

# 8<sup>th</sup> Annual University of Toronto Patent Colloquium

## Non-Infringing Alternatives

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• November 15, 2019

# Remedies for Patent Infringement

- Subsection 55(1) of the *Patent Act* provides that a person who infringes a patent is liable to the patentee, or a person claiming under the patentee, for all damage sustained by reason of the infringement.
- The phrase “by reason of the infringement” is given effect by employing a causation analysis.
  - There must be a relationship found between the wrongful conduct in question and the injury to the plaintiff which justifies the payment of compensation.
    - *Apotex Inc. v. Merck & Co., Inc.*, 2015 FCA 171 at paras. 43-44
- There are two main types of remedies that are available.
  - Damages focuses on the losses suffered by the patentee.
  - An accounting of profits focuses on the gains earned by the infringer.
  - This presentation focuses on damages.

# ■ Establishing Causation

- Causation is to be assessed using the “but-for” test.
  - A plaintiff must show that, on a balance of probabilities, “but-for” infringement, the plaintiff would not have suffered a loss.
  - As in tort law, but-for causation in the area of patent infringement is a factual inquiry to be applied “in a robust, common sense, fashion.”

## **The Non-Infringing Alternative (“NIA”) in the Damages Context**

- The “but-for” question requires asking what would have happened in the absence infringement.
- The NIA analysis considers whether, in the hypothetical world, the infringer, instead of infringing, would have deployed an NIA.
  - Consider the example of the sale of a pharmaceutical.
    - Option 1: No NIA is deployed – Absent infringement, the patentee makes the makes sales that the infringer made by infringing.
    - Option 2: An NIA is deployed – Absent infringement, in this option, the infringer still makes the sales. The most appropriate remedy is frequently a reasonable royalty.

## Relationship to the Royalty Analysis

- One way of thinking about the NIA is as another factor to be considered when considering the royalty analysis.
- Factors relevant to the applicable royalty rate include: (1) transfer of technology; (2) differences in the practice of the invention; (3) non-exclusive licence; (4) territorial limitations; (5) term of the license; (6) competitive technology; (7) competition between the licensor and licensee; (8) demand for the product; (9) risk; (10) novelty of the invention; (11) compensation for research and development costs; (12) displacement of business; and (13) capacity to meet market demand
  - *AlliedSignal Inc v Du Pont Canada Inc*, (1998), 78 C.P.R. (3d) 129 (FCTD) at paras. 209
- The availability of an NIA is another factor.

## **Question 1: Intuitions**

- **Is it fair or reasonable to consider alternative conduct?**
- **Why?**
- **What factors should be considered?**
- **Does it matter whether we are thinking about damages or an accounting of profits?**

# Rationale for NIA

- Perfect compensation
  - If damages for lost profits are calculated never having regard to an NIA, the patentee will sometimes be better off than it would have been in the absence of infringement.
- Causation analysis
  - There is no *prima facie* reason to exclude alternative hypothetical conduct.
- Valuing patent rights
  - A patent confers a monopoly over its subject matter. Excluding consideration of alternatives results in an expansion of patent rights.
- Problems
  - Does the doctrine discourage actual real world design arounds?
  - Does the doctrine allow for “infringement at the lowest cost possible”?

# The Legal Test

- The Federal Court of Appeal developed a four prong-test:
  - I. Is the alleged non-infringing alternative a true substitute and thus a real alternative?
  - II. Is the alleged non-infringing alternative a true alternative in the sense of being economically viable?
  - III. At the time of infringement, does the infringer have a sufficient supply of the non-infringing alternative to replace the non-infringing sales? Another way of framing this inquiry is could the infringer have sold the non-infringing alternative?
  - IV. Would the infringer actually have sold the non-infringing alternative?
    - *Apotex Inc. v. Merck & Co., Inc.*, 2015 FCA 171 at paras. 73-74



# When should one consider an NIA?

- The case law is mixed.
  - Option 1: The alleged NIA must be “instantaneously available on the eve of first infringement.”
    - *Airbus Helicopters, S.A.S. v. Bell Helicopter Textron Canada Ltee*, 2017 FC 170 at paras 171-176-177; aff’d 2019 FCA 29.
  - Option 2: Ongoing inquiry
    - [i]t may be that the Federal Court could conclude in the hypothetical world that one or more suppliers would not or could not supply perindopril in time to replace the initial infringing sales. However, this would not end the inquiry as the Federal Court would still have to consider whether at some later point in time a supplier would and could have provided replacement non-infringing tablets: [emphasis added]
      - *Apotex Inc. v. Adir*, 2017 FCA 23 at para. 67

# Objective or Subjective

- The case law has focused on two dimensions that must be satisfied before an NIA is considered?
  - The objective: could an NIA have been used?
  - The subjective: would an NIA have been used?
- Both elements have to be present. “could have” does not prove “would have; would have” does not prove “could have”:
  - Evidence that a party would have done something does not prove that it could have done something. I might swear up and down that I would have run in a marathon in Toronto on April 1 aiming to complete it, but that says nothing about whether I could have completed it. Maybe I am not fit enough to complete it.
  - Evidence that a party could have done something does not prove that it would have done something. A trainer might testify that I was fit enough to complete a marathon race in Toronto on April 1, but that says nothing about whether I would have completed it. Perhaps on April 1 I would have skipped the marathon and gone to a baseball game instead.
    - *Pfizer Canada Inc. v. Teva Canada Limited*, 2016 FCA 161 at para. 51
- Why both?
  - How does this relate to the above stated objectives?

# Evidentiary Issues

- What level of certainty is required to establish an NIA?
  - The law indicates that this is to be established on a balance of probabilities but seems to impose more exacting standards. Courts have required:
    - that NIAs have the “same risk profile” and “purpose as the underlying invention”;
      - *Frac Shack Inc. v. AFD Petroleum Ltd.*, 2017 FC 104 at paras. 310-312; rev’d on other grounds 2018 FCA 140 at paras. 62-64.
    - robust and direct evidence of physical stability, bioequivalency, clinical studies, and regulatory approval of alternative drug formulations;
      - *Astrazeneca Canada Inc. v. Apotex Inc.* 2017 FC 726 at paras. 18-26, 91, 137-138 and 195-196.
    - an explanation for why an NIA was not developed at some earlier point in the real world.
      - *Bell Airbus Helicopters SAS v Bell Helicopter Textron Canada Limitée*, 2017 FC 170 at para 295; aff’d 2019 FCA 29.
- Thought should be given as to whether it is appropriate to borrow from the personal injury cases in which hypothetical events need not be proven on a balance of probabilities but are simply given weight according to their relative likelihood.
  - *Athey v. Leonati*, [1996] 3 S.C.R. 458 at para. 27
- Consider also whether the question “why didn’t you do it in the real world” can be refined by ensuring that the “would have question” explicitly assumes that it was not open to infringe.

# Alternative to What

- Another question is what constitutes a genuine alternative.
  - Must the alternative be non-infringing of *any* patents or only those asserted?
  - What level of import should one ascribe to the need for the alternative to be economically viable?

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