

JULY/AUGUST 2020
VOLUME 26 NUMBER 4

DEVOTED TO
INTELLECTUAL
PROPERTY
LITIGATION &
ENFORCEMENT

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IP *Litigator*®

Sending Cease and Desist Letters in Canada

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A recent decision of Canada's Federal Court in *Fluid Energy Group v. Exaltex*¹ (*Fluid*) has highlighted some of the issues that arise when sending an intellectual property cease and desist letter to a recipient in Canada.

Background

In Canada, it is very common for the owner of an intellectual property right to send a cease and desist letter to an alleged infringer before commencing litigation. In fact, as the judge in *Fluid* noted, "Although not required by law, such demand letters can serve laudable purposes of providing notice of a legal claim and a potential lawsuit, allowing the recipient to assess the claim and their conduct, and initiating discussions leading to resolution of the dispute before litigation is commenced."²

Subject to a few exceptions, the decision whether to send an IP cease and desist letter will not have any impact on the substantive remedies that the sender will be able to obtain at trial for infringement of its rights.

Although punitive damage awards are not commonplace in Canadian intellectual property cases, the fact that the defendant was aware of the plaintiff's IP rights (such as through receipt of a cease and desist letter) is an important factor in the court exercising its discretion to award punitive damages.³

Additionally, if the owner of an industrial design registration has failed to mark its articles to which the registration pertains with notice of its design rights, then the sending of a cease and desist letter may nevertheless be sufficient for it to avoid an argument by the defendant that it should not be required to pay damages for its infringing acts.⁴

In some jurisdictions, the owner of an IP right may be reticent to send a cease and desist letter out of concern

that doing so will prompt the recipient to commence legal proceedings seeking either or both of a declaration of invalidity and a declaration of non-infringement. For the following reasons, this is typically not much of a concern in Canada. First, the *Patent Act* provides that if a person seeks to impeach a patent through commencement of an invalidity proceeding in Federal Court they must, at the outset, provide security for the patentee's costs of the impeachment action. Such an obligation could require the challenging party to pay a substantial amount of money, possibly in the hundreds of thousands of dollars, into court as security. By way of contrast, if a potential infringer waits to be sued before launching an invalidity attack through its counterclaim, they will not be required to provide security for costs in respect of the invalidity counterclaim.

Second, the only venue for obtaining an *in rem* declaration of invalidity of a patent, trademark registration, or industrial design registration is the Federal Court, a court that has multiple offices throughout Canada and that does not permit jury trials. As such, a person who seeks to challenge a patent, trademark registration, or industrial design registration cannot obtain a tactical advantage such as a "hometown" jury by launching an impeachment action instead of waiting to be sued and then launching an invalidity counterclaim. For example, even if the recipient of a cease and desist letter were to launch an impeachment action with the Federal Court's office in Vancouver, the IP right owner could nevertheless retain counsel in, say, Toronto and seek to have the trial of the action occur in Toronto.

Liability for False and Misleading Statements in a Cease and Desist Letter

Therefore, the owner of an IP right can send a cease and desist letter without having to worry about the consequences of giving the recipient grounds to launch an invalidity attack. It is, however, important to bear in mind that the sending of a cease and desist letter can, in certain circumstances, lead to a cause of action under

paragraph 7(a) of the *Trademarks Act*⁵. Paragraph 7(a) provides as follows:

No person shall make a false or misleading statement tending to discredit the business, goods or services of a competitor.

Not surprisingly, it has been held that the essential elements required to establish a claim under paragraph 7(a) of the *Trademarks Act* are that there must be established in evidence: (a) a false and misleading statement; (b) tending to discredit the business, goods or services of a competitor; and (c) resulting damages.⁶

In the context of a cease and desist letter, as discussed in more detail below, it has been recognized by Canadian courts that a letter by an IP right owner asserting that a competitor is infringing the sender's rights can lead to liability under paragraph 7(a) if this allegation is subsequently proven to be untrue. It is not, however, every assertion of a patent or other intellectual property right, which may subsequently be held to be invalid or not infringed, that will constitute a false or misleading statement under s. 7(a).⁷

Malice Not Required for Liability under s. 7(a)

In *S. & S. Industries v. Rowell*⁸, the patentee's solicitor sent cease and desist letters to a number of the patentee's competitors making or selling a competitive product alleging that they were infringing the subject patent. At the time that the letters were sent, there was no judgment of any court declaring the patent to be invalid. The patentee was therefore entitled to rely upon the presumption in the *Patent Act* to the effect that a patent is, unless proven otherwise, presumed to be valid. Unfortunately for the patentee, a recipient of a cease and desist letter commenced an impeachment action that resulted in a declaration that the patent was invalid.

The Supreme Court of Canada, in finding that the patentee was liable under paragraph 7(a), noted that there is no requirement that a party making false or misleading statements do so with knowledge of their falsity or with malice and that the presence or absence of malice would only have relevance to the assessment of damages.⁹

Informative Versus Threatening Letters

In subsequent cases, Canadian courts have drawn a distinction between cease and desist letters that are merely

informative and letters that are threatening. In these decisions, the courts have noted that an informative letter is less likely to attract liability under paragraph 7(a) of the *Trademarks Act* than is a threatening letter.

For example, in *M&I Door Systems v. Indoro Industrial Door Co.*¹⁰, the patentee's counsel wrote letters to a competitor's prospective customers. Although the patent was subsequently held to be invalid at trial, the Court refused to award relief under s. 7(a) of the *Trademarks Act*. The trial judge was influenced by the following facts. First, given that a patent is *prima facie* valid, a patentee has the right to proceed on the presumption that its patent is valid when, among other things, sending a cease and desist letter. Second, even though the trial judge found the asserted patent to be invalid, he expressed his opinion that if the patent had been valid, he would have had no difficulty concluding that it had also been infringed. Third, the cease and desist letters in this case were more informative than they were threatening. Fourth, the patentee ultimately backed up its cease and desist letters by commencing an infringement action. The trial judge took this action as an indication that the patentee sincerely believed that its patent was both valid and infringed.

In view of this line of cases, Justice Hughes summed up the state of the law as follows in *E. Mishan & Sons v. Supertek Canada*¹¹:

It can be concluded from these cases that it is not every assertion of a patent or other intellectual property such as an industrial design which may be subsequently be held [sic] to be invalid which will be held to constitute a false and misleading statement. The Court must inquire as to the nature and circumstances of the assertions and any subsequent conduct by the party making the assertions.¹²

Justice Hughes contrasted informative letters with threatening letters, the former being letters that set out the patentee's rights and provide information that will enable the recipient to understand what may constitute infringement and the latter containing explicit or veiled threats that the recipient will be sued if they do not change a particular course of conduct.

Requirement to Prove Causation

Even if it is clear that a cease and desist letter contains a false and misleading statement, the plaintiff is still required to prove that the misleading statement caused it to suffer damages. This requirement is illustrated by the

Court's decision in *E. Mishan & Sons v. Supertek Canada* where the trial judge concluded that a national retailer's decision to stop carrying the plaintiff's product was not related to the retailer's receipt of a cease and desist letter alleging that the plaintiff's product infringed a third party's patent.¹³

Availability of Injunctive Relief

In many cases where an IP right owner has both sent one or more cease and desist letters and commenced litigation for infringement of such right, the defendant in the litigation will assert by way of counterclaim that it is entitled to damages under s. 7(a) of the *Trademarks Act* because the statements in the cease and desist letter(s) are false and misleading. In such a case, the s. 7(a) issue will be tried at the same time as the issues of validity and infringement.

In appropriate circumstances, however, a defendant may not be willing to wait until trial to have its s. 7(a) claim adjudicated and may instead seek an interlocutory injunction prohibiting the continued dissemination of cease and desist letters until the issues of validity and infringement can be determined at trial.

This was the very situation facing the Federal Court in *Fluid*. In that case, after commencing an action for patent infringement against the defendant Exaltexx, the patentee Fluid sent three cease and desist letters, including to a company that supplies raw chemicals to Exaltexx and a small trucking company that hauls product from Exaltexx to one of its customers. The cease and desist letters made broad-ranging assertions of infringement covering Exaltexx's products and threatened patent litigation against the recipients if they refused to comply with Fluid's demands to stop their activities. The letters also demanded that the recipients preserve all records relating to their activities that were the subject of Fluid's infringement allegations. Exaltexx responded by seeking an interlocutory injunction prohibiting Fluid from sending further cease and desist letters to third parties alleging that they or Exaltexx infringe Fluid's patents or demanding that they stop dealing with Exaltexx's products.

The judge hearing the application took a dim view of Fluid's letters to entities that supply raw chemicals to Exaltexx, noting that the Fluid patent did not cover these raw chemicals themselves. Similarly, the applications judge doubted that the recipient of one letter who merely stores or ships Exaltexx's product and does not buy or sell the product could be liable for patent infringement. Based on these findings, the applications judge determined that it was appropriate to grant an

interlocutory injunction prohibiting Fluid from making further allegations of patent infringement to Exaltexx's suppliers.

Privilege Attaching to the Contents of a Statement of Claim

One of the defenses that Fluid raised to Exaltexx's application for an interlocutory injunction was the argument that any references in its cease and desist letters to the statement of claim in the litigation it had commenced against other entities cannot form the basis for a s. 7(a) claim as the pleading itself is privileged. Although the applications judge acknowledged that statements in a pleading are subject to an absolute privilege, this did not mean that statements in a pleading could be repeated out of court with impunity.¹⁴

Accordingly, even though Fluid was entitled in its cease and desist letters to reference the fact that it had commenced litigation against Exaltexx, the simple fact that it had commenced litigation did not permit it to make false and misleading statements outside the context of that litigation.

Potential Regulatory Action

In 2018, the Federal Government enacted changes to the *Patent Act* that have the potential to significantly alter the contents of future patent cease and desist letters. These changes provide as follows¹⁵:

- any written demand received by a person in Canada, that relates to an invention that is patented in Canada or elsewhere must comply with the requirements for such demands set out in regulations;
- a person who receives a written demand that does not comply with the regulations and any person who is aggrieved as a result of such a demand may bring a proceeding in the Federal Court for relief;
- if the Federal Court is satisfied that the written demand does not comply with the regulations, it may grant any relief that it considers appropriate, including by way of recovery of damages, punitive damages, an injunction, a declaration or an award of costs; and
- if a corporation sends a written demand that does not comply with the requirements set out in the

regulations, is notified of those requirements and of the demand's defects in respect of those requirements and does not, within a reasonable time after receiving notice of those defects, remedy them, the corporation's officers, directors, and other representatives are jointly and severally liable with the corporation if they directed, authorized, assented to, acquiesced in or participated in the sending of the demand unless they can establish that they exercised due diligence to ensure that the written demand complies with the prescribed requirements.

Interestingly, these statutory changes are not restricted to cease and desist letters concerning *Canadian* patents but are instead directed to cease and desist letters *received in Canada* regardless of whether they relate to a Canadian patent or a foreign patent.

The Federal Government has not to date enacted regulations regarding the required contents of patent cease and desist letters and so the above statutory provisions do not presently impose any new obligations on the senders of such letters. It is uncertain whether enacting such regulations is a priority of the Federal Government.

Recommendations

In view of the case law in this area, any person considering sending an IP cease and desist letter in Canada may wish to bear the following principles in mind:

- IP cease and desist letters perform an important function in educating third parties about the existence and scope of the sender's IP rights;
- Canadian courts have recognized the important role that cease and desist letters play in the litigation system;
- sending a cease and desist letter does not generally raise a risk that doing so will lead the recipient to commence declaratory legal proceedings with a view to gaining a tactical advantage;
- sending a cease and desist letter alleging that a competitor is infringing the sender's intellectual property rights can, in certain circumstances, lead to liability under paragraph 7(a) of the *Trademarks Act*;
- a letter that merely provides information about the sender's intellectual property rights is less likely to lead to liability under paragraph 7(a) than is a threatening letter;
- a finding at trial that an intellectual property right is not infringed is more likely to lead to liability under paragraph 7(a) than is a finding that the IP right is invalid; and
- if and when necessary regulations are implemented, the recent amendments to the *Patent Act* could impose strict restrictions on the content of patent cease and desist letters that are sent to recipients in Canada.

1. 2020 FC 81.

2. *Ibid.* at para. 1.

3. *Eurocopter v. Bell Helicopter* 2012 FC 113 aff'd 2013 FCA 219.

4. *Industrial Design Act*, R.S.C. 1985, c. 1-9, s. 17.

5. R.S.C. 1985, c. T-13.

6. *S. & S. Industries v. Rowell* [1966] S.C.R. 419 at page 424.

7. *E. Mishan & Sons v. Supertek Canada*, 2016 FC 986 at para. 11.

8. [1966] S.C.R. 419.

9. *Ibid.* at page 425.

10. (1989), 25 C.P.R. (3d) 477 (FCTD).

11. 2016 FC 986.

12. *Ibid.* at para. 11.

13. 2016 FC 986 at para. 31.

14. *Ibid.* at para. 61.

15. R.S.C. 1985, c. P-4, section 76.2.

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