the public domain, with virtually no gains in terms of new creativity. In other words, in

a policy world in which copyright strives to balance creativity and access, term extension restricts access but does not enhance creativity.

The negative effects of term extension have been confirmed by many economists, including in a study commissioned by Industry Canada (now called Innovation, Science and Economic Development Canada), which concluded that extending the term simply does not create an additional incentive for new creativity.<sup>2</sup> Moreover, studies in other countries that have extended the term of copyright have concluded that it ultimately costs consumers, as additional royalties are sent out of the country. Increased costs and reduced access hurts Canadian innovation without commensurate economic or cultural gains. Each NAFTA country has a different term of protection. Canada's position within NAFTA negotiations should be to require all parties to comply with the Berne Convention standard — protection during the author's lifetime plus 50 years — with the non-mandatory option for each party to exceed that term as they see fit.

## About the Author

Michael Geist holds the Canada Research Chair in Internet and E-commerce Law at the University of Ottawa, Faculty of Law. He can be reached at [mgeist@uottawa.ca](mailto:mgeist@uottawa.ca) or online at [www.michaelgeist.ca](http://www.michaelgeist.ca).

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<sup>1</sup> WIPO, *Berne Convention for the Protection of Literary and Artistic Works*, 1886; amended 28 September 1979 (entered into force 19 November 1984), online: <[www.wipo.int/wipolex/en/details.jsp?id=12214](http://www.wipo.int/wipolex/en/details.jsp?id=12214)>.

<sup>2</sup> Abraham Hollander, "Assessing Economic Impacts of Copyright Reform on Selected Users and Consumers", Study prepared for Marketplace Framework Policy Branch, Industry Canada, 15 November 2014, online: <[https://web.archive.org/web/20141115091020/http://www.ic.gc.ca/eic/site/ippd-dppi.nsf/eng/h\\_ip01179.html](https://web.archive.org/web/20141115091020/http://www.ic.gc.ca/eic/site/ippd-dppi.nsf/eng/h_ip01179.html)>.





# Canada Can Stand Its Ground on Copyright in NAFTA Renegotiations

It's all about knowing when to say no

## Howard P. Knopf

Intellectual property (IP) and copyright in particular have played a crucial role at critical times in Canada's evolution from a colony to a serious sovereign player in the G7 and G20. Copyright became a key component of the various free trade agreements that began to incorporate IP, beginning with the Canada-United States Free Trade Agreement (CUSFTA) in 1987. The North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) Uruguay agreements followed in 1994 and countless others have appeared since.

Various themes have persisted since the nineteenth century in Canada. For example:

→ Canada has a unique and proud record of creatively combining the British common law approach with the French civil law approach to copyright.

- Canada has attempted to guard its perennial net importer status in copyright-based industries, such as film, music, books and software, against incessant pressure from American lobbyists to ratchet up laws that would increase our trade deficit in these sectors.
- Canadian political leaders try to avoid being seen as a "lackey" of foreign governments, especially the United States. Ironically, Brian Mulroney, who tried to do so<sup>1</sup> with mixed success, is now back at the NAFTA table, presumably as a "Trump whisperer."<sup>2</sup>
- It will be recalled that the Mulroney government made two crucial IP concessions at the outset in the CUSFTA negotiation. First, Canada agreed to get rid

1 "Shamrock Summit seen as 'turning point' for U.S.-Canada relations" CBC News (18 August 1999), online: <[www.cbc.ca/news/world/shamrock-summit-seen-as-turning-point-for-u-s-canada-relations-1.171924](http://www.cbc.ca/news/world/shamrock-summit-seen-as-turning-point-for-u-s-canada-relations-1.171924)>.

2 Tim Harper, "Who serves as Trump-whisperer to Justin Trudeau? Brian Mulroney, of course!" *The Star* (20 June 2017).

of compulsory licensing for pharmaceuticals and to greatly increase drug patent protection. This was done in Bill C-22. Canada also agreed to provide a cable retransmission right, which was estimated to be a minor cost at the time, but which now costs Canadians more than \$100 million a year — and may double, depending on the long-awaited decision of the Copyright Board.

The American Summary of Objectives for the NAFTA Renegotiation,<sup>3</sup> released July 17, 2017, says nothing specific about copyright. Instead, it states that its objective is to “[e]nsure provisions governing intellectual property rights reflect a standard of protection similar to that found in U.S. law.” However, “similar” does not mean “identical,” and Canadian copyright laws are not only similar to but actually stronger and better than US laws in several ways, as shown below. Canada should plan to take the position that there is simply no need to talk about IP law generally or copyright law in particular in the NAFTA renegotiations. Canada is compliant with all major multilateral IP treaties — arguably much more so than the United States. Canada and the European Union have just agreed on the Comprehensive Economic and Trade Agreement (CETA), a free trade model that is the best and most recent template.

Moreover, the Supreme Court of Canada (SCC) has ironically, fortuitously and doubtless without any political motivation, just effectively conceded what could have been arguably Canada's two best IP bargaining chips. In the June 30, 2017, *AstraZeneca v Apotex* decision,<sup>4</sup> the SCC decisively undid decades of careful Canadian jurisprudence concerning the patent “promise doctrine.” According to Richard Gold, “The court concluded in a ruling that inventors are now free to make unsubstantiated claims about their inventions and still receive a patent.”<sup>5</sup> That is a huge victory for the American drug industry and also extremely ironic, since Canada had just been vindicated in a NAFTA investor-state dispute pursued by Eli Lilly after the SCC had refused to even consider the “promise doctrine” issue four years earlier.<sup>6</sup> The other big decision came

on June 28, 2017, in *Google v Equustek*,<sup>7</sup> when the SCC ruled, in effect, that anyone with an arguable IP right in British Columbia (i.e., virtually any film studio or record company) can obtain a worldwide extraterritorial interlocutory injunction forcing Google to de-index all links to an alleged infringer's websites. This could turn Canada into a busy IP enforcement tourist destination, in particular for multinational copyright and trademark owners seeking easy and most likely unopposed one-stop worldwide interlocutory injunctions that will effectively be the end of the line in most cases where defendants rely on the Internet.

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IP, and copyright in particular, have played a crucial role at critical times in Canada's evolution from a colony to a serious sovereign player in the G7 and G20.

Seen one way, these two SCC cases could weaken Canada's NAFTA IP hand — since Canada has lost its best bargaining advantage even before the game has even begun. Seen from another perspective, this may just provide the rationale for Canada to walk away from the IP part of the NAFTA renegotiations because the United States has already won more by happenstance from the SCC than it could have ever expected from the Canadian government. There have also been some lower court developments that US copyright lobbyists will love, including a decision on anti-circumvention and a preliminary ruling on reverse class actions that could set the stage for corporate copyright trolling.

Nonetheless, the usual American copyright lobbying suspects and their Canadian surrogates will likely press certain points. For each, there are good responses.

→ The United States will seek term extension on copyright, from life of the creator plus 50 years to life plus 70 years, as in the Korea-US free trade agreement of 2012, which the US content industry is pushing as a model. Quite apart from a chill on learning and a negative effect on innovation and education, such a move would be very costly financially. Based upon a New Zealand government study, my rough estimation shows that such a term extension would cost Canadians more than \$450 million per year, or a present value of \$4.5

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3 Office of the United States Trade Representative, “Summary of Objectives for the NAFTA Renegotiation” (17 July 2017), online: <<https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf>>.

4 *AstraZeneca Canada Inc v Apotex Inc*, 2017 SCC 36.

5 Richard Gold, “Supreme Court harms Canada's innovation policy stand ahead of NAFTA negotiations”, *The Globe and Mail* (2 July 2017).

6 Howard Knopf, “Canada Won the Eli Lilly NAFTA ISDS Battle Bigly but Who Will Win the War?” (1 May 2017), *Excess Copyright* (blog), online: <<http://excesscopyright.blogspot.ca/2017/05/canada-won-eli-lilly-nafta-isds-battle.html>>.

7 *Google Inc v Equustek Solutions Inc*, 2017 SCC 34.

billion.<sup>8</sup> Besides, the Americans had their windfall sound recording and performers' performances 20-year term extension given to them needlessly and stealthily by Stephen Harper in a budget bill in 2015. If the Americans even say the words "term extension," Canada should respond by threatening to repeal Harper's gratuitous gift.

- The United States may want to change Canada's "notice and notice" regime to "notice and takedown." Quite apart from the fact that the SCC's Google decision goes far beyond anything possible under US law, we don't need automated takedowns of happy dancing baby videos in Canada.
- The United States may try to push back on fair dealing in Canada. The easy response is that their section 107 "fair use" is more permissive in many ways than Canada's fair dealing regime, as their Google Books and HathiTrust decisions show. Moreover, Canada's Federal Court has just drastically curtailed educational fair dealing in Canada in the York University case,<sup>9</sup> unless it is overturned on appeal. The Recording Industry Association of America (RIAA) has the temerity to suggest that US fair use law should *not* be exported to other NAFTA partners — in other words, "Do as we say, not as we do."
- The United States may try to eliminate the \$5,000 cap on statutory minimum damages for "non-commercial" activity. Canada is already an outlier in providing any form of statutory minimum damages, and the \$5,000 limit is already being abused by copyright trolls.

Canada can demonstrate that its copyright laws are stronger and better in important ways than those of the United States. For example:

- Canada recognizes moral rights for all creators, not just visual artists.
- Canada has lucrative neighbouring rights for the music industry that include analog broadcasting and public performances.
- Canada has eliminated compulsory mechanical licenses for cover versions.
- Canada requires payments for performances in

countless bars, restaurants, retail stores and other small area business establishments. The United States notoriously exempts these establishments, contrary to the 17-year-old WTO "Section 110" ruling,<sup>10</sup> which it continues to flout.

- Canadian movie theatres pay extra for the performance of music, whereas US theatres do not.
- Canada's blank media levy scheme had generated \$345 million to the end of 2015, most of which flowed south. The United States has no comparable scheme.
- Canada seriously respects the right of independent creators to own their copyright. The United States walks all over this with its "work for hire" doctrine that favours large corporations.
- Canada has some 36 copyright collectives, many of which have received government subsidies. The United States has only about a sixth as many, with no government support.
- Canada has no explicit statutory exception for the performance of music for the purpose of selling sound recordings or audiovisual equipment, as in section 110(7) of the US legislation.
- Canada's historic lack of compulsory registration and formal renewal requirements, together with our long-standing life-plus-50 term, have frequently resulted in a much longer duration of Canadian copyright protection for American works than is the case in the United States.

Canada should stand its ground on copyright in any NAFTA renegotiation and "just say no" as needed.

8 Howard Knopf, "The Cost of Canadian Copyright Term Extension Capitulation in the TPP – Estimates Based Upon New Zealand Study" (17 November 2015), *Excess Copyright* (blog), online: <<http://excesscopyright.blogspot.ca/2015/11/the-cost-of-canadian-copyright-term.html>>.

9 *Canadian Copyright Licensing Agency v York University*, 2017 FC 669.

10 Panel Report, *United States – Section 110(5) US Copyright Act* (2000), WTO Doc WT/DS160/R (Panel Report), online: <[www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds160\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds160_e.htm)>.

## About the Author

Howard P. Knopf, B.A., M.S., LL.M., is counsel with Macera & Jarzyna, LLP in Ottawa, Canada. He has worked in government and the private sector, mainly in the areas of copyright, trademarks, cyber law, competition and related issues. He has been the chairman of the Copyright Policy Committee of the Canadian Bar Association and was adviser to the Law Commission of Canada on security interests in intellectual property. He edited the resulting book entitled *Security Interests in Intellectual Property*. He spent over a decade in the Canadian federal government and has published extensively, both as author and editor. Since 2000, he has been a member of the faculty of the annual Fordham International Intellectual Property Law and Policy Conference in New York. He has been an adjunct law lecturer at Queen's University and was cited by *Canadian Lawyer* magazine as being one of Queen's law faculty's "best and brightest." He has appeared as counsel before the Copyright Board, the Canadian Artists and Producers Professional Relations Tribunal, the Federal Court, the Federal Court of Appeal and the Supreme Court of Canada. Howard has served as a panellist in cases involving the World Intellectual Property Organization's (WIPO's) Uniform Domain Name Dispute Resolution Policy. He has been an adviser on policy issues to the government of Canada and WIPO. His litigation successes include important decisions in the Federal Court, the Federal Court of Appeal and the Supreme Court of Canada on issues involving file sharing, privacy, private copying levies, parallel importation, fair dealing and whether Copyright Board tariffs are mandatory. He has appeared several times on various issues before Parliamentary and Senate committees in Canada. Prior to his legal career, he was a professional clarinetist performing in Canada, the United States and Europe, and frequently for the Canadian Broadcasting Corporation. Howard maintains a widely read blog on copyright law at [www.excesscopyright.blogspot.com](http://www.excesscopyright.blogspot.com) and is often quoted in Canadian and foreign media.



## NAFTA Intellectual Property Talks Should Be Wary of Big Data Impacts

Expanding intellectual property protection may stifle innovation and harm the public interest

Teresa Scassa

**A**s we move into the era of big data and pervasive algorithms that exert growing influence over our lives, ownership of data and associated algorithms takes on great importance for consumers, whose rights are at stake, and for businesses, whose futures are at stake.

Data has become essential to the business models of a broad range of businesses, both digital and analog. At the same time, data is the fuel of science, research and innovation, and it is crucial to the transparency of both government and corporate activity. In this context, while there are strong interests in controlling access to and use of commercial data, there are also strong public interest arguments for ensuring access to a broad range of data for the common good.

Our current intellectual property (IP) regimes do not provide for ownership rights in data — and for good reason. Nevertheless, it is quite common in contracts, licences or terms of service for companies (or government actors) to assert ownership rights in data. Such statements overreach, but they allude to a web of law that provides different types of protection for data.

Both software and compilations of data can be protected in the North American Free Trade Agreement (NAFTA) countries under copyright law, although the protection available for compilations of data is thin, and the subsistence of such rights and their scope is a matter of case-by-case assessment.<sup>1</sup> Algorithms may be protectable by either copyright law or patent law. In many cases, both algorithms and data are protected as trade secrets or confidential information. Contract law is also commonly used to govern relationships around

<sup>1</sup> See Teresa Scassa, "Copyright Reform and Fact-Based Works" in Michael Geist, ed, *From "Radical Extremism" to "Balanced Copyright": Canadian Copyright and the Digital Agenda* (Toronto: Irwin Law, 2010) 571.

data and algorithms, including rights of access and use. Companies operating in the big data environment rely on a combination of different types of protection for their data.

In Europe, discussion has arisen around the creation of a new data ownership right,<sup>2</sup> although to date there are no concrete plans for such a right and the obstacles it presents may leave it permanently at the idea stage. Not only is “data” a difficult concept to define for the purpose of establishing a new ownership right, but attributing ownership would also be challenging. This is because it may be difficult to identify all those who play a role in the coming into being of any given data set. There will inevitably be conflicts with data protection law as well. In addition, creating new property rights in data would require serious consideration of both the adverse impacts on innovation such a right might have and of the users’ rights that will be necessary to ensure the protection of the public interest in access to and use of data. Given the rapidly changing data environment, it is also probably highly premature to consider a data ownership right. Doing so could very well create uncertainty, increase transaction costs and adversely impact both innovation and the broader public interest.

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Those interested in rights — both in data itself and to access and use data — should also pay attention to the broader IP discussions in the NAFTA negotiations.

In North America, there has been little or no public discussion of a specific data ownership right, and it is unlikely that such a concept would (or should) arise in the context of new NAFTA negotiations. However, this does not mean that the negotiations will not address IP issues relevant to the evolving big data environment. For example, trade secret protection has become an important means of protecting both data and algorithms. In the United States, the recent passage of the Defend Trade Secrets Act of 2016<sup>3</sup> reflects the growing US interest in creating a more robust national framework for the protection of trade secrets, in particular against hacking and industrial espionage. The United States may well be interested

in pushing its NAFTA partners to take similar steps in their domestic law, and signalled this week when it released negotiating objectives<sup>4</sup> that its negotiators will be pushing for tougher IP provisions.

For Canada, committing to enhanced trade secret protection will present interesting constitutional challenges. Trade secrets are currently protected under a web of legal principles that fall under provincial jurisdiction, including tort law, contract law and equity. The new US law does not depart significantly from the basic principles in this body of Canadian law, but it does provide considerably more structure for the protection of trade secrets. It creates a federal right of action for breach of trade secrets, enhances the protection of trade secrets that are the subject of litigation and provides recourse for anyone who suffers damage from the wrongful seizure of materials in the course of such litigation. The statute also contains protection for whistle-blowers. It is not clear whether the Canadian government could overcome the jurisdictional issues around enacting similar legislation without significant cooperation from the provinces.

Those interested in rights — both in data itself and to access and use data — should also pay attention to the broader IP discussions in the NAFTA negotiations. As noted earlier, both patent and copyright law have roles to play in protecting aspects of the big data economy, including algorithms and compilations of data. Where IP issues have been on the table in international trade negotiations, this has reliably meant one thing: pressure to increase levels of protection (rather than to provide new exceptions or users’ rights). In the trade treaty context, issues of the nature and scope of protection as well as the extent and scope of users’ rights in copyright law are typically addressed from the perspective of rights holders in content industries (film, music and so on). Yet enhanced protection will have spillover effects into data-dependent industries, which may not be necessary or desirable. For example, while content industries might consider increased protection for technological protection measures<sup>5</sup> — or “digital locks” — to be essential in the fight against unauthorized copying, the same protection, when applied to compilations of data, could have the effect of overriding the basic copyright principle that data is in the public domain. The 2012 digital locks amendments to the Canadian Copyright Act<sup>6</sup> are already receiving

2 International Data Corporation, “European Data Market: SMART 2013/0063, D8 – Second Interim Report” (9 June 2016) at 146ff, online: <[www.datalandscape.eu/study-reports](http://www.datalandscape.eu/study-reports)>.

3 Pub L No 114–153, 130 Stat 376 (codified at 18 USC § 1836).

4 Office of the United States Trade Representative (USTR), “Summary of Objectives for the NAFTA Renegotiation” (17 July 2017), online: <<https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAOjectives.pdf>>.

5 See *Copyright Act*, RSC 1985, c C-42, s 41.

6 *Ibid.*

an expansive interpretation<sup>7</sup> that risks overriding the public interest in some cases. If the NAFTA negotiations pursue a further strengthening of rights without exceptions that will ensure access to and use of data where appropriate, this will have undesirable impacts on innovation and will have important negative effects on the broader public interest.

## About the Author

Teresa Scassa is the Canada Research Chair in Information Law at the University of Ottawa, where she is also a professor at the Faculty of Law, and a member of the Centre for Law, Technology and Society. She is the author or co-author of several books on intellectual property and technology law, including *Canadian Trademark Law*, 2nd edition (Lexis/Nexis 2015) and *Electronic Commerce and Internet Law in Canada*, 2nd edition (Wolters Kluwer 2012). Teresa is a member of Geothink, the Canadian Geospatial and Open Data Research Partnership, and has written widely in the areas of intellectual property law, law and technology, privacy and open government.

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<sup>7</sup> *Trader Corp v CarGurus Inc*, 2017 ONSC 1841.





## Six Inconvenient Truths about NAFTA Renegotiations

Any give by Canada on patents will be costly not only to its health-care system, but also to its innovators

Jean-Frédéric Morin and  
E. Richard Gold

The renegotiation of the North American Free Trade Agreement's (NAFTA's) standards on patents is not good news for Canada. Any give by Canada will be costly not only to our health-care system, but also to Canadian innovators.

This grim prospect is not apparent in policy makers' reassuring declarations. The United States Trade Representative Robert Lighthizer talks about "modernizing" rules negotiated 25 years ago, when "digital trade was in its infancy."<sup>1</sup> Canadian Minister of Foreign Affairs Chrystia Freeland officially welcomes the US initiative as an opportunity to "best align NAFTA

to new realities."<sup>2</sup> Like her American counterpart, she calls for a "modernized NAFTA."<sup>3</sup> Framed this way, the renegotiation of NAFTA patent provisions might sound like a mere update. And who is against updates?

However, there are structural realities that explain why Canada will be the loser on any patent concessions made through a revision to NAFTA. These are inconvenient truths, things that Canadians find unpleasant to remember. It is, nevertheless, necessary for Canadian negotiators to acknowledge these truths in order to limit the damage of a renegotiated NAFTA driven by the interests of the United States, which

1 Letter from Robert Lighthizer, United States Trade Representative (USTR) (18 May 2017), online: <<http://infojustice.org/wp-content/uploads/2017/05/lighthizer05182017.pdf>>.

2 Global Affairs Canada (GAC), "Statement by Foreign Affairs Minister on NAFTA" (Ottawa: GAC, 18 May 2017), online: <[www.canada.ca/en/global-affairs/news/2017/05/statement\\_by\\_foreignaffairsministeronnafta.html](http://www.canada.ca/en/global-affairs/news/2017/05/statement_by_foreignaffairsministeronnafta.html)>.

3 GAC, News Release, "Government welcomes Canadians' views on NAFTA" (3 June 2017), online: <[www.canada.ca/en/global-affairs/news/2017/06/government\\_welcomescanadiansviewsonnafta.html](http://www.canada.ca/en/global-affairs/news/2017/06/government_welcomescanadiansviewsonnafta.html)>.

has just released negotiating objectives<sup>4</sup> that include a 10-point plan for intellectual property.

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There are structural realities that explain why Canada will be the loser on any patent concessions made through a revision to NAFTA.

The first inconvenient truth is that, despite having firms with innovative ideas, Canada has a weak innovation ecosystem, leading our firms to do less well than our competitors, even taking into account our smaller economy. This is not for a lack of trying. Canada has roughly the same number of researchers per capita as the United States and spends more on public research and development<sup>5</sup> (R&D) as a percentage of its GDP than does the United States. But these efforts have not paid off in terms of the export of knowledge-based products and services. Canadians obtain globally far fewer patents per capita<sup>6</sup> and export fewer high-tech goods<sup>7</sup> as a percentage of total exports than the United States, or most Organisation for Economic Co-operation and Development countries for that matter. While the United States, Japan, the United Kingdom, Germany and France receive more than they pay in licensing fees and royalties, Canada has a negative balance in charges<sup>8</sup> for the use of intellectual property. Simply put, Canada is a net knowledge importer. Although Canada might like to become a knowledge economy, as suggested by the federal government's push for an innovation strategy, statistics demonstrate that it is not yet one. In the world of patent politics, Canada belongs more appropriately to the category of emerging countries than of high-income countries.

Second, Canada cannot become more innovative simply by imitating the United States' laws and policies; in fact, the opposite is true. Innovations emerge from a complex ecosystem. This ecosystem is constructed through the interaction of several interconnected elements, not simply intellectual property. These

include university research, social norms, immigration policies, venture capital, business culture, redistribution policies and public infrastructure. Because each ecosystem is unique, laws and policies that have positive effects on innovation in one country might be counterproductive in another. For this reason, Canadian patent laws should be tailored to the specificities of the Canadian economy. Transplanting US patent laws in Canada could actually destabilize the Canadian innovation ecosystem.

Third, several Canadian innovators care more about having a strong and fair patent protection system in the United States than in Canada. The Canadian market is too small on its own to provide much incentive to invest in R&D. Canadian firms file almost three times as many patents<sup>9</sup> in the United States as they do in Canada, because they know that US patents drive their business, not Canadian patents. In fact, Canadian patents — in particular the 87 percent held by foreigners<sup>10</sup> — can decrease their freedom to operate.

Fourth, despite the points made above, Canadian patent law is already very generous, perhaps even too much so, for patent holders. Canadian standards for patentability — utility, non-obviousness, disclosure and enablement — are lower than in the United States, and Canada allows patents on more things. Also, Canada does not have jury trials that favour nationals over foreigners. While there are still some specific aspects of Canadian patent law that are less generous than the US law (for example, period of data exclusivity for biologics of eight years versus 12, and period of patent term extension of two years versus five), Canadian patent law remains above world norms.

This leads to the fifth hard truth: the United States will certainly push Canada to accept patent standards that are not in Canada's best interest. As US firms own nearly four times more Canadian patents<sup>11</sup> than Canadian firms do themselves, the United States has a clear interest in having Canadian patent laws be more patent-holder friendly. Each trade negotiation is another opportunity for the United States to export its desires in Canada. At the end of the 1980s, at the time of the negotiations of the Canada–United States Free Trade Agreement, the Reagan administration successfully used access to the large American market to pressure the Canadian government to extend patent protection to pharmaceutical products and restricted the possibilities for the government to provide licences to generic manufacturers. Later, with

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4 Office of the USTR, "Summary of Objectives for the NAFTA Renegotiation" (17 July 2017), online: <<https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf>>.

5 World Bank DataBank, "World Development Indicators", online: <<http://databank.worldbank.org/data/home.aspx>>.

6 World Intellectual Property Organization (WIPO), "WIPO IP Statistics Data Center", online: <[www3.wipo.int/ipstats/index.htm](http://www3.wipo.int/ipstats/index.htm)>.

7 World Bank DataBank, *supra* note 5.

8 *Ibid.*

9 WIPO, *supra* note 6.

10 *Ibid.*

11 *Ibid.*

NAFTA, the United States made sure that Canada could no longer provide a more favourable treatment for pharmaceutical inventions and generic products made in Canada. This time, one could expect that the United States will ask for a 12-year data exclusivity for biologics and a five-year patent term extension to compensate patent holders for regulatory delays. These rules would not serve Canadian interests.

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As US firms own nearly four times more Canadian patents than Canadians do themselves, the United States has a clear interest in having Canadian patent laws be more patent-holder friendly.

Last, the Canadian innovation ecosystem has benefited tremendously from NAFTA. Although NAFTA patent provisions, in themselves, did not lead to increased innovation, the Canadian innovation ecosystem as a whole benefited from a freer access to the US market. In fact, trade liberalization and investment in Canada arguably did more to create a fertile environment for Canadian innovation than any other public policy. Acceding to previous US requests regarding patent protection was a fair price to pay for this liberalization. However, Canada never had to make concessions to keep or sustain its access to the US economy. In the past, it was not the fear of losing an advantage but the prospect of gaining new ones that motivated Canadian patent concessions. This time, it is unclear what Canada could gain.

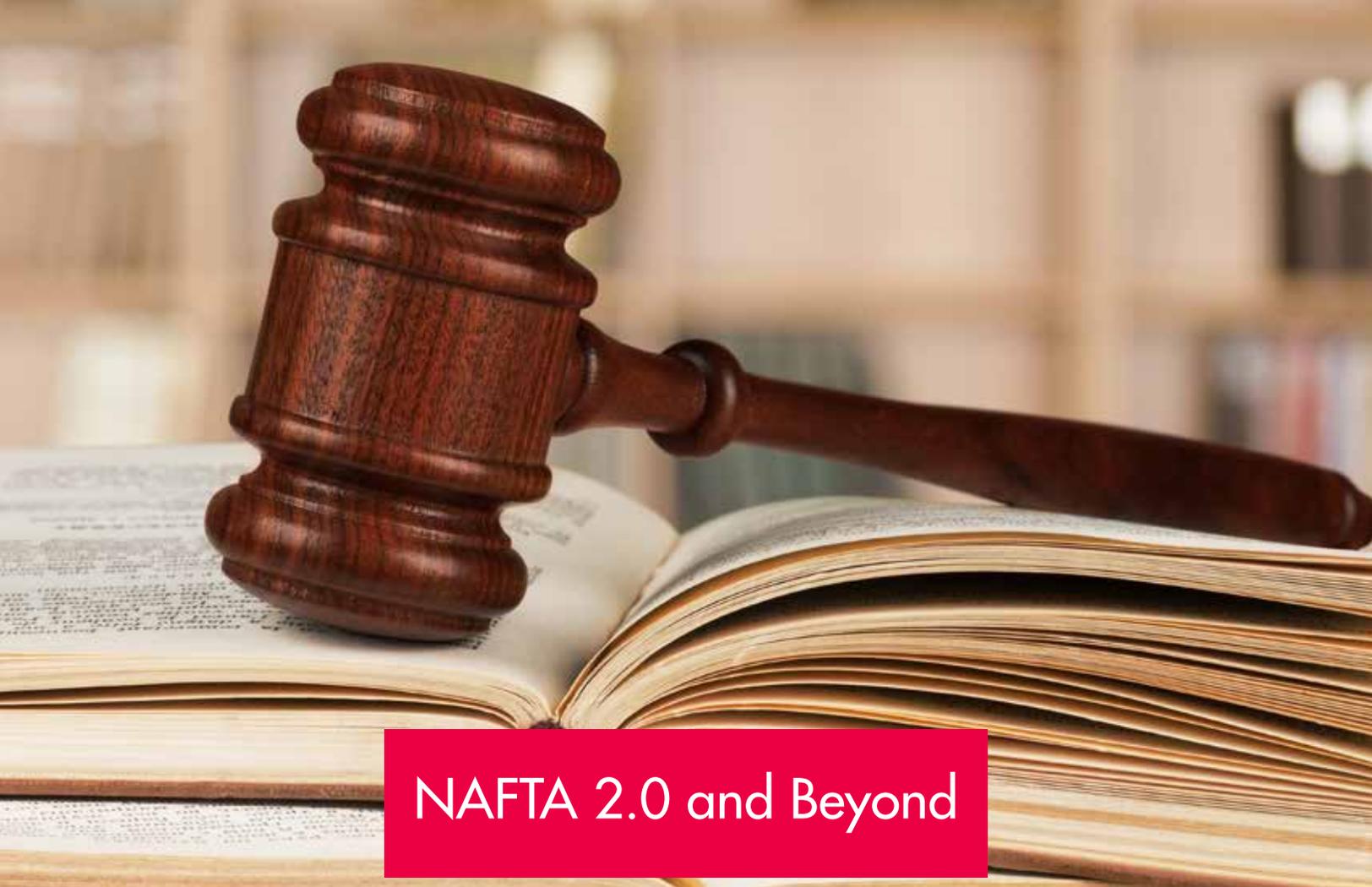
For a revised NAFTA to create favourable conditions for innovation, it would have to address policies other than intellectual property. The renegotiation of Chapter 11 on investment and Chapter 16 on mobility could be undertaken with innovation objectives in mind. Canada could also propose new chapters on issue areas that were not properly addressed in the original 1992 agreement, such as joint public research policy, cooperation on military and defence research, incentives for university collaboration and e-commerce. Otherwise, merely “updating” NAFTA to the level of patent protection found in more recent US trade agreements would be a net loss for Canada.

## About the Authors

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E. Richard Gold is a senior fellow with CIGI’s International Law Research Program. He is also a James McGill Professor at McGill University’s Faculty of Law and was the founding director of the Centre for Intellectual Property Policy. As a McGill professor, Richard teaches intellectual property, international intellectual property, comparative intellectual property and innovation policy with a research focus on the life sciences. Over the years, Richard has provided advice to Health Canada, Industry Canada, the Canadian Biotechnology Advisory Committee, the Ontario Ministry of Health and Long-Term Care, the Organisation for Economic Co-operation and Development, the World Health Organization, the World Intellectual Property Organization and Unitaid. Richard’s research has been published in high-impact journals in science, law, philosophy and international relations. Richard has a bachelor of science from McGill University, an LL.B. (honours) from the University of Toronto, and an S.J.D. and LL.M. from the University of Michigan Law School.





# NAFTA 2.0 and Beyond

## Levelling the Patent Playing Field

E. Richard Gold

The United States has been the main driver of intellectual property (IP) protection in international trade agreements since the 1980s. It has set up a dynamic in which the United States makes demands of the IP laws of other countries, with those other countries resisting to the extent they can. But this dynamic overlooks a serious flaw: it does not address either discrimination or lack of reciprocity in the US patent system. This essay outlines some of the ways in which the US patent system discriminates against foreign firms and suggests ways for Canada, both within and outside the North American Free Trade Agreement (NAFTA), to address these.

While not a full elaboration of the strategies that Canada could pursue in the NAFTA renegotiations, the basic premises and strategies presented here are meant to prompt discussion and open pathways for ensuring that Canadian innovators are treated as fairly in the United States as US innovators are in Canada. Canada could take the opportunity of NAFTA 2.0 to level the playing field for Canadian innovators entering the US market.

While the United States positions itself as having the best or strongest patent system for innovators, it is not as open or as fair as it portrays itself. The substance of US patent law is well developed and generally well balanced, but parochial exceptions and unbalanced procedures relating to the enforcement and defence against a claim of patent infringement are not. As will be elaborated below, these include the combination of jury trials that studies suggest are biased against

foreigners,<sup>1</sup> significant inequalities in which foreign innovators can sue and be sued for infringement,<sup>2</sup> separate procedures for the importation of products subject to patents that studies show are biased against foreigners,<sup>3</sup> and sovereign immunity at both the federal<sup>4</sup> and state<sup>5</sup> levels. Together, these rules discriminate against foreign patent holders and defendants in the US patent system.

The United States starts the NAFTA renegotiation with the explicit goal of “prevent[ing] or eliminate[ing] discrimination with respect to matters affecting the availability, acquisition, scope, maintenance, use, and enforcement of intellectual property rights.”<sup>6</sup> Canada and its negotiators ought to require the United States to live up to this standard by eliminating, where possible, and otherwise containing the sources of unfairness to Canadians and other foreigners in the US patent system.

## Background

Starting on August 16, 2017, the governments of Canada, Mexico and the United States will review and likely revise NAFTA. Originally negotiated in the early 1990s, the agreement came into force on January 1, 1994. Its patent and other IP provisions borrowed from then-circulating drafts of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) under the World Trade Organization (WTO), and its language is largely the same.

Since 1994, the international landscape for patent law has changed significantly. Some of these changes have been environmental, such as the distrust of

pharmaceutical company practices that seem to limit availability of essential medicines in developing countries, a decrease in the affordability of medicines in developed countries and a decreasing faith in the information that these pharmaceutical firms promulgate, exacerbated by a number of publicly reported scandals over the last decade.<sup>7</sup> The political landscape has similarly evolved, to one in which states look less to multilateral fora, such as the WTO and World Intellectual Property Organization (WIPO), to set patent policy. Instead, countries have moved to bilateral and plurilateral negotiations to set IP standards.

For Canada, the most significant of these plurilateral arrangements are the Comprehensive Economic and Trade Agreement (CETA) between the European Union and Canada, and the adjourned Trans-Pacific Partnership (TPP) Agreement. Legislation implementing CETA in Canada received royal assent in May 2017, although neither the legislation nor any implementing regulations have yet come into force. On the other hand, while the United States has withdrawn from the TPP, it may nevertheless attempt to impose that agreement's IP provisions in NAFTA 2.0. The United States Trade Representative's (USTR's) Summary of Objectives for the NAFTA Renegotiation<sup>8</sup> suggest this may be the case, although its objectives remain vague.

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While the United States positions itself as having the best or strongest patent system for innovators, it is not as open or as fair as it portrays itself.

While imposing significant reform on Canada's copyright regime, the TPP did not add any new obligation on Canada regarding patents beyond the two, admittedly significant, changes already accepted under CETA. Under the latter, Canada will, first, provide up to two years of supplementary protection to pharmaceutical patents due to delays in excess of five years between patent filing and market approval. In practice, this will almost always occur. Second, Canada is implementing changes to its Patented Medicines (Notice of Compliance) regulations to turn what are currently summary proceedings dealing narrowly with market approval into full trials on patent validity and infringement that can be fully appealed. Under

1 Kimberly A Moore, “Xenophobia in American Courts” (2003) 97 Nw UL Rev 1497 [Moore, “Xenophobia”]; Kimberly A Moore, “Populism and Patents” (2007) 82 NYUL Rev 69. Cf Paul M Janicke & LiLan Ren, “Who Wins Patent Infringement Cases?” (2006) 34 AIPLA QJ 1 [Janicke & Ren, “Who Wins?”]; John R Allison, Mark A Lemley & David L Schwartz, “Understanding the Realities of Modern Patent Litigation” (2014) 92 Tex L Rev 1769 [Allison, Lemley & Schwartz, “Realities of Modern Patent Litigation”].

2 The US Supreme Court decision in *TC Heartland LLC v Kraft Foods Group Brands LLC* (2017) has a particularly limiting effect on foreign patent holders.

3 Robert W Hahn & Hal J Singer, “Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions” (2008) 21:2 Harv JL & Tech 457 [Hahn & Singer, “Assessing Bias”].

4 Richard J McNeely, “Governmental Indirect Patent Infringement: The Need to Hold Uncle Sam Accountable under 28 U.S.C. § 1498” (2008) 36 Capital UL Rev 1066; Lavanya S Ratnam, *An Empirical Examination of the Adjudication and Settlement of Patent Infringement Lawsuits in the United States Court of Federal Claims* (Master's thesis, Harvard Extension School, 2015).

5 *Florida Prepaid Postsecondary Education Expense Board v College Savings Bank*, 527 US 627 (1999).

6 Office of the USTR, “Summary of Objectives for the NAFTA Renegotiation” (17 July 2017) [USTR, “Objectives”], at 9, online: <<https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAOjectives.pdf>>.

7 See e.g. Harlan M Krumholtz & Harold H Jines Jr, “What have we learnt from Vioxx?” (2007) 334:120 Brit Med J; Natasha Singer, “Medical Papers by Ghostwriters Pushed Therapy”, *The New York Times* (4 August 2009).

8 USTR, “Objectives,” *supra* note 6 at 9.

the modifications, pharmaceutical patent holders will benefit from a two-year automatic stay on the issuance of market approval to generics, but the stay will not be extended to appeal should the patent holder lose. There is currently no evidence to suggest that, with careful case management, two years is insufficient to complete these trials.

It is within this landscape that Canada will enter into the upcoming NAFTA 2.0 negotiations. While the focus here is on patent law, there are obviously other issues that will critically affect Canada's ability to develop and implement a forward-looking innovation strategy. These include not only copyright and trademark, but investor-state dispute resolution (NAFTA has an outdated mechanism that has been improved, if imperfectly, in CETA), regulatory data protection for biologics, immigration, infrastructure investments and procurement rules.

The USTR's Summary of Objectives sets a general goal of "ensur[ing] provisions governing intellectual property rights reflect a standard of protection similar to that found in U.S. law."<sup>9</sup> Given the commonly held assumption that the United States provides more patent-holder friendly laws than do other countries, one may think this would require additional concessions by Canada. Certainly, the US pharmaceutical lobby group, PhRMA, is pushing for additional changes to Canadian patent law,<sup>10</sup> although these are vaguely stated and seem to go well beyond what the United States accepted under the TPP.

Canadian patent law is, in fact, friendlier to US patent holders than US patent law is to Canadians.<sup>11</sup> In light of this, there is little justification for additional concessions by Canada in NAFTA 2.0. On the other hand, there is much the United States ought to do to level the playing field for Canadian innovators.

## Discrimination and Lack of Reciprocity in the US Patent System

Rather than acquiesce to a US narrative about its patent law superiority, it is worth reviewing both areas in which US law overtly or implicitly discriminates against foreign firms or where the United States does not reciprocate advantages offered in other countries. As Canada is one of the NAFTA parties, the focus of this article is on the effects on Canadian firms, although there are some obvious implications for other foreign firms.

The literature suggests that, because of fears of jury bias, foreign patent holders are less likely to sue in the United States than are domestic patent holders; when they do, they put forward only their strongest patents.<sup>12</sup> While jury bias is a serious problem, it is made worse by venue rules that limit actions to the jurisdiction in which the infringer is either incorporated or "has committed acts of infringement and has a regular and established place of business."<sup>13</sup> The combination of limited venue choices and jury trials gives US domestic infringers a clear — and discriminatory — home court advantage. On the other hand, US patent holders can sue Canadian firms for infringement in any jurisdiction, allowing the patent holders to select venues they believe to be the most friendly to them (and biased against alleged infringers).<sup>14</sup>

Foreign importers face additional hurdles, due to practices at the International Trade Commission (ITC), that domestic firms producing in the United States do not face. An independent study found that the ITC is more likely to rule both procedurally and substantively against imported goods than are the Federal Courts that rule on domestic cases of infringement.<sup>15</sup> Other

<sup>9</sup> *Ibid.*

<sup>10</sup> Letter from Jay T Taylor, Pharmaceutical Research and Manufacturers of America, to Edward Gresser, Chair of the Trade Policy Staff Committee, USTR (12 June 2017), online: <<http://phrma-docs.phrma.org/files/dmfile/PhRMA-Comments-on-Negotiating-Objectives-for-Modernization-of-NAFTA-June-2017.pdf>>.

<sup>11</sup> Jean-Frédéric Morin & Richard Gold, "Six Inconvenient Truths about NAFTA Renegotiations" CIGI, CIGI opinion, 18 July 2017, online: <[www.cigionline.org/articles/six-inconvenient-truths-about-nafta-renegotiations](http://www.cigionline.org/articles/six-inconvenient-truths-about-nafta-renegotiations)>.

<sup>12</sup> Moore, "Xenophobia", *supra* note 1 at 1505. Not all studies found a similar outcome, notably Allison, Lemley and Schwartz, "Realities of Modern Patent Litigation" (*supra* note 1), and Janicke and Ren, "Who Wins?" (*supra* note 1). Allison, Lemley and Schwartz focused on inventorship, not ownership of the patent, assuming that inventors and assignees reside in the same country. This assumption seems doubtful, at least in the case of Canada. See Joe Castaldo, "Why does Canada give away its best ideas in AI?", *Maclean's*, 13 April 2017: "Out of the 100 or so patents related to machine learning that have been developed in Canada over the past 10 years, more than half have ended up in the hands of foreign companies." Janicke and Ren found that foreign firms — as both defendants and patent holders — did slightly better than did domestic firms, but that Canadian patentees did worse than those of any other country ("Who Wins?" at 23). The authors suggest that their results may arise because foreign patent holders are less likely to fully engage the US patent system: "It is possible that foreign entities are less sanguine about the benefits of 'hanging in' rather than reaching settlement accords" (*ibid* at 24).

<sup>13</sup> 28 USC § 1400(b).

<sup>14</sup> *Judiciary and Judicial Procedure*, 28 USC § 1391(c)(3) (1948).

<sup>15</sup> Hahn & Singer, "Assessing Bias", *supra* note 3.

countries do not have similar tribunals limited to imports, suggesting that the ITC is both discriminatory in practice and that its jurisdiction over patents shows a lack of reciprocity. The result is that Canadian and other goods producers outside of the United States face a different and higher burden than do domestic US firms.

Two sources of unfairness derive from the US Constitution: jury trials and sovereign immunity. While it is obviously not possible to abrogate those rules, both can be managed so as to lead to fairer results for Canadian (and other foreign) entities.

For example, the worst forms of jury bias (and hence discrimination) can be mitigated not only by process rules, but by enabling Canadian and other foreign firms to have greater flexibility in terms of venue. Sovereign immunity can be overcome by the passage of laws, at the federal and state levels, that subject those governments to full patent liability, adjudicated through the same process as applies to any defendant. This would restore reciprocity between the United States and Canada, as the latter is already subject to the full force of patent law. Alternatively, Canada could consider setting up separate administrative procedures to obtain redress for patent infringement by governments and their contractors in the same manner as the US federal government.

## Strategies to Level the Playing Field

There are six steps that Canada can take to help innovators. Some of these require changes to NAFTA, while others can be implemented by Canada alone (provided that nothing in the revised NAFTA prohibits it). Canadian negotiators can thus be proactive in seeking redress for Canadian firms in the US patent process, as well as protecting existing flexibilities to equalize the playing field. Collectively, the strategies aim to assist Canadian innovators — most of which are small and medium-sized enterprises — to scale up to US markets.

The recommendations are ordered into three categories: those that ought to be incorporated in the NAFTA text; those that could be implemented by Canada unilaterally, provided that nothing is added to NAFTA that would limit Canada's flexibility; and some long-term strategic options that need development but could produce benefits to Canadian firms in the longer term.

## Recommendations for the NAFTA Text

The first recommendation is the simplest. Following a recent Supreme Court of Canada decision that significantly altered and lessened Canada's patent utility requirement,<sup>16</sup> Canada ought to adopt the US utility standard of requiring inventions to have a "specific, substantial and credible utility."<sup>17</sup> It should do so through specific language in NAFTA to make it clear that this change in utility rules — and their subsequent judicial development — complies with NAFTA 2.0. The Australia-US Free Trade Agreement<sup>18</sup> accomplishes this through the following language: "Each Party shall provide that a claimed invention is useful if it has a specific, substantial, and credible utility." Despite this provision, Australia maintains different rules than does the United States to determine an invention's utility. For example, the explanatory memorandum to the law implementing that agreement stated: "Broadly speaking the claimed invention must actually achieve what is promised by the patentee."<sup>19</sup> In a run-up to negotiations for a free trade agreement with the United States, New Zealand also adopted the specific, substantial and credible utility standard.

Given the Australian and New Zealand experiences, the United States would presumably be pleased if Canada were to follow their lead. Adoption of the more forceful US utility standard would permit Canadian courts to return to a state of balance that would assist our innovators. In particular, doing so would dispose of the troublesome "scintilla" standard in Canadian patent law that allows any use, no matter how insignificant, to be enough. The scintilla standard threatens to clog up the Canadian patent system in a way that obstructs Canadian innovators from bringing their products to market. Instead, the US specific, substantial and credible standard will constrain the issuance of low-quality patents.

A second recommendation to be implemented through NAFTA is, as noted above, to address jury bias against foreign firms. This direct form of discrimination against foreign firms needs immediate redress. Jury trials are constitutionally mandated in the United States and

<sup>16</sup> *AstraZeneca Canada Inc v Apotex Inc*, 2017 SCC 36.

<sup>17</sup> United States Patent and Trademark Office, *Manual of Patent Examining Procedure*, "Guidelines for Examination of Applications for Compliance with the Utility Requirement", R-11.2013 § 2107.

<sup>18</sup> *Free Trade Agreement Between Australia and the United States*, 18 May 2004 (entered into force 1 January 2005), at art 17.9(13), online: <[https://ustr.gov/sites/default/files/uploads/agreements/fta/australia/asset\\_upload\\_file148\\_5168.pdf](https://ustr.gov/sites/default/files/uploads/agreements/fta/australia/asset_upload_file148_5168.pdf)>.

<sup>19</sup> Ausl, Minister for Innovation, Industry, Science and Research, "Explanatory Memorandum to *Intellectual Property Laws Amendment (Raising the Bar)* Bill 2011 [2010-2011]", at 43-44.

thus cannot be eliminated. The Canadian strategy therefore ought to focus on limiting the potential for bias by building in procedural mechanisms that would allow Canadian (and other foreign) firms to engage on a more level playing field. One strategy would be to allow Canadian innovators to sue in any district; that is, giving those innovators the same rights that US patent holders have against them. Alternatively, the United States could agree to change its venue rules in 28 USC § 1391(c)(3) to limit the jurisdictions in which alleged Canadian patent infringers could be sued. This would not overcome the jury bias problem for innovators, and so would be a second-best solution. Without some change in venue rules, Canadian innovators will continue to face discrimination and not be able to forcefully protect their market shares in the United States.

Third, ideally, the United States should agree to eliminate the ITC's jurisdiction over IP infringement in 19 USC § 1391(a)(1)(B), returning all patent-related matters to the Federal Courts. The existence of a separate procedure for patent infringement opens the door to the type of documented bias and, thus, discrimination noted earlier. Eliminating the ITC's jurisdiction will bring the United States back in line with international standards and will address the bias of the ITC. Realistically, the United States is not going to agree to this request, but its persistence with a procedure that is both discriminatory and has no counterpart elsewhere in the world should give US negotiators pause before requiring Canada to make any changes. If pointing out this form of discrimination and lack of reciprocity does nothing else than protect the existing interests of Canadian innovators, this will be of some benefit.

### Recommendations for Unilateral Canadian Action

The next category of recommendation — in which Canada can implement changes alone, provided that the revised NAFTA does not remove an existing flexibility — contains only one recommendation: that Canada ought to align the fees it charges patent applicants and holders with those in the United States.<sup>20</sup> One justification for an increase in fees is to fund the Canadian Intellectual Property Office (CIPO) so that it can take on a significantly greater role in supporting education and providing assistance to Canadian innovators to develop an international (rather than simply Canadian) IP strategy. CIPO could use the extra revenue not only to fund educational

programs, but to offer vouchers to Canadian innovators to develop and implement global patent strategies. Doing so would maintain its revenue-neutral funding practices, ensuring compliance with international best practice. At the same time as it raises fees, Canada ought to preserve, or even deepen, the small to medium enterprise discount — something that is common across the world — so that innovators can better participate in the patent system.

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In order to preserve procedural fairness, both Canada and the United States would maintain independence in terms of any litigation or administrative processes concerning an issued patent.

### Recommendations for Long-term Strategic Change

The last two recommendations are more radical and thus require more development and debate. Nevertheless, they are worth considering now in order to map out future developments that may have an impact on Canada's negotiating stance today.

First in this category is the recommendation that US and Canadian patent law be substantively harmonized, much as the European Patent Convention (EPC) has done in Europe. That is, the standards — subject matter, utility, non-obviousness, novelty, description and enablement — that patent offices use to determine whether to grant a patent ought to be the same. As a consequence, both the United States Patent and Trademark Office (USPTO) and CIPO would be able to issue patents that are effective in both the United States and Canada. This is essentially the function of the European Patent Office in Europe. CIPO should examine and issue patents from Canadians, while the USPTO does the same for US applicants. When one office issues a patent, the other office would simply adopt it, again as is done at the national level in Europe.

In order to preserve procedural fairness, both Canada and the United States would maintain independence in terms of any litigation or administrative processes concerning an issued patent. Again, this mirrors what currently occurs under the EPC, where each country independently determines whether to uphold the patent (based on the common standard set out in the EPC) and whether there has been infringement. While having separate litigation in the 38 countries belonging to the EPC leads to wasted resources and inconsistent

<sup>20</sup> This idea was suggested by Jim Hinton of Bereskin & Parr.

decisions within the European Union's single market (currently involving 28 of the 38 members of the EPC), this is not a major concern in North America. Only two countries are involved (on the assumption that Mexico would be unwilling to undertake the formidable changes required to move from a European-type patent system to an Anglo-American system) and the two markets are not fully integrated.

Substantively harmonizing US and Canadian patent law has many advantages and significant costs. First, in terms of advantages, it builds on and completes the current Patent Prosecution Highway between Canada and the United States that does half the job of examining patents. Adding the other half would greatly reduce costs of obtaining patent protection in both countries. Currently, CIPO awards 87 percent of the patents it grants to foreign (mainly US) firms, while Canadians patent almost three times as much in the United States as in Canada. Having a single patent office grant patents that would be valid in both countries would lead more Canadians to use the Canadian system. (It would also lead more US firms to use the Canadian system, which could be considered a cost, but as Canadian innovators already operate in the United States, likely an acceptable one.) Second, it would free up the time that Canadian patent agents spend on filing the same patent in Canada that was submitted to the USPTO. There is a sense that Canada lacks sufficient patent agents to serve Canadian innovators. By removing one piece of work — that frankly does nothing but increase costs — the liberated patent agents would have more time to serve Canadian clients. Not being able to rest on a stable income from US patentees, they would even need to compete for business with Canadian innovators, reducing costs. Third, harmonizing the two patent systems sets up clear incentives — that currently do not seem to exist — to focus the attention of Canadian innovators, early on, on the US market and on US patent rules. Law schools would teach the common patent law and there would be more experts on US patent law available in Canada to serve Canadian innovators.

Harmonization also comes with costs. There would be significant disruption as patent agents, lawyers and courts adjust to the new rules. Canada would need to phase in the harmonization and invest in significant re-education of patent professionals and judges. While significant, this would be a one-time cost that — although further study is required — should be more than offset by the benefits. A second cost would be to the ability of the Canadian government to alter the substantive content of patent law without agreement from the United States. Given that policy over substantive patent law — as opposed to

procedure — has been set by the courts, rather than by Parliament, this cost also seems acceptable. It does point to the need to maintain Canadian sovereignty over the procedures for challenging patents, defining competition law and what constitutes abuse, and determining when and how the minister of health can allow generics to enter the market.

The United States is likely to welcome the recommendation to harmonize substantive patent law, as doing so would meet its goal of “ensur[ing] provisions governing intellectual property rights reflect a standard of protection similar to that found in U.S. law.”<sup>21</sup> The United States has attempted to pursue harmonization over substantive patent law through WIPO's failed attempts to negotiate a Substantive Patent Law Treaty. American firms would benefit both from lower fees and from the reduction of uncertainty. The United States will likely accept the procedural independence proposed, as it would not be willing to give up its sovereignty over court and other proceedings.

The final recommendation is to allow a faster and less expensive way for each country to accept decisions on points of law determined by judges of the other jurisdiction. Much elaboration is needed here. The idea is that decisions of judges, rather than of juries, would be homologized more easily. While juries tend to be biased against foreigners, there is no such tendency apparent with judges. Recognizing decisions of judges in the other jurisdiction may speed up, and lessen the cost of, enforcing patent rights.

## Conclusion

The US patent system can no longer — if ever it could — be considered the fairest to foreign patent holders. Canada has already done a lot to address the concerns of foreign firms. Whatever remaining complaints US firms may have concerning technical aspects of Canadian patent law, they are less than the uncertainty and fear of bias imposed by a system governed by a jury system. This situation has been made worse by the differential treatment of domestic and foreign patent infringers resulting from the US Supreme Court's recent changes to venue rules.

In ensuring that NAFTA 2.0 provides a level playing field for innovators in Canada and in the United States, the onus is on the United States to provide greater fairness to Canadian innovators. While the United States is constrained by constitutional rules that require the maintenance of jury trials, the federal and state

<sup>21</sup> USTR, “Objectives,” *supra* note 6 at 9.

governments can go a long way to rebalancing the US patent system to be fair to Canadians. As noted, greater flexibility in venue selection, the adoption of laws at the federal and state levels that provide redress through the same courts as adjudicate other patent claims, and addressing the bias of the ITC, would be positive steps toward fairness.

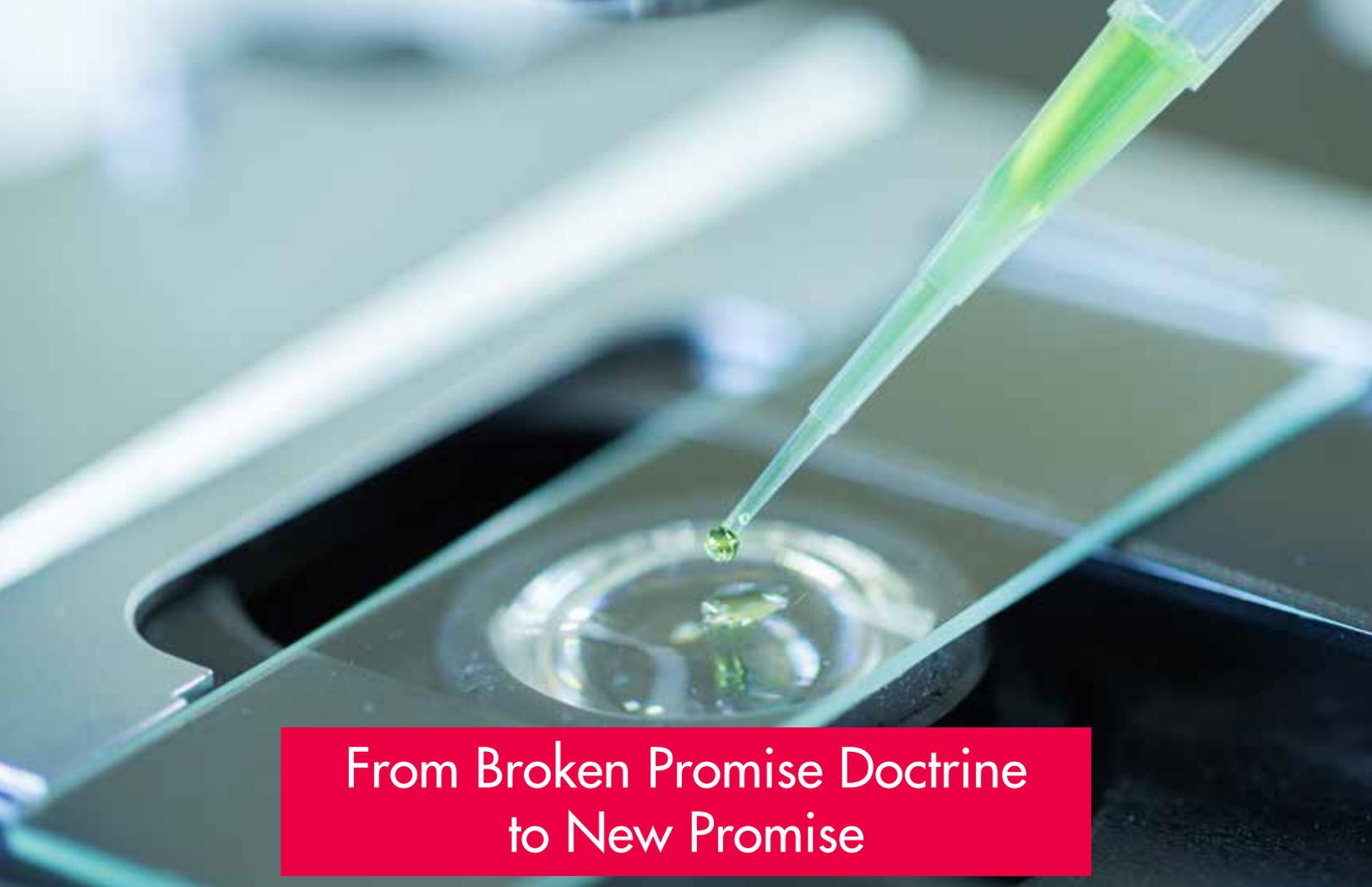
Beyond these fixes to the US system, substantive harmonization, whether in respect of the utility requirement only or all patentability requirements, would provide Canadian innovators with as much protection in the United States as US innovators now have in Canada.

As Canadian negotiators enter the NAFTA renegotiations, they ought to ask the United States to live up to its own principles of eliminating discrimination and ensuring reciprocity.

## About the Author

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## From Broken Promise Doctrine to New Promise

How a Supreme Court ruling defused one of the most explosive topics in the renegotiation of NAFTA

**Andrew W. Torrance**

Canada has long hoped to transform its economy away from natural resources and toward value-added industries, such as computers, software, drugs, biologics and medical devices. In his 1930 book, *The Fur Trade in Canada*, political economist Harold Innis characterized Canadians, with a biblical flourish, as “hewers of wood and drawers of water.” In recent decades, federal and provincial industrial policy has aimed for a shift to coders of software and inventors of pharmaceuticals.

The reasons for this desire are compelling: companies that invent, develop or sell goods or services embodying high intellectual content employ extremely well-educated workforces who earn high salaries, invest in expensive corporate infrastructure — such as state-of-the-art laboratories and production facilities — export high-margin products and sponsor research at universities.

By some measures, Canada is succeeding.

In a research report that my colleague Jevin D. West and I were asked to write last year (*Canadian Inventors of U.S. Patents: An Empirical Study for the Canadian Ministry of Innovation, Science and Economic Development*), we identified two encouraging findings for the biopharmaceutical industry through the lens of US patents. We found that US patents listing at least one Canadian inventor are 13 percent more valuable than the mean US patent, not to mention 16 percent more valuable than those with at least one non-Canadian, non-US inventor. In addition, we discovered that three of the top five categories of patents have at least one Canadian inventor within the area of biopharmaceuticals. In short, Canadian inventors are associated with many particularly valuable drugs and biologics.<sup>1</sup>

<sup>1</sup> Because comparable Canadian patent data is not yet readily available, US patent data was used as a proxy.

Despite Canada's strength in medical innovation, Canadian patent law — a jurisdiction of the federal government — has not been as friendly to biopharmaceutical patents as one might expect. One legal doctrine, in particular, has been the subject of much complaint from companies in this field: the "promise" or "promise of the patent" doctrine. Under this requirement, if a patent applicant makes a statement in the patent specification (the description of the invention for which patent claims are sought) that amounts to a promise of particular usefulness, the applicant is held to that promise and obligated to demonstrate or soundly predict the accomplishment of that particular usefulness. There is nothing objectively unreasonable about this requirement. Holding applicants to their promises could improve the quality of patent disclosures — documents that should be clear and instructive, but are, in fact, often vague and obscure.

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Despite Canada's strength in medical innovation, Canadian patent law — a jurisdiction of the federal government — has not been as friendly to biopharmaceutical patents as one might expect.

One difficulty with maintaining a promise requirement for patents is that Canada's most important trading partner, the United States, does not have such a requirement in its patent laws. This makes it easier, at least in this one doctrinal respect, to obtain patent protection south of the border. The biopharmaceutical industry has been especially opposed to Canada's promise doctrine, a requirement long upheld and elaborated by the Federal Court of Canada and the Federal Court of Appeal.

The promise doctrine is a long-standing irritant in trade relations with the United States. The US drug firm Eli Lilly went so far as to challenge Canadian patent law's promise doctrine under the rules of the North American Free Trade Agreement (NAFTA) for causing some of its important patents to be invalidated, and sought a \$500 million payout from the Canadian government. The company lost at its NAFTA tribunal, which upheld the right of Canadian courts to enforce the promise doctrine. The defeat incensed the US biopharmaceutical lobby, which was marshalling its forces for a battle during NAFTA renegotiations when there was an unexpected turn of events.

With marvellous serendipity, the promise doctrine rose onto the docket of the Supreme Court of Canada just in time for a decision this summer. Unlike its patent-obsessed cousin court in the United States, the Supreme Court of Canada rarely indulges itself in the pleasure of deciding patent cases. On June 30, 2017, it decisively obliterated the promise doctrine in its case *AstraZeneca Canada v Apotex*.<sup>2</sup> While a lower court had characterized the promise of the patent as "the yardstick against which utility is measured,"<sup>3</sup> the Supreme Court held that the Patent Act contains no such requirement. Utility, or usefulness, is mentioned as part of the definition of "invention": "any new and *useful* art, process, machine, manufacture or composition of matter, or any new and *useful* improvement in any art, process, machine, manufacture or composition of matter."<sup>4</sup> Nowhere in the Patent Act did the Supreme Court find any basis for a promise requirement, dismissing it as "unsound [and] an interpretation of the utility requirement that is incongruent with both the words and the scheme of the Patent Act."<sup>5</sup>

Instead, the court simplified the Canadian test for utility, explaining that "ultimately, every invention pertains to a single subject-matter, and any single use of that subject-matter that is demonstrated or soundly predicted by the filing date is sufficient to make an invention useful for the purposes of [section 2]."<sup>6</sup> The Supreme Court contradicted the court below, declaring that "promises are not the yardstick against which utility is to be measured,"<sup>7</sup> and warning that the "Promise Doctrine undermines a key part of the scheme of the [Patent] Act."<sup>8</sup> The Supreme Court killed the promise doctrine, declaring "it is not good law."<sup>9</sup>

The *AstraZeneca Canada v Apotex* decision has implications far wider than those for the parties and patents involved in the case. Demonstrating the utility of claimed inventions should now be less onerous, making more inventions patentable. This may be especially helpful to applicants for patents in the biopharmaceutical arts, because they seldom have much clinical data available at the time patent applications are filed, and instead have to rely on

2 *AstraZeneca Canada Inc v Apotex Inc*, 2017 SCC 36 [*AstraZeneca*].

3 *AstraZeneca Canada Inc v Apotex Inc*, 2014 FC 638 (CanLII) at para 86, online: <<http://canlii.ca/t/g7vcp>>.

4 *Patent Act*, RSC 1985, c P-4, s 2 [emphasis added].

5 *AstraZeneca*, *supra* note 2 at 36.

6 *Ibid* at para 49.

7 *Ibid* at para 63.

8 *Ibid* at para 51.

9 *Ibid*.

educated guesses and animal studies to predict the particular applications of their new medicines. For those who lament the fact that a disproportionate number of valuable Canadian technologies lead to US, but not Canadian, patents, a lowered bar for utility might just lead to more Canadian patents.<sup>10</sup>

The ruling helps defuse what promised to be one of the most explosive issues in the renegotiation of NAFTA. It remains to be seen, however, if the American biopharmaceutical lobby will take yes for an answer, and US trade negotiators may seek to further neutralize the promise doctrine during the talks. They could find, however, that they are pushing on an open door, as the Supreme Court ruling appears to relieve Canadian representatives of much of the burden of defending the doctrine.

The effects of *AstraZeneca Canada v Apotex* may also embolden Eli Lilly and others that have had patents or patent applications invalidated under the promise of the patent doctrine.

One salutary effect might be reinvigoration of the Canadian biopharmaceutical industry, a sector various governments have tried to foster with subsidies and favourable changes to Canadian law, with persistently disappointing results. As noted above, my own research has shown that Canada produces excellent biopharmaceutical inventors, whose inventions routinely outcompete those from other countries. It is high time that this impressive local talent led to an equally impressive local biopharmaceutical industry. Only time will tell whether the promise of developing new medicines in Canada will be realized now that the promise doctrine is no more.

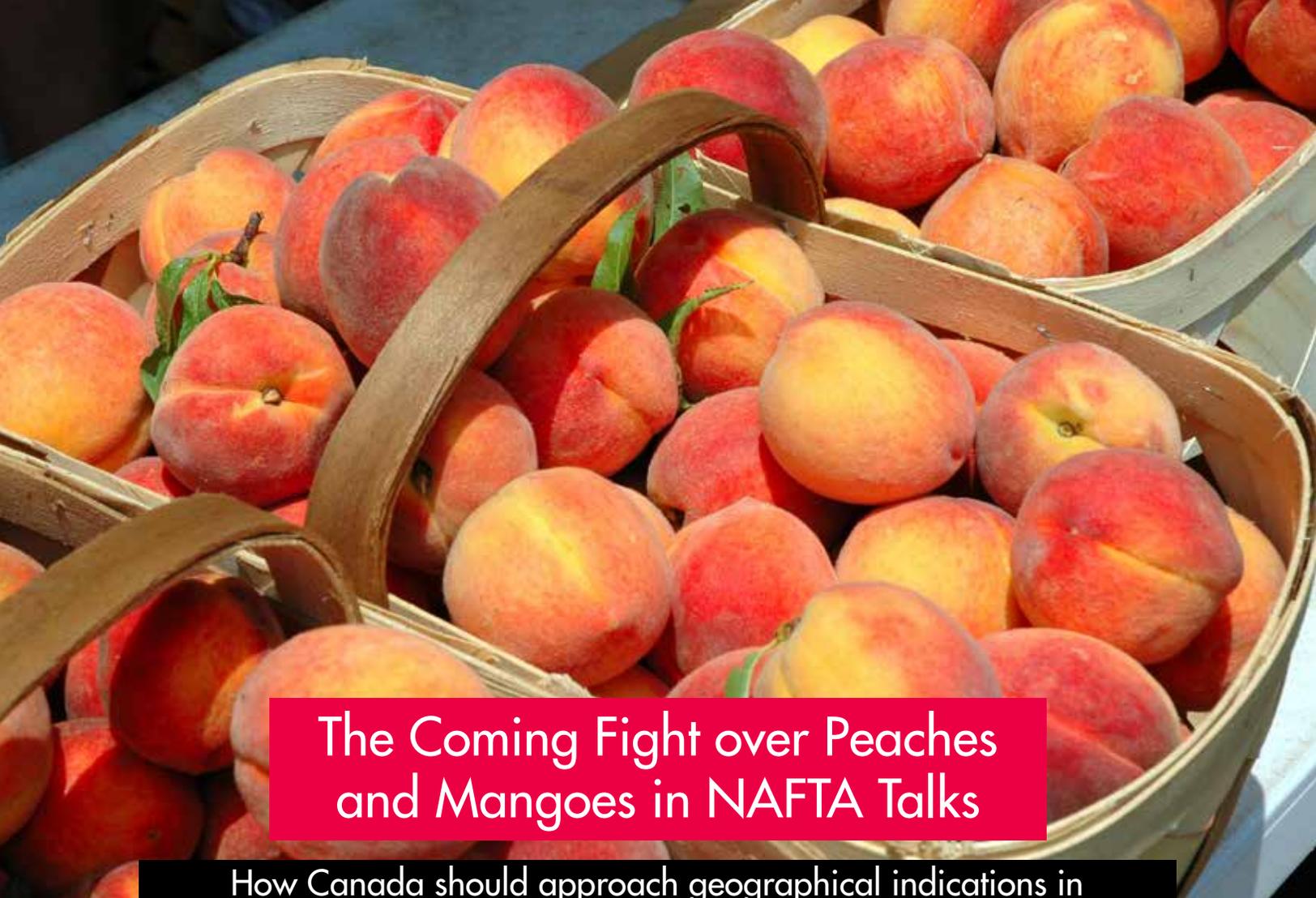
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<sup>10</sup> As some of my previous scholarship suggests, more patents do not necessarily lead to more innovation, and, indeed, may actually harm it. See e.g. A W Torrance & E A von Hippel, "The Right to Innovate" (2013) 793 *MSU L Rev*; and Andrew Torrance, "Set Innovation Free", CIGI Opinions (5 January 2017), online: <[www.cigionline.org/articles/set-innovation-free](http://www.cigionline.org/articles/set-innovation-free)>.





# The Coming Fight over Peaches and Mangoes in NAFTA Talks

How Canada should approach geographical indications in trade negotiations with the United States and Mexico

**Marsha S. Cadogan**

**P**ick up a few Ontario peaches from Canada, some Idaho potatoes from the United States or Ataulfo mangoes from Mexico, and you have just filled your shopping basket with an exclusive selection of products that could be the subject of arduous debate during the renegotiation of the North American Free Trade Agreement (NAFTA) among these three neighbours. The United States recently announced its intention to renegotiate NAFTA, and the protection of geographical indications (GIs) for agricultural products and foodstuffs is one of the more contentious issues that will need to be reconciled among the parties.

GIs are an unconventional form of intellectual property (IP) that elicit very divisive perspectives among major global IP players regarding the scope of protection that

they should be accorded; a renegotiated NAFTA is a key forum for contracting parties to stake their claim for — or against — enhanced recognition for GIs.

The notion of GIs as a distinct IP right has its roots in Europe and early European-based treaties.<sup>1</sup> Europe is also credited with attempts to globally institutionalize GIs as the main form of protection for products that have unique linkages with their territories of origin.

Greater rights for GIs are a thorn in the flesh for the United States, and the renegotiation of NAFTA at the insistence of the Trump administration will not be without contention and concessions over GI rights. GIs have been applied to wine and spirit products by major global economies without much controversy

<sup>1</sup> See Bassem Awad & Marsha S Cadogan, "CETA and the Future of Geographical Indications Protection in Canada" CIGI, CIGI Papers No 131, 25 May 2017.

and are extensively safeguarded under the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).<sup>2</sup>

Internationally, GIs have evolved since TRIPS as discretionary rights, with jurisdictions choosing how and to what extent products that are GI registered, but are neither wine nor spirits, can obtain protection. By way of the Comprehensive Economic and Trade Agreement (CETA), the European Union influenced Canada in changing its approach to GIs. Canada will shortly recognize a broader scope of rights for GIs through amendments<sup>3</sup> to its Trade-marks Act. The upcoming amendments will enable agricultural products and foodstuffs to be registered as GIs. Canada's commitment to safeguard and, in some instances, claw back specific product names<sup>4</sup> for use only in association with EU-based products marketed and sold in Canada is a focal part of CETA and is likely to be aggressively challenged by the United States in NAFTA renegotiations.

Canada's approach to the GI provisions of a renegotiated NAFTA should be premised on the usefulness of GIs as strong tools for nation branding, product diversification, socio-economic development and cultural preservation of traditional ways of producing and building products. At a minimum,

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effectively safeguarding agri-food GIs requires more than a narrow approach to grounds of infringement.

Jurisdictions that have done well with GIs (the European Union, Switzerland, Japan and Colombia) have prohibited the use of GI names that include

“imitation,” “style,” “such,” “like” or similar connotations on their labelling. Translations of GI terms are also prohibited. In effect, a competitor is prevented from free riding on the reputation of the GI product, even in instances where its product is differentiated by the use of such terms.

To foster a GI culture in Canada, this prohibitive provision needs to be included in a renegotiated NAFTA. The more expansive agri-food GI rights are, the more prohibitive market access is for goods that run counter to these provisions. Greater access to Canadian markets for its GI products influenced the European Union's strategy in CETA. Having Canadian market access for its rivalling trademarked products will be paramount in the United States' reluctance to accept Canada's CETA commitments. In its recent 2017 Special 301 Report,<sup>5</sup> the United States criticized Canada for its receptiveness to EU GI policies and cautioned Canada against extending GI rights to agricultural products and foodstuffs.

NAFTA's GI provisions currently set a low bar for the protection of GIs. Two provisions in NAFTA illustrate its less than receptive approach to product name monopolies in the consumer market; this outlook contradicts CETA's rules on EU-based GIs. First, NAFTA has a built-in flexibility for well-established GIs with similar names, permitting the continued use of both GIs as long as they were in use 10 years before the agreement or are used in good faith. Second, trademarks registered in good faith are not the subject of invalidation and neither can they be cancelled on the grounds of similarity with GIs.

How, then, should Canada approach NAFTA renegotiations in this highly charged GI atmosphere?

The tripartite negotiation involves parties of unequal bargaining power. Although Mexico has no domestic *sui generis* legislation for GIs, it protects GIs as appellations of origins, a form of IP that bears many definitional characteristics similar to a GI, but requires all the production stages of the product to be completed within the delimited zone.

Mexico's GI interest is not sufficient for Canada to find an ally in Mexico during NAFTA GI negotiations with the United States. It is likely that the United States will challenge the border-measure preferences accorded to EU GI products under CETA. Under these provisions, products that contravene CETA's border measures regarding the importation of products with either false GI names, translations of GI names or the

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2 Disputes over the extent of the use of semi-generic wine and spirit names still occur, as is the case between the European Union and the United States over names such as Champagne, Chianti, Burgundy and Chablis.

3 Canada-European Union Comprehensive Economic and Trade Agreement Implementation Act, SC 2017, c 6.

4 GI clawbacks refer to the retraction from the consumer market of product names that were previously associated with trademarked goods and the reservation of the names for the exclusive use of a specific GI producer.

5 Office of the United States Trade Representative, “2017 Special 301 Report”, online: <<https://ustr.gov/sites/default/files/301/2017%20Special%20301%20Report%20FINAL.PDF>>.

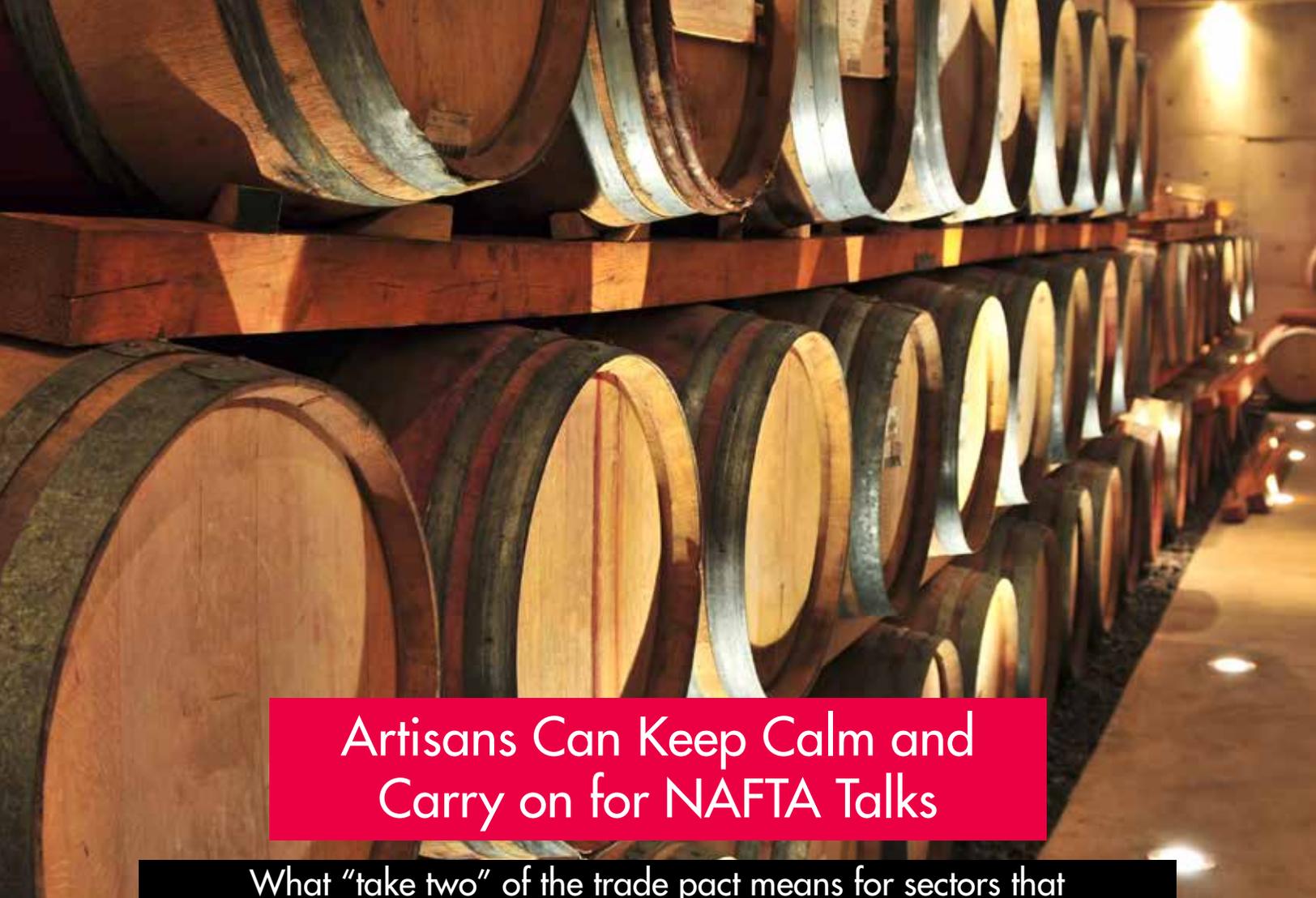
use of GI names followed by “imitation of” or similar connotations are detained at the border as infringing items.

Impasses concerning GI provisions in free trade agreements are not new. Canada needs first to recognize GIs as an integral component of an IP and innovation strategy. This framework is a catalyst for advancing and maintaining strong positions in favour of GI rights in NAFTA renegotiations. Without this paradigm shift of perspectives, the United States may be able to obtain favourable rights in the agreement that override the gains expected from GI provisions under an amended Trade-marks Act.

## About the Author

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## Artisans Can Keep Calm and Carry on for NAFTA Talks

What “take two” of the trade pact means for sectors that depend on intellectual property protection

Ysolde Gendreau

**L**umberjacks, dairy farmers and steelworkers have all felt the heat of inflammatory rhetoric from Washington in recent months as the White House has followed through on threats to get tough on America’s trading partners, singling out industries one by one for a reckoning.

Therefore, it is understandable that there is worry in Canada’s arts scene about what the renegotiation of the North American Free Trade Agreement (NAFTA) might mean for authors and musicians, as well as in niche industries that depend for their livelihoods on legal protections such as copyright and trademarks — all of which are up for discussion during the trade talks.

For craftspeople accustomed to labouring in the shadow of a big and, at times, brash southern neighbour, some trepidation is to be expected, given

that the intellectual property (IP) chapter of NAFTA will naturally be opened up as the decades-old pact is renegotiated.

But the task may turn out not to be as daunting as it seems — there may even be an opportunity to extend the reach of protections for some artisans, such as sculptors in Nunavut and winemakers in British Columbia, Ontario, Quebec and Nova Scotia.

The NAFTA rules on IP were actually part of a wider movement at the time of its negotiation to include IP in trade agreements. Until then, international IP standards were negotiated in the closed circles of the IP world. A United Nations agency, the World Intellectual Property Organization (WIPO), was the leading international forum for such meetings. In 1987, however, it was decided that IP would be included in the Uruguay Round of negotiations of a new General Agreement on Tariffs and Trade. The ensuing Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which was included as an annex to the

agreement establishing the World Trade Organization in 1994, would consecrate this relationship. Many rules that became the new international standards at that time had already been adopted in Canada with its implementation of NAFTA. Thus, one can say that, from a Canadian perspective, the NAFTA IP rules were a regional version of the TRIPS requirements.

What has happened since then that should require revisiting the NAFTA rules on IP? If the TRIPS agreement itself, which represents a broader international consensus, has not been modified, why would it be fit to update our IP rules within the context of a regional agreement? Actually, much has happened since the early 1990s in the world of international IP standards, with wins and losses for people in creative sectors.

Some of the developments have been incorporated in Canada, while others remain out of our reach for all kinds of reasons.

For instance, new international instruments in the area of copyright law have been negotiated under the auspices of WIPO, and some of them have been implemented in Canada. These include the 1996 WIPO treaties that updated rules for authors, performers and sound recording producers in light of the digital world and the 2013 Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled,<sup>1</sup> which have created new rights and obligations for Canadians. Canada has also been party to a trade agreement that focused on only one IP right: the 2003 Agreement Between Canada and the European Community on Trade in Wines and Spirit Drinks<sup>2</sup> led to the progressive withdrawal of several exceptions that had allowed Canadian sellers of wines and spirits to make use of some well-known European names as generic descriptions for such products.

Canada also took part in what can be called failed attempts to devise new international IP standards. These are agreements that have been negotiated, but that have not been taken to the next logical step, that of implementation — at least in the countries that participated in their development. The most recent example would, of course, be the Trans-Pacific Partnership<sup>3</sup> (TPP). Signed in 2016, the TPP chapter on IP was considered controversial from a Canadian

perspective. The requirement to extend the term of protection for some patents whose issuance is delayed by administrative considerations was perceived as a direct attempt to extend the monopolies held by pharmaceutical companies at the expense of the market competition that would otherwise be provided by generic companies.

Another instance of international negotiations that have somehow come to naught is embodied in the Anti-Counterfeiting Trade Agreement.<sup>4</sup> The public outcry<sup>5</sup> over its decidedly less than transparent negotiation process led to its abandonment by the very countries that had been involved in its creation, most notably by the European Union, where it was viewed as overly intrusive into individuals' privacy.

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Even if each new agreement contains its own rules, there is an undeniable constancy in this growing pack of international standards: each in its own way builds on previously negotiated norms. The different emphases that are put on the issues countries choose to discuss and the way these countries decide to bring those issues to their next level are what make each of these agreements unique.

Let's take an easy example: the basic copyright term of protection. Although the minimum rule in the Berne Convention for the Protection of Literary and Artistic Works<sup>6</sup> (the historical backbone of international copyright rules) and in the TRIPS agreement remains "life plus 50 years," many countries have adopted "life plus 70 years." The European Union did so in 1993, and the United States followed suit in 1998. One could have expected the European Union to press for an increase in the Canadian term of protection in the 2016 Canada-

1 27 June 2013, online: WIPO <[www.wipo.int/treaties/en/ip/marrakesh/](http://www.wipo.int/treaties/en/ip/marrakesh/)>.

2 16 September 2003, [2004] OJ, L 35/3.

3 4 February 2016, online: Global Affairs Canada <[www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/tpp-ptp/text-texte/toc-tdm.aspx?lang=eng](http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/tpp-ptp/text-texte/toc-tdm.aspx?lang=eng)>.

4 1 May 2011, online: Global Affairs Canada <[www.international.gc.ca/trade-agreements-accords-commerciaux/topics-domaines/ip-pi/acta-accr.aspx?lang=eng](http://www.international.gc.ca/trade-agreements-accords-commerciaux/topics-domaines/ip-pi/acta-accr.aspx?lang=eng)>.

5 "The Anti-Counterfeiting Trade Agreement: ACTA struggles to pass in Europe", *The Verge*, online: <[www.theverge.com/2012/5/7/3004311/acta-europe](http://www.theverge.com/2012/5/7/3004311/acta-europe)>.

6 9 September 1886, online: WIPO <[www.wipo.int/treaties/en/text.jsp?file\\_id=283698](http://www.wipo.int/treaties/en/text.jsp?file_id=283698)>.

European Union Comprehensive Economic and Trade Agreement,<sup>7</sup> but this did not happen. Instead, it is in the TPP that Canada has been called upon to join many of its trading partners on this rule. Given that all three NAFTA countries took part in the TPP negotiations, it would be difficult for Canada to say now that it considers such an extension of the copyright term unacceptable.

Actually, it would be safe to presume that the contents of the TPP as a whole constitute a basis on which to renegotiate NAFTA. This could lead Canada and Mexico, both members of the 2013 Marrakesh Treaty, to exert some pressure on the United States to join that treaty.

Of all the possible issues that could be part of a new NAFTA, however, there are at least two for which it would be interesting to see Canada take the lead: geographical indications for goods tied to a local area, and resale royalty rights.

Geographical indications are usually associated with “Old World” countries — as trade deals have restricted the right to use labels such as Brie, for example, to producers in the historic French region. This is why it is a little surprising to find elaborate provisions on this topic in the TPP. For winemakers in British Columbia, Ontario, Quebec and Nova Scotia, who now operate under regimes that have taken shape under the influence of previous international agreements, the protection of geographical indications has become an issue that affects interests across the country. Members of the wine-producing industry may be interested in expanding its reach more solidly throughout the continent. This is a difficult call because the United States has long been considered an opponent to such a scheme.

The case for the resale royalty right is perhaps even more elusive, since this right is not a staple of international agreements. The resale royalty right is another Old World concept; even the 1886 Berne Convention allows for a more limited recognition of its existence by its member states. Because it requires that authors of artistic works that are resold on the market share in the increased value of their works, the resale royalty right is a mechanism that is not liked by auction houses and other art dealers. Yet, one can note that its institution in Australia in 2009 was very much spurred by the desire to raise the status of Aboriginal artists.

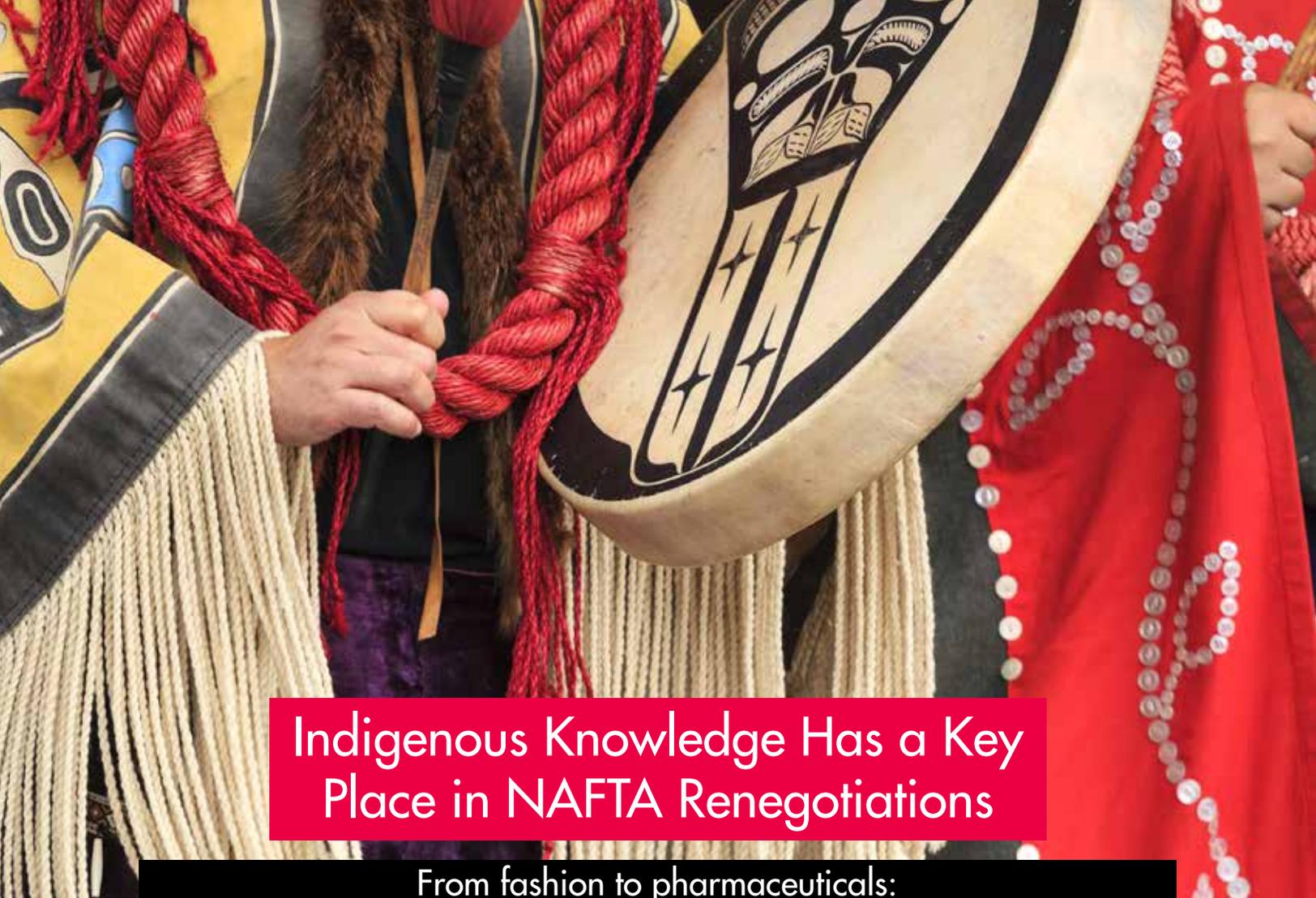
Of course, the resale royalty right is not limited to First Nations considerations, but it could be a savvy political move for Canada to take the lead on a First Nations issue that could also reflect on a vibrant Canadian art scene. All three NAFTA countries include such populations. Since the TPP called for cooperation with respect to traditional knowledge in the field of patents, why not extend that concern to a right that helps to bridge the value gap between creators of protected works and others who benefit from the commercial transactions over these works? The entire negotiation process would benefit from being seen as having the potential to help “real people” in economic and cultural sectors that contribute to the Canadian identity.

## About the Author

Ysolde Gendreau is a graduate of McGill University (B.C.L., LL.B., LL.M.) and Université Paris II (doctorate in law) and member of the Barreau du Québec. She has taught intellectual property law and competition law at the University of Montreal’s Faculty of Law since 1991. Her research focuses on copyright from a comparative and an international perspective. Ysolde has taught at McGill University, Universités Paris II, Paris XII, Nantes, Strasbourg III, Lyon 2 and Monash University (Australia). She has also participated in summer schools at the University of Victoria (in Victoria and Oxford) and the University of San Diego (in Florence, Italy). She is the author of numerous publications both in Canada and abroad and has edited two major works: *An Emerging Intellectual Property Paradigm — Perspectives from Canada* (Edward Elgar, 2008) and, together with Abraham Drassinower, *Langues et droit d’auteur/ Language and Copyright* (Bruylant, 2009).

7 EC, Commission, *Comprehensive Economic and Trade Agreement between Canada, of the one part, and the European Union [and its Member States...]*, 29 February 2016, online: <[http://trade.ec.europa.eu/doclib/docs/2016/february/tradoc\\_154329.pdf](http://trade.ec.europa.eu/doclib/docs/2016/february/tradoc_154329.pdf)>.





## Indigenous Knowledge Has a Key Place in NAFTA Renegotiations

From fashion to pharmaceuticals:  
balancing cultural respect with certainty for industrial research

### Oluwatobiloba (Tobi) Moody

The renegotiation of the North American Free Trade Agreement (NAFTA) presents an important opportunity for negotiators to give a proper place to Indigenous knowledge within one of the world's largest free trade zones.

Although credit is rarely given publicly, behind the scenes, the culture and know-how of the continent's original inhabitants continue to find their way into products from handbags to pharmaceuticals.

This makes it important to recognize and incorporate protection standards for traditional knowledge (TK) in a renegotiated NAFTA, which entered into force in 1994, and established among the trading neighbours — Canada, Mexico and the United States — a market with a combined economic output of well over US\$17 trillion.

The prospect of modernizing the pact for the digital era has led to increased attention being paid to the invaluable role of innovation in our lives. However, the need to protect cultural innovators — including Indigenous peoples and their TK — is often overlooked.

Indeed, within the existing NAFTA, no reference exists to the protection of TK. Yet, from the range of Indigenous patterns that feature in contemporary fashion, to the significant leads that scientific researchers benefit from in the understanding of genetic resources contained in plants and animals, Indigenous peoples and their TK play a significant role in facilitating and promoting modern innovation. This knowledge is also critical for the conservation of rich biodiversity located within the trading zone. It would therefore be wrong to ignore the current opportunity to recognize and protect the intellectual assets of Indigenous peoples within any NAFTA renegotiation.

Admittedly, when NAFTA was first negotiated more than 20 years ago, there was limited understanding — and therefore limited discussion — of the contribution of Indigenous peoples to modern innovation. In fact, the only relevant major instrument from that time (1992) was the Convention on Biological Diversity (CBD), which was negotiated to support the conservation and sustainable use of biodiversity, as well as to ensure that benefits arising from its use were shared equitably. TK's critical reference within this instrument was minimal, the most popular provision being article 8(j),<sup>1</sup> which called on the parties to “respect, preserve and maintain knowledge, innovations and practices of indigenous and local communities.”

Since the adoption of the CBD, however, discussions around the international protection of TK have evolved and emerged as subjects within several policy areas, including health, human rights, environment and even trade. For example, the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), adopted in 2007, outlined foundational rights for Indigenous peoples in their relationship with states over their knowledge practices. Furthermore, the CBD has advanced its discussions on the international protection of TK through the 2010 adoption of the Nagoya Protocol — an instrument that establishes an international regime for access and benefit sharing governing the use of TK associated with genetic resources.

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TK, in particular, has taken centre stage within the field of intellectual property (IP). The World Intellectual Property Organization (WIPO), for instance, commenced work on TK in 1998, with a series of fact-finding empirical studies on the IP needs of TK holders. This work resulted in the establishment in 2000 of a policy forum at WIPO dedicated to the discussion of issues that lie at the intersection of IP and the protection of TK and genetic resources. This forum, known as the WIPO Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and

Folklore (IGC), is presently in advanced negotiations on the text of an international IP instrument that will ensure the effective protection of TK. Similarly, the World Trade Organization began consideration of TK issues at the turn of the millennium, pursuant to the 2001 Doha Ministerial Declaration, which instructed the organization's IP council to examine the relationship between the Agreement on Trade-Related Aspects of Intellectual Property Rights and the CBD, as well as the protection of TK and folklore. These developments have played a vital role in mainstreaming TK issues within multilateral, regional and bilateral negotiations.

The proliferation of regional trade agreements has witnessed an increasing incorporation of TK protection clauses within the IP and environmental provisions of several agreements as a means of recognizing and upholding domestic standards relating to the protection of TK. The most recent example, the Trans-Pacific Partnership (TPP), negotiated among the largest free trade zone in the world, was signed by 12 countries in 2016 (with the notable withdrawal of the United States in early 2017), and its Chapter 18 provides, *inter alia*, that “[t]he Parties recognise the relevance of intellectual property systems and traditional knowledge associated with genetic resources to each other, when that traditional knowledge is related to those intellectual property systems.” Furthermore, it incorporates provisions calling for cooperation among the parties around issues relating to the defensive protection of TK, including the use of databases, the training of patent examiners on TK-based searches, and enhancement of the overall understanding of issues relating to TK (see TPP article 18.16<sup>2</sup>).

Drawing lessons from the TPP provisions, the progressive renegotiation of NAFTA's IP chapter calls for a deep reflection on the incorporation of provisions that recognize and ensure effective protection over the intellectual contributions that Aboriginal communities make to the innovation economy in Canada, Mexico and the United States. There are two key reasons that underscore the importance for this.

First, Canada, like Mexico and the United States, is made up of a large Indigenous population and a deep cultural heritage, meaning that TK practices form a major part of its society and culture. Canada's recent endorsement of UNDRIP, and significant complementary strides taken in rebuilding its historically damaged relationship with Indigenous communities, indicates a national policy direction toward inclusive governance models that incorporate

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1 *Convention on Biological Diversity*, 5 June 1992, 1760 UNTS 79, 31 ILM 818, art 8(j) (entered into force 29 December 1993).

2 *Trans-Pacific Partnership Agreement*, 4 February 2016, art 18.16, online: <[www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/tpp-ptp/text-texte/toc-tcm.aspx?lang=eng](http://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/tpp-ptp/text-texte/toc-tcm.aspx?lang=eng)>.

Indigenous rights and concerns within Canada's international dealings. Given the increased risks to the protection of sacred and important intellectual assets of Indigenous communities that arise with freer trade, greater cooperation on respect for TK within the renegotiated NAFTA text represents an important inclusion in the text. It would be insufficient, however, to merely import language from other agreements such as the TPP; rather, it would be critical that Indigenous communities across the trade zone be properly consulted and involved in the development of the relevant NAFTA provisions.

Second, the three countries are hugely biodiverse countries, meaning that they all play host to a significant array of genetic resources maintained by the TK of Indigenous communities. The TPP recognizes the important role that TK plays in maintaining biodiversity and encourages parties to take measures that support this understanding in accordance with their international obligations.<sup>3</sup> The close relationship between TK and genetic resources is an extremely valuable resource for industries involved in natural product research, as it could provide leads to the value inherent in genetic material based on Indigenous peoples' uses and interactions with their environments. It has been estimated, for instance, that a hit rate of 80 percent or more can be achieved in developing medical drugs where the screening of plants is limited to species used by Indigenous communities.<sup>4</sup>

The Nagoya Protocol — the recent supplementary agreement to the CBD — addresses the protection of TK associated with genetic resources by requiring that equitable benefit-sharing measures be put in place between users and providing communities (or states) where such TK is exploited. This is to be done on mutually agreed terms, with the prior and informed consent of the communities and/or government representatives. While Mexico has fully ratified the CBD and its Nagoya Protocol — meaning that these standards would apply to TK associated with genetic resources accessed within Mexico — significantly, Canada and the United States have not. Their differing international obligations justify the need for increased cooperation on the understanding of the implications of Nagoya Protocol standards to Canadian companies seeking to exploit TK within the free trade zone. Indeed, this will be critical to securing investments associated with culturally based innovation, as failure to comply with these domestic requirements could result in sanctions, and, in some instances, revocation of the IP rights. This

cooperation exercise could further help inform Canada's internal reflections on implementation possibilities associated with ratifying the Nagoya Protocol.

While the United States has signalled its formal withdrawal from the TPP, key lessons learned from the TPP provisions — in particular its recognition of the importance and role of Indigenous knowledge, and its various cooperation agreements among the parties for the protection of Indigenous knowledge — remain instructional for Canada as it approaches the renegotiation of NAFTA. This is not simply for the important purpose of upholding the rights of Indigenous communities, but also for further stimulating TK-based innovation. Admittedly, significant differences exist with respect to the international obligations and domestic policy preferences among the three trading partners, including their relationships with their Indigenous communities. However, it will be a positive move for Canada, in light of its current engagement with Indigenous peoples, to negotiate the incorporation of declarations, as well as guiding principles that promote cooperation on issues relating to the recognition, respect and protection of TK.

## About the Author

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<sup>3</sup> *Ibid.*, arts 20.13, 29.8.

<sup>4</sup> Surinder Kaur Verma, "Protecting Traditional Knowledge: Is a Sui Generis System an Answer?" (2004) 7:6 *J World Intell Prop* 765.





# Canada Has an Obligation to Promote Rights of Indigenous Peoples in NAFTA

From Inuit art to medicinal plants, the role of traditional know-how in the knowledge economy warrants recognition

## Konstantia Koutouki

When the North American Free Trade Agreement (NAFTA) was negotiated more than two decades ago, Indigenous peoples residing across the three nations were largely ignored. Land rights, cross-border free movement and unification of cross-border communities are some of the more obvious areas that should have included extensive Indigenous consultation at the inception of NAFTA. Although they did not have a seat at the table, Indigenous peoples were impacted by the trade deal.

Economic upheaval and changes to land rights in Mexico following the deal contributed to dramatic shifts in migration patterns, for instance. In the United States, “Indigenous people made up 7% of Mexican

migrants in 1991-3, the years just before the passage of the North American Free Trade Agreement. In 2006-8, they made up 29% — four times more.”<sup>1</sup>

The reasons behind this increased flight from the country by Indigenous peoples are complex. Economic factors played a role, including a significant price drop for corn following the deal, which opened up the Mexican market to heavily subsidized US maize and affected many small farmers.

The loss of land drove some to flee. To comply with proposed NAFTA rules, Mexico nullified section 27 of its constitution,<sup>2</sup> which stated that land, water and minerals within the Mexican territory were held by Mexico for the people of Mexico. When former President Carlos Salinas removed section 27, significant

1 David Bacon, “Globalization and NAFTA Caused Migration from Mexico” (Fall 2014) Public Eye 19.

2 Mexico, *Constitution of the United Mexican States, 1917*, s 27, online: <[www.oas.org/juridico/mla/en/mex/en\\_mex-int-text-const.pdf](http://www.oas.org/juridico/mla/en/mex/en_mex-int-text-const.pdf)>.

land transfers began almost immediately from Indigenous communities to private and corporate entities.<sup>3</sup> Previously, this section of the constitution had given the Mexican government the capacity to redistribute land to Indigenous peoples, who, with enough pressure, could win certain land concessions from the government. Indigenous peoples in Mexico do not have specific lands set out for them in the form of reserves.

The extent of the dislocation experienced in Mexico after NAFTA underlines the immediate and profound impacts of free trade deals on Indigenous nations.

At a time when Canada's government, under Prime Minister Justin Trudeau, is being criticized concerning the progress of reconciliation, leaving Indigenous leaders out of the conversation concerning the renegotiation of NAFTA would be a mistake. It would demonstrate that in the quarter-century since the deal was signed, Canada has not improved on its nation-to-nation commitment.

In a contemporary context, there are multiple sections of the agreement that warrant consultation with Indigenous peoples. Although it may not be the first to come to mind, Chapter 17, which deals with intellectual property (IP) rights, is ripe for revisiting.

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At a time when Canada's government, under Prime Minister Justin Trudeau, is being criticized concerning the progress of reconciliation, leaving Indigenous leaders out of the conversation concerning the renegotiation of NAFTA would be a mistake.

Indigenous art and crafts, as well as other IP industries such as books and films, are very important to the economic well-being of Indigenous nations and make a contribution to the Canadian economy generally. If we look at Nunavut artists and craftspersons, for instance, we find that "artists receive roughly \$27.8 million for their finished work, and this art has a total end

consumer sales value of approximately \$52.1 million."<sup>4</sup>

Although countries in Europe and elsewhere are growing in importance as markets for these works, sales to the United States remain a critical source of revenue for Indigenous intellectual and cultural works.

Indigenous traditional knowledge concerning medicinal plants are very valuable assets for Indigenous peoples in Canada, and feature in a growing number of enterprises.

The Avataq Cultural Institute, an Inuit-owned non-profit organization dedicated to the protection and advancement of the language, culture and identity of the Inuit of Nunavik, exemplifies efforts to establish social enterprises in the North and has developed a popular line of teas.

In the fashion world, Indigenous designs are being used regularly without any consideration for the IP of the cultures that have produced them, giving rise to a body of scholarship and an ongoing international dialogue about traditional knowledge that warrants addressing as part of negotiations.

The cultural and spiritual significance of much of the Indigenous works that fall under the rubric of IP needs to be understood and put into perspective. This can be done only with the active participation of Indigenous representatives at the negotiations of Chapter 17 of NAFTA.

This step is in keeping with the Supreme Court of Canada in *Tsilhqot'in Nation v British Columbia* (2014).<sup>5</sup> The court made a strong case for implementing consent as a standard for dealing with development on Indigenous-titled lands and as the preferred means to collaborate on non-titled lands. Consent is obviously different from consultation and points the federal government toward the direction that the Supreme Court will find acceptable concerning Indigenous-federal government relationships.

Taking direction from the Supreme Court can set the stage for the way forward in other commitments taken by the Trudeau government regarding Indigenous peoples and IP rights. Whether it's the adoption of the United Nations Declaration on the Rights of Indigenous Peoples or evaluating Canada's position toward the Nagoya Protocol — a supplementary agreement to the Convention on Biological Diversity that provides

3 James J Kelly, "Article 27 and Mexican Land Reform: The Legacy of Zapata's Dream" (1994) Scholarly Works Paper 668, online: <[http://scholarship.law.nd.edu/cgi/viewcontent.cgi?article=1693&context=law\\_faculty\\_scholarship](http://scholarship.law.nd.edu/cgi/viewcontent.cgi?article=1693&context=law_faculty_scholarship)>.

4 Nordicity Group and Uqsiaq Communications, "Economic Impact Study: Nunavut Arts and Crafts" (June 2010) Submitted to Government of Nunavut — Department of Economic Development and Transportation, online: <<http://assembly.nu.ca/library/GNedocs/2010/000056-e.pdf>>.

5 2014 SCC 44.

a transparent legal framework for the effective implementation of the fair and equitable sharing of benefits arising out of the utilization of genetic resources<sup>6</sup> — a nation-to-nation relationship means allowing Indigenous peoples to speak for themselves rather than speaking on their behalf.

Having a place at the table of NAFTA Chapter 17 negotiations is the perfect opportunity for the Canadian government to put into action the nation-to-nation relationship that is the cornerstone of its engagement with Indigenous nations in Canada. Chapter 17 and its impact on the economic value and treatment of Indigenous cultural works — works that are pivotal to the empowerment and identity of Indigenous peoples — should be discussed with the full consultation of Indigenous representatives.

Finally, Canada can seize the opportunity to be a regional leader in inclusive Indigenous representation, especially when the cultural, spiritual and social well-being of Indigenous peoples is at stake, at a time when relations between Indigenous peoples and the United States and Mexico are strained.

Attempting to separate IP-related works from their cultural, spiritual and social context by focusing solely on the economic and legal elements would only demonstrate that the government is not listening to Indigenous voices on this very important issue.

## About the Author

Konstantia Koutouki is a professor of law at the Université de Montréal, lead counsel for Natural Resources with the Centre for International Sustainable Development Law at McGill University and executive director at Nomomente Institute. Her research examines the links among international trade, intellectual property and environmental protection. She has extensive experience working on issues concerning social, economic and cultural development of Indigenous and local communities, as well as the preservation of natural spaces and traditional knowledge. Konstantia has first-hand experience with Indigenous and local communities around the world, where she has spent much time as a guest and researcher. She has worked extensively to help preserve traditional Indigenous and local food and medicinal systems, as well as contribute to promoting agroecology and traditional medicine in general.

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<sup>6</sup> 29 October 2010 (Montreal, QC: Secretariat of the Convention on Biological Diversity, 2011), online: <[www.cbd.int/abs/text/default.shtml](http://www.cbd.int/abs/text/default.shtml)>.

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