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Punished for the Sins of the Baby?: Liability of Foreign Parent Companies for Patent Infringement in Canada

The recent decision in *Munchkin Inc v Angelcare Canada Inc* presents an example of circumstances in which foreign parent companies can be held liable for patent infringement in Canada.

Discussion

The case involves a dispute between baby care product competitors Angelcare Canada Inc., Edgewell Personal Care Canada ULC, and Playtex Products, LLC (collectively, “Angelcare”), and Munchkin, Inc. and Munchkin Baby Canada, Ltd. (collectively, “Munchkin”), relating to a series of patents for diaper pails and bags to be placed inside the pail to store used diapers (referred to as “cassettes”).

Specifically, Angelcare alleged that Munchkin’s products had infringed six of its patents by copying certain features of the cassettes and the assembly of the cassettes and diaper pails together. In response, Munchkin denied infringement and claimed that, even if it had infringed Angelcare’s patents, the patents were invalid in any case.

Following a 35-day trial, the Federal Court found in favour of Angelcare, concluding that “some of Munchkin’s products infringed some of the patent claims in issue, and that most of the claims in issue were valid.”

Importantly, the Federal Court found that both Munchkin Baby Canada, Ltd. (“Munchkin Canada”) and its US-based parent, Munchkin, Inc. were liable for infringement, as “the American parent company made design and marketing decisions that had a direct impact on the resulting infringing activities in Canada.”

In reaching this conclusion, the Federal Court relied on the fact that:

- The product design decisions came from Munchkin, Inc. (Munchkin Canada never had any designers);
- Munchkin Canada distributed only the products designed by its parent, Munchkin Inc.;
- Munchkin Canada had only seven employees, all of

whom worked in sales, marketing, and warehousing; and

- Munchkin, Inc. made no distinction between decisions undertaken for the US market and the Canadian market.

Decision

On appeal to the Federal Court of Appeal, Munchkin sought to overturn, among other things, the Federal Court's finding that Munchkin, Inc. was liable for infringement.

Munchkin argued that Munchkin, Inc. was not in "common cause" with Munchkin Canada, as it (i) had no role in the manufacture, use or sale of the infringing products; (ii) had no office or employees in Canada; (iii) made design and marketing decisions; and (iv) did nothing in Canada.

The Court rejected this argument, holding that, while "[i]t is true that, to infringe a Canadian patent, infringing activities must take place in Canada," "a person cannot avoid liability for infringement by setting itself up outside Canada, and then making arrangements from there that result in infringement of a patent in Canada."

The Court noted that the "key" to the analysis is "whether the infringing activities took place (they did in this case), and whether the person located outside Canada (here, Munchkin, Inc.) made itself liable therefore, either by having common cause with a Canadian actor (Munchkin Canada) or otherwise being a party to the infringement."

As the question of whether Munchkin, Inc. had "participated in the infringing activities sufficiently to be liable for infringement" was a "question of mixed fact and law," the Court declined to disturb the Federal Court's ruling, as there was "no palpable and overriding error nor any extricable error of law in the Federal Court's analysis."

Takeaways

The Federal Court of Appeal's decision makes clear that if a foreign parent company acts in "common cause" with its Canadian subsidiary to infringe Canadian patents, both entities will be held liable. This decision provides insight as to factors that will be considered in assessing "common cause" which can help companies better understand potential liability and the implication of their involvement even when seemingly not engaging in infringing activities in Canada per se.

It will be interesting to see how the concept of common cause continues to develop as it relates to parent companies in and outside of Canada. It will also be interesting to see if this finding is extrapolated into other decisions of infringement liability such as cases asserting common design (see *e.g.*, *Rovi Guides, Inc. v Videotron Ltd.*

and *Genentech, Inc. v Celltrion Healthcare Co., Ltd.*) or other joint liability concepts.

The Court's conclusion on this issue is consistent with the general principle in Canadian law that substance shall prevail over form—one cannot rely on artifice or technicality to avoid the plain consequences of one's actions. While there will still be territorial limits on liability for Canadian patent infringement, once the Federal Court found that there were sufficient activities in Canada to ground jurisdiction, the parent company could not rely purely on its internal corporate structuring to escape liability.