Small versus Large Entity Determination under Canadian Patent Law

Dutch Industries

In 2003, the Federal Court of Appeal, in the case of Dutch Industries Ltd. v. The Commissioner of Patents, Barton No-Till Disk Inc. and Flexi-Coil Ltd ¹ (Dutch Industries), ruled that the entity status of an applicant is determined once, at the time when the Canadian patent application process or regime is first engaged. Pursuant to Dutch Industries, Patent applicants maintain that status with regard any subsequent government fee payments for as long as the application is pending, and for as long as the patent remains in force. The court’s decision and interpretation of the applicable law did not support the notion that, as the entity changed size (e.g. from small to large), so would the required fees payable over the course of the patent process; the court declined to accept that the payment of fees would, at a given time, be dictated by the actual entity status at the time such fees became due.

The court also ruled that there was no statutory basis for the Canadian Intellectual Property Office (CIPO) to accept retroactive “top-up” payments to correct deficiencies in past fee payments outside of any statutory mechanisms or discretion already provided to the CIPO. As a consequence, there has risen considerable doubt regarding the status and enforceability of many Canadian patents and applications.

Following the court’s decision, it has been stated by the CIPO that the onus of determining the entity status is on the applicants. The CIPO does not question the assertions of applicants as being “small entity”.

Act to amend the Patent Act (Bill C-29) provisions

The Government of Canada’s response to the Dutch Industries decision was to enact an Act to Amend the Patent Act (Bill C-29), which received royal assent on May 5, 2005 and will come into force on February 1, 2006. For a period of 12 months (beginning on February 1, 2006 and lasting until February 1, 2007), the statute will provide the opportunity for certain applicants – who have, or may have, paid patent fees based on “small entity” rates – to pay retroactive “corrective” payments at a large entity rate, if necessary. The necessary nonrefundable corrective payments are intended to cure patent rights that might otherwise have been voidable; failure to pay the corrective fees may ultimately result in the irrevocable loss of patent rights. Moreover, in order for “corrective” payments to be accepted in accordance with the new legislation, applicants are required to provide information with respect to the patent or application and action taken in respect of which the fees were paid.

¹ Barton No-Till Disk Inc. and Flexi-Coil Ltd. v. Dutch Industries and The Commissioner of Patents, [2003] 4 F.C. 67
**Definition of “small entity”**

Fees are set at a lower scale for “small entities” to provide monetary relief to applicants that are presumed to be of limited means. Section 2 of the *Patent Act* presently defines “small entity” as follows:

“small entity” in respect of an invention, means an entity that employs 50 or fewer employees or that is a university, but does not include an entity that

(a) has transferred or licensed, or is under a contractual or other legal obligation to transfer or license, any right in the invention to an entity, other than a university, that employs more than 50 employees, or

(b) has transferred or licensed, or is under a contractual or other legal obligation to transfer or license, any right in the invention to an entity that employs 50 or fewer employees or that is a university, and has knowledge of any subsequent transfer or license of, or of any subsisting contractual or other legal obligation to transfer or license, any right in the invention to an entity, other than a university, that employs more than 50 employees.

The assessment of an applicant’s entity status is not always straightforward and there has been little judicial pronouncement, on the definition of a “small entity”.

Given the court’s decision in *Dutch Industries* along with the enactment of *Bill C-29*, it will be important for applicants to carefully review their entity status at the time when all prescribed fees were paid with respect to any of their Canadian patents and any pending applications. The first step is to assess if “small entity” status was claimed, that the applicant was indeed a “small entity” at the time of engaging the Canadian patent regime (*i.e.* time of filing). If it is determined that the entity status was incorrect at time of filing – and the filing fees and any subsequent fees were incorrectly paid as a “small entity”, there appears to be one year time limited recourse under *Bill C-29* to make corrective payments.

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