

Federal Court



Cour fédérale

Date: 20120119

Docket: T-1236-01

Citation: 2012 FC 76

BETWEEN:

**WEATHERFORD CANADA LTD.
WEATHERFORD CANADA PARTNERSHIP,
EDWARD GRENKE and
GRENCO INDUSTRIES LTD.**

**Plaintiffs/
Defendants to
the Counterclaim**

and

**CORLAC INC.,
NATIONAL-OILWELL CANADA LTD. and
NATIONAL OILWELL INCORPORATED**

**Defendants/
Plaintiffs by
Counterclaim**

REASONS FOR JUDGMENT

PHELAN J.

[1] This is the redetermination of the issue of inducement returned to this Court by the Federal Court of Appeal.

[2] In this Court's decision concerning infringement of the Plaintiffs' '937 Patent, the Court found that Claim 17, a method claim, had been infringed by the Defendants.

[3] The Court of Appeal, having largely upheld the Court's decision on other issues, expressed concern for this Court's finding of infringement by inducement of Claim 17. The Court of Appeal held that the Defendants did not directly infringe Claim 17 because they did not, themselves, practice Claim 17.

[4] In paragraph 34, the Court of Appeal defined the Defendants' position on infringement of Claim 17 as an objection to the lack of evidence that the Defendants' customers used their stuffing boxes in a manner that infringed the method described by the claim.

34 The appellants' argument with respect to claim 17 is not one of construction. They state that claim 17 is "a method claim for using the sealing system of claim 1": appellants' memorandum of fact and law, paras. 7, 73. This indicates that the construction of claim 17 relates largely to the construction of claim 1. However, the appellants' real quarrel in relation to claim 17 is that the judge was wrong to conclude that infringement of the claim existed without the production of evidence that the appellants' customers actually used their stuffing boxes in a manner that infringed the method described by the claim: appellants' memorandum of fact and law, paras. 153-155, 157. That argument will be addressed later in these reasons.

[Emphasis in original]

Weatherford Canada Ltd v Corlac Inc, 2011 FCA 228

[5] The Trial Judgment specifically found that the Defendants' instruction manual instructs the practice of the method in Claim 17. This finding was not disturbed on appeal. (Reasons on Appeal, para. 164)

[6] The Defendants' argument now, that its instruction manuals do not teach the Claim 17 method because it teaches a closed oil port versus the Plaintiffs' open port, is an effort to argue a point found against it and not overturned on appeal. That point is *res judicata*.

[7] The Court of Appeal held that since the Defendants did not practice its instruction method which would infringe Claim 17, the Defendants could only be liable for inducing infringement of Claim 17. It was this single issue of inducement which was sent to this Court for redetermination. (Reasons on Appeal, para. 171)

[8] Given the instruction from the Court of Appeal, this Court is to consider those facts needed to support a conclusion that third parties used the method of Claim 17 and did so because they were induced by the Defendants.

[9] The test for inducement, as confirmed by the Court of Appeal, is three-fold:

1. The act of infringement must be completed by the direct infringer.
2. The completion of the acts of infringement must be influenced by the acts of the alleged inducer to the point that, without the influence, direct infringement would not take place.
3. The influence must knowingly be exercised by the inducer, that is, the inducer knows that this influence will result in the completion of the act of inducement.

[10] While the Court of Appeal described the test variously as a "difficult one to meet", "a stringent test", a "strict" test, I do not interpret these comments as suggesting that the standard of

proof in the determination of inducement is different from any other civil case, i.e. to be decided on the balance of probabilities.

[11] The Supreme Court has confirmed that there are only two evidentiary standards – “balance of probabilities” and “beyond reasonable doubt” (see *F.H. v McDougall*, 2008 SCC 53). It has further held that the civil standard is “more likely than not”.

... In all civil cases, the trial judge must scrutinize the relevant evidence with care to determine whether it is more likely than not that an alleged event occurred. (para. 49)

[12] Other standards or different evidentiary screening have been rejected by the Supreme Court (*F.H.*, above, paras. 39 and 40).

[13] The Court of Appeal outlined a non-exhaustive but helpful list of the type of questions to consider for the purposes of an inducement analysis:

- Were the oil well operators customers of the Defendants?
- Who was the end user?
- Was the instruction manual provided to the end user?
- Was the instruction manual provided in the normal course of business?

[14] As to the actual use of the Claim 17 method found to be taught in the operating/maintenance manuals (the infringing acts), there are three key facts:

- (a) The Defendants’ customers were the oil companies on whose rigs the infringing parts were placed. In the trial evidence from both parties, it was confirmed that this

technology was purchased directly by end user oil companies from the manufacturer/supplier. This evidence was also contained in the Read-ins from the Defendants' discovery.

- (b) The trial evidence included photographs of Corlac drive units in the field with Enviro stuffing boxes attached. The Agreed Facts stated that the Defendants started selling Enviro stuffing boxes in 2000, years before the trial.
- (c) The operating/maintenance manuals were provided at discovery, as confirmed by the Read-ins, in answer to a question related to "stuffing box maintenance procedures". There was no suggestion that these procedures were not followed by the oil companies. Further, given the other evidence of the importance of the stuffing boxes to the oil companies' operations and potential environmental liabilities from spills and leaks, it is more likely than not that these procedures would be followed in practice. There is no suggestion that another method was available and the operation and maintenance of the device would be the only reason for purchasing it.

[15] Therefore, I find that the practice of Claim 17 was completed by the direct infringer oil companies/end users. The Court is aware that a plaintiff may face difficulties in calling as witnesses potential customers to confirm that they infringed a claim but this does not alleviate the evidentiary burden. I find that the Plaintiffs did enough in this particular case by way of other direct and circumstantial evidence to meet that burden.

[16] Regarding influence by the Defendants over the customer/end user oil companies, the following facts are important:

- (a) The evidence of both parties confirmed that the Defendants' operating/maintenance manual was the basis for how the wellhead drive was actually operated in the field by the oil companies.
- (b) The operating/maintenance manual was addressed to customers who were told to contact their nearest "National Oilwell Varco representative" if there was a problem.
- (c) The operating/maintenance manual contained warnings about operating outside the manual's parameters:

The operation of these units beyond the parameters outlined in this manual without the manufacturers approval may be damaging to the equipment and/or personnel in which case National Oilwell Varco cannot accept any responsibility whatsoever and disclaims all liability thereof.

Source: National Oilwell Varco Preface: Disclaimer (Electric Wellhead Drive Operation and Maintenance Manual)

- (d) The warranty given by the Defendants is for first end users and contains coverage and waivers of coverage (as above) clearly designed to ensure compliance with the operating/maintenance manual and to punish for non-compliance. The following disclaimer and warranty was used by the Defendants:

Repairs or alterations made to the goods "without Company's written or verbal consent", the use of unsuitable fuel or lubricants, and the operation of the goods in excess of rated capacity, failure resulting from neglect of or maintenance practice or under conditions detrimental to the goods, will invalidate this warranty.

Source: National Oilwell Varco Warranty Statement (Hydraulic Wellhead Drive & Skid Operation and Maintenance Manual)

National Oilwell Varco hereby warrants all new Electric Wellhead Drive units, excluding externally manufactured components for 12 months covering parts and labor for repairs that result from defects in material or workmanship. Warranty covering externally manufactured components will fall under external manufacturer's warranty. This warranty is extended to first end user only. Warranty

covering Integral and Retrofit stuffing box is 3 months covering parts and labor for repairs that result from defects in material or workmanship. Warranty does not include abrasion damage. In no event will National Oilwell Varco be liable for incidental, consequential, special, indirect or other damages of any nature.

Source: National Oilwell Varco Warranty Statement (Electric Wellhead Drive Operation and Maintenance Manual)

[17] On a balance of probabilities, and based on the overall evidence including that cited above, it is more likely than not that customers purchased the infringing products and used them in accordance with the operating/maintenance manual provided to the end user oil companies.

[18] It is not just the manual alone which leads to this conclusion but also the evidence of expert witnesses, the bargain of warranty protection and loss thereof for failure to comply with the manual and the nature of large and sophisticated customers who, in the absence of any other evidence, can be taken to comply with these directions in their own interests.

[19] With respect to whether this influence was knowing, it is relevant that in or about 1999, Corlac hired Glenn Schneider and intentionally set out to create a product which they knew or ought to have known would infringe the '937 Patent.

[20] It is impossible to believe that the Defendants produced an operating/maintenance manual and attached warranty and warranty exclusion provisions if the manual was not followed without intending that its customers would act in accordance with the manual and the method of operation outlined in it.

[21] The inferences drawn as to the practice of the Claim 17 method are supported by expert evidence, the documents issued by the Defendants, the nature of the customer and by common sense. A reasonable deduction from the evidence has the validity of legal proof. (Reasons on Appeal, para. 169)

[22] I accept the Plaintiffs' submission based on the authorities cited that where a patent has both product and method claims, and the defendant manufacturer has manufactured and sold articles to customers that are covered by product claims together with instructions that articles are to be used in accordance with the patented method, the manufacturer will also be held liable with customers for infringement of the method claims. This is particularly so where the manufacturer offers inducements for compliance with its instructions and penalties for non-compliance.

[23] The sample questions suggested by the Court of Appeal have all been answered:

- The Defendants' customers were oil companies.
- The end users were the oil companies which, in this case, were Amoco and Pan Canadian.
- The instruction manual was provided to the end user along with the warranty provisions.
- The instruction manual was provided in the ordinary course of business as confirmed by the Defendants' own expert.

[24] Therefore, this Court finds that the Defendants have infringed Claim 17 of the '937 Patent by inducing their customers to practice the method of Claim 17.

“Michael L. Phelan”

Judge

Ottawa, Ontario
January 19, 2012

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-1236-01

STYLE OF CAUSE: WEATHERFORD CANADA LTD., WEATHERFORD
CANADA PARTNERSHIP, EDWARD GRENKE and
GRENCO INDUSTRIES LTD.

and

CORLAC INC., NATIONAL-OILWELL CANADA
LTD. and NATIONAL OILWELL INCORPORATED

PLACE OF HEARING: Toronto, Ontario

DATE OF HEARING: December 12, 2011

REASONS FOR JUDGMENT: Phelan J.

DATED: January 19, 2012

APPEARANCES:

Mr. Adam Bobker

FOR THE PLAINTIFFS,
WEATHERFORD CANADA LTD. and
WEATHERFORD CANADA
PARTNERSHIP

Mr. Bruce Stratton
Mr. Vincent Man

FOR THE PLAINTIFFS,
ESTATE OF EDWARD GRENKE and
GRENCO INDUSTRIES LTD.

Mr. Christopher Kvas
Mr. Adrian Lambert

FOR THE DEFENDANTS

SOLICITORS OF RECORD:

BERESKIN & PARR LLP
Barristers & Solicitors
Toronto, Ontario

FOR THE PLAINTIFFS,
WEATHERFORD CANADA LTD. and
WEATHERFORD CANADA
PARTNERSHIP

DIMOCK STRATTON LLP
Barristers & Solicitors
Toronto, Ontario

FOR THE PLAINTIFFS,
ESTATE OF EDWARD GRENKE and
GRENCO INDUSTRIES LTD.

PIASETZKI NENNIGER KVAS LLP
Barristers & Solicitors
Toronto, Ontario

FOR THE DEFENDANTS