Editorial

Anything but tired: the doctrine of exhaustion in Canada

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With the recent US Supreme Court decisions in Kirtsaeng v John Wiley & Sons, 133 S. Ct. 1351 and Bowman v Monsanto, 569 U. S. ____ (2013) the doctrine of exhaustion has once again been revitalized. In its most basic formulation the doctrine stands for the proposition that the enforceability of the intellectual property rights embodied in a tangible object are extinguished, or ‘exhausted’, after its first sale. The rule, common law in origin, allows for the downstream re-sale of patented articles, trade mark adorned clothing, and textbooks without infringement. This brief editorial examines the common law and statutory footing of the doctrine in Canada, and encourages courts to ‘supplement’ their decisions and give the doctrine ‘wings’, as it were.

In Canada, the Copyright Act contains the only statutory footing for the doctrine. Even then it is quite limited. Section 3 of that Act sets out the exclusive rights of copyright holders and provides the following, inter alia:

“3. (1) For the purposes of this Act, “copyright”, in relation to a work, means the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public or, if the work is unpublished, to publish the work or any substantial part thereof, and includes the sole right

(j) in the case of a work that is in the form of a tangible object, to sell or otherwise transfer ownership of the tangible object, as long as that ownership has never previously been transferred in or outside Canada with the authorization of the copyright owner, and to authorize any such acts.”

There are no express provisions in either the Patent Act or the Trade-marks Act that cover the doctrine, even in a limited sense. Even when one turns to the jurisprudence, although the doctrine is recognized, no decision specifically refers to the “exhaustion” of the intellectual property right in question.

Consider the indirect discussion of patent exhaustion by the Supreme Court of Canada in Eli Lilly and Co. v Apotex. Justice Iacobucci, writing for a unanimous court, stated:

“unless otherwise stipulated in the licence, a licensee is generally entitled to pass to a purchaser the right to use or resell the patented article without fear of infringing the patent.”

Likewise, in Consumers Distributing Co. v Seiko the Supreme Court of Canada dealt with the parallel importation of watches. In allowing the appeal, the court affirmed that lawfully acquired goods may be re-sold without any recourse under the Trade-marks Act:

“The distribution of a trade marked product lawfully acquired is not, by itself, prohibited under the Trade Marks Act of Canada, or indeed at common law.”

“it is settled law that the purchaser of a patented article from a patentee acquires, at the same time, the right to use the article and the right to sell it, together with the same ‘right of use’, to another person. As long ago as 1871, this right was described as a “licence”...” (citing Betts v Willmott, (1871) L.R. 6 Ch. 239 at 245, per Lord Hatherley, L.C.).

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3 RSC 1985, c P-4.
5 In Signalisation de Montreal Inc. v Services de Beton Universels Ltee., [1992] F.C.J. No. 1151 the Federal Court of Appeal rationalized the doctrine by reference to an implied licence:

“It is settled law that the purchaser of a patented article from a patentee acquires, at the same time, the right to use the article and the right to sell it, together with the same “right of use”, to another person. As long ago as 1871, this right was described as a “licence”...” (citing Betts v Willmott, (1871) L.R. 6 Ch. 239 at 245, per Lord Hatherley, L.C.).
6 [1998] 2 S.C.R. 129 [“Eli Lilly”].
7 Eli Lilly para 69 (emphasis added). The Supreme Court of Canada decision in Monsanto Canada Inc. v Schmeiser [2004] 1 S.C.R. 902 (concerning the cultivation of herbicide resistant canola containing patented genes and cells) is said to be a rejection of patent exhaustion (see de Beer, J. and Tomkowicz R., n 2 supra at 14). However, the underlined portion in Eli Lilly is instructive. Since Monsanto licensed its herbicide resistant seeds, it can hardly be said that its rights were either exhausted or fell foul of the dictum in Eli Lilly.
9 Consumers Distributing Co. v Seiko Time Canada Ltd [1984] 1 S.C.R. 583. The court likened the situation to that of reselling a car:

“The better analogy here would be to the buyer of a Chevrolet from an authorized dealer or source, who then sells the car without any status of dealership from the manufacturer. Assuming title to the car was lawfully acquired and that no misrepresentation of the condition of the vehicle and the right of warranty was made, would a duly authorized dealer of the manufacturer, or the manufacturer itself, or anyone else, have recourse to injunction to prevent such a sale of the Chevrolet? Clearly not, and the answer is the same whether the car be new or used.” (citing Morris Motors, Ltd v Lilley, [1959] 3 All E.R. 737).
Yet again there was no explicit recognition that Seiko’s rights had been exhausted.10

Even in the copyright context the Supreme Court of Canada has invoked the doctrine without giving it due regard. In Théberge v Galerie d’Art du Petit Champlain inc.11 the court dealt with an art gallery making canvas copies of an artist’s work from lawfully obtained cards, photolithographs and posters. A majority of the court cautioned against this “expansion” of the artist’s economic rights, emphasizing the need to balance the economic interests of the copyright holder and the public.12 The majority spent considerable attention on the process13 not amounting to a “reproduction”. For instance, the Chief Justice (writing for the majority) asked the following:

“Did “reproduction” occur when the paper backing was peeled away? If the resulting film of inks had then been framed and suspended in front of a window like a piece of Tiffany glass, I would think the respondent could not complain. A purchaser has the right to cut up a poster into strips or divide it as he or she wishes. Division cannot logically be characterized as reproduction.”14

Building on her earlier remarks that

“The proper balance among these and other public policy objectives lies not only in recognizing the creator’s rights but in giving due weight to their limited nature. In crassly economic terms it would be as inefficient to over compensate artists and authors for the right of reproduction as it would be self-defeating to undercompensate them. Once an authorized copy of a work is sold to a member of the public, it is generally for the purchaser, not the author, to determine what happens to it.

Excessive control by holders of copyrights and other forms of intellectual property may unduly limit the ability of the public domain to incorporate and embellish creative innovation in the long-term interests of society as a whole, or create practical obstacles to proper utilization . . .”15

Yet at no point in this narrative was the doctrine of exhaustion explicitly examined.16 Arguably it is this lack of clear judicial recognition that has stunted the development of the doctrine in Canada. It is time for Canadian Courts to explicitly apply the doctrine in si te as an instrument of trade control. It promotes the “balance” that is very much in vogue in the academic literature and the higher courts. The doctrine may be one of exhaustion, but its usage is far from cliche in Canada.

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10 Passing mention is also made in Coca-Cola Ltd. v. Parshan (c.o.b. as Universal Exporters), [1999] F.C.J. No. 484 (FCA) upholding an application to strike the appellant’s statement of claim.
12 Ibid. at paras 30–33.
13 ”The appellants purchased on the open market a quantity of posters of the respondent’s artistic works. They subjected these posters to a technique which involved spreading a special resin or laminating liquid across the face of a poster. The resin is designed to bond with the surface inks. After the applied coating is dried (or cured), the coated poster is submerged in a bath of solvent which loosens the paper substrate but leaves intact the fixed ink/resin layer, thus allowing the latter to be peeled off the former. The rear of the ink/resin layer is then coated with a suitable adhesive resin and transferred to a canvas substrate, which is then smoothed and finished.” (Théberge at para 35).
14 Ibid. at para. 37.
15 Ibid. at paras. 31 and 32.
16 For a similar omission see Euro-Excellence Inc. v Kraft Canada Inc. [2007] 3 S.C.R. 20 (concerning the parallel importation of chocolate bars). Here a majority of the court accepted that the copyright in the chocolate bars’ labels and logos can be infringed through parallel imports. Justice Fish, in a separate concurring judgment, almost invites a discussion of the doctrine: “Without so deciding, I express grave doubt whether the law governing the protection of intellectual property rights in Canada can be transformed in this way into an instrument of trade control not contemplated by the Copyright Act.” (ibid., para. 56). Arguably, this is the closest the court gets in terms of doctrine per se.