

Federal Court



Cour fédérale

Date: 20181214

Docket: T-449-17

Citation: 2018 FC 1269

Ottawa, Ontario, December 14, 2018

PRESENT: The Honourable Madam Justice Mactavish

BETWEEN:

FARMOBILE, LLC

**Plaintiff/
Defendant by Counterclaim**

and

FARMERS EDGE INC.

**Defendant/
Plaintiff by Counterclaim**

ORDER AND REASONS

[1] Before me are two appeals from orders of a Prothonotary made in the context of an action for patent infringement. The first appeal is brought by the Plaintiff, appealing the refusal of the Prothonotary to strike portions of the Defendant's Amended Statement of Defence. The second is an appeal by the Defendant from orders striking portions of its Counterclaim and refusing to stay this action pending the outcome of an action to be commenced in another jurisdiction.

[2] The central question in both appeals is the jurisdiction of the Federal Court to deal with issues relating to ownership of the patent, where the Court will be required to consider contractual issues in resolving this dispute.

[3] For the reasons that follow, I have not been persuaded that the Prothonotary erred in making the orders in question. Consequently both appeals will be dismissed.

I. The Test on Motions to Strike

[4] A motion to strike will only be granted where it is plain and obvious that the action cannot succeed, assuming the facts alleged in the statement of claim to be true: *Hunt v. Carey Canada Inc.*, [1990] 2 S.C.R. 959, 74 D.L.R. (4th) 321. In other words, the claim must have no reasonable prospect of success: *R. v. Imperial Tobacco Canada Ltd.*, 2011 SCC 42 at para. 17, [2011] S.C.J. No. 42.

[5] The “plain and obvious” test applies on a motion to strike for want of jurisdiction. That is, the lack of jurisdiction must be plain and obvious to justify striking out a pleading at a preliminary stage: *Windsor (City) v Canadian Transit Co.*, 2016 SCC 54 at para. 24, [2016] 2 S.C.R. 617 [*Windsor Bridge*]; *Kainaiwa Nation (Blood Tribe) v. Canada*, 2018 FCA 83 at para. 20, [2018] F.C.J. No. 454.

II. Standard of Review

[6] I agree with the parties that the standard of review to be applied to discretionary orders of a Prothonotary striking or refusing to strike a pleading is that established by the Federal Court of Appeal in *Hospira Healthcare Corporation v. Kennedy Institute of Rheumatology*, 2016 FCA 215 at paras. 64 and 68, [2017] 1 F.C.R. 331.

[7] That is, this Court should not interfere with decisions such as the ones in issue in this case unless the decisions were based on a palpable and overriding error with respect to the facts, or were based upon wrong principles or were incorrect in law.

III. Should the Amended Statement of Defence be Struck?

[8] As noted earlier, the Plaintiff's action is for patent infringement. In responding to the claim, the Defendant asserted that its product did not infringe the patent in dispute. It further asserted that it, and not the Plaintiff, was the rightful owner of the patent in dispute, having been assigned all rights of the invention claimed in the patent pursuant to a series of written and implied agreements.

[9] In support of this latter claim, the Defendant pleaded that two of the three named inventors of the invention claimed in the patent signed confidentiality and non-competition agreements whereby they assigned all rights and interests in the intellectual property to a company called Crop Ventures Inc., which was the predecessor-in-title to the Defendant, or to the parent company of Crop Ventures Inc.

[10] The Defendant also pleaded that the third inventor was party to an employment contract with the Crop Ventures Inc. whereby he agreed to sign the company's standard Proprietary Information and Inventions Agreement. Although this latter agreement was never formally executed, the Defendant pleads that the third inventor nevertheless "implicitly agreed to the terms of the Proprietary Information and Inventions Agreement".

[11] Finally, the Defendant pleads that when the Defendant purchased Crop Ventures Inc. in 2015, the Chief Executive Officer of Crop Ventures Inc. (who had allegedly also been involved

in the invention), and Crop Ventures Inc. itself, assigned ownership of the invention claimed in the patent to the Defendant.

[12] For the purpose of these reasons, the agreements referred to in the above three paragraphs will be referred to collectively as the “Contracts”.

[13] Relying on Rules 221(a) and (c) of the *Federal Courts Rules*, SOR/98-106, the Plaintiff moved to strike the paragraphs of the Amended Statement of Defence dealing with the ownership issue on the basis that they involve contractual claims that are beyond the jurisdiction of this Court.

[14] The Prothonotary found that the “essential nature” of the main action was a patent dispute, and that the Statement of Claim was based in law that was within the jurisdiction of the Federal Court. While some contractual issues were indeed raised in the Amended Statement of Defence, they were advanced as a shield against the claim of patent infringement, and were ancillary to the primary nature of the claim.

[15] As a consequence, the Prothonotary concluded that even though contractual issues were pleaded in the Amended Statement of Defence, they did not displace the Court’s jurisdiction over the case. Citing *ITO-International Terminal Operators Ltd. v. Miida Electronics*, [1986] 1 S.C.R. 752 at pages 781 and 782, 28 D.L.R. (4th) 641, she found that this Court can interpret and apply provincial law to proceedings that are otherwise founded upon federal law and are within the Court’s jurisdiction. As a result, the Prothonotary concluded that the impugned portions of the Amended Statement of Defence were within the jurisdiction of this Court, with the result that the Plaintiff’s motion to strike was dismissed.

[16] The Plaintiff submits that the Prothonotary erred in refusing to strike the Amended Statement of Defence by focusing unduly on the remedy sought by the Defendant, rather than the essential nature of the pleading. Had she done so, the Plaintiff says, she would have concluded that the facts and issues pleaded in the Amended Statement of Defence require the Court to determine ownership of the patent based upon the interpretation of the Contracts. According to the Plaintiff, the determination of the ownership of the patent is thus not incidental or ancillary to the other matters pleaded in the Amended Statement of Defence, but is solely a matter of contractual interpretation involving property and civil rights. As such, it is beyond the jurisdiction of the Federal Court.

[17] The parties agree that there are no decisions of this or any other court that are directly on point, that is, cases involving a claim for patent infringement where it is pleaded in a statement of defence that the Defendant and not the Plaintiff is the rightful owner of an invention claimed in a patent. There are, however, a number of decisions where contractual issues have arisen in the context of litigation brought in this Court, including patent litigation. They require consideration in order to determine whether the Prothonotary applied the correct legal principles in arriving at her decision.

[18] The starting point for my analysis is the decision of the Supreme Court of Canada in *Kellogg Company v. Kellogg*, [1941] S.C.R. 242, [1941] 2 D.L.R. 545. *Kellogg* involved an action in the Exchequer Court to determine who the first inventor of an invention was, as between an employer and its former employee. One of the alternative claims advanced by the company was that even if the employee was in fact the inventor, the company was nevertheless the owner of the invention under the terms of the employment contract with the employee.

[19] The Exchequer Court found that the claim involved a contractual issue over which the Court had no jurisdiction, and struck it out. The Supreme Court disagreed, holding that while the Exchequer Court did not have jurisdiction to determine an issue concerning a matter of contract between subject and subject, the subject-matter of the company's claim in this case "only incidentally refers to the contract of employment". The primary issue in the case was a matter of patent law: at pages 249-250. As a consequence, the claim was allowed to stand.

[20] The approach established in *Kellogg*, namely that this Court (or its predecessor, the Exchequer Court) may resolve contractual issues raised in an action that is in 'pith and substance' within the Court's jurisdiction has been followed in a series of cases including *ITO*, above at para. 30; *Lawther v. 424470 B.C. Ltd.* (1995), 60 C.P.R. (3d) 510, [1995] F.C.J. No. 549; *Axia Inc. v Northstar Tool Corp.*, 2005 FC 573 at paras. 17 to 19, [2005] F.C.J. No. 708; *R.L.P. Machine & Steel Fabrication Inc. v. DiTullio*, 2001 FCT 245 at para. 36, 12 C.P.R. (4th) 15; *Salt Canada Inc v. Baker*, 2016 FC 830 at para. 21, 140 C.P.R. (4th) 213; and *Alpha Marathon Technologies Inc. v. Dual Spiral Systems Inc.*, 2017 FC 1119 at para. 64, [2017] F.C.J. No. 1197.

[21] The Federal Court of Appeal applied *Kellogg* in a patent case to find jurisdiction in the Federal Court notwithstanding the fact that the matter involved the interpretation of a contract - a settlement agreement in that case: *Allergan v. Apotex Inc.*, 2015 FC 367 at paras. 32- 33, 130 C.P.R. (4th) 472, rev'd on other grounds but aff'd on the question of jurisdiction, 2016 FCA 155 at paras. 11-13, 399 D.L.R. (4th) 549.

[22] The Federal Court of Appeal acknowledged in *Allergan* that contract law is ordinarily a matter within provincial jurisdiction. It held, however, that this Court will have jurisdiction

“when the contract law issue before the Court is part and parcel of a matter over which the Federal Court has statutory jurisdiction, there is federal law essential to the determination of the matter, and that federal law is valid under the constitutional division of powers”: at para. 13, citing *ITO*, above, and *Windsor Bridge*.

[23] The Court further observed in *Allergan* that the Federal Court has jurisdiction over patent infringement actions under section 20 of the *Federal Courts Act*, R.S.C. 1985, c. F-7, subsection 54(2) of the *Patent Act*, R.S.C. 1985, c. P-4. Indeed, there is no dispute in this case that a claim of patent infringement comes squarely within the jurisdiction of the Federal Court under the three-part test established in *ITO*.

[24] The Plaintiff asserts that while *Kellogg* has never been expressly overruled, it has been overtaken by more recent jurisprudence. Referencing cases relied upon by the Defendant, the Plaintiff says that *Lawther*, above, *R.L.P. Machine & Steel Fabrication Inc.* above, *Axia*, above, *Salt Canada Inc.*, above, and *Alpha Marathon*, above, all involved ownership issues that could only be resolved by reference to contractual matters, and that in each case, the claims were struck as being beyond the jurisdiction of this Court.

[25] There is, however, an important distinction between the cases referred to by the Plaintiff and this case. In each of the above-referenced cases, a proceeding was commenced by a Plaintiff or Applicant seeking to enforce rights to an invention claimed in a patent, based upon an alleged contractual entitlement to the patent in question. That is, the proceedings involved claims to property, framed in contract. It just happened that the property in question was a patent.

[26] In other words, using the language of the Federal Court of Appeal in *Innotech Pty. Ltd v. Phoenix Rotary Spike Harrows Ltd.*, 74 C.P.R. (3d) 275 at para. 4, 215 N.R. 397, the contracts in issue in the above-noted cases were being “used as a sword” to obtain remedies against the responding party, rather than as a “shield” or defence to a patent claim.

[27] This should be contrasted with the present case, where the Plaintiff’s action is for patent infringement, and the essential nature of the defence raised by the Defendant in its Amended Statement of Defence is that it did not infringe the Plaintiff’s patent, in part because it was its rightful owner. A plea of non-infringement is unquestionably within the jurisdiction of this Court.

[28] This case thus more closely resembles *Titan Linkabit Corp. v. S.E.E. See Electronic Engineering Inc.* (1992), 44 C.P.R. (3d) 469, 58 F.T.R. 1. There, a plaintiff was seeking to strike portions of a statement of defence and counterclaim on the basis that they involved a contractual relationship between one of the plaintiffs and the defendants. Noting that contractual disputes are not uncommon in intellectual property litigation, the Court held that such a dispute will not preclude the Court’s jurisdiction, provided that the subject matter of the action primarily concerns a patent, trade-mark or copyright: at para. 8.

[29] The Court concluded that the action in *Titan Linkabit* was based in copyright, and that the impugned paragraphs in the statement of defence incidentally referred to the contract between the parties, not to advance a claim for damages for breach of contract, but to support the defence of non-infringement. The same may be said here.

[30] The Plaintiff attempted to distinguish *Titan Linkabit* and three other cases relied upon by the Defendant, namely *Innotech*, above; *Spangler Candy Inc. v. Karma Candy Inc.*, 2013 FC 253, 123 C.P.R. (4th) 81; and *McCracken v. Watson (c.o.b. Watson Machinery Co.)*, [1932] Ex. C.R. 83. According to the Plaintiff, these cases are distinguishable from the present situation as they involved pleas of non-infringement on the basis that the defendant's use of the invention claimed in the patent was carried out in accordance with the terms of a licence. The Plaintiff accepts that a plea based on use pursuant to a licence is a recognized defence to an infringement action in the Federal Court.

[31] Indeed, the Plaintiff initially asserted that there are only three possible defences to a claim of patent infringement: non-infringement, invalidity and use pursuant to a licence, and that ownership of a patent is not a defence to a claim for patent infringement. When pressed on the issue, however, the Plaintiff qualified this submission, asserting that while ownership is indeed a defence to a claim for patent infringement, it is not one that can be asserted *in this Court*.

[32] I do not agree with the Plaintiff that the fact that the four cases referred to above involved pleas regarding licences, rather than ownership, is a basis for distinguishing them from the present situation. A licence is, after all, merely one form of contract. In determining whether or not this Court has jurisdiction in a given case, the question is not the nature of the contract in issue, but whether the contractual issues raised in the impugned plea relate to the essential nature of the claim, or are ancillary to it.

[33] *Titan Linkabit*, *Spangler* and *McCracken* are thus entirely consistent with the principles discussed above. *Innotech* is a decision of the Federal Court of Appeal, and as such bears specific comment.

[34] *Innotech* involved a motion to strike out a counterclaim filed in connection with an action for patent infringement. It is somewhat analogous to this case, in that a defendant responded to the statement of claim by alleging in its statement of defence that it was not liable for patent infringement as it had at all times acted under valid licence, a plea that was central to its defence. The defendant also brought a counterclaim seeking a declaration as to the validity of the license, injunctions for its enforcement, and damages for the alleged breach of the license by the plaintiff.

[35] I will return to *Innotech* when I discuss the motion to strike the Counterclaim. Suffice it to say at this juncture that the Federal Court of Appeal allowed the plea based on the licence to stand in the statement of defence as it was being invoked as a shield against a claim of infringement, and was incidental to it. The same may be said here.

IV. Conclusion with Respect to the Plaintiff's Appeal

[36] It is evident from a review of the Prothonotary's reasons that she correctly understood the legal principles discussed above, and that she applied these principles in assessing whether it was plain and obvious that the Amended Statement of Defence was beyond the jurisdiction of this Court.

[37] After examining the Amended Statement of Defence, the Prothonotary determined that the essential nature of the claim was one of patent infringement, and that the contractual issues asserted in defence of the main action were ancillary to the infringement issue. As a consequence she concluded that it was not plain and obvious that this Court lacked jurisdiction to deal with the contractual aspect of the Defendant's Amended Statement of Defence.

[38] The findings of the Prothonotary on this point were entirely open to her based on the pleading in question, and the Plaintiff has not demonstrated that the refusal of the Prothonotary to strike the Amended Statement of Defence was tainted by a palpable and overriding error regarding the nature of the Amended Statement of Defence. Consequently, the Plaintiff's appeal is dismissed.

V. The Defendant's Appeal of the Order Striking Portions of its Amended Counterclaim

[39] In responding to the Plaintiff's action for patent infringement, the Defendant commenced a counterclaim, asserting that, in accordance with the Contracts, it was the rightful owner of the patent in dispute. The Plaintiff also moved to have substantial portions of the Amended Counterclaim struck, once again asserting that they were beyond the jurisdiction of this Court as they involved contractual questions.

[40] The Prothonotary held that the Amended Counterclaim had to be considered separately from the Amended Statement of Defence, as a stand-alone action. She found that the "essential nature" of the Counterclaim was not patent infringement, but rather a claim for a declaration that the Defendant is the owner of the patent. She further concluded that the consequential order sought under section 52 of the *Patent Act* was contingent on the Defendant first establishing that it is the rightful owner of the patent in dispute, and that it should therefore be identified as such in the records of the Canadian Patent Office.

[41] After reviewing the relevant jurisprudence, the Prothonotary concluded that the Federal Court plainly and obviously lacked jurisdiction over the impugned portions of the Amended Counterclaim, and that they should accordingly be struck out.

[42] The Defendant appeals this decision, asserting that the Prothonotary erred in determining that the Amended Counterclaim had to be considered separately from the Amended Statement of Defence in assessing whether the relevant paragraphs of the Amended Counterclaim were beyond the jurisdiction of this Court.

[43] The Defendant contends that the Prothonotary further erred in differentiating between the ownership allegations contained in the Amended Statement of Defence and the similar allegations asserted in the Counterclaim. In support of this assertion, the Defendant submits that the Prothonotary erred in relying on the Federal Court of Appeal's decision in *Innotech*, which, it says, is distinguishable from the present case. Unlike the situation here, the contractual issues in the Counterclaim in *Innotech* were being asserted to obtain contractual remedies which did not arise from the *Patent Act*, and thus fell outside of the jurisdiction of the Federal Court.

[44] In contrast to the situation in *Innotech*, the Defendant says that in this case, the impugned portions of the Amended Counterclaim are not a "stand-alone" claim for breach of contract, but rather a claim for relief under section 52 of the *Patent Act* and section 20 of the *Federal Courts Act*.

[45] The Defendant has not persuaded me that the Prothonotary erred in concluding that the impugned portions of the Amended Counterclaim should be struck.

[46] First of all, the jurisprudence clearly establishes that a counterclaim does indeed have to be considered separately from a statement of defence, as a 'stand-alone' action: *Innotech*, above at para. 4. That is, even if a main action falls squarely within the Court's jurisdiction, the jurisdiction of the Court to entertain a counterclaim must nevertheless be assessed independently

as it is a separate and distinct claim: *Laboratoires Quinton Internationale S.L. v. Biss*, 2010 FC 358 at para. 7, [2010] F.C.J. No. 413.

[47] Accordingly, the Prothonotary did not err in proceeding on this basis.

[48] It is, moreover, clear from a review of the Amended Counterclaim that while relief is being sought pursuant to section 52 of the *Patent Act*, the pleading is nevertheless framed in contract. It involves a contractual dispute as to whether the Contracts establish that the Defendant owns the patent. Consequently, the Prothonotary did not err in finding that the “essential nature” of the Amended Counterclaim was not patent infringement, but rather a contractual claim for a declaration that the Defendant is the rightful owner of the patent.

[49] I am also not persuaded that the Prothonotary erred in differentiating between the ownership allegations contained in the Amended Statement of Defence and the similar allegations asserted in the Counterclaim.

[50] As in *Innotech*, the contractual issues in the Amended Counterclaim in this case are being advanced as a “sword” and not as a “shield”, as is the case with the Amended Statement of Defence. The Prothonotary did not err in concluding that it is plain and obvious that the Court lacks jurisdiction to adjudicate the impugned portions of the Amended Counterclaim and that those pleadings must be struck out, since the relief sought in the Amended Counterclaim is dependent on a prior determination of the rights conferred by the Contracts, and their interpretation is clearly a matter of contract rather than patent law.

[51] I note that this result is consistent with several of the decisions cited earlier, including each of *Lawther, R.L.P. Machine & Steel Fabrication Inc.*, *Axia* and *Salt*. Each of these cases

involved applications under section 52 of the *Patent Act* to vary the records of the Patent Office relating to the title to a patent in order to list the applicant as the rightful owner of the patent in dispute. Even though each application sought relief under section 52 of the *Patent Act*, in each case the application was struck on the basis that the claim was framed in contract rather than patent law. The same is true here.

[52] I agree with the Defendant that the result of striking the Amended Counterclaim and allowing the impugned portions of the Amended Statement of Defence to stand is inconvenient, and could result in the Defendant having to commence a second proceeding in a provincial superior court to enforce its contract claims. However, as the Federal Court of Appeal observed in *Innotech*, inconvenience is not a basis for this Court to assert jurisdiction where it does not otherwise exist: at para. 5.

VI. The Stay Motion

[53] In addition to responding to the Plaintiff's motion to strike portions of the Defendant's Amended Statement of Defence and Amended Counterclaim, the Defendant brought its own motion before the Prothonotary. It sought an order that if the Court were to conclude that all or part of the Amended Statement of Defence and Counterclaim should be struck, the proceedings be struck in their entirety, or, alternatively, stayed pending determination of the ownership issue in another Court.

[54] The Defendant submitted that it would be "highly prejudicial and judicially inefficient" if it were required to defend the main action with a portion of the Amended Statement of Defence having been struck, and to have to have the Amended Counterclaim considered separately from the main action.

[55] Given her finding that the Amended Statement of Defence could stand and that the Defendant could advance its ownership defence, the Prothonotary refused to stay the main action. She further found that the Defendant had not established that it would be irreparably harmed if the main action were allowed to proceed, despite the impugned portions of the Amended Counterclaim having been struck out. She found that, at best, this could result in an inconvenience to the Defendant, but would not amount to irreparable harm. The Prothonotary further found that it would work an injustice to the Plaintiff if the entire proceeding were stayed pending resolution of the Defendant's Amended Counterclaim in a court of competent jurisdiction, as the Plaintiff would be unable to prosecute its claim for patent infringement in this Court without undue delay.

[56] Consequently, the Defendant's motion for a stay was dismissed.

[57] Before this Court, the Defendant maintained that it would be extremely prejudicial and would cause it irreparable harm if it were required to defend the main action with a portion of the Amended Statement of Defence having been struck, as it would be unable to rely on a key defence to a claim of patent infringement that would otherwise have been available to it, namely that it was the rightful owner of the patent in dispute.

[58] However, while maintaining that it would be inconvenient if it were required to pursue its contract claim elsewhere, the Defendant conceded before me that any such inconvenience would not constitute irreparable harm justifying the granting of a stay.

[59] Having concluded that the Prothonotary did not err in finding that the Defendant could indeed pursue the ownership defence asserted in its Amended Statement of Defence in this

Court, it follows that the Prothonotary also did not err in dismissing the motion for a stay on the basis that the Defendant had not established that it would suffer irreparable harm if it were required to pursue its contract claim in another court.

VII. Conclusion

[60] For these reasons I am satisfied that the Prothonotary did not misapprehend the facts of this case, nor did she err in law or apply incorrect principles in determining whether or not to exercise her discretion to strike the Statement of Defence and the Amended Counterclaim in this matter. Nor did she err in refusing to stay the proceeding. Consequently, both appeals are dismissed.

VIII. Costs

[61] As requested by the parties, I make no order of costs at this time. In the event that the parties are unable to come to an agreement with respect to the costs of these appeals, they may make brief submissions in writing on the issue and an order will follow.

ORDER IN T-449-17

THIS COURT ORDERS that:

1. Both appeals are dismissed; and
2. If necessary, the parties may make brief submissions with respect to the costs of these appeals.

"Anne L. Mactavish"

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-449-17

STYLE OF CAUSE: FARMOBILE. LLC v FARMERS EDGE INC.

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ORDER AND REASONS: MACTAVISH J.

DATED: DECEMBER 14, 2018

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