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Intellectual Property

Specification by Reference to Brand in Government Procurement

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A recent decision of the Federal Court of Appeal considered when it is permissible for a procurement tender for the supply of products to the Canadian federal government to specify the products by brand name.

In *Canada (Attorney General) v. Enterasys Networks of Canada*, the Attorney General successfully applied to quash decisions of the Canadian International Trade Tribunal that upheld in part several complaints made under the *Canadian International Trade Tribunal Act* by Enterasys Networks in respect of procurement requests by Public Works and Government Services Canada (PWGSC).

The court held that the Tribunal had no jurisdiction to determine the complaints because Enterasys did not submit a bid and no act of PWGSC in the procurement process precluded Enterasys from doing so.

Although not necessary for resolution of the applications, the court went on to deal with the question of the circumstances where it is permissible for a procurement tender to specify the products to be procured by trade-mark and, by extension, other intellectual property.

BACKGROUND

The contracts that were the subject of the complaints related to switches for installation within an existing computer network of the government. The contracts were awarded on the basis of procurements that specified the desired equipment by the trade-mark of a competitor of Enterasys or an equivalent.

Enterasys did not submit bids but challenged the contracts before the Tribunal. Enterasys alleged that there was a sufficiently precise or intelligible way of describing PWGSC's requirements other than by a trade-mark such that PWGSC was not entitled to specify these requirements by trade-mark.

Article 1007(3) of the *North American Free Trade Agreement* provides that "each Party shall ensure that the technical specifications prescribed by its entities do not require or refer to a particular trademark or name, patent, design or type, specific origin or producer or supplier unless there is no sufficiently precise or intelligible way of otherwise describing the procurement requirements and provided that, in such cases, words such as 'or equivalent' are included in the tender documentation."

PWGSC submitted evidence to the Tribunal that the use of a trade-mark in relation to the procurements was necessary to avoid an unacceptable operational risk because of product compatibility requirements.

TRIBUNAL

The majority of the Tribunal said that practical, operational or general systemic considerations, such as the ones taken into account by PWGSC, do not fall within the scope of the exception in Article 1007(3). The majority concluded that there was no evidence explaining the practical reasons for specifying the products by a trade-mark when procuring the switches. Accordingly, the Tribunal concluded that PWGSC's conduct regarding these procurements was inconsistent with Article 1007(3).

A dissenting member of the panel said that Article 1007(3) authorizes PWGSC to identify products by trade-mark in a procurement to the extent that PWGSC can provide a reasonable explanation that generic specifications are not sufficiently precise to allow it to ensure that the requested product will properly integrate into an existing network. The dissenting member therefore concluded that PWGSC's explanation was reasonable.

FEDERAL COURT OF APPEAL

On appeal, the court unanimously stated that, had it concluded that the Tribunal had the statutory authority to determine the complaints, it would have determined that the complaints on the trade-mark issue would have failed.

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The court disagreed with the majority of the Tribunal. It did not accept the proposition implicit in the decision of the majority that Article 1007(3) necessarily requires the federal government to take unacceptable operational risks. The Court said that, in determining whether a particular procurement may use a trade-mark in a specification, one cannot disregard or discount as irrelevant evidence that the use of trade-marks in relation to a particular procurement was necessary to avoid an unacceptable operational risk.

The court preferred the "reasonable" approach taken by the dissenting member of the Tribunal. The court adopted her view that Article 1007(3) authorizes PWGSC to identify products by trade-mark in a procurement to the extent that PWGSC can provide a reasonable explanation that generic specifications are not sufficiently precise to ensure that the requested product will properly integrate into the existing network.

PWGSC presented a reasonable explanation that generic specifications would risk compromising the government's networks and prevent it from purchasing the required switches. When switches are to be installed and integrated into existing networks, whose integrity and reliability are essential, a failure of the switches to properly integrate into those networks could compromise those networks.

In the circumstances of this case, the risks and the consequences of not procuring the right products constituted a sufficient and reasonable justification for PWGSC to specify the switches by a trade-mark or equivalent.

While the Federal Court of Appeal's holding on Article 1007(3) is arguably *obiter*, the rationale of this decision may also apply to government procurements which specify products by reference to other intellectual property rights because Article 1007(3) relates to technical specifications which refer to a particular "trademark or name, patent, design…". Where the government can show that it is reasonably necessary to specify products by referring to intellectual property rights for practical, operational or systemic reasons, such specifications may be permissible.

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