

Federal Court



Cour fédérale

Date: 20090528

Docket: T-436-05

Citation: 2009 FC 555

Ottawa, Ontario, May 28, 2009

PRESENT: The Honourable Mr. Justice Mandamin

BETWEEN:

**VARCO CANADA LIMITED,
VARCO, L.P.,
WILDCAT SERVICES, L.P.,
and WILDCAT SERVICES CANADA, ULC**

Plaintiffs

and

**PASON SYSTEMS CORP.
and PASON SYSTEMS INC.**

Defendants

REASONS FOR ORDER AND ORDER

[1] The Defendants (Pason) appeal the March 9, 2009 Order of Prothonotary Milczynski that allowed the Plaintiffs (Varco) to amend their Statement of Claim to claim patent infringement arising from the manufacture and export of the purported infringing device, the Pason AutoDriller, to foreign countries including the United States, Mexico, Argentina and Australia and to claim related damages or accounting for lost profits.

BACKGROUND

[2] The Plaintiffs are the current and past owner and licensee, respectively, of the Canadian Letters Patent 2,094,313 (the 313 Patent) which concerns an automatic drilling system. The Defendants manufacture a device known as the Pason AutoDriller.

[3] Oilfield drilling is accomplished by a drilling rig that powers and lowers a drill bit in drilling operations. The drill bit is rotated by a drilling pipe. As the drill bores further into the strata being penetrated, the pipe length is reached and another section of pipe is added so drilling can continue. As more lengths of drilling pipe are added, the weight of this drill string increases and it becomes necessary to counteract the increased weight to maintain an effective drilling pressure. Other considerations, such as drill bit weight, the angle of drilling, drilling fluid pressure, drill string torque, and drill string rotation also affect the drilling rate. The 313 Patent relates to an automatic drilling system that is used to control a drill string in response to various sensor signals to achieve an optimal rate of drill bit penetration.

[4] Varco commenced this action in 2005. The initial Statement of Claim claimed that Pason infringed the 313 Patent in several ways by “making, using, selling, offering for sale, renting and offering for rent in Canada” an automatic drilling system known as the Pason AutoDriller. The Plaintiffs claimed relief in respect of all sales and rentals of the AutoDriller in Canada.

[5] During the discovery phase of these proceedings, Varco learned that all Pason AutoDrillers are manufactured in Canada and Pason exports the Pason AutoDriller to foreign countries for sale or rental. Because of this new information, Varco brought its motion to amend the Statement of

Claim to plead that Pason has infringed the 313 Patent by making the AutoDriller in Canada and exporting it to foreign countries. Varco also sought to claim damages or an accounting of profits relating to foreign sales and rentals of the Pason AutoDriller made in Canada.

[6] After hearing the Varco application, Prothonotary Milczynski issued the March 9, 2009 Order allowing Varco to amend the Statement of Claim. Pason now appeals the Prothonotary's Order to this Court.

DECISION UNDER APPEAL

[7] After reviewing the Parties' motion materials and oral submissions, the Prothonotary, found that absent any prejudice to the opposing party, the Court should only deny amendments where it is "plain and obvious" that the claim discloses no reasonable cause of action.

[8] The Prothonotary considered the proposed amendments and stated:

I am not satisfied that it is plain and obvious that the proposed amendments are not proper or do not disclose a reasonable cause of action. Consistent with the rules of pleading, the proposed amendments clarify and relate to the allegations of infringing activity, namely, the manufacture of the Pason AutoDriller in Canada, and consequently, the damages flowing from its export from Canada. There is also no evidence of prejudice arising to the Defendants by allowing the amendment that is not compensable in costs.

[9] On March 9, 2009, Prothonotary Milczynski issued an Order granting leave to the Plaintiffs to serve and file an Amended Statement of Claim. The specific amendments in question are:

1. The Plaintiffs claim:
 - (a) declaration that Canadian Letters Patent 2,094,313 (the 313 Patent) and claims 1, 2, 9, 11, and 14 thereof are valid and have been infringed by the Defendants;

(b) and interim, interlocutory and permanent injunction restraining the Defendants, ... from directly or indirectly:

...

(iii) making, using, manufacturing, importing, exporting, distributing, offering for sale, selling, offering for rent or renting the Defendants' Pason AutoDriller system in Canada, and inducing and procuring others to make, use, offer for sale, sell offer for rent or rent the Defendants' Pason AutoDriller system in Canada;

(d) damages or, alternatively, an accounting of profits made by the Defendants in Canada and other countries, including, but not limited to, the United States, Mexico, Argentina and Australia, as the Plaintiffs may elect;

...

14. Pason Systems Inc. and Pason Systems Corp. are, individually and collectively, also exporting the Pason AutoDriller, manufactured by the Defendants in Canada, to countries outside of Canada, including, but not limited to, the United States, Mexico, Argentina and Australia, for sale, rental and use in such other countries.

...

31. After the grant of the 313 Patent on August 24, 1999, the Defendants also exported the Pason AutoDriller, manufactured by the Defendants in Canada, to countries outside of Canada, including, but not limited to, the United States, Mexico, Argentina and Australia, for sale, rental and use in such other countries, in infringement of claims 1, 2, 9, 11, and 14 of the 313 Patent.

...

35. By reason of such infringement, the Plaintiffs have suffered and continue to suffer irreparable harm and damage and the Defendants have made profits, including but not limited to, profits made on sales of the Pason AutoDriller in Canada, the United States, Mexico, Argentina and Australia. The Plaintiffs claim all damage sustained by them or, in the alternative, all profits made by the Defendants, as the Plaintiffs may elect, by virtue of the Defendants' aforesaid wrongful acts.

(underlining indicates amendment)

ISSUES

[10] Pason submits that the Prothonotary erred in finding that as a matter of law that a patent infringement in Canada arises on activities outside of Canada and that a related United States court judgment exhausts Varco's claim for remedies for infringement in the United States.

[11] The issues as formulated by Pason can be stated as “is it plain and obvious that the claim discloses no reasonable cause of action” and the “case is beyond doubt” that:

- i. the activities completed in foreign jurisdictions cannot, at law, infringe a Canadian Patent; similarly the remedies sought are not traceable to any infringement in Canada;
- ii. the claims for remedies based on activities in the United States are an abuse of process as they re-claim that which Varco has already been awarded in a related U.S. action.

STANDARD OF REVIEW

[12] In *R. v. Aqua-Gem Investments Ltd.*, [1993] F.C.J. No. 103 (F.C.A.), Justice MacQuigan set out the test that:

Discretionary orders of prothonotaries ought not be disturbed on appeal to a judge unless:

- (a) they are clearly wrong, in the sense that the exercise of discretion by the prothonotary was based on a wrong principle or upon a misapprehension of the facts, or
- (b) where they raise questions vital to the final issue of the case.

[13] In *Merck & Co. v. Apotex Inc.*, 2003 FCA 488, Justice Décaré, at para. 19, restated the test to be applied in considering appeals of prothonotary decisions:

... I think it is appropriate to slightly reformulate the test for the standard of review. I will use the occasion to reverse the sequence of the propositions as originally set out, for the

practical reason that a judge should logically determine first whether the questions are vital to the final issue: it is only when they are not that the judge effectively needs to engage in the process of determining whether the orders are clearly wrong. The test would now read:

Discretionary orders of prothonotaries ought not be disturbed on appeal to a judge unless:

- a) the questions raised in the motion are vital to the final issue of the case, or
- b) the orders are clearly wrong, in the sense that the exercise of discretion by the prothonotary was based upon a wrong principle or upon a misapprehension of the facts.

[14] The Parties agree that the questions raised are not vital to the final issue in this case. As such, I should only interfere with the March 9, 2009 Order if Pason can establish that Prothonotary Milczynski was wrong in law or misapprehended the facts in granting Varco leave to amend the Statement of Claim.

ANALYSIS

[15] Pason raises no issue with Varco's pleadings in its initial Statement of Claim, namely that Pason manufactures the Pason AutoDriller and, when connected and installed on drilling rigs in Canada, forms a system that infringes the 313 Patent. Rather, Pason denies the infringement in its Statement of Defence.

[16] Pason submits it ships separately packaged AutoDriller components out of Canada. The exported components are never assembled in Canada to form a system. Assembly of the components to make an automatic drilling system occurs on drilling rigs outside of Canada.

[17] Pason relies on the decision of Justice Thurlow in *Dole Refrigerating Products Ltd. v. Canadian Ice Machine Co. and Americo Contact Plate Freezers Inc.*, [1957] C.C.S. No. 888, 28 CPR 32 (Ex. Ct.) at 36 where he stated:

... the exclusive rights conferred by a Canadian patent are limited territorially to Canada and are further limited by s. 46 of the *Patent Act*, R.S.C. 1952, c.203 to those of “making, constructing, using, and vending to others to be used the said invention.” A person who, beyond Canada, makes, constructs, uses, or sells the invention commits no breach of the Canadian patent.

[18] Pason also refers to the Federal Court of Appeal decision in *Beloit Canada Ltd. v. Valmet-Dominion Inc.*, [1997] F.C.J. No. 486, 73 C.P.R. (3d) 321,(FCA) (*Beloit Canada 1997*) at para. 34:

A person who, beyond Canada, makes, constructs, uses, or sells the invention commits no breach of the Canadian patent. Therefore, the construction of a combination patent abroad is not infringement, and cannot consequently trigger a domestic contributory infringement.

The focus of this inquiry must, therefore, be on whether the domestic actions of the respondents constitute an infringement. Did the respondents make, construct, use, or vend the patented invention in Canada by manufacturing and selling component parts of the patented press section?

[19] Varco refers to jurisprudence that allows a patent holder to seek relief for infringement of a Canadian Patent when an infringing product is made in Canada and exported for sale or use in other countries. In *AlliedSignal Inc. v. Du Pont Canada. Inc.*, [1993] F.C.J. No. 866, at para. 43, Justice Reed stated:

... In the present case there is only one “part” and that is film and it is sold to manufacturers of SMC for only one purpose, to be used in making SMC. It is manufactured by Du Pont to fit the particular machine each customer uses. It is shipped to customers in the exact form in which it is used by them. It is manufactured for no other purpose than to be used in each customer's machine. In the circumstances, I have trouble understanding how the sale of the film to SMC producers in the United States could be for any other purpose than to cause or induce a breach of the patent.

Subsequently, in a hearing to determine damages, Deputy Justice Heald held that a patentee is entitled to compensation for all damages arising from infringement within Canada including profits lost on sales outside of Canada. *AlliedSignal Inc. v. Du Pont Canada. Inc.*, [1998] F.C.J. No. 190, at para.33.

[20] Varco also relies on *Beloit Canada 1997* at p. 337, where the Federal Court of Appeal approved the reasoning of Justice Urie in *Windsurfing International Inc. et al v. Trilantic Corporation*, [1985] F.C.J. No. 1147, at 265 that suggesting a patent infringement suit can be successfully avoided by selling parts as components of a kit in contrast to an assemblage was nonsense. The Federal Court of Appeal stated:

This is, in our view, the correct approach to take with regards to the making and selling of all components of a patented invention. Where the elements of an invention are sold in a substantially unified and combined form for the purpose of later assembly, infringement may not be avoided by separation of division of parts which leaves the purchaser a simple task of integration and assembly.

[21] The Prothonotary was alive to the question of whether the infringing activity was properly related to the manufacture of the Pason AutoDriller in Canada and whether damages would flow from the export of the device from Canada.

[22] The point in citing the above differing cases presented by Pason and Varco is to illustrate that facts must first be determined and the differing jurisprudence considered before the issues of infringement and damages raised by the amended Statement of Claim can be decided. These are

matters best left to the trial judge. Certainly, at this stage, it is not plain and obvious that the amendments disclose no reasonable cause of action.

[23] Pason also submits that it is an abuse of process for Varco to claim damages or profits since Varco had already sued and secured a judgment against Pason Systems USA Corp. for making, using, selling and offering for sale, or inducing others to make, use, sell or offer for sale the Pason AutoDriller in the United States.

[24] The amended claim for damages or an accounting of profits from foreign sales does not overlap with damages awarded to Varco in the United States. The claim in the United States was against Pason Systems USA Corp.; the Canadian claim in this action, is against Pason Systems Corp. and Pason Systems Inc. Moreover, Pason has not provided evidence that goes beyond demonstrating that a judgment, as opposed to a final and complete settlement, was issued in the United States. Regardless, if a question arises as to whether there is overlap that is a question of fact that must be resolved by the trial judge.

[25] The general rule is that for amendments to pleadings “an amendment should be allowed at any stage for an action for the purpose of determining the real question in controversy between the parties, provided, notably, that the allowance would not result in an injustice to the other party not capable of being compensated by an award of costs and it would serve the interests of justice.”

Canderel Ltd. V. Canada, [\[1993\] F.C.J. No. 777](#), (FCA), *Camoplast Inc. v. Soucy International Inc.*, 2003 FCA 211, at paras. 14 – 17.

[26] The test to amend a pleading must be applied consistently with the test to strike a pleading. Amendments will be denied, and pleadings will be struck only when it is plain and obvious that the claim discloses no reasonable cause of action. In *Enoch Band of Stony Plain Indians v. Canada* [1993] F.C.J. No. 1254, the Federal Court of Appeal made it very clear that the Court should only “deny amendments in plain and obvious cases” where the matter is “beyond doubt”.

[27] The Prothonotary did not decide on a wrong principle or upon a misapprehension of the facts. I find that the Prothonotary did not err in granting leave for the amendments to the Statement of Claim.

[28] The Defendants appeal of the Prothonotary’s Order of March 9, 2006 is dismissed.

ORDER

THIS COURT ORDERS that

1. The Defendants' motion is dismissed.
2. The Defendants must file their amended Statement of Defence within 30 days from the date of this Order.

"Leonard S. Mandamin"

Judge

FEDERAL COURT

SOLICITORS OF RECORD

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STYLE OF CAUSE: VARCO CANADA LIMITED ET AL. v. PASON
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**REASONS FOR ORDER
AND ORDER BY:** MANDAMIN, J.

DATED: MAY 28, 2009

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