



**Questionnaire February 2014**  
**Special Committee - Q228**

**National Group:** CANADA  
**Title:** Patents on Prior User Rights  
**Contributors:** Bruce MORGAN; Fraser ROWAND; Alfred MACCHIONE  
**Reporter within Working Committee:** ROWAND, Fraser  
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**Introduction**

1. A prior user right is the right of a third party to continue the use of an invention where that use began before a patent application was filed for the same invention.
2. Prior user rights are provided for by the different national legislations and such provisions in national legislation only have national effect. Most if not all national legislations provide for prior user rights and defences. National provisions on prior user rights have common ground, but also have differences in the conditions under which they may be acquired.
3. The main purpose of prior user rights is to strike a balance between the effects of the first-to-file principle on the one hand and third party considerations on the other.

**Previous work of AIPPI**

4. The issue of prior user rights has already been studied in Q89D, Prior Use (Amsterdam ExCo of 1989), which is part of the series of resolutions related to a draft Patent Law Treaty concerning the harmonization of substantive provisions of Patent Law (the draft never became final). In Q89D AIPPI resolved that the Treaty should contain a mandatory prior use right as set forth in the following provision:

*Privilege of prior use*

*(1) (a) Subject to subparagraph (b), the owner of a patent shall not enjoy, under that patent, rights against activities within the scope of the patent, not authorized by him, of a person (the prior user) who, at the date of the filing of the application, or where priority is claimed, at the priority date of the application on which the patent is granted, and with a view to industrial or commercial exploitation,*

*(i) was actually engaged in such activities, or*

*(ii) was engaged in serious preparations, involving, from the viewpoint of the prior user, significant investment, for such activities, in the territory and any other place or space to which the sovereignty of the Contracting State extends and in or for which State the patent is granted.*

*It is understood that the expression "industrial or commercial exploitation" comprises every form of exploitation for useful or economic purposes.*

*(b) Where the prior user engaged in activities or preparations therefore, obtained knowledge of the invention protected by the patent from or in consequence of acts performed by the owner of the patent or his predecessor in title, subparagraph (a) shall not apply in respect of the said activities.*

*(2) Paragraph (1) shall not apply to a successor in title of the prior user unless that successor in title is the owner of the enterprise or business, or that part of the enterprise or business, in which the prior user engaged in the activities or preparations referred to in paragraph (1)(a).*

5. Q170, Substantive Patent Law Treaty (Lucerne ExCo of 2003), re-addressed the issue of prior user rights, but made full reference to Q89D.
6. In addition, as a partly related topic, AIPPI has studied grace periods for patents on four prior occasions: Q75, Prior disclosure and prior use of the invention by the inventor (Buenos Aires Congress of 1980, Moscow ExCo of 1982); as part of Q170, Substantive Patent Law Treaty (Lucerne ExCo of 2003); and in Q233, Grace period for patents (Helsinki ExCo of 2013).
7. The passage of time and changes in relevant national laws make this topic ripe for reconsideration at this time, in particular:
  - a) the passage of the AIA in the United States, representing an important move by the US towards global patent harmonization in many respects; specifically, the AIA expands the defence beyond just business methods to cover all technologies.
  - b) the perceived change of view of national groups on this issue;
  - c) the work of the "Tegernsee Group", attended by heads of offices and representatives from Denmark, France, Germany, Japan, the UK, the USA and the EPO, which identified prior user rights as one of four topics being key to harmonization.

### **Tegernsee Group**

8. During the second meeting of the "Tegernsee Group," attended by heads of offices and representatives from Denmark, France, Germany, Japan, the UK, the USA and the EPO in April, 2011, prior user rights was one of four topics identified as being key to harmonization (along with the grace period, 18-month publication, and the treatment of conflicting applications). The Tegernsee Heads mandated the Tegernsee experts group to prepare reports on each of these topics. The report on the grace period was published on September 24, 2012, and is available on the EPO website. The third meeting

of the Tegernsee Group took place on October 4, 2012, during which it was agreed that the next step in the process would be to conduct broad surveys of stakeholders in each region. In September 2013, at its fourth meeting, the Tegernsee Group approved the Reports on the Tegernsee User Consultation drawn up by the individual delegations. The Tegernsee Experts Group has been mandated to conduct a joint factual summary analysing the results of the individual office reports including commonalities and differences in user views and to present the summary for approval to the next meeting of the Tegernsee Heads, to be called in the spring of 2014 in Europe.

## Discussion

9. A first-to-file system (or first-inventor-to-file system) rewards an inventor who is first to file a patent application for his invention with the grant of an exclusionary right for a limited period of time. The current question involves whether this exclusionary effect has to be diluted – to a certain extent – to accommodate interests of third parties who may have already used the same invention earlier, but without filing a patent application. In this respect, various fundamental considerations of patent law need to be taken into account.
10. On the one hand, there seems to be a broad consensus that patents should have no “retroactive effect”, *i.e.*, any activity practiced before the filing date should by no means become illegitimate due to a later patent filing. It needs to be considered that there is no statutory duty to apply for patent protection. From an economic perspective, investments on the use of an invention should not be frustrated by later protective rights. Thus, there must be a legal mechanism that allows for legitimate, continued use of an invention in this case. The concept of prior user rights generally seems to fulfill this purpose.
11. On the other hand, the interests of the patent owner must also be taken into account. Prior user rights have to be regarded as a limitation on the exclusive right that is granted to the patent holder, *i.e.*, the exclusive right to exploit the patented invention and to authorize another to do so. It seems to be important that the exclusionary right of the patent holder not to be excessively limited by prior user rights; in particular, the nature and extent of the “use” of the claimed invention which occurred prior to filing must be weighed against the public disclosure of the invention by the patentee. Otherwise, the essential principles of patent law, *i.e.*, to encourage investment in innovation and, through the publication of patent applications, to disseminate information on the basis of which others may further innovate or compete, could be compromised. In addition, the requirements for a prior user right must comply with the general need for legal certainty so far as the scope of protection provided by a patent is concerned. It must be ensured that the instrument of prior user rights is not used as an abusive defence against patent infringement. Therefore, it seems desirable that the availability of prior user rights is tied to a certain extent to actions of the prior user that go beyond a purely mental conception of the inventive idea.
12. When balancing these interests, a number of detailed questions need to be addressed. One major issue for consideration seems to be the definition of “use” in relation to prior user rights. Is it necessary that a real, present and practical exploitation of the invention must have taken place to establish a

prior user right (as in Denmark) or is it sufficient that a sort of intellectual possession of the invention has been created to recognize a prior user right (as in France)? Depending on the definition, it is easier or more difficult to rely on and to prove a prior user right in infringement proceedings.

13. A further area of discussion is the scope of a prior user right. Based on the fundamental principle that a patent shall not have a “retroactive effect” (as explained above), it seems evident that the prior user should be at least allowed to continue its prior use to the exact extent as it occurred before the filing date. Should, however, the owner of a prior user right also be entitled to adjust or alter the embodiment of the prior use in a way that would fall within the patent’s scope of protection?
14. Another issue for consideration is the critical date of use. When must the invention have been used to establish a prior user right? For example, under US law, the prior use must have occurred at least one year before either the effective filing date of the claimed invention or the date of a qualifying grace period disclosure. In DK, DE, FR, UK and JP it is sufficient that the activity giving rise to the defence of prior use must have occurred prior to the filing or priority date. It is obvious that there is a serious time difference between these two regimes.
15. A further issue of significance is the possibility of transferring a prior user right to third parties. On the one hand it is clear that the transfer of a prior user right cannot be allowed without any restrictions. The rights of the patent holder would otherwise be severely limited, for example, if a third party could obtain a license to a prior user right in order to avoid patent infringement. In this respect, it is therefore important to discuss the conditions under which a transfer of a prior user right is allowed. In this context it should also be analyzed whether there are specific requirements under which a prior user right can be used and transferred within a corporate group.

## Questions

### I. Analysis of current law and case law

Groups are invited to answer the following questions under their national laws:

1. **Question** - Is there a provision in your national patent law that makes an exception to the exclusive right of a patent holder for parties who have used the invention before the filing/priority date of the patent ("prior user rights")?

**Answer** – Yes, Section 56 of the Canadian Patent Act.

56. (1) Every person who, before the claim date of a claim in a patent has purchased, constructed or acquired the subject matter defined by the claim, has the right to use and sell to others the specific article, machine, manufacture or composition of matter patented and so purchased, constructed or acquired without being liable to the patentee or the legal representatives of the patentee for so doing.

Although section 56 only refers to the right to use and sell to others "the specific article..." patented and so purchased, the Canadian courts have shown a willingness to interpret the language liberally and have found that the s.56 prior use defense applies to method and process claims relating to the article so acquired (*Libby-Owens-Ford Glass Co. v. Ford Motor Co. [1969] 1 Ex. C.R. 529 hereinafter "Libby"*); (*Merck v. Apotex [1995] 2 F.C. 723 (F.C.A.), hereinafter "Merck 1"*). The prior use defense allowing use of a patented article or compound includes permitting use of the article for its intended purpose, such as the production of a product. The prior use defence is likely available to a prior user of a manufacturing process even where the patent contains only method claims and no apparatus claims, but there has been no case directly on point in Canada yet.

2. **Question** - How frequently are prior user rights used in your country? Is there empirical data on how often prior user rights are asserted as a defence in negotiations or court proceedings?

**Answer** - Prior user rights are rarely used in Canada. They would have been of greater significance under older versions of the Patent Act, when the relevant date for prior user rights was the date of grant. The case law in Canada that addresses prior user rights tends to have arisen in connection with these older provisions.

Anecdotally, where prior use is evident, negotiations usually result in resolution of the complaint prior to any court action.

3. **Question** - To what degree must someone claiming a prior user right have developed the embodiment which is asserted as having been used prior to the filing/priority date of the patent? Is it sufficient to have conceived of the embodiment, or must it have been reduced to practice or commercialized?

**Answer** - Mere conception is insufficient to establish prior user rights the subject matter defined by a patent claim must have been "purchased, constructed or acquired".

A defendant does not get the benefit of section 56 if the articles in question are not actually in existence yet (*Lido v. Teledyne, (1981)57 C.P.R.(2d) 29, hereinafter "Lido"*). Likewise, if the defendant has ordered the articles (e.g.

pharmaceuticals), but the supplier has not yet finished putting the ordered goods into a condition suitable for use (e.g. they require further purification) then the defendant cannot be said to have yet “acquired” the articles (*Merck 1*; *Merck v. Apotex* 2006 FCA 323, hereinafter *Merck 2*). However, the patented composition can be further processed into a finished product (e.g. formed into tablets, akin to repackaging).

The right does not extend to permitting expanded usage of the specific article nor rebuilding/remanufacture of the article (*Steel Company v. Sivaco Wire & Nail Co*, (1973), 11 C.P.R. (2d) 153).

4. **Question** - Does it make a difference in your country if

- the prior use occurred before the priority date; or
- it occurred after the priority date, but before the filing date?

**Answer** - If the use occurred before the priority date (or the filing date, if no priority claim) and was by a party who did not obtain the knowledge from the inventor, then any such use which made the invention “available to the public” would invalidate the patent for lack of novelty. A non-disclosing use before the earliest date (in Canada called the “claim date”, being the priority date or filing date if no priority was claimed) is entitled to the benefit of prior user rights defined by Sec 56 of the Patent Act.

Any use after the priority date is not entitled to the benefit of prior user rights, as specified in Sec 56 of the Patent Act.

5. **Question** - Is there a territorial limitation with regard to the scope of prior user rights in your country? In other words, if a party has used the patented invention before the filing/priority date in a foreign country, can it then claim a prior user right in your country?

**Answer** – There is no territorial limitation on Section 56 in the Canadian Patent Act. Purchase, construction or acquisition of the specific article machine, manufacture or composition need not be in Canada, so long as the article is clearly identifiable and in existence at the priority, and is committed to Canadian importation (e.g. a purchase order for Canadian delivery – see *Lido v. Teledyne*, supra).

There is no jurisprudence determining whether a foreign used article/process would enjoy prior user rights if subsequently the article/process was imported into Canada. The view of the Group is that from the facts of existing case law, a Canadian nexus has been present. A prior acquisition that has no Canadian nexus before the priority or filing date likely would not benefit from prior user rights.

6. **Question** - Is there a provision that excludes prior user rights for those who have derived their knowledge of the invention from the patent holder and/or the inventor?

**Answer** - There is no Canadian statutory provision that excludes prior user rights from a person who derived the invention from the inventor or patentee. We note that use by a person who directly or indirectly acquired or derived their knowledge from the inventor or patentee will invalidate a patent if it occurred more than one year before the Canadian filing date (not the priority date) in such a manner that the subject matter became available to the public in Canada or elsewhere.

7. **Question** - Is it necessary that the prior user has acted in good faith to be granted a prior user right?

**Answer** – There is no such statutory provision. Case law would suggest independent acquisition is necessary to raise prior user rights. This implies good faith, or absence of derivation.

The courts have suggested that a case could arise in which a person is disqualified by his own dishonest conduct from asserting a right under the prior user section based on principles of equity (*Libby-Owens-Ford Glass Co. v. Ford Motor Co. supra per Thurlow J.*). The Federal Court of Appeal has noted that the provision has its roots in the concept of a *bona fide* purchaser in good faith (*Merck 1*).

8. **Question** - Is there a material limitation with regard to prior user rights in your country? More specifically, if someone has used an embodiment of a patented invention before the filing/priority date of the patent, can he then claim a prior user right to anything covered by the patent? In particular, is the owner of a prior user right entitled to alter/change the embodiment of the patented invention used before the filing/priority date of the patent to other embodiments that would also fall within the patent's scope of protection or is he strictly limited to the concrete use enacted or prepared before the patent's application or priority date? In the event that changes/alterations are permitted by your national law, to what degree?

**Answer** – Section 56, confirmed by Canadian jurisprudence, provides that only the specific article, machine, manufacture or composition of matter can benefit from prior user rights. As noted above, "article" has been construed to include an "art" or "process".

However, the courts have held that when the subject-matter of the invention lies in a particular substance/article, then that substance/article may be put to its intended use by the defendant. For example, where the article is a pharmaceutical compound, the defendant is entitled to use the compound in a manufacturing process to create a final product (*Merck 1*). Where a patented apparatus is intended to be used to create goods, then the prior user rights extend to the use of that machine to create the goods (*Libbey*). Still further, prior user rights extend to process claims which would otherwise be infringed by use of the machine (*Libbey*).

9. **Question** - Does a prior user right in your country require the continued use (or the necessary preparations of the use) of the invention claimed by the patent at the moment in which the objection of the prior user right is asserted or is it sufficient if the invention claimed by the patent has been used before the priority/filing date of the patent but has been abandoned at a later stage?

**Answer** - There does not appear to be any requirement of continuous use.

10. **Question** - Is a prior user right transferable and/or licensable in your country? If yes, under what circumstances?

**Answer** – Per section 56, a prior user right is transferable by sale, but the right is restricted to the specific article, machine, manufacture or composition of matter. Section 56 is silent whether a prior user right is transferable by licence, as the right is restricted to the right “to use or sell ...” the specific article, machine, manufacture or composition of matter. There is no Canadian judicial comment on such a licence.

11. **Question** - Does your national law provide any exceptions or special provisions with regard to a prior user right owned by a company within a corporate group? In particular, can a prior user right be transferred or licensed to another group company?

**Answer** – Section 56 permits the transfer of the specific article, machine, manufacture or composition of matter.

12. **Question** - Are there any exceptions for any specific fields of technology or types of entity with regard to prior user rights in your country?

**Answer** – No.

13. **Question** - The Groups are invited to explain any further requirements placed on prior user rights by their national law.

**Answer** – The rights granted under Section 56 of the Patent Act became substantially reduced when Canada moved from a first-to-invent to a first-to-file system. Under the former system, a prior user right could be acquired up to the date of grant of a patent (not application date). Today, only use prior to the priority date is entitled to prior user rights. Any use commencing between the publication date and the date of grant may be subject to a claim for reasonable compensation.

Additionally, prior user rights are restricted to the specific article (which includes “process”), machine, manufacture or composition of matter.

Method claims are not infringed if the specific acquired article, machine, or manufacture was used to practise the method, whether or not there are claims to the article etc.



## II. Policy considerations and proposals for improvements to your current system

14. **Question** - Should a prior user right exist in any legal system? If yes, what is the main legal justification for a prior user right?

**Answer** - Prior User rights are adverse to the exclusivity granted to a party who discloses an invention. However, to the extent that another, independent party has also conceived, but not publicly disclosed the same invention but used it in a particular confidential environment, then the right to continue is a defensible proposition. However, no right to exploit the patentee's disclosure or market is appropriate. The right does not extend to permitting expanded usage of the specific article nor rebuilding/remanufacture of the article.

Because prior user rights are now based on use prior to the priority date, and because any use that makes the invention "available to the public" before the priority date would be anticipatory, prior user rights tend to arise infrequently. Nonetheless, they are important to protect the rights of those innovators that prefer to try to rely on trade secret (or who may not have thought the subject matter was patentable); those innovators should not be later prevented from using their trade secrets because they elected not to either avail themselves of the patent system or disclose their trade secrets.

15. **Question** - What is the perceived value of prior user rights in your country?

**Answer** – Prior user rights are perceived as having limited value in Canada because they arise infrequently under the current regime, as discussed above. They are nonetheless a valuable mechanism for protecting those that choose to rely on trade secrets from later being barred from using their innovations.

16. **Question** - Are there certain aspects that should be altered or changed with regard to the existing implementation of the prior user right in your country? In particular, are there certain measures or ways that could lead to an improvement and/or strengthening of your current system?

**Answer** – Greater clarity with respect to the actual right would be helpful. Where a person has started down a development and marketing plan requiring a specific article, machine, etc., but hasn't completed the acquisition, judicial determination on the level of commitment required to permit the completion of the planned acquisition would be of assistance in clarifying the rare case where the prior right is an issue.

Canadian legislation could be amended to more clearly indicate that prior user rights apply to the practice of patented processes/methods, as to date that determination was judicial only. Legislation could also more clearly indicate whether the use/acquisition must occur in Canada, whether use/acquisition elsewhere is sufficient and whether foreign acquired prior goods can be imported into Canada. (The only Canadian judicial determination to date addressing importation issues determined that goods manufacture abroad prior to the relevant date but committed to delivery in Canada, would benefit from

the exemption, see *Lido, supra*).

### III. Proposals for harmonization

Groups are invited to put forward proposals for the adoption of harmonized rules in relation to prior user rights. More specifically, the Groups are invited to answer the following questions:

17. **Question** - Is harmonization of “prior user rights” desirable?

**Answer** - There is a sense in which harmonization is always desirable so parties have a clear understanding of their rights and obligations despite borders. Nonetheless the details of a prior use defence are more of a national concern, exempting national infringement. Consideration could be given to a harmonized exemption whereby prior use rights for a country are based on prior use in that country, and that prior use abroad does not give rise to prior use rights in other countries.

18. **Question** - What should be the standard definition of “use” in relation to prior user rights? Must the use be commercial?

**Answer** – There is no Canadian decision to guide this answer. It would seem that non-commercial use qualifies, but can it be geared up to commercial use? Even if commercial use is established, can it be geared up to greatly increased production. This has particular impact for “process” claims, as the same process can be non-commercial, beta or fully large scale commercial. Equity suggests that the prior user be restricted to the level of usage commenced before the critical cut off date, or level under contemplation (and provable).

19. **Question** - What should be the definition of “date” (or “critical date”) for prior user rights? (*I.e.* when must the invention have been used to establish a prior user right?)

**Answer** - The priority date. In Canada, the Patent Act refers to the “claim date”, which is the filing date or the priority date, if claimed.

20. **Question** - Should a prior user right persist in the event that the use and/or preparation for use of the invention has already been abandoned at the time of the patent application/priority date or should the prior user right lapse upon the termination of the use and/or preparation of use?

**Answer** – If the prior use was abandoned (which implies a decision not to recommence, and the abandonment of any rights, in contrast to a temporary discontinuance), it should not be capable of reinstatement.

21. **Question** - What should be the territorial scope of a prior user right? In particular, if a party has used the patented invention before the decisive date in a foreign country, should it then be entitled to claim a prior user right?

**Answer** – Prior use in one country should not give rise to a prior use defence in another country in which there was no prior use.

22. **Question** - Should there be a provision that excludes prior user rights for those who have derived their knowledge of the invention from the patent holder and/or the inventor? If yes, should it be necessary that the prior user has acted in good faith to be granted a prior user right?

**Answer** – Yes, and yes

23. **Question** - Should there be material limitation with regard to prior use rights? In particular, if someone has used an embodiment of a patented invention before the filing/priority date of the patent, should he then be entitled to claim a prior user right to anything covered by the patent?

**Answer** – Yes, there is/should be a material limit on the scope of prior user rights. Hence, no, the prior user should not be entitled to the scope of the patent. Prior user rights are for the prior user's developed rights, not the rights developed by the patentee.

24. **Question** - Should a prior user right be transferable and/ or licensable?

**Answer** – The prior use defense should be tied to the patent article, manufacturing line, production facility or other manifestation of prior use. Transfer of ownership of the article, line, or facility should carry with it transfer of the defence, but the defence itself should not be independently transferrable or licensable.

25. **Question** - Should there be any exceptions for any specific fields of technology or types of entity with regard to prior user rights?

**Answer** – No.

26. **Question** - The Groups are also invited to present all other suggestions which may appear in the context of the possible international harmonization of "prior user rights".

**Answer** – The Canadian group considers that a prior use defence is a national question and hence any harmonization on this topic would provide prior use rights recognition only if the prior use rights arose in that country.