

July 2020

Out with the New, In with the Old: The F.C.A. provides Clarity on its Ability to Interpret Contracts

On July 28, 2020, the Canadian Federal Court of Appeal delivered its much anticipated decision in *SALT Canada Inc v John W Baker*, 2020 FCA 127 (“**Salt**”) with regard to the Federal Court’s ability to interpret contracts, licenses, and other contractual documents in proceedings made pursuant to statutory provisions (e.g. Section 52 of the *Patent Act*). The *Salt* decision: (i) reverses a line of Federal Court decisions stemming from the 1995 decision of *Lawther*¹ which held that contract interpretation was outside of the jurisdiction of the Federal Court; and (ii) re-affirms the Supreme Court of Canada’s 1941 decision of *Kellogg*² and the former Exchequer Court’s 1960 decision of *Clopay*³ which held that “the Federal Court can interpret contracts between private citizens as long as it is done under a sphere of valid federal jurisdiction vested in the Federal Court”.⁴

Background

In December 2010, Dr. Markels executed a document transferring Canadian patent number 2,222,058 (the “**058 Patent**”) to Mr. Baker (the respondent herein), subject to royalty payments and a

¹ *Lawther v 424470 BC Ltd* (1995), 60 CPR (3d) 510 (FC).

² *Kellogg Co v Kellogg*, [1941] 2 DLR 545 (SCC).

³ *Clopay Corp v Metalix Ltd* (1960), 24 CPR 232 (Ex Ct)

⁴ *Salt Canada Inc v John W Baker*, 2020 FCA 127, para. 24.

reversionary clause should such payments stop. Specifically, if the royalty payments stopped, Dr. Markels was entitled to request Mr. Baker to assign his ownership rights in the '058 Patent back to Dr. Markels.

Mr. Baker made his last royalty payment related to the '058 Patent in 2011. In 2015, Dr. Markels, acting within his contractual rights, requested Mr. Baker to assign ownership of the '058 Patent back to Dr. Markels. Mr. Baker, however, refused.

Later in 2015, Dr. Markels assigned his rights in the '058 Patent to SALT Canada Inc. (the appellant herein, also referred to herein as "**SALT**"). Under that assignment agreement, Dr. Markels was obligated to assist SALT in having Mr. Baker removed as the registered owner of the '058 Patent. Ultimately, Dr. Markels was not successful in securing an executed assignment of rights from Mr. Baker.

Pursuant to Section 52 of the *Patent Act*, SALT applied to the Federal Court to vary the title to the '058 Patent and list SALT as the registered owner of the '058 Patent ([click here](#) for the Federal Court decision).

The Federal Court, citing the *Lawther* decision and consequently dismissing SALT's application, stated as follows:⁵

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. [emphasis added]

⁵ *Salt Canada Inc v John W Baker*, 2016 FC 830, para. 24.

SALT appealed the decision of the Federal Court.⁶

Federal Court of Appeal

In reversing the Federal Court's decision, the Federal Court of Appeal issued many notable statements, including those that may be paraphrased as follows:

- Section 52 of the *Patent Act* is an act of Parliament, and Federal Courts have original jurisdiction in respect of any matter raised respecting the title of patents.⁷ The fact that agreements need to be construed and interpreted as a part of such exercise of jurisdiction does not remove that jurisdiction.^{8,9}
- The Federal Court can determine issues of title – the “very wide” power of deciding who is “actually entitled to the grant” of the patent and who has the “rights” to the patent – and ensure that the records of the Canadian Patent Office reflect the correct legal situation.¹⁰
- When dealing with an application under Section 52 of the *Patent Act*, the Federal Court remains free to determine who should be reflected on the record of the Canadian Patent Office as the owner of a patent, even if that involves interpreting agreements and other instruments.^{11,12}
- The *Lawther* decision, which held that the Federal Court does not have jurisdiction over matters that are “primarily a case in

⁶ Canadian Federal Courts, unlike their provincial court counterparts, are not courts that have inherent jurisdiction. Rather, Canadian Federal Courts derive their jurisdiction through statute (*i.e.* jurisdiction is assigned to Federal Courts through acts of Parliament).

⁷ *Supra* note 4, para. 5.

⁸ *Supra* note 4, para. 3.

⁹ *Supra* note 4, para. 5.

¹⁰ *Supra* note 4, para. 12.

¹¹ *Supra* note 4, para. 47.

¹² *Supra* note 4, para. 24.

contract”, is no longer regarded as “good law” by the Federal Court of Appeal.¹³

The Federal Court of Appeal’s decision is a significant victory for SALT. In addition to affirming the express jurisdiction and the very wide powers of the Federal Court to make determinations and orders involving the title of patents, the Federal Court of Appeal further exercised its power to make the decisions that the Federal Court should have made¹⁴ and directed the Commissioner of Patent to vary the entry in the records of the Canadian Patent Office relating to the title of the ‘058 Patent to list SALT as the owner thereof. Costs were also awarded to SALT.

Take-Aways

The *Salt* decision is one that will be celebrated by Canadian patent practitioners and patent litigants alike, as it removes the spectre of litigants having to go through a cumbersome exercise of seeking judgment on contractual matters in the provincial court system before seeking other remedies before the Federal Court.

The *Salt* decision also provides welcomed re-affirmation that “the Federal Court can interpret contracts between private citizens as long as it is done under a sphere of valid federal jurisdiction vested in the Federal Court”.

McMillan LLP acted for the appellant, SALT Canada Inc., on this matter.

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¹³ *Supra* note 4, para. 31.

¹⁴ *Supra* note 4, para. 51.

a cautionary note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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