

Federal Court



Cour fédérale

Date: 20160720

Docket: T-1620-15

Citation: 2016 FC 830

Ottawa, Ontario, July 20, 2016

PRESENT: The Honourable Mr. Justice Boswell

BETWEEN:

SALT CANADA INC.

Applicant

and

JOHN W. BAKER

Respondent

JUDGMENT AND REASONS

[1] SALT Canada Inc. has brought an application for a declaration under section 52 of the *Patent Act*, RSC 1985, c P-4, that the records of the Patent Office relating to the title of Canadian Patent No. 2,222,058 be varied to list SALT, the Applicant in this proceeding, as the owner of the Patent. SALT also seeks an order directing the Commissioner of Patents to record an alleged reassignment of this Patent so as to list it as the owner in lieu of the Respondent, John W. Baker. In the alternative, SALT makes a further request in its Memorandum of Fact and Law for an order requiring Mr. Baker to execute the necessary assignment document to perfect an

assignment of the Patent to the original owner and inventor of the Patent, Dr. Michael Markels Jr., effective as of May 12, 2015.

[2] The Patent at issue in this application, entitled “METHOD OF IMPROVED LANDFILL MINING”, was filed in Canada on May 24, 1996 and issued on April 12, 2005. Dr. Markels, an American citizen, is listed as the original owner and inventor of the Patent. The Canadian Patent claimed priority from an application filed by Dr. Markels in the United States on May 26, 1995, and which was issued as U.S. Patent No. 5,564,862 on October 15, 1996.

I. Background

[3] The background of this application involves a series of assignments beginning with one dated December 26, 1997, when Dr. Markels signed an agreement which purportedly assigned both the Canadian and U.S. Patents to Environmental Control Systems, Inc. [ECS], a corporation established in the U.S. under the laws of the state of Georgia. This agreement [the 1997 Markels-ECS Assignment] contains a number of conditions which, if breached, ostensibly require ECS to assign the Patents back to Dr. Markels.

[4] On August 15, 2005, ESC signed an assignment agreement of its own with Tomann Industries, LLC [Tomann], a company established in the U.S. under the laws of the state of Delaware. This agreement [the 2005 ECS-Tomann Assignment], like the 1997 Markels-ECS Assignment, purported to assign the rights to both the Canadian and U.S. Patents to Tomann. In so doing, it appears ECS may have breached the terms of the 1997 Markels-ECS Assignment, one of which states that Dr. Markels’ prior consent is required for an assignment of the Canadian

or U.S. Patents. However, a reassignment of the Patents to Dr. Markels [the 2007 ECS-Markels Assignment] apparently did not occur until 2007 when ECS, following a shareholders' meeting held for the purpose of winding down ECS's business and affairs, signed the 2007 ECS-Markels Assignment on November 29, 2007.

[5] The Respondent's involvement in this matter appears to have begun shortly before the time of the ECS shareholders' meeting. Mr. Baker attended this meeting as Dr. Markels' proxy with an apparent desire to eventually obtain both the U.S. and Canadian Patents for himself. Towards that end, Mr. Baker executed an agreement and assignment with Dr. Markels dated December 5, 2007. This agreement [the 2007 Markels-Baker Assignment], like the 1997 Markels-ECS Assignment, contains a number of conditions which, if breached, purportedly requires both the Canadian and U.S. Patents to be reassigned to Dr. Markels. At the time of the 2007 Markels-Baker Assignment, however, Tomann's name remained on the Patent Office register for the Canadian Patent, a fact which Mr. Baker allegedly remained unaware of until January 4, 2008.

[6] On February 18, 2008, Mr. Baker signed a separate assignment with Tomann [the 2008 Tomann-Baker Assignment] for the specific purpose of obtaining the Canadian Patent. He then took steps to register his ownership of the Canadian Patent with the Patent Office.

[7] On December 15, 2010, Dr. Markels and the Respondent, Mr. Baker, executed an agreement entitled "First Amenment [sic] 'Agreement and Assignment'" [the 2010 Markels-Baker Amendment], purporting to confirm the terms of the original 2007 Markels-Baker

Assignment and modifying the amount of royalty payments. Mr. Baker acknowledges that he ceased making payments to Dr. Markels in 2011. However, he alleges that Dr. Markels never made any complaints or demanded payment, and never took steps to recover the amounts owing.

[8] For its part, the Applicant, SALT, became involved on or about April 20, 2015, when Dr. Markels signed an agreement with SALT, purporting to assign the rights to the Canadian Patent. As part of this agreement [the 2015 Markels-SALT Assignment], Dr. Markels agreed to take steps to remove the Respondent as registered owner of the Canadian Patent. The resulting reassignment [the 2015 Baker-Markels Reassignment] was signed by Dr. Markels on May 5, 2015, but has yet to be executed by Mr. Baker.

[9] The 2015 Baker-Markels Reassignment and the 2015 Markels-SALT Assignment were filed with the Patent Office on May 12, 2015, prompting the Respondent to file an objection on June 20, 2015. Ultimately, the Patent Office refused to record the 2015 Baker-Markels Reassignment because it was not executed by the listed owner on file, namely Mr. Baker. Following this refusal by the Patent Office, SALT initiated the present application on September 24, 2015. It should be noted that there also is a pending proceeding commenced on November 6, 2015 between Mr. Baker, as plaintiff, and Dr. Markels, as defendant, in the Superior Court of the State of Georgia dealing with the interpretation of the agreements noted above and title to the Canadian Patent.

II. Issues

[10] The Applicant raises a single issue: that is, should the 2015 Baker-Markels Reassignment, supported by the 2010 Markels-Baker Amendment, be properly recorded by the Canadian Patent Office?

[11] For his part, the Respondent raises numerous issues which can be summarised as follows:

1. Does the Federal Court have jurisdiction to hear this application?
2. Is the 2007 Markels-Baker Assignment enforceable against the Respondent in accordance with contract law principles?
3. Has the Respondent breached any duties he might have owed to Dr. Markels relating to the acquisition of the Canadian Patent?
4. Does section 51 of the *Patent Act* void the assignment of the Canadian Patent in the 2007 Markels-Baker Assignment in the face of the registered 2005 ECS-Tomann agreement?
5. If Dr. Markels has any rights to the Canadian Patent, is he barred from enforcing them due to limitation periods, laches or acquiescence?
6. Does the maxim *nemo dat quod non habet* apply to the 2007 Markels-Baker Assignment, such that the assignment it purports to carry out is void?
7. Does the affidavit sworn by Mr. Baxter, SALT's representative, contain admissible evidence?
8. Has the Applicant provided sufficient evidence to prove its case?

[12] In my view, however, the relevant issues which the Court needs to address can be simply stated as follows:

1. Does the Federal Court have jurisdiction to hear and determine the present application?
2. Should the 2015 Baker-Markels Reassignment be recorded by the Canadian Patent Office?

III. Analysis

A. *Does the Federal Court have jurisdiction to hear and determine the present application?*

[13] The Respondent raises two separate issues concerning the Court's jurisdiction over the present application: (1) the limited statutory jurisdiction conferred upon the Court by the *Federal Courts Act*, R.S.C., 1985, c. F-7, and the *Patent Act*; and (2) conflict of laws principles. Although these two issues are somewhat related, they are sufficiently distinct to address separately below.

(1) Statutory Jurisdiction of the Federal Court

[14] The Applicant, SALT, requests the following relief in its Memorandum of Fact and Law:

- (a) an order directing the Commissioner of Patents to record the reassignment from [Mr.] Baker to Dr. Markels presently on file and vary the entry in the records of the Patent Office relating to the title of Canadian Patent No. 2,222,058 to list SALT Canada Inc. as the owner thereof;
- (b) in the alternative, an order requiring [Mr.] Baker to execute the necessary assignment document to perfect the assignment of the Patent from [Mr.] Baker to Dr. Markels effective May 12, 2015 and an order directing the Commissioner of Patents to vary the entry in the records of the Patent Office relating to the title of

Canadian Patent No. 2,222,058 to list SALT Canada Inc. as the owner thereof;

(c) a declaration that SALT Canada Inc. is the present true owner of Canadian Patent No. 2,222,058 and has been since May 12, 2015; and

(d) costs.

[15] The central question, therefore, is whether the Court has jurisdiction to grant the relief requested by the Applicant.

[16] In addressing this question, the starting point is section 20 of the *Federal Courts Act* which, in combination with section 52 of the *Patent Act*, provides a specific statutory grant of power to the Court to vary or expunge entries in the records of the Patent Office relating to the title of a particular patent.

[17] Section 20 of the *Federal Courts Act* provides as follows:

**Industrial property,
exclusive jurisdiction**

20 (1) The Federal Court has exclusive original jurisdiction, between subject and subject as well as otherwise,

(a) in all cases of conflicting applications for any patent of invention, or for the registration of any copyright, trade-mark, industrial design or topography within the meaning of the *Integrated Circuit Topography Act*;

**Propriété industrielle :
compétence exclusive**

20 (1) La Cour fédérale a compétence exclusive, en première instance, dans les cas suivants opposant notamment des administrés :

a) conflit des demandes de brevet d'invention ou d'enregistrement d'un droit d'auteur, d'une marque de commerce, d'un dessin industriel ou d'une topographie au sens de la *Loi sur les topographies de circuits intégrés*;

and

(b) in all cases in which it is sought to impeach or annul any patent of invention or to have any entry in any register of copyrights, trade-marks, industrial designs or topographies referred to in paragraph (a) made, expunged, varied or rectified.

b) tentative d'invalidation ou d'annulation d'un brevet d'invention, ou d'inscription, de radiation ou de modification dans un registre de droits d'auteur, de marques de commerce, de dessins industriels ou de topographies visées à l'alinéa a).

**Industrial property,
concurrent jurisdiction**

(2) The Federal Court has concurrent jurisdiction in all cases, other than those mentioned in subsection (1), in which a remedy is sought under the authority of an Act of Parliament or at law or in equity respecting any patent of invention, copyright, trade-mark, industrial design or topography referred to in paragraph (1)(a).

**Propriété industrielle :
compétence concurrente**

(2) Elle a compétence concurrente dans tous les autres cas de recours sous le régime d'une loi fédérale ou de toute autre règle de droit non visés par le paragraphe (1) relativement à un brevet d'invention, un droit d'auteur, une marque de commerce, un dessin industriel ou une topographie au sens de la *Loi sur les topographies de circuits intégrés*.

[18] Section 52 of the *Patent Act* provides:

Jurisdiction of Federal Court

52 The Federal Court has jurisdiction, on the application of the Commissioner or of any person interested, to order that any entry in the records of the Patent Office relating to the title to a patent be varied or expunged.

**Jurisdiction de la Cour
fédérale**

52 La Cour fédérale est compétente, sur la demande du commissaire ou de toute personne intéressée, pour ordonner que toute inscription dans les registres du Bureau des brevets concernant le titre à un brevet soit modifiée ou radiée.

[19] Federal Court decisions interpreting section 52 of the *Patent Act* generally fall into one of two separate categories. The first concerns applications to vary an entry in the patent register because of an error or in light of some other technical reason that prevents the Patent Office from doing so without an order from the Court (see: e.g., *Segatoys Co Ltd v Canada (Attorney General)*, 2013 FC 98, 426 FTR 104, where by inadvertence or mistake, the listed inventors were named instead of the real inventors; *Dr Falk Pharma GMBH v Canada (Commissioner of Patents)*, 2014 FC 1117, 246 ACWS (3d) 895, where by inadvertence or mistake, one of the owners had not been listed; and *Imperial Oil Resources Ltd v Canada (Attorney General)*, 2015 FC 1218, 259 ACWS (3d) 545, where some of the listed inventors had actually had no part in the invention). These types of cases are rarely opposed and the Court, for its part, typically has no difficulty in recognising and assuming its jurisdiction under section 52 of the *Patent Act* to adjudicate them.

[20] In contrast, the second type of cases relates to contested proceedings where the Court is asked to determine the proper owner of a particular patent (see: e.g., *RLP Machine & Steel Fabrication Inc v DiTullio*, 2001 FCT 245, 2001 CFPI 245 [*RLP Machine*]; *Axia v Northstar Tool Corp*, 2005 FC 573, 273 FTR 123 [*Axia*]). In this type of case, the Court has determined that it lacks jurisdiction where determination of the ownership of a patent depends upon the application and interpretation of contract law principles. A succinct statement of the case law in this regard is the Court's decision in *Lawther v 424470 BC Ltd.*, [1995] FCJ No 549, 54 ACWS (3d) 1129 [*Lawther*], where Justice Simpson stated:

5 This Court has no jurisdiction to entertain a dispute which is solely a matter of contract. However, it will entertain an action which involves a contractual dispute, if the action primarily concerns a patent, trade mark or copyright ¹ [*Titan Linkabit Corp.*

v. S.E.E. See Electronic Engineering Inc., [1992] F.C.J. No. 807, 44 C.P.R. (3d) 469 at 472]. In this case, the pleadings disclose that the principal issue is whether or not the Plaintiff is entitled, in Canada, to a reassignment of the Patent. The Defendant alleges that the Plaintiff was offered an option to reacquire the patent but that the Plaintiff refused to pay the agreed price and that the option has lapsed. The central issue would seem to be the nature of the option agreement and whether or not the parties have complied with its terms.

6 In my view, the determination of this contractual issue will dictate ownership of the patent and the appropriate relief in respect of the patent. For this reason, I have concluded that this is primarily a case in contract and that the patent issues are ancillary. Accordingly, this Court is without jurisdiction. The Plaintiff should pursue his rights in the Supreme Court of British Columbia. As Mr. Justice Dubé noted in *Laurin v. Champagne* (1991), 38 C.P.R. (3d) 193 (F.C.T.D.) at p. 196, the Plaintiff may apply to this Court in the future to vary the registration of the Assignment should such an application be required.

[21] The question then is whether the present application relates primarily to contract or to patent law: this Court will have jurisdiction over a case that primarily concerns the latter, but not the former.

[22] In characterising the primary nature of the dispute in this case, the mere fact that the matter is disputed should not serve as a basis for concluding that all contested applications under section 52 of the *Patent Act* are essentially contractual and hence beyond the Court's jurisdiction. Indeed, while it may be appealing to conclude that the jurisdiction conferred by section 52 relates solely to applications for administrative rectification of the patent register, such a conclusion would be unwarranted since the Federal Court of Appeal has suggested that this Court *may* have jurisdiction to determine the ownership of a patent before ordering that the register be amended accordingly if all relevant evidence is on the record, all possible claimants to any rights in a

patent are before the Court, and they have been properly notified of the section 52 application (*671905 Alberta Inc v Q'Max Solutions Inc*, 2003 FCA 241 at paras 33-36, [2003] 4 FCR 713 [*Q'Max*]). (I pause here to note that *Q'Max* is distinguishable from the present case inasmuch as all possible claimants to any rights in the patent at issue in that case were before the Court; whereas in this case parties such as ESC and Tomann who may or may not have any rights in respect of the Canadian Patent are not parties to the application or before the Court).

[23] The common thread in cases such as *RLP Machine, Axia, Lawther* and others is a finding that determining patent ownership first requires the interpretation of contractual documents; the essence of the dispute in these cases was primarily contractual and any patent law issues were merely incidental or ancillary. Indeed, I find this case indistinguishable in principle from *RLP Machine* where the applicant in that case, like the Applicant here, sought among other things a declaration of ownership of the patent in question. In *RLP Machine*, the Court stated as follows:

[35] The Applicant is seeking a declaration of ownership of the patent. It claims to be the owner of the patent but can only refer to a series of contracts in support of its claim. It is necessary for a court to interpret those contracts to determine if indeed the Applicant acquired ownership of the patent in issue. This Court has no inherent jurisdiction to adjudicate upon private contracts which are not otherwise within its jurisdiction.

[36] In my opinion, the situation here is analogous to the one considered by Prothonotary Morneau in *Engineering Dynamics Ltd. v. Joannou, supra*. I adopt, as well, the remarks of Justice Simpson in *Lawther v. 424470 B.C. Ltd.* (1995), 60 C.P.R. (3d) 510 at pages 511-12 [quoted above]...

[24] In this case, the Applicant seeks an order to vary the records of the Patent Office. On its own, such an order would appear to be within the Court's jurisdiction. However, the issuance of any such order is secondary to and dependent upon a prior interpretation of the various

assignment agreements which, according to the Applicant, make it the proper owner of the Canadian Patent. The interpretation of these agreements is clearly a matter of contract, rather than patent law, and for this reason alone I find that the Court lacks jurisdiction to determine the question of whether the Applicant does or does not own the Canadian Patent.

[25] Moreover, the alternative relief requested by the Applicant is even more problematic from a jurisdictional perspective. By ordering the Respondent to execute an assignment to Dr. Markels, this Court would effectively be granting a form of specific performance on the basis of the 2007 Markels-Baker Assignment or the 2010 Markels-Baker Amendment. Not only does this necessarily involve the interpretation and enforcement of those documents, but it is also questionable whether the Applicant, as a third party to those agreements, even has the requisite privity to obtain such relief (see: e.g., *MacFarland v Hauser*, [1979] 1 SCR 337 at para 51, 88 DLR (3d) 449).

[26] I conclude, therefore, that the entirety of the relief sought by the Applicant is ancillary to a prior determination of the rights conferred by the assignment agreements relating to the Canadian Patent. The primary issue in this case relates to a matter of contract law – to wit, the ownership of the Canadian Patent in view of such agreements – and not to patent law, and until the issues associated with such ownership are otherwise resolved this case falls outside the jurisdiction of this Court.

(2) Jurisdiction Pursuant to Conflict of Laws Principles

[27] Because I have concluded that this Court does not have statutory jurisdiction over the principal subject matter of the dispute, the secondary issue of the Court's personal and subject matter jurisdiction pursuant to conflict of laws principles is essentially moot. Nevertheless, this secondary issue does warrant some comment.

[28] The Court's jurisdiction pursuant to conflict of laws principles is, of course, distinct from the statutory grant of power conferred upon it by the *Federal Courts Act* and *Patent Act*.

Nonetheless, the two issues cannot be completely dissociated. Characterising the subject matter of the dispute as essentially contractual has two separate effects. The first relates to the proper forum to adjudicate the dispute. The second relates to the choice of law applicable to the dispute itself. As a general rule, this will be the law chosen by the parties themselves, failing which Courts have tended to apply the law with which the contract has the "closest or most substantial connection" (Castel and Walker, *Canadian Conflict of Laws*, 6th ed (loose leaf) at p 31-4 [*Canadian Conflict of Laws*]).

[29] In this case, the 1997 Markels-ECS Agreement states that it is made subject to the laws of South Carolina, while the 2007 Markels-Baker Agreement states that it is made subject to the laws of the state of Georgia. The 2015 Markels-SALT Assignment states that it is made subject to the laws of Ontario. All other agreements noted at the outset of these reasons are silent and, ostensibly, would be governed by the "closest or most substantial connection" test noted above.

[30] That being said, the choice of law or governing law for the assignments relevant to this matter does not affect any statutory rights in the Canadian Patent itself. Statutory rights in a patent are governed by the laws of the jurisdiction in which the patent exists (see *Canadian Conflict of Laws* at p 24-2). Statutory rights in patents are strictly territorial. They are situated in the jurisdiction of the grant. Therefore, no assignment or transfer can take place except in accordance with the laws of that jurisdiction.

[31] Accordingly, nothing in the assignment agreements could have the effect of exempting them from the operation of section 51 of the *Patent Act*, which renders an unregistered assignment void against subsequent assignees. As noted in *Verdellen v Monaghan Mushrooms Ltd*, 2011 ONSC 5820, 207 ACWS (3d) 553:

[41] It is understandable that when an international PCT [Patent Cooperation Treaty] application becomes a national phase application in Canada, the national phase application becomes subject to the Patent Act and a contest between two claimants to those Canadian patent rights would be governed by the registration provisions in section 51 of the Patent Act. Can it be said, however, that a contest between those two claimants to foreign patent rights would be governed by section 51 of the Patent Act? In my view it cannot.

[32] The ultimate outcome of this case will thus need to take the *Patent Act* into account notwithstanding whatever provincial or foreign law may be applicable to the assignment agreements at issue. This will be so regardless of the forum that ultimately adjudicates this dispute, be it a provincial superior court in Canada or the Superior Court of the State of Georgia in which there is a pending proceeding between Mr. Baker and Dr. Markels dealing with interpretation of these agreements and title to the Canadian Patent.

[33] It is unnecessary, however, for the Court to determine what forum should determine or what law should govern ownership of the Canadian Patent. It may well be the case that the Superior Court of Fulton County in Georgia will recognise its own jurisdiction over the dispute pursuant to its own rules governing jurisdiction. However, this does not necessarily mean that a provincial superior court in Canada may not have to intervene at some point in the future.

B. *Should the 2015 Baker-Markels Reassignment be recorded by the Canadian Patent Office?*

[34] For the reasons outlined above, I am of the view that the registration of the 2015 Baker-Markels Reassignment first requires that the parties' rights to ownership of the Canadian Patent be determined pursuant to the relevant assignment agreements. Since this Court lacks jurisdiction to make such a determination, it will not order registration of the 2015 Baker-Markels Reassignment at this time.

IV. Conclusion

[35] In conclusion, the Applicant's application under section 52 of the *Patent Act* is dismissed in its entirety.

[36] The Respondent is entitled to his costs in this matter. In view of the parties' submissions with respect to costs made at the hearing of this matter, I fix and award the Respondent costs in a lump sum amount of \$10,000.00, inclusive of any and all taxes, disbursements and other costs.

JUDGMENT

THIS COURT'S JUDGMENT is that: the Applicant's application is dismissed; and the Respondent is awarded costs in a lump sum amount of \$10,000.00, inclusive of any and all taxes, disbursements and other costs.

"Keith M. Boswell"

Judge

FEDERAL COURT
SOLICITORS OF RECORD

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PLACE OF HEARING: TORONTO, ONTARIO

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