Significant Federal Court Decision Finds Fracking-Related Patent to be Invalid

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In *Packers Plus Energy Services Inc. v Essential Energy Services Ltd*., 2017 FC 1111, the Federal Court declared a fracking-related patent held by Packers Plus Energy Services Inc. ("Packers Plus") to be invalid and dismissed a claim for patent infringement by Packers Plus against an oilfield services company. The patent at issue covered a method of fracturing technology referred to as open-hole, multi-stage ball drop fracturing that has had widespread use in the oil and gas industry. Had Packers Plus been successful in its infringement claims, there would been widespread implications for named defendants to the action as well as to a wide variety of actors in the oil patch. The case is a significant patent decision and also has broader commentary applicable in the oil and gas context, in particular relating to the Court's analysis of oil and gas industry standard regarding confidentiality. BLG previously posted about this case in its post 2017 Year in Review: Top 10 Judicial Decisions and Trends of Import to the Canadian Energy Industry.

Procedural Background

Packers Plus brought four separate patent infringement claims relating to its patent against the following parties (and various related entities): Essential Energy Services ("Essential"); Baker Hughes Canada Company; Weatherford Canada Ltd. and Harvest Operations Corp. (who were represented by David Madsen, Q.C. and Evan Nuttall from BLG); and Resource Well Completion Technologies Inc. The Federal Court consolidated part of the proceedings, hearing the claim by Packers Plus for infringement against Essential and the counterclaims of all of the defendants that the patent was invalid in a trial in early 2017. Had Packers Plus been successful, trials on the issue of patent infringement for the other defendants and the determination of damages were set for trial in 2018. However, as the Court found the patent to be invalid and the counterclaims were entirely successful, the matter is final, subject to any appeal by Packers Plus.

Decision

The Federal Court considered two main issues as part of this decision: 1) did Essential infringe the patent; and 2) was the patent invalid?

1. Infringement

In the patent law context, a party can be liable for infringement if the party itself commits a direct infringement or if it induces another party to infringe the patent. The Court held that Essential had not infringed the patent either directly or through the inducement of another party to infringe. While the Court found that the equipment in the Essential action did infringe the patent when used in an open-hole fracturing operation, it held that there was no direct infringement by Essential because Essential did not actually conduct the fracturing operation itself (as it had only sold the equipment and not performed the fracking operation).

The Court rejected Packers Plus' legally novel argument that Essential was liable under a theory of liability it referred to as "acting in concert" which imported the tort law principle that parties who act in concert to commit a tortious act can each be found liable if all of the parties involved arrived at an agreement to carry out the tort to the patent context. Packers Plus argued that infringement occurred through the combined actions of a variety of actors through the fracking operations and, as such, Essential was liable. The Court rejected this expansion of the law, finding no precedent that such liability should be imported to the patent context.

Lastly, the Court found that Essential had not induced any other part to infringe the patent. Packers Plus asserted that Essential had induced its customers (upstream producers) or other parties involved in the fracking jobs (for example a drilling company, pumping company, fracturing company…etc.) to infringe the patent. The Court held that Packers Plus failed to present evidence of direct infringement by a third party involved in a fracking operation and as such had failed to prove inducement.

Having found no infringement by Essential, the Court concluded there was no infringement of the patent.

2. Validity

The Court then considered the counterclaims by all the defendants that the patent was invalid. As there can be no infringement if there is no valid patent, the ruling on this issue was determinative of Packers Plus' claim against the other defendants for infringement which were set to be heard in trials scheduled for 2018.

A patent is only valid if it covers an invention that is truly new, useful and unobvious. If a party makes a public disclosure of a patent prior to a year before filing the patent, or the patent is so obvious it is not truly novel, then it is invalid. The Court found that the patent was invalid for two reasons: 1) the subject matter of the patent had been previously disclosed by Packers Plus; and 2) the subject matter of the patent was obvious and not capable of being patented.

Pursuant to the *Patent Act*, RSC 1985, c P-4, a party must file a patent within one year of disclosing the subject matter of the patent to the public. In this case, Packers Plus admitted that it had made public disclosures by, among other things, presenting the technology to various customers prior to the applicable time period. However it asserted that any disclosures were made confidentially and accordingly were not made "to the public".

Packers Plus did not enter into formal written confidentiality agreements which covered such disclosures but argued that there was an industry standard that communications of this nature would be confidential and that Packers Plus had made binding representations, through indicating to recipients that the information was confidential (including evidence that certain documents were marked with a stamp saying "Confidential").

In support of its position regarding industry standard, Packers Plus: called experts who stated it was industry standard that this type of information was considered confidential; relied on the "tight hole" designation associated with the wells to assert that it was understood and agreed by all parties that the information was confidential; and pointed to corporate codes of conduct that required employees to preserve the secrecy of confidential material received from third parties.

The Court found that there was no explicit and binding agreement in place that the information was to be kept confidential. The Court also noted it was persuaded by the evidence of the defendants that the standard industry practice was to commit obligations of confidentiality to written agreements given the highly competitive environment that exists in the oil and gas industry. It noted that boilerplate "Confidential" labels on documents are not legally binding obligations of confidentiality. The Court found that the "tight hole" designation related to production data, not to fracking related information and that codes of conduct do not designate particular information as confidential but rather, such a designation comes about primarily through internal policies and specific agreements with outside parties.

Lastly, the Court held that the invention was obvious and not capable of being patented because the method of fracturing would have been obvious to a skilled person at the time the patent was filed. On review of evidence relating to the state of the industry at the time, the Court held it did not represent an advance on the state of the art and was obvious to try.

Implications

The methodology for calculating damages in the patent context would invariably have resulted in a large damages award had Packers Plus been successful in its claims. In particular, as against Harvest Operations Corp., an upstream producer, Packers Plus was seeking disgorgement of profits from what it claimed was enhanced hydrocarbon recovery from the use of the patented technology. Success in this action could have been strong precedent for Packers Plus to seek the same against other upstream producers.

This case also has important commentary more widely applicable to actors in the oil and gas industry relating to confidentiality. The Court rejected the notion that there is an industry standard of confidentiality in the oil and gas industry that binds parties. Parties should be aware that absent an express confidentiality agreement (preferably in writing), there is a risk that a Court will not find that information exchanged between parties is confidential.

Packers Plus has appealed the decision to the Federal Court of Appeal.

By

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