

Patent Litigation: Choosing Between The United States And Canada

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Multinational companies must plan for, obtain and enforce large portfolios of intellectual property in every commercially significant jurisdiction. Owners of intellectual property around the world have become aware of the importance, on the one hand, and the cost and annoyance, on the other, of having to enforce patent rights in many jurisdictions. Of course, in the era of globalization of both trade and information, it is not only IP owners who operate across borders. Sophisticated IP infringers can and often do operate in a variety of jurisdictions. Although their first target market is often the United States, it is not long before they conclude that once established, it is easy and convenient to continue their infringing activities in Canada.

Depending on the seriousness of the multi-jurisdictional infringement and the danger it poses, an IP holder might want to sue in one or many jurisdictions. The size and importance of the U.S. market means that litigation in the United States is frequently seen as the first logical step. However, there may be situations in which opting to enforce a patent in Canada will be an attractive alternative. Although patent law itself is relatively similar, there are peculiar procedural and substantive differences between Canada and the United States in the way litigation is conducted and decided. In many cases, Canadian law is actually friendlier to the IP holder, particularly with respect to claim construction, the intersection of patent and antitrust law and certain procedural advantages of the Canadian court sys-

tem. However, there are also disadvantages, most notably the difficulty of obtaining interlocutory injunctions (similar to temporary restraining orders in the United States) to prevent infringement before the trial of the action is complete.

Claim Construction – What? No *Markman*?

The most important function of the court in a patent infringement action is to construe the claims and define the scope of the patent. Canada's Supreme Court has laid out a road map for claim construction that involves a careful balancing of the two major interests: the patentee's interest in preventing immaterial variants from eroding the patentee's exclusivity (which suggests a broad construction of claims) and the public's interest in certainty and predictability in the scope of a patent claim (which suggests a literal construction).

In particular, the Court has indicated that patents in Canada are subject to a *purposive construction*, which involves reading not only the claims but also the patent specification to determine whether the inventor intended strict adherence to claim limitations. On the other hand, resort to extrinsic evidence, such as statements or admissions in the prosecution history, is not permitted.

Purposive interpretation involves dividing the invention into its elements, and separating the essential from the non-essential, on the basis of the intent and purposes of the inventor, as viewed in the light of the knowledge of a person of ordinary skill in the art as of the date the patent is published. When the accused product contains all essential elements as set out in the patent claims, there is infringement, even if a non-essential element is varied or omitted.

Claim construction is a matter of law, although the court will receive expert evidence on the meaning of the terms used in a claim.

The claims of a Canadian patent are to be construed only once, and by the trial judge as part of his or her decision on the merits of the case as a whole. The Federal Court of Appeal has dismissed the first attempt by a party to bring a motion to have the Court determine the meaning of a claim before trial. The Court refused to engage in this *Markman*-type hearing¹ largely on the basis that patent cases in Canada are tried by judges (not juries), and there is no need to construe the claim before conducting the rest of the case. The Court left no doubt about its view of importing *Markman* hearings into Canadian law, stating "preliminary points of law are too often treacherous short cuts. Their price can be ... delay, anxiety and expense."² It indicated that if *Markman* hearings are going to come to Canada, they should do so by legislation (that is, amendment to the procedural rules) rather than by judicial innovation.

Canadian law's reliance on purposive interpretation, and the absence of prosecution history estoppel means that Canadian courts typically interpret patent claims more generously than their U.S. counterparts. Broader interpretation of claims means Canada provides more protection for inventors, since a finding of infringement is more likely.

Though these differences in approach to claim construction may appear small, in some instances they may mean the difference between narrow and broad construction, and therefore between success and failure. Moreover, when it is important to signal a victory early as part of a multijurisdictional strategy, a successful Canadian trial judgment may be worth pursuing as an early, or indeed first, step against an international infringer.

No Inequitable Conduct

Bringing an infringement claim in the United States also comes with a number of risks that are either non-existent or minimal in

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Canada. In the United States, a patentee is obligated to disclose to the Patent Office all prior art known to be material to patentability. An applicant who intentionally fails to do so has committed "fraud on the Patent Office" or engaged in "inequitable conduct," and the court may declare the patent invalid or unenforceable. The consequences of such a finding may be considerable, not only to the patent in suit, but arguably to subsequent improvement patents. It is true that in Canada a patent may be held void if the applicant is found to have wilfully made an untrue material allegation for the purpose of misleading. However, the applicant has no obligation to disclose material prior art, and therefore patents cannot be invalidated on this basis.³

Limited Antitrust Remedies

In the United States, the requirement to disclose material prior art may also result in antitrust liability. In *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*,⁴ the U.S. Supreme Court held that the enforcement of a patent procured through fraud on the Patent Office can constitute a violation of antitrust legislation. Since there is no duty in Canada to disclose prior art, Canadian competition law would almost certainly not apply in such situations.

Antitrust liability in the United States arises not only in the context of obtaining a patent, but also when enforcing one. Courts have found violations of antitrust law both by bad faith enforcement of a patent known to be invalid⁵ and by infringement suits by a plaintiff who knows there is no infringement.⁶ Although it might appear that these types of antitrust infringements should be easily avoidable, precisely what is and is not known within a large organization does not become apparent until litigation begins and discovery is taken. Moreover, the quality of a patent and the likelihood of infringement can vary tremendously among patents in a portfolio. It can be easy to lose sight of either one or both of these factors in the ongoing process of IP enforcement. As a result, a patentee who commences an action in the United States risks more than merely the loss of the patent—antitrust liability is a constant concern.

Differences In Procedure

There are a number of procedural differences in patent litigation between the United States and Canada. In the right circumstances, proceeding in Canada may offer distinct advantages to IP holders. The most notable difference is that in Canada patent cases are tried by judges, whereas in the United States factual issues related to infringement and validity are often decided by juries. In patent

litigation, where the facts at issue are often technical in nature, it can be a significant advantage to have a patent infringement claim decided by a judge, who will (typically) have more experience in dealing with these issues than 6 or 12 members of the public.

Although the jury issue has received much attention, in fact, the most significant difference is in discovery process. In short, the potentially astronomical cost of U.S. discovery is a factor that motivates parties to settle, or greatly narrow, their cases. Canadian discovery, which is a more streamlined process, is much less expensive (in terms of both cost and time).

A unique feature of Canadian discovery is that it is subject to the implied undertaking rule. Counsel receiving information produced in documents or disclosed on discovery *impliedly undertake* to the court not to use that information for any purpose other than for the present litigation (except with leave of the Canadian court). This feature of Canadian discovery has its obvious disadvantages, but it also can be advantageous in preventing issues in Canadian litigation from becoming fodder for (e.g., antitrust) lawsuits in other jurisdictions.

Differences In Remedy

The potential monetary award that a plaintiff could collect from a patent infringement case is obviously a crucial consideration. The major differences between Canada and the United States in this area relate to the availability of an accounting for profits, the availability of attorney's fees and the consequences of misconduct.

Canada has a more flexible, and therefore potentially more lucrative, statutory regime for damages. In Canada, a plaintiff may elect *either* compensatory damages *or* an accounting of the infringer's profits (though the court may deny the accounting for various reasons). In the United States, the infringer's profits may be considered evidence in establishing a reasonable royalty or the amount of damages, but cannot form the basis of the damage award in and of itself.⁷ This may make a significant difference, particularly in cases in which the plaintiff is not seriously harmed but the defendant's infringing activities have resulted in significant profits. It also makes a significant difference to the deterrent value of a lawsuit. A defendant faced with the prospect of handing over all its profits may be less likely to engage in infringing activities and more likely to settle the case than run the risk of going to trial.

In Canada, costs are said to ordinarily "follow the event," meaning that the successful party can usually expect to collect a portion of the attorney's fees it paid to prosecute the

action. That said, the proportion of total costs recovered (particularly in the Federal Court of Canada) is fairly minimal. Conversely, in the United States, the successful party in a patent suit does not collect attorney's fees except in unusual cases such as a finding of unfairness or bad faith against the losing party, or the court finds that some other equitable consideration would make it grossly unjust that the prevailing party be left to bear its own counsel fees. The widespread availability of costs in Canada can be a significant advantage to a party who is confident of success. Conversely, it can be a serious deterrent to litigate more speculative enforcement cases.

Finally, under both Canadian and U.S. law, damages may be increased as a result of the defendant's misconduct. However, the method for determining this increased award differs. U.S. courts may increase the damage award by up to three times the amount found or assessed if there has been wilful (i.e., deliberate) infringement wrongdoing or bad faith.⁸ In Canada, punitive damages can be awarded, as for any civil wrong, against a deliberate infringer who has behaved reprehensibly. However, an award of punitive damages is *not* guaranteed on a finding of wilful infringement, and the quantum of punitive damages in Canada will rarely, if ever, result in trebling the damages.

Conclusion

Strategic management of intellectual property relates to every aspect of the IP regime. And strategic enforcement can help companies get the most bang for their litigation buck. One element of this strategy is a careful consideration of the available venues, and the advantages and disadvantages that they each provide. When a North American strategy is required, it would be a mistake to reflexively commence an action in the United States without considering the advantages to suing the same infringer in Canada. In addition to construing claims more broadly, Canada has no existing doctrines of patent abuse or inequitable conduct. Moreover, there are no jury trials or *Markman* hearings and the damages received may be considerably higher.

¹ *Markman v. Westview Instruments*, 517 U.S. 370 (1996).

² *Realsearch Inc. and Dingwell's Machinery & Supply Ltd. v. Valone Kone Brunette Ltd. and BDR Machinery Ltd.*, 2004 FCA 5 (January 9, 2004).

³ *Bourgault Industries Ltd. v. Flexi-Coil Ltd.* (1998), 80 C.P.R. (3d) 1 (Fed. T.D.), *aff'd* (1999) 86 C.P.R. (3d) 221 (Fed. C.A.).

⁴ 382 U.S. 172 (1965).

⁵ *Handgards Inc. v. Ethicon Inc.*, 743 F.2d 1282 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985).

⁶ *Locitite Corp. v. Ultraseal Ltd.*, 781 F.2d 861 (Fed. Cir. 1985).

⁷ *Kori Corp. v. Wilco March Buggies & Draglines*, 761 F.2d 649 (Fed. Cir. 1985).

⁸ 35 U.S.C. 285.

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