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First Application of the New Prior Use Defence

On January 7, 2022, the Federal Court released the public reasons in *Kobold Corporation v NCS Multistage Inc.* This summary judgment motion is the first judicial consideration of the prior use defence since the substantial amendments to section 56 of the *Patent Act* in 2018. Our comments on the procedural aspects of this summary judgment motion are available in a companion post here.

Facts

Kobold (the plaintiff) and NCS (the defendant) both provide equipment to the oil and gas industry for hydraulic fracturing, also known as fracking. In this matter, Kobold alleged that four of NCS's proprietary tools used in fracking infringe Canadian Patent No. 2,919,561.

By way of summary judgment motion, NCS asked the Court to dismiss the infringement action on its defence of prior use pursuant to section 56 of the *Patent Act*.

2018 Amendments

Section 56 of the *Patent Act* came into effect in December 2018. The current version of section 56 grants more expansive rights than the previous version by:

- Covering a wider set of acts – the current version grants a prior user the right to commit any act that would have otherwise constituted infringement, whereas the previous version was limited to the right to use and sell a physical product (*i.e.*, it excluded any rights to methods);
- Protecting acts rather than physical manifestations – the current version covers the commission of the same act that would have constituted infringement, whereas the previous version was limited to the sale or use of specific physical manifestations (*e.g.*, a right to deplete one's existing stock); and
- Arising at an earlier stage – in addition to granting protection to persons who committed an infringing act prior to the claim date, the current version also protects a person who made serious and effective preparations to commit such an act.

The Court's Interpretation of Section 56

In his analysis of section 56, Justice Zinn examined the legislative history, the English and French versions of the section, Canadian case law examining the former section 56, as well as section 64(1) of the United Kingdom's *Patent Act 1977* and related case law.

Justice Zinn made several determinations about the nature and scope of the prior use defence:

- An “act” refers to the enumerated categories of infringing acts. The defence of prior use applies to a person doing an act that would otherwise be an infringement of a claim based on a comparison of the pre- and post-patent infringing act. The word “act” should be interpreted by considering the acts protected by section 42 of the *Patent Act*, namely the acts of “making, constructing and using the invention and selling it to others to be used.” Practically speaking, this interpretation may limit the scope of prior use rights. As an example, Justice Zinn noted that a prior user who previously only manufactured and used its device can continue to manufacture and use it, but they cannot assert a section 56 defence to sell the device to others, since selling is a different act than manufacturing or using.
- The word “same” in subsection 56(1) means an identical act, whereas subsections 56(6) and 56(9) allow a third-party defence of prior use on the less stringent standard of “substantially the same” act. Justice Zinn stated that the prior user may add to or alter their act in other respects that do not infringe the patent, for example changing the paint from red to green, but the prior user cannot change the relevant (*i.e.*, relating to the inventive concept) part of the invention.

Justice Zinn then articulated the following test for a defence of prior use under subsection 56(1):

1. Determine whether the acts being performed before and after the claim date are identical (other than wholly non-functional changes). If yes, then there is no need to consider infringement as subsection 56(1) would always provide a defence to any potential allegations of infringement.
2. If the acts are not identical, determine whether the acts infringe the patent.

- If the post-claim date acts do not infringe the patent, then there are no otherwise infringing acts and there is no need to rely on subsection 56(1).
- If the pre-claim date acts do not infringe the patent, subsection 56(1) cannot apply.
- If the post-claim date acts infringe a claim that the pre-claim date acts do not, subsection 56(1) cannot apply.

3. If the pre- and post-claim date acts are not identical, but both infringe the same claims, determine whether the changes between pre- and post-claim date acts relate to the inventive concept of the patent. If they do not, then subsection 56(1) will provide a defence to infringement.

Justice Zinn concluded by stating that only in the clearest of cases, where the acts before the claim date are identical to those after the claim date (the situation in #1 above), will there not be a need for claims construction or infringement analysis.

In the matter at hand, Justice Zinn found that the issues of infringement and the application of subsection 56(1) of the *Patent Act* were issues that required a trial and were not amenable to summary judgment. Justice Zinn found that there were changes to the acts pre- and post-claim date and that an infringement analysis is necessary, and in the record before the Court there was insufficient evidence to make the necessary determinations. (We note that the Court did grant partial summary judgment in favour of the defendant by dismissing the infringement allegations relating to one of NCS's tools, but this finding relied on an apparent admission by Kobold rather than a detailed subsection 56(1) analysis).

Commentary

One interesting aspect is that Justice Zinn used the term "inventive concept" when describing the test for the defence of prior use. While the Court does not refer to *Sanofi* or any other obviousness case law, the "inventive concept" is a well-known aspect of the test for obviousness, and one which has generated some debate among the IP bar. This decision appears to be the first time that the term "inventive concept" has been incorporated into a test other than the test for obviousness, and its inclusion is likely to further spur discussion among the IP Bar.

Another observation is that the Court provided a route (at step #1 of the test) for a defendant to advance a successful prior use defence without having to construe the claims. Some commentators have argued that subsection 56(1) should provide this option, akin to the *Gillette* defence.

Finally, with limited Canadian case law interpreting the defence of prior use, and no other case law interpreting current subsection 56(1) of the *Patent Act*, it will be interesting to see if this decision is appealed. Given the mixed outcome, it seems possible that either or both parties could appeal. Aside from a potential appeal of this decision, the eventual trial decision could provide further clarity given that the application of section 56 was deferred to trial.