THE INTERSECTION BETWEEN DROP-SHIPPING AND PATENT INFRINGEMENT

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"Drop-shipping" is a popular online retail business model where a business does not maintain its own inventory, but instead relies on a third-party supplier to directly ship goods to the business's customer after the business's customer places an order for said goods with the business. In essence, once the customer places an order with the business and pays the business the retail price for the goods, the business forwards the order onto a third-party supplier and pays the third-party supplier the supplier's price for the goods. The supplier then directly ships the goods to the customer, and the business keeps the profit difference between its retail price and the supplier's price.

To some, the drop-shipping business model is advantageous in that it eliminates the need for inventory storage, thereby allowing a business to operate on less capital and less overhead costs. Furthermore, a drop-shipping business could in theory (i) operate from any location (provided there is a connection to the Internet) and (ii) allow a business to offer a wider range of goods from different industries to sell (since the business does not actually stock inventory). Notwithstanding the potential advantages of a drop-shipping business model, businesses engaged in drop-shipping are not necessarily immune from traditional business issues such as slim margins, issues related to the prompt delivery of goods, and issues related to customer complaints and return of goods.

While the drop-shipping business model may be seen as a literally "hands-off" approach relative to a traditional retail business model, it should come as no surprise that the law applies to drop-shipping businesses just as it does to traditional businesses. As such, drop-shippers should be aware of the legal landscape governing their business activities. In the context of Canadian patent law, one foreseeable cause of action that a drop-shipper may encounter is a claim of "infringement by inducement".

Patent infringement in Canada is broadly understood as "any act that interferes with the full enjoyment of the monopoly granted to the patentee".[1] Such monopoly includes "the exclusive right, privilege and liberty of making, constructing and using the invention and selling it to others to be used, subject to adjudication in respect thereof before any court of competent jurisdiction" [emphasis added].[2]

"Infringement by inducement" is an example of patent infringement in Canada, and arises when the following criteria are met: [3]

1. an act of infringement is completed by a direct infringer;
2. the completion of the act of infringement is influenced by the acts of an alleged inducer to the point that, without the influence of the alleged inducer, the infringement by the direct infringer would not have taken place; and
3. the influence must have been knowingly exercised by the inducer. That is, the inducer knew that this influence would result in the completion of the act of infringement.

In an "infringement by inducement" situation, there is no requirement that the inducer have any direct contact with the direct infringer. [4] A party's ignorance to the existence of a patent is no excuse either; that is, "everyone is presumed to have notice of a patent".[5] Most importantly, it is settled under Canadian patent law that "one who induces or procures another to infringe a patent is guilty of infringement of the patent".[6]

Because of the potentially remote nature of a drop-shipping business, it is very likely that non-Canadian and Canadian drop-shippers alike will have Canadian customers. However, the physical location from which the drop-shipping business operates (*i.e.* whether in Canada or not) may not be particularly determinative of whether a drop-shipping business could face a claim of "infringement by inducement" in Canada. Namely, if the patentee plaintiff can establish that a "real and substantial" connection exists between the claim of "infringement by inducement" and Canada,[7] then it is within the Canadian court's discretion to take jurisdiction over the claim and therefore the defendant drop-shipper. And that's not all: improper use of copyrighted materials or third party trademarks may also give rise to claims for copyright or trademark infringement – a topic that may be explored in a future bulletin.

While it is trite to say that a business should, in general, avoid patent infringement, a business (such as one engaged in drop-shipping) should at least from time to time carefully review its business and advertising practices, and further consider whether its practices "induce" or could be seen as "inducing" their potential customers to infringe a third party's intellectual property rights.[8],[9] A "hands-off" business approach may provide certain advantages; however, it certainly is not a work-around for the expectation that business competitors compete fairly in the marketplace.

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[1] *Monsanto Canada Inc v Schmeiser*, 2004 SCC 34, para. 34, citing *H. G. Fox, The Canadian Law and Practice Relating to Letters Patent for Inventions* (4th ed. 1969), at p. 349.

[2] *Patent Act*, R.S.C., 1985, c. P-4, s. 42.

[3] *Corlac Inc et al v Weatherford Canada Ltd et al,* 2011 FCA 228. para. 162.

[4] *Charles D. MacLennan and Quadco Equipment Inc v Les Produits Gilbert Inc*, 2008 FCA 35, para.43.

[5] *Supra* note 3, para 156.

[6] *Supra* note 3, para. 162.

[7] *Club Resorts Ltd v Van Breda*, 2012 SCC 17; applicable provincial legislation.

[8] *Supra* note 4.

[9] "Comparative Advertising: The Unintended Path to Patent Infringement" (Fall 2009), online: *McMillan LLP*.

A Cautionary Note