



FADED MEMORIES, PATENT INFRINGEMENT, AND \$50 MILLION IN DAMAGES

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Equipment and service providers in Canada's oilfield industry are beginning to exert their patent rights with increasing frequency. How will this affect Canadian patent law? When does something become "available to the public"? When is a company liable for exporting its product to other jurisdictions? When is a company liable for encouraging its customers to use an infringing product? These questions and more were dealt with by the Federal Court of Appeal in *Varco Canada Limited v. Pason Systems Corp.* 2013 FC 750, rendered on August 12, 2013.

Facts

This case is part of a long line of recent court decisions in Canada relating to patent infringement in one of the country's most important industry sectors – the Alberta tar sands. Many of the equipment and service providers for some of the major tar sand operators are increasingly exerting their patents against their competitors in an effort to preserve market share. This case is illustrative of the trend.

Bobbie Joe Bowden is an oil man, a "driller" more specifically, and has been all his life. He learned the craft from his father and from being on the job. On April 19, 1993, Bobbie Joe filed a Canadian patent application for a product which was eventually commercialised as the "Wildcat autodriller". On August 24, 1999, the application issued as Canadian patent 2,094,313. Bobbie Joe assigned his rights in the patent away, and it eventually became the property of the plaintiff Varco. Much of this case turns on the memories of Bobbie Joe during those early years of developing his autodriller.

The defendant Pason is a Canadian oilfield services company that specializes in developing software and hardware to improve the drilling process. In 1999, Pason decided to develop its own autodriller. Pason knew that the Wildcat autodriller was the only other autodriller with similar functionality, and Pason's patent counsel was of the opinion that their autodriller could infringe Varco's patent CA'313. Pason continued developing their autodriller anyway, even going so far as to benchmark its performance against the Wildcat autodriller. Pason's autodriller was released into the

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marketplace in March, 2003. It was met with huge success, eventually forcing Varco to cut prices for their Wildcat autodriller in order to compete. Pason also earned considerable revenue from selling components of its autodriller to its foreign subsidiaries.

In the face of this competition, Varco filed an action with the Federal Court of Canada alleging that Pason was infringing CA'313.

Judgement

As with many other decisions in the oilfield industry, this one turns on the issue of novelty. As a "first-to-file" country, Canada applies the criteria of absolute novelty for patentability, with exceptions for inventor-related disclosures. Essentially, this means that the invention claimed cannot have publicly existed more than one year before the inventor filed for her patent. This one year period is referred to as a "grace period".

Often, equipment and service providers in this sector need to test their product on site before they can credibly claim that they have something other people should pay money for. Since these companies do not typically have their own testing facilities, they need to partner with a potential client to have access to a suitable test rig. This testing typically involves applying or installing the product on an existing rig, seeing if it works, and performing additional data collection. These rigs are usually open-air facilities and in some cases, accessible to the public. The danger of doing such testing is that the invention might be made available or accessible to the public before a patent application is filed, thus destroying its novelty and non-obviousness. This is essentially the risk Bobbie Joe took.

Although Justice Phelan of the Federal Court found gaps in Bobbie Joe's version of the events, he considered his story to be largely credible given that these events took place almost twenty years ago. Bobbie Joe tested his autodriller on three occasions before he filed a patent application.

During the first test in February-March, 1992, Bobbie Joe obtained permission to test his autodriller on a rig. Although he explained the parameters of his autodriller to his partner, Justice Phelan found there was no evidence that the details about how the device was built or worked were disclosed. The fact that no confidentiality agreements or other forms of non-disclosure were signed did not impugn the novelty of the invention. Justice Phelan went so far as to curiously note that "rig operators in this business would from time to time allow a product to be used on a rig before it was fully developed".

During the second test in March-April, 1992, Bobbie Joe secured access to a second well but could not test all the features of his autodriller. Still, he admitted that by April

13, 1992 (i.e. *more* than one year before he filed the Canadian patent application), his device was “pretty well perfected”.

During the third test in mid-late April, 1992, Bobbie Joe was able to implement his device successfully on April 20, 1992, which Justice Phelan considered to be the date on which the autodriller was finally proven and completed. This date falls within the grace period.

Pason argued that Bobbie Joe disclosed his autodriller before April 20, 1992 during the first test, by training drilling crews, and by being paid during this testing. Furthermore, Pason alleged that the testing was part of Bobbie Joe’s business model of letting his customers use the device for free and then renting it backdated if they liked it.

Justice Phelan did not agree. Among other facts given in support of his conclusion, he found that i) the prototype was locked on site so no one could examine it after Bobbie Joe stopped using it, and ii) Bobbie Joe never showed people how the device worked, or its inner workings. The autodriller was therefore not made available to the public, and his tests did not destroy the novelty of his invention.

Justice Phelan’s conclusion contrasts starkly with that of a recent Federal Court of Appeal decision, *Wenzel Downhole Tools Ltd. v. National-Oilwell Canada Ltd.*, 2012 FCA 333 which relates to an oilfield invention as well. In that case, the evidence showed that the claimed drill assembly i) could not be, and was not, observed when the alleged disclosure occurred, and ii) no person of ordinary skill in the art was present to examine the drill assembly and discern the invention. Nevertheless, the Court found that making an invention available to the public merely requires that the public had an *opportunity* to access the information that is the invention, even if they never took advantage of this opportunity. It could be argued that Bobbie Joe’s tests of his invention on the drill rigs, which were not performed under confidentiality, gave the public an opportunity to access his invention, even if this did not actually occur.

Adding to the confusion, Justice Phelan stated that “it is well established that prior use that is experimental is not prior use”, and cites one authority from 1904 in support of this position. He further states that “the absence of a confidentiality agreement with Union Pacific (Bobbie Joe’s first test partner) is not fatal”.

Turning to infringement, Justice Phelan concluded that Pason directly infringed all the claims in suit.

On the issue of indirect infringement, known as “inducement to infringe”, Varco alleged that Pason was inducing or encouraging its clients to infringe CA’313 by supplying them with its autodriller and encouraging them to use it. Pason did not seriously contest this charge, but argued that its foreign sales and operations were outside the scope of the Canadian patent, and could not be subject to the law of inducement in Canada. Justice Phelan agreed with both parties, and found that the

numerous manuals and training provided by Pason to its customers constituted instructions on how to infringe, but only in so far as these customers were Canadian.

On the issue of infringement by export, Pason argued that it shipped its parts for the autodriller outside of Canada in unassembled form, and there is thus no infringement. Justice Phelan disagreed, and repeated the law that simply separating parts of a device and shipping them for later integration and assembly does not avoid liability for infringement, even if the assembly occurred outside of Canada. For Justice Phelan, the important factor was that the sale was made in Canada. Therefore, even though the method claims are infringed outside of Canada and thus outside the Court's jurisdiction, the product claim is within the Court's jurisdiction and infringed because the sale of the product occurs in Canada.

After a lengthy analysis of the remedies available to Varco, Justice Phelan ordered payment of damages of more than \$50 million dollars, a permanent injunction against Pason, an order directing Pason to deliver up or destroy all infringing products, pre and post judgement interest, and costs.

Conclusion

This case adds more uncertainty as to what constitutes a disclosure which makes the subject matter of the invention available to the public. Litigators will remember that the law is constantly changing on this crucial issue, and that any determination will ultimately depend on the specific facts in evidence. In some cases, credible witnesses and "clean hands" can overcome facts which might otherwise be considered to be disclosures. Litigators will also heed some other lessons from this case, as it is demonstrative of the danger of waiting too long to litigate a patent. Memories can fade, witnesses can become harder to track down, and facts can be more difficult to corroborate.

For the patent prosecutor, this case provides useful fact patterns and lessons to better counsel clients who have made similar prior disclosures. More particularly, patent agents should obtain every single detail related to a client's prior public disclosure, and not simply rely on assurances of confidentiality. In the face of inconsistencies in the law regarding disclosures, however slight these may be, surely the best practice is to file within the grace period if there is even the remotest chance that a prior disclosure occurred. Of course, this is easier said than done.

This author therefore repeats the cardinal rule of patent novelty - KISS (Keep It Secret Stupid).

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