

Goodmans^{LLP} Update

The Impact of the USMCA on Intellectual Property Rights in Canada

On September 30, 2018, negotiators for Canada, Mexico and the United States announced their agreement on the text of a new free-trade agreement, the United States-Mexico-Canada Agreement (USMCA). The USMCA will replace the existing North America Free Trade Agreement (NAFTA), which had been in force since 1994.

Total trilateral merchandise trade between the three countries totalled over one trillion U.S. dollars in 2017. As such, the trilateral agreement, once ratified and implemented, is expected to have a significant impact in various sectors of the economies of all three countries.

This update is focussed on the intellectual property aspects of the USMCA (largely incorporated in Chapter 20 thereof), and their expected impact in Canada.

Patents

The USMCA is similar to its NAFTA predecessor with respect to patents. However, two changes are of particular note to Canadian practitioners.

1. *Extension to Patent Terms*

In Canada, patents generally expire 20 years from the filing of an application. Article 20.F.9 of the USMCA provides that if there are “unreasonable delays” in the issuance of a patent, the term of a patent shall be adjusted at the request of an owner. The USMCA indicates that “unreasonable delays” warranting a patent term extension include a delay in the issuance of a patent that is more than 5 years after the application has been filed or 3 years after an examination is requested, whichever is later. Article 20.K.1 requires this provision to be implemented within 4.5 years.

In addition to the possibility of extending patent terms for delays in the patent office, Article 20.F.11 provides for an adjustment of the patent term to compensate a patent owner for unreasonable curtailment of the effective patent term as a result of the marketing approval process. The provision indicates that parties are to make best efforts to process applications for marketing approval of pharmaceutical products in particular in an efficient and timely manner, with a view to avoiding unreasonable or unnecessary delays.

2. *Extension of the Term of Data Protection for Biologics*

Article 20.F.14 of the USMCA extends the term of data protection for biologics from 8 to 10 years. Biologics are pharmaceuticals that include a variety of products isolated from natural sources or produced by biotechnology methods. They comprise a wide range of products including gene therapies and recombinant proteins and are used to treat a large range of diseases including cancers, Crohn’s disease and MS.

Data protection refers to the period during which safety and efficacy data about a new drug or biologic submitted by the first applicant to a regulatory body cannot be used by subsequent applicants to obtain regulatory approval for an equivalent or similar product. Current data protection laws in Canada provide an 8-year period of exclusivity for all pharmaceuticals (biologics and chemically synthesized small molecules alike). Article 20.K.1 requires this provision to be implemented within 5 years.

Some fear that the extension of the data protection term for biologics may cause drug prices to remain higher for longer and thus significantly impact overall healthcare costs. It is possible Article 20.A.6 of the USMCA will provide an ability to curtail the data protection extension provisions in the event health care costs become prohibitively high. This Article provides that the provisions of the USMCA should not prevent the parties from taking measures to protect public health and should be interpreted and implemented in a manner supportive of each party’s right to protect public health and, in particular, to promote access to medicines for all, particularly in cases of national emergencies (e.g., public health crises, epidemics and other cases of extreme emergency). This will need to be monitored closely in the coming years.

Copyright

The USMCA will oblige Canada to make changes to the *Copyright Act*, which first came into force in the 1920s. Since that time, copyrights were mandated to persist over the author's life and the 50 years thereafter. This was also the term provided in the international copyright treaties, the Berne Convention and the WIPO Copyright Treaty.

In the USMCA, Canada agreed to extend the term for copyrights by an additional 20 years. While this represented a concession on Canada's part, notably Canada had already acceded to this term for copyright as part of the CPTPP (addressed further below). Under the USMCA, Canada has 2.5 years to implement this term.

Another change in the USMCA involves how internet service providers (ISPs) respond to allegations that their users are involved in copyright infringement. Canada is to maintain its "notice and notice" system, whereby the ISP forwards any notice of alleged infringement it receives from a rights holder to its subscriber. The USMCA provides ISPs with a "safe harbor", protecting them from liability for copyright infringement that occurs on their networks in certain circumstances. The USMCA directs signatories to provide legal incentives for ISPs to cooperate with copyright owners to deter unauthorized storage and transmission of copyrighted materials, and provides that ISPs remove material they know infringes copyright. If the ISP does so, it will be exempted from liability for infringement. The USMCA also directs the establishment of procedures to provide effective counter-notices by those whose material is removed erroneously and requires that the ISP restore access unless the party serving the initial notice initiates judicial proceedings.

The USMCA also requires Canada to provide for protection against the circumvention of digital locks and watermarks on copyrighted material. DVDs and other media can be outfitted with technological locks which prevent copying. The USMCA directs that those who circumvent such locks will be subject to both civil and criminal remedies, subject to various exceptions where the copying is considered to have been conducted in good faith.

Trademarks

The USMCA departs from NAFTA with respect to trademarks in a number of respects. For example, the USMCA requires:

- the ability to trademark sounds;
- "best efforts" to allow trademarking of scents;
- ratification of the 1989 *Madrid Protocol*; and
- the adoption of a trademark classification system consistent with the 1957 *Nice Agreement*.

All of these requirements have already been passed into law pursuant to Canada's new *Trademarks Act*, which is expected to come into force early next year.¹

It also bears noting that the text of the Trademarks section of the USMCA is essentially identical to the text of the Trademarks section of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The parties to the CPTPP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.² The CPTPP was signed earlier this year and has been tabled for ratification in the House of Commons, but is not yet in force.

One noteworthy requirement relating to trademarks under the USMCA (and CPTPP) that may require further legislative change in Canada is "pre-established damages" for trademark counterfeiting. Such statutory damages (which are already available in Canada for copyright infringement) must be set to "an amount sufficient to constitute a deterrent to future infringements and to compensate fully the right holder for the harm caused by the infringement". How such a level of damages will be set on a global basis for all counterfeiting, which can range from \$20 t-shirts to \$1,000+ handbags, is unclear.

Consistent with a crackdown on counterfeiters, Article 20.J.6 of the USMCA will grant new powers to border officials to detain any suspected counterfeit or pirated goods that are sought to be imported into the country, or are even in transit through the country. Further, rights holders

will have the ability to apply for a determination of whether the detained goods are in fact pirated or counterfeit by “competent authorities”, which can include law enforcement. This provision could effectively turn customs agents into arbiters of what constitutes a trademark (and copyright) infringement – a role historically reserved for the Canadian Intellectual Property Office and the courts.

Next Steps

The USMCA has not yet been signed by any of the three participating countries. The much-publicized U.S.-imposed September 30 deadline for completion of an agreement was likely not (entirely) a negotiating tactic. Rather, it was likely motivated (at least in part) by a desire to commence a mandated 60-day consultation period in the U.S. in sufficient time to allow for the signing of the agreement by December 1, 2018 – not coincidentally, the date that Mexico swears in a new President, the left-leaning Andrés Manuel López Obrador.³ It is expected that, once signed, the USMCA will be ratified by the three signatory countries next year, and come into force soon thereafter.

For further information concerning this development, please contact any member of our [Intellectual Property Group](#).

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¹ Indeed, many of the “new” requirements in the USMCA applicable to trademarks were implemented by Canada in accordance with its obligations under the recently ratified Canada-European Union Comprehensive Economic and Trade Agreement (CETA) in September 2017.

² The U.S. was originally a party to the “TPP”, a predecessor to the CPTPP, but withdrew in January 2017 (on President Trump’s first full day in office).

³ The incoming Mexican administration has nonetheless expressed satisfaction with the deal.

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