

LEGAL INTEREST TANGLED IN A WEB OF LICENCE AGREEMENTS

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In *Close Up International Ltd v 1444943 Ontario Ltd* (2006 CanLII 32925; 2006-09-27) the Superior Court of Ontario has ruled that a right to bring an action to enforce copyright cannot be granted by means of licence agreement if interest in the copyright itself was not also granted to the licensee. The agreement needs to include specific language regarding the assignment of IP rights for a licensee to have standing in a Canadian court in a copyright enforcement case.

US company Close Up International Ltd (CUI) instituted proceedings against two numbered companies, 1444943 Ontario Ltd and 1179464 Ontario Ltd, and two Canadian residents personally for infringing its copyright in films. It alleged that the defendants unlawfully reproduced, sold, rented and distributed its films without licence or authorization. CUI, through a maze of licence agreements between several Russian film studios, had exclusive rights to reproduce and distribute the copyrighted works throughout the United States and Canada.

CUI sought a declaration that the defendants infringed the copyright in its works, as well as a declaration that they breached its exclusive licence and thereby infringed its copyright. It also requested an injunction under Section 34(1) of the *Copyright Act* to restrain the defendants from selling infringing works and reproducing labels. CUI also asked for damages and sought to enforce its trademark rights pertaining to the words "Close Up".

CUI pleaded that it had "granted a right of action for enforcement of intellectual property rights pursuant to sub-licence agreements" to two companies incorporated in Canada also referred to as CUC and CUO. It maintained that these companies had acquired distribution and other rights

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to an exclusive licence, which gave them a right to enforce the copyright through legal action.

The defendants opposed the addition of the two Ontario companies as plaintiffs on the basis that they had no interest in and no standing to enforce the copyright owned by CUI. Further, they argued that the motion to add resident companies as plaintiffs should be rejected on the basis that it constituted an abuse of process given that the motion was made shortly after a court order to pay security for costs.

The court refused to interpret the licence agreement as giving an exclusive licence to the two Canadian companies. Giving a narrow interpretation to the words "licence to sell, distribute and rent" found in the agreements, the court insisted on the fact that both agreements did not provide for any right to reproduce the films, although the companies were granted the exclusive right to wholesale distribution of the films in Canada. The licensees were also given the "full legal rights for joint actions with the dealer to enforce and protect all rights of the dealer in any court" in Canada. The agreements were silent on CUO and CUC enforcing their own distribution rights.

Master R Dash ruled that the licence given to the two Canadian companies was only a sole licence, given that nothing in the agreements prevented CUI from distributing the films in Ontario itself. At most, the agreements "recommended" or "encouraged" retailers to purchase directly from the Ontario companies and provided that they would get the profit in the event that sales would be made directly by CUI.

The Copyright Act provides that only a copyright owner or an exclusive licensee is entitled to the relief claimed in the statement of claims for infringement damages, injunction and recovery of infringing property. The Superior Court ruled that because interest in the copyright was not granted to CUC and CUO by means of a licence agreement, the right to bring an action to enforce said copyright could not be granted. As a result, CUC and CUO do not have standing in a Canadian court.

Further, the court ruled that adding unnecessary Ontario residents as plaintiffs, in order that the US-based CUI might avoid security for costs on the basis that any liability for costs will be a joint obligation, constitutes abuse of process. Given that an order to pay security for costs was issued against CUI on the eve of the motion to add two Canadian plaintiffs, the court considered it to be an attempt to avoid further orders for security for costs.

The judge's decision confirms once again that it is impossible to read between the lines of a contract. Intent must be put into words.

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