

Intellectual Property Weekly Abstracts Bulletin — Week Of February 6, 2017

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Patent Decisions

Inducement to Induce Infringement Allegation Not Struck from Pleading
[Elbit Systems Electro-optics Elop Ltd. v. Selex ES Ltd., 2016 FC 1000](#)

The Defendant, Selex, brought a motion to strike parts of the Statement of Claim. The motion was granted in part.

The first category of pleadings dealt with whether a plaintiff could plead "inducement to induce infringement" as a cause of action. The Court held that as inducement is an act of infringement, the Court of Appeal's test for inducement could still apply. The Defendant did not meet its burden to establish that such indirect inducement did not have the slightest chance of success. Thus, the allegation was not struck.

The Court held that the existence of an industry practice is an allegation of fact. Thus, it should not be struck. The Defendant also sought to strike the allegation that "at all material times" it was aware of the patent at issue. The Court held that this is technically an allegation of a state of mind that ought to be particularized, rather than struck. The use of partial motions to strike should not be encouraged where the defect can be cured by an informal request for particulars. Furthermore, pleadings as to the future were held to support a claim for certain species of damages, rather than being a speculative cause of action

The Court struck allegations that the government considered a different procurement process and preferred the allegedly infringing bid, as there was no materiality to these allegations, even as context or part of the surrounding circumstances. The Court held that their presence was prejudicial.

Non-Infringing Alternative not Found Where Manual Alternative Still Used in the Industry and the Invention Creates a Significant Improvement Over the Alternative
[Frac Shack Inc. v. AFD Petroleum Ltd., 2017 FC 104](#)

This decision concerned the validity and/or infringement of a number of claims of the '567 Patent, which discloses an apparatus and method for delivery of fuel to equipment or fuel tanks at well sites. Prior to 2010, the refuelling of fracturing equipment was done by a worker pulling fuel-laden hoses to each piece of equipment's fuel tank and manually discharging diesel fuel into the tank ("manual hot fuelling").

In a decision that turned on the facts, the Court held that some of the impugned claims were valid and infringed by the Defendant. At trial, the Defendant maintained three defences of invalidity, namely that the patent was invalid because: (i) it was obvious; (ii) there was insufficient disclosure in the patent; and/or (iii) the claims were broader than the invention made or disclosed. The Court held that the patent was not obvious or insufficient. However, based on the patent's construction, the Court found that a number of claims were broader than any invention made or disclosed, and therefore, invalid.

The Court also found that both versions of the Defendant's product infringed various claims that remained valid in the action. The Court awarded the Plaintiffs an accounting of profits. The profits awarded did not include profits made from fuel sales associated with the use of the infringing device since the Plaintiff Frac Shack is not in the business of selling fuel.

The Defendant tried to argue the availability of a non-infringing alternative and provided evidence that many companies still do manual hot refuelling, despite Frac Shack's system. The Plaintiffs argued that a system with significant risk to worker safety and health could not be a true non-infringing alternative, when the purpose of the invention is to minimize the risks to operators. The Court agreed with the Plaintiffs that manual hot refuelling is not a non-infringing alternative to using the '567 invention.

In addition to an accounting of profits, the Court awarded injunctive relief, as well as an estimated royalty rate of 29% for infringement during the pre-grant period. On the issue of punitive damages, the Court noted that the evidence showed that while the infringing actions of the Defendant were blameworthy, the Defendant's conduct did not merit the condemnation of the Court. This included the fact that the period of infringement was short, and a significant portion of the marketing of the infringing device highlighted by the Plaintiffs was conducted prior to the issue date of the '567 Patent.

Factual Question on Non-Infringing Alternatives Remitted to Federal Court

[Apotex Inc. v. ADIR, 2017 FCA 23](#)

Drug: COVERSYL perindopril

Canadian Patent 1,341,196 (196 Patent), owned by ADIR, was found to be valid and infringed. This decision was affirmed by the Court of Appeal. Servier, the distributor in Canada, was permitted to elect between an accounting of Apotex's profits, or Servier's damages as a result of Apotex's infringing activities. In reaching a determination of the amount of Apotex's profits attributable to the infringing activity, the Court was required to consider the manufacture and sale of perindopril tablets in Canada and abroad. Apotex conceded that there was no non-infringing alternative available in Canada such that all its Canadian profits must be disgorged but profits for sales to Apotex's affiliates in Australia and the UK were in issue.

The two issues on appeal related to whether there were non-infringing alternatives available and if so, what profits were attributable to Apotex's use of the patented invention, and was any part of the profit attributable to the provision of an indemnity and related legal services provided to Apotex's affiliates. Any part of the profit that was so attributable would not be attributable to the sale of infringing tablets. The Court found Apotex's profit should neither be reduced by taking into consideration the availability of non-infringing alternatives, nor on the basis of the indemnity or services provided.

The Court of Appeal found that the Court erred in law by determining that the availability of non-infringing perindopril was not relevant, and did not properly consider the evidence from three suppliers that non-infringing perindopril could have been provided. The Court of Appeal remitted this question to the Court. In conducting its analysis, the Court of Appeal noted that it is settled law that a patentee is only entitled to the portion of profits causally attributable to the invention. Thus, non-infringing alternatives must be considered in order to determine the value of the invention. The Court of Appeal specifically addressed and rejected the reasons relied upon by the Court in reaching its decision.

The Court of Appeal also reviewed the Court's assessment of the evidence and noted the requirement that the Defendant demonstrate that it "could have" obtained non-infringing product, and "would have" used a non-infringing alternative. After its review, the Court of Appeal remitted the question of "whether Apotex would have and could have obtained quantities of non-infringing perindopril" from the three suppliers identified during the trial, and if so, "whether Apotex would have and could have used non-infringing perindopril" for the sales to its foreign affiliates.

The Court of Appeal also found that the Court erred in law in its interpretation of the contracts between Apotex and its affiliates, but not in its conclusion that Apotex's profits should not be apportioned on the basis of these contracts. The issue to be considered was whether the revenue obtained pursuant to transfer price agreements for the sale of perindopril to its foreign affiliates at a higher price because it was a "Patent Challenge Product" should be apportioned. The Court of Appeal found that the Court erred in finding that the higher price was paid based only on the indemnity provision but concluded that "[b]ut for" the infringing qualities of perindopril, Apotex would have earned nothing on its sale, whether attributable to the drug itself or to the indemnity required to protect the affiliates. Thus, the profit resulting from the sale of perindopril was entirely causally attributable to the invention. It follows that no apportionment is warranted." The Court of Appeal also considered the particular factual circumstances in reaching its conclusion.

As success was divided on the two issues appealed, no costs on the appeal were awarded.

Copyright Decisions

Judicial Review of the Copyright Board's Decision Granted in Part
[*Canadian Copyright Licensing Agency \(Access Copyright\) v. British Columbia \(Education\)*, 2017 FCA 16](#)

The Canadian Copyright Licensing Agency, operating as Access Copyright, sought judicial review of a decision of the Copyright Board, certifying the royalty rates to be

collected by Access for the reproduction of works in its repertoire by elementary and secondary educational institutions (K-12 schools) represented by twelve provincial and territorial ministries of education (outside of Québec) and all Ontario school boards (collectively the Consortium) during the 2010-2012 (First Tariff) and 2013-2015 (Second Tariff) tariff periods.

The issues for review were grouped into two categories. First, with respect to what works should be included in Access' repertoire, Access contested the Board's decision to disregard any errors in coding made in the volume study in respect of who owned the copyright, as well as its decision to exclude from the volume of compensable exposures any copying of a book that included less than one or two pages per copying event on the basis that these events did not involve the reproduction of "a substantial part" of the work within the meaning of the *Copyright Act* (the "Act").

On the latter part of the repertoire issue, the Court of appeal found that, in the particular circumstances of this case, and considering the mandate of the Board under the Act, it was not unreasonable for the Board to infer that the copying of one or two pages of a book did not constitute reproduction of a "substantial part of the work" within the meaning of section 3 of the Act. The Court cautioned that such an inference would rarely be within the range of acceptable outcomes when there is evidence produced about each work at issue and would normally constitute an overriding and palpable error in the context of civil litigation proceedings where infringement is at issue.

On the first part of the repertoire issue, the Court of appeal found that the Board had failed to consider that 1) expert evidence had been filed to estimate the degree of the underestimation of Access' repertoire, 2) Access had chosen to correct the underestimation and 3) Access had explained in detail why it had not done so before. The Court of Appeal found that this constituted a reviewable error that justified reconsideration by the Board. The Court granted the application in part and referred the matter back to the Board for reconsideration of this issue.

The second category of issues related to the deductions made to the total number of compensable exposures on the basis of fair dealing in respect of books, newspapers and periodicals, including the methodology used by the Board to quantify those deductions, which Access argued was procedurally unfair and fundamentally flawed. The Court concluded that there was not breach of procedural fairness in this matter, and that the Board's methodology was reasonable. Furthermore, the Court found no reviewable errors concerning specific issues raised in respect of the Board's assessment of four of the six *CCH* factors, namely, the amount of the dealing, the character of the dealing, the effect of the dealing and the alternatives available at the relevant time.

Supreme Court Updates

Constellation Brands Inc., et al. v. Domaines Pinnacle Inc. (SCC #37424)

Constellation Brands Inc has filed an application for leave to appeal from [2016 FCA 302](#) (our summary here), which is an appeal from [2015 FC 1083](#). The Federal Court of Appeal restored a decision of the Register of Trademarks ([2013 TMOB 153](#)) that held that an application for a word and design mark for DOMAINE PINNACLE is unlikely to cause confusion with the registered mark PINNACLES.

Industry Updates

Health Canada has announced a [Consultation: Release of International Council on Harmonisation \(ICH\) Document: Good Clinical Practice \(GCP\) "Renovation" Reflection Paper](#). The website indicates that the consultation is open for comment until March 11, 2017.

Health Canada has announced a [Consultation on the Prescription Drug List: Hydroquinone](#). The website indicates that the consultation is open for comment until April 17, 2017.

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Expertise

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