

# New prior user rights provision in the Patent Act: first judicial consideration

January 14, 2022

In the context of a motion for summary judgment in *Kobold Corporation et al v. NCS Multistage Inc.*,<sup>1</sup> the Court provided the first judicial consideration of the new section 56 of the Patent Act relating to prior user rights. In particular, NCS Multistage Inc. (NCS) brought its motion seeking to have the action dismissed based on its defence of prior use pursuant to section 56.

The patent at issue (the Patent) is in the field of oil and gas and relates to fracking. The Court provided an extensive description of the fracking process as well as the Patent and the NCS products, of which there were four (collectively, the NCS Products) at issue. The Court found the inventive concept of the Patent to be a new way of equalizing pressure in a bottomhole assembly (BHA), which is used to prepare a well for production (para 13). The Court set out independent claim 1, which claims a method for completing a wellbore (para 14). The Court also provided a summary of the NCS Products including the Mongoose BHA (Mongoose 2012) that the evidence demonstrated has been in use since 2012. Kobold conceded that NCS can continue to manufacture and use the Mongoose 2012, but argued that NCS could not expand into new commercial products such as the other three products at issue (para 30-31).

## Issues that are appropriate to determine by way of summary judgment

The Court began its analysis by noting “[t]his is the first judicial interpretation of section 56 of the Patent Act, and the first occasion the Court has had to consider it as a defence to a patent infringement action.” (para 53) The Court’s first findings related to the question of whether the matter is appropriate for summary judgment or summary trial. The Court concluded that some, but not all, aspects of the claim and defence are suitable for summary judgment (para 60). In particular, the Court considered the proper interpretation of section 56 of Patent Act to be a discrete question of law that could be resolved without reference to any of the factual issues at play as could the construction of the claims of the Patent because there was expert evidence to assist in this regard. Thus, these two issues could be resolved on the summary judgment motion (para 61 and 62).

## Analysis of the scope of section 56 of the Patent Act

Section 56 of the Patent Act, which was the subject of this motion, came into effect December 13, 2018 (Current Section). The Current Section was noted by the Court to grant more expansive rights than the previous section 56 (Previous Section), based on the summary provided in the Budget Implementation Act (para 68-69). The Court noted that the Current Section differs in three primary ways from the Previous Section:

1. The Previous Section did not cover patented methods, and was limited to granting a prior user the right to use and sell a patented article, machine, manufacture, or composition of matter, i.e. a physical invention. In contrast, the Current Section provides a prior user with the right to commit an “act” that would have otherwise constituted infringement. The word “act”, as it is used in section 56(1), is to be read in light of section 42, which grants exclusive rights to “making, constructing and using the invention and selling it to others to be used.” It is these acts, namely those set out in section 42, that are protected by section 56(1) (para 71);
2. The Previous Section was limited the protection of the sale or use of the “specific” physical manifestation of the invention whereas the Current Section protects the commission of the **same act** that would have constituted infringement (para 72); and
3. Protection is also provided in the Current Section to those who “made serious and effective preparations to commit an infringing act prior to the claim date”. The Previous Section did not provide similar protection. (para 73)

### “Same Act” means identical act

The parties did not agree on the meaning of “same act” in section 56(1), and specifically the degree of similarity required. NCS argued that it means the same or substantially the same whereas Kobold Corporation (Kobold) argued that it means identical or nearly identical. The Court found that section 56(1) requires the acts that occur pre-patent and post-patent to be the same, i.e. **identical (para 92)**. **Part of the Court’s reasoning that led to this finding is that sections 56(6) and (9) allow a third party defence of prior use on the basis of a standard that is “substantially the same”. Different standards were clearly intended to apply given the difference of the language between section 56(1), and section 56(6) and (9) (para 94)**. The Court also relied on the language in the Budget Implementation Act, in which it was stated that the new legislation was intended to grant more expansive prior user rights. The Previous Section allowed essentially only a right to deplete existing stock whereas the Current Section allows a prior user to perform “the same act”. The Court provided an example to explain the difference: if a prior user previously manufactured and sold an article, they would be entitled to continue to manufacture and sell more of the same article, rather than simply sell existing inventory, which is what was permitted by the Previous Section (para 96).

However, the Court noted that the pre - and post - patent acts must be identical in the sense that a prior user can only perform those acts **that are set out in section 42** that were actually performed before the issuance of the patent or those acts for which substantial preparation to perform were made. In other words, if a prior user only manufactured and used a device prior to the patent, they can only continue to

manufacture and use the device after the patent, and cannot now sell the device for others to use because that act of selling was not done prior to the patent (para 97-98).

### **“Same Act” does not mean manufacture of an identical device**

The next question to be answered by the Court was, if the same act is the manufacture of a device, must the manufacture be only of an identical device in order to obtain the protection of section 56(1) (para 99). The comparison to be done is between the two acts, and is not an assessment of whether a prior or subsequent act infringes the patent. The protection does not allow the infringement of the patent in any possible way. Furthermore, if the act that was done pre-patent would have infringed only claim 1, then the subsequent act is protected only with respect to claim 1.

However, the Court found no reason why a prior user should be prevented from making changes to its device so long as those changes do not relate to what is disclosed by the patent because protection is afforded to the inventor only for the invention claimed in the patent (para 101). As a result, the Court concluded that a prior user has the ability to make changes to aspects of its device or process that are part of the prior art or outside the claims of the patent.

**For example, it was the Court’s view that it would be unreasonable to restrict a prior user to one method that was known in the prior art, if the patent is silent as to what method should be used and if that aspect of the claims does not form part of the inventive concept. The Court held that to reach a different conclusion would provide more protection than what was invented in the impugned patent. Further, the Court saw no reason why the prior user should be restricted to making only the stand-alone device in the future as long as additions to the device do not infringe the patent (para 102-104).**

### **Scope of allowable changes**

The next question to be answered was whether any changes, and if so the scope of **such changes, can be made to the prior user’s device. The Court found that the prior user cannot make any change to the infringing aspect of the device because otherwise the prior user is not engaging in the “same act” in respect of the claims. Thus, section 56(1) does not provide any protection (para 106).**

### **Conclusions on section 56(1)**

**The Court held that: “Subsection 56(1) provides a defence to one who makes, constructs, or uses an invention or sells it to others to use, that infringes a claim of the patent, if prior to the issuance of the patent that person did the same act of making, constructing, using, or selling, and the relevant (i.e. relating to the inventive concept) part of the invention is identical” (para 111). The prior user cannot make any modifications to the inventive concept part of the invention even if those modifications affect the inventive concept in the same manner.**

The Court set out the process to be followed in considering a defence under section 56(1):

1. Determine whether the acts being performed before and after the claim date are identical (other than completely non-functional changes). If the acts are identical, then there is no need to consider infringement - section 56(1) will always provide a defence to any potential infringement (para 113);
2. If the acts are not identical, determine whether the acts infringe the patent. If the acts infringe, determine which claims are infringed. If the post-claim acts do not **infringe the patent, then there is no “otherwise infringing acts” and therefore no need to rely on subsection 56(1)**. If the pre-claim acts do not infringe the patent, subsection 56(1) cannot apply. If the post-claim date acts infringe a particular claim of the patent that the pre-claim date acts do not, subsection 56(1) cannot apply (para 114);
3. If the pre- and post-claim date acts are not identical but only infringe the same claims, then determine whether the changes relate to the inventive concept of the patent. If they do not, a defence is provided by section 56(1) (para 116).

The Court held that it is only in the clearest of cases where the acts before the claim date are identical to those after the claim date is there no need to construe the claims of the patent or conduct an infringement analysis. Summary judgment will be appropriate in those cases (para 116).

## Application of the Court 's process to the facts

The Court construed the claims of the Patent but concluded there was insufficient evidence upon which to make a determination of infringement (paras 130-131). As a result, the Court concluded that the question of whether the NCS Products infringe the Patent is not appropriate for determination by way of summary judgment or summary trial (para 142).

Section 56(6) and (9) are intended to benefit third parties who purchase articles or the services of others, and are therefore not applicable to the circumstance of this case (para 146). **Furthermore, the Court held that there was “no reason a party should be able to benefit from the more generous rights under subsection 56(6) merely because it chooses to outsource production of devices which it designed” (para 147). Thus, the Court granted summary judgment on the issue of whether sections 56(6) and 56(9) apply, and dismissed these defences (para 150).**

**In light of the process set out by the Court, unless NCS' acts are identical pre- and post-claim date, it is necessary to determine which of its acts are alleged to infringe the patent. The Court found that this was not a case where there have been no changes and therefore an infringement analysis is necessary (para 151). However, given the Court's finding that there was insufficient evidence on infringement, the motion could not be granted as it related to the applicability of section 56(1). A trial on this issue is necessary (para 159).**

## The Court's Conclusions

In conclusion, summary judgment was granted with respect to the interpretation of section 56, the construction of the Patent, and the defences pursuant to sections 56(6) and (9) of the Patent Act. Further, summary judgment was granted as it relates to the **Mongoose 2012 in light of Kobold's admission that NCS can continue manufacturing**

and using this device. Summary judgment was not granted with respect to the issues of infringement and the application of section 56(1) of the Patent Act to the facts of this matter. Costs were awarded to the party successful in the cause.

## Key takeaway

The Court's thorough analysis of section 56 will no doubt form the basis of future considerations of this provision, despite the requirement for a trial in this case.

For more information, please reach out to the authors or any of the key contacts listed below.

<sup>1</sup> Kobold Corporation v NCS Multistage Inc, 2021 FC 1437.

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