

Remedies and Views on Non-Infringing Alternatives Post-*Dow v Nova*

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Background

Dow v Nova - Facts

- Dow and Nova were competitors in the plastics industry
- Dow owned a patent for new plastics that had superior strength and processability compared to conventional plastics
 - Patent issued in 2006 and expired in 2014
- Nova made and sold plastics covered by Dow's patent
- Dow sued for infringement, Nova countered for invalidity
 - Patent found valid and infringed
- Dow sought accounting of profits to be assessed by reference
- Reference judge awarded Nova's actual revenue from sales – actual full costs of production, plus springboard profits
 - Nova conceded no direct non-infringing option to the patented plastics

Dow v Nova 2020 FCA 141

- Nova argued (as it had at the reference) that the market price of ethylene applied rather than its actual production cost
 - Instead of arguing that market price was a "cost", Nova claimed it could have sold the ethylene to third parties for profit, so that profit should be deductible from profits payable to Dow
 - Alternatively, Nova argued some of the profit it made was due to its own efficiencies rather than the patent, and therefore those profits should not be part of the award to Dow
- Nova argued that springboard profits were inappropriate
- Majority upheld entirety of award to Dow; dissenting judge held Nova need not disgorge profits due to its efficiency and so that should not be part of the award

Dow v Nova 2022 SCC 43

- Consider only *actual* revenues and costs – if an infringer is an efficient manufacturer, patentee entitled to all profits actually made

NIOs

- Nova argues that had it not manufactured the patented plastics it would have made and sold entirely different plastics
- NIOs are "generally used in cases where an infringement allows the infringer to commercialize a good in a more profitable manner than [they] could have without the infringement" (*Cinar*)... The concept helps courts recognize the limited nature of a patent, as "a patent does not confer a complete monopoly if a defendant could make or sell a non-infringing version of the patented invention" (*ADIR*)
- NIO is not an infringer's "most profitable" alternative sales product that it "would have" and "could have" sold had it not infringed

Dow v Nova SCC (cont'd)

Springboard

- Judges should determine whether any profits earned post-patent-expiry are causally attributable to infringement of the invention during the period of patent protection. If they are, such profits should be disgorged.
- Nova conceded that pail and crate plastics were not a non-infringing option, so no proper basis to reduce the springboard profits award

	Compensatory Damages	Accounting of Profits
Basis	<i>Patent Act s. 55(1)</i>	<i>Patent Act para. 57(1)(b)</i>
Nature	Legal	Equitable
Availability	As of right (unless profits elected)	At patentee's election; usually granted, but not as of right
Quantum	Patentee's losses	Infringer's wrongful gains
Purpose	Compensatory – ensure patentee is made whole for its losses (lost profits or lost royalty payments)	Restorative – ensure infringers are deterred, but not punished Minimize incentive to infringe (including “efficient infringement”)

Monsanto v Schmeiser, 2004 SCC 34

101 It is settled law that **the inventor is only entitled to that portion of the infringer’s profit which is causally attributable to the invention.** This is consistent with the general law on awarding non-punitive remedies: “[I]t is **essential that the losses made good are only those which, on a common sense view of causation, were caused by the breach**”.

[emphasis added; citations omitted]

Pre-Dow: NIA in Damages

Merck & Co., Inc. v. Apotex Inc., 2015 FCA 171 at 49-50

[I]n cases where, in the “but for” world, the infringer could and would have made and sold a non-infringing alternative, these sales may well reduce the patent owner’s sales. [...]

Perfect compensation requires consideration of: (i) what, if any, non-infringing product the defendant or any other competitors could and would have sold “but for” the infringement; and, (ii) the extent lawful competition would have reduced the patentee’s sales.

Pre-Dow: NIA in Profits

Monsanto v Schmeiser, 2004 SCC 34 at 102

The preferred means of calculating an accounting of profits is what has been termed the value-based or “differential profit” approach, where **profits are allocated according to the value contributed to the defendant’s wares by the patent.** A comparison is to be made between **the defendant’s profit attributable to the invention and his profit had he used the best non-infringing option.**

[emphasis added; citations omitted]

How has *Dow v Nova* changed the landscape?

Other Significant Impacts of *Dow*

- Full costs (“absorption”) approach accepted
 - Infringer can deduct a portion of fixed costs
 - Judge concluded if Nova hadn't manufactured the infringing products, it would have produced other products
- Springboard profits affirmed
 - *Patent Act* doesn't bar disgorgement of profits
 - Has the same purpose as springboard damages
 - Meant to prevent an infringer from gaining from its infringement that is different from/complementary to compensating the patentee by way of reasonable royalty

Dow on the Non-Infringing Option

- **Any product that helps the Court isolate the profits causally attributable to the invention** [58]
 - **Not** the most profitable alternative product that the infringer “would have” and “could have” sold [59]
- “Similar product without the patented feature” [51]
- Need not be a “strict market substitute” [67]
- “Typically” most relevant when patent covers only part of the product sold [67]
- Ultimate question: “whether the patent contributes the whole *value* of the thing that was sold, or merely a part” [67]

Future Developments of NIOs?

- To remain flexible fact driven inquiry?
- How to determine "whether the patent contributes the whole value of the thing that was sold, or merely a part"?
- Additional guidance on causation
- Creative NIOs advanced by counsel depending on facts

Assessing contributions to "value"

- Determining "whether the patent contributes the whole value of the thing that was sold, or merely a part"
 - infringing elements vs non-infringing elements – Nova FCA [47]
 - apportionment may be necessary even when the infringing product is the whole of the patent – Nova FCA [56]
 - Differences when making, using or selling
 - “Apportionment” is nothing more than part of the assessment of causation: the exercise of ensuring that benefit not caused by the infringement of the patent is factored out – Nova FCA [80]

Expectations for Causation?

- Likely to be a flexible, case-by-case approach
- “Need not be determined by scientific precision”
- Causation analysis is relevant at step 2 of *Dow* framework – if no NIO, no need to assess causation and all actual profits are disgorged
- “But for” causation still has a role in springboard profits