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Doing Business as Usual – Prior User Rights Under Canadian Patent Law

February 14, 2022

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Prior user rights have long been recognized in Canadian patent law. These rights, which are a defence against patent infringement, are seen as a means of ensuring fairness by allowing a person who has independently manufactured, used or acquired an invention that is subsequently patented to continue using the invention.

A revised version of section 56 of the *Patent Act*, which defines prior user rights and is similar to section 64 of the UK *Patents Act*, came into force on December 13, 2018. The revised provision applies to an action or proceeding commenced on or after October 29, 2018, involving a patent issued from an application filed on or after October 1, 1989.

The pith and substance of prior user rights under the revised provision had never been judicially interpreted until a recent Federal Court decision was handed down in *Kobold Corporation v. NCS Multistage Inc.*

The two corporations involved in the case supply equipment used in the oil and gas industry for hydraulic fracturing. Kobold Corporation (hereinafter Kobold, the plaintiff) alleged that four of NCS Multistage Inc.'s (hereinafter NCS, the defendant) proprietary fracturing tools infringed Canadian Patent No. 2,919,561, and NCS petitioned the Court through a motion for summary judgment to dismiss the infringement action on the basis of prior user rights.

In its analysis of section 56 in its current form, the Court considered the English and French versions of the section, legislative history, Canadian jurisprudence on the previous section 56 and the corresponding legislation in the UK.

The Court began by pointing out that section 56 of the *Patent Act,* effective since December 13, 2018, grants broader rights than the former section 56 did, underscoring the three following differences:

1. First, it noted that the previous legislation was limited to granting "a prior user the right to use and sell" a physical product, whereas the current provision "grants a prior user the right to commit an "act" that would have otherwise

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constituted infringement." It added that the word "act" must be interpreted in light of section 42 of the *Patent Act*, which grants exclusive rights to "making, constructing and using the invention and selling it to others to be used," which includes patented methods. This interpretation may limit the rights of prior users, and the Court gave the example of a prior user who previously manufactured and used a device—they can continue to manufacture and use it, but they cannot rely on a prior use defence under section 56 to begin selling the device, as selling is different from manufacturing or using within the meaning of the Act.

2. Second, it pointed out that whereas the previous legislation "limited the protection to the sale or use of the [...] physical manifestation of the invention", section 56 as amended protects the commission of an act "that would have constituted infringement."
3. Third, it pointed out that the current legislation extends protection to a person who "made serious and effective preparations to commit [...] an act" of infringement prior to the claim date, which was not the case under section 56 in its previous form.

The parties had different interpretations of the term "same act" contained in subsection 56(1), particularly as to the degree of similarity required. The Court determined that the word "same" in subsection 56(1) means "identical" with respect to an act, while subsections 56(6) and 56(9) "allow a third party defence of prior use on the less stringent standard of "substantially the same."" The Court stated that a prior user may "add to or alter" aspects that "do "not [...] infringe the patent", for example by changing a device's paint colour, but the prior user may not alter an aspect that relates to the invention's inventive concept.

The Court then set out the factors that must be considered in assessing the defence of prior user rights under subsection 56(1). Verbatim, it stated:

1. First, one must determine whether the acts being performed before and after the claim date are identical [...]. If they are, then there is no need to consider infringement, as subsection 56(1) would always provide a defence to any potential infringement.
2. Second, if the acts are not identical, one must determine whether the acts infringe the patent, and if they do, which claims.

    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.

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

The Court concluded that a motion for summary judgment is only appropriate in cases where acts committed before and after the claim date are clearly identical, and thus where it is not necessary to "construe the claims [...] or conduct an infringement analysis." In this case, given that the acts performed by NCS before and after the claim date differed, the Court concluded that a full trial was required to analyze the issue of infringement and the application of subsection 56(1) of the *Patent Act*.

Conclusion

This first detailed analysis of section 56 of the *Patent Act* as amended in December 2018 has clarified several aspects of a defence against patent infringement based on prior user rights. It will certainly serve as a foundation for future decisions involving this issue. However, the application of subsection 56(1) of the *Patent Act* was not examined in this motion for summary judgment. We'll have to wait for a future trial on the issue for more insight on the scope of prior user rights under Canadian law.

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