

Federal Court



Cour fédérale

Date: 20200902

Docket: T-1686-18

Toronto, Ontario, September 2, 2020

PRESENT: Case Management Judge Martha Milczynski

BETWEEN:

WHEEL MONITOR INC.

Plaintiff

and

**CLERAL INC. AND 9081-6933 QUEBEC INC.
TRADING AS LES ENTERPRISES NAMA**

Defendants

ORDER

UPON MOTION filed on behalf of the Defendants/Plaintiffs by Counterclaim, Cleral Inc. and 9081-6933 Quebec Inc. Trading as Les Entreprises Nama (the Defendants) on August 18, 2020 for:

1. An order pursuant to Rule 75 of the Federal Courts Rules granting leave to the Defendants to serve and file a fresh as amended statement of defence and counterclaim in the form attached as Schedule “A” to the Notice of Motion, or such other form as this Court considers proper;
2. The Defendants’ costs of this motion; and

3. Such further and other relief this Honourable Court may deem just.

AND UPON reviewing the letter from counsel for the Defendants confirming that only paragraphs 17, 24, 28 and 29 of the proposed Fresh as Amended Statement of Defence and Counterclaim remain in dispute;

AND UPON reviewing the motion records filed on behalf of the parties, and hearing submissions of counsel by teleconference this day;

AND UPON dismissing the motion at the hearing of the motion;

The underlying action is for patent infringement. The Plaintiff alleges that the Defendants have infringed Canadian Patent No. 2,756,470 (the 470 Patent), which relates to a monitoring system for automatically controlling lift axles on a truck or tractor-trailer by detection of speed, direction, and load weight. The application for the 470 Patent was filed with the Canadian Patent Office on October 31, 2011, became open to public inspection on May 1, 2012, and the 470 Patent was issued on September 1, 2015.

One of the defences raised is that the 470 Patent is invalid on grounds of anticipation and obviousness. The Defendants submit that certain documents and information were disclosed during a consultative process conducted by the Ontario Ministry of Transportation. That process lead to the promulgation of Ontario Regulation 457/10 that required a designated vehicle or vehicle combination to be equipped with lift axle control systems in certain circumstances. The Defendants submit that the material in the consultative process are the same documents and information that essentially comprise the 470 Patent. These allegations of anticipation and obviousness are not in dispute on this motion.

The Defendants seek on the within motion to add the following allegations (proposed paragraphs 17, 24, 28 and 29 of the draft Fresh as Amended Statement of Defence and Counterclaim):

17. The reforms continued, with consultations for the phase 4 reforms by the Ontario Ministry of Transportation (“MTO”) starting in 2009. The plaintiff was involved in these consultations, and also was involved in the consultations for the phase 3 reforms. As such, at all material times, the plaintiff and its employees, including the named inventors of the 470 Patent knew of the proposed regulatory changes before those changes were proclaimed in law. The plaintiff and its employees were provided with documents and information regarding the proposed regulatory changes as part of this consultative process. At all material times, as participants in the consultative process, the plaintiff and its employees had an obligation and a duty to not use any of the information from the consultative process for their own benefit.

24. In any event, by filing any patent application for the subject matter of the 470 Patent, the plaintiff breached its obligation and duty not to use information from the consultative process for its own benefit. The plaintiff wrongfully sought to appropriate for itself public information and to obtain a monopoly covering the regulatory requirements. The plaintiff knew that the regulatory changes would come into effect and be published towards the end of 2010 and rushed to file a patent application before publication of the new regulation. The 470 Patent is invalid and void as a result of the plaintiff’s improper conduct. In the alternative, the plaintiff should be denied any equitable relief and any punitive or exemplary damages as a result of its improper conduct.

28. If, contrary to the allegations above, the 470 Patent or any claim thereof is valid, then the 470 Patent is a standard-essential patent in accordance with section 52.1 of the *Patent Act*. The 2010 Regulation mandates and implements a standard for lift axle control systems and the functionality of such systems. Further, there is no practical difference between the subject matter of the 470 Patent and the standard of the 2010 Regulation. As part of its participation in the consultation process for the 2010 regulatory reforms, Wheel Monitor expressly or impliedly made a binding commitment that it would licence any patents that it had relating to the subject matter of the regulatory reforms on the basis of a fair, reasonable and non-discriminatory royalty.

29. As such, if there is any infringement of any valid claim of the 470 Patent (which is denied), the plaintiff is not entitled to any injunction or other equitable relief, and any monetary recovery is limited to a fair, reasonable and non-discriminatory royalty.

Test

There is no disagreement between the parties regarding the applicable test on this motion and the principles that guide the application of Rule 75 of the *Federal Courts Rules*. The threshold issue is whether the claims disclosed have a reasonable prospect of success, or are doomed to fail. The general rule is that an amendment should be allowed at any stage of an action for the purpose of determining the real questions in controversy between the parties, provided that “the allowance would not result in an injustice to the other party not capable of being compensated by an award of costs and that it would serve the interest of justice”. (*Bauer Hockey Corp. v. Sport Masko Inc.*, 2014 FCA 158 at para. 15; *Houle v. R.* [2000] F.C.J. No. 1197 (T.D.))

Paragraphs 17 and 24

The Defendants impugn the Plaintiff’s conduct – asserting that the Plaintiff violated a duty or obligation not to use any information it obtained in the consultative process that ultimately resulted in Ontario Reg. 457/10, for its own benefit. The Defendants, however, do not plead the source or legal basis for this duty or obligation. The Defendants concede the consultative process was public and there was no statutory or contractual obligation to maintain the confidentiality of any information, or not rely or use it. To the extent the Court would permit, the Defendants propose particulars – that the duty or obligation arises and binds the Plaintiff due to industry practice, the expectations of the participants and a general duty of good faith. This misconduct, if proven, is said to be sufficient grounds to invalidate the 470 Patent

(taking a broad approach to available defences), or establish that the Plaintiff lacks the “clean hands” to claim equitable relief.

I am not satisfied, however, even with the additional particulars as described on this motion, that leave should be granted to add paragraphs 17 and 24 of the proposed Fresh as Amended Statement of Defence and Counterclaim. They are bald assertions of some duty or obligation binding the Plaintiff, without any factual basis. The consultation process was open, public and conducted by the Ministry of Transportation – without any terms or conditions applied. The proposed amendments (even with particulars as proposed) remain bald assertions without legal basis, are vague and unascertainable.

There is also no basis to assert that the allegations of misconduct could result in the Federal Court declaring the 470 Patent invalid or denying the Plaintiff equitable relief (an injunction or of the election between damages or an accounting of profits). There is no section in the *Patent Act* or any pleaded Federal or common law that supports the Defendant’s allegation of invalidity based on the Plaintiff’s alleged misconduct. With respect to the denial of equitable relief, there is no causal connection between the Plaintiff’s alleged misconduct and that the conduct of the Defendants. (*BMO Nesbitt Burns Inc. v. Wellington West Capital Inc.* 2005 CarswellOnt 3899 (OCA))

Paragraphs 28 and 29

The Defendants seek to allege that if valid, the 470 Patent is a “standard-essential patent” (SEP) on the basis that there is no practical difference between the subject matter of the patent and what is required by Ontario Reg. 457/10. The Defendants submit the invention must be used

to comply with the regulatory or technological standard, in this case for the control systems for lift axles on trucks and tractor-trailer combinations. Where a patent is a SEP, the Defendants submit that the patentee must licence the patent for a fair, reasonable and non-discriminatory royalty. The Defendants rely on section 20(2) of the *Federal Courts Act* and section 52.1(1) of the *Patent Act* to argue the Court has jurisdiction to designate the 470 Patent a SEP, and impose the licensing commitment and determine the applicable royalty.

Section 52.1(1) however, refers only to the SEP licencing commitment binding subsequent patentees where there is already a designation and a transfer. It is section 52.2 of the *Patent Act* that states that the Governor in Council may make regulations, for the purposes of section 52.1, respecting what constitutes or does not constitute, a licensing commitment or a standard-essential patent.

No regulations have promulgated under the authority of section 52.2, however, and there is no statutory regime or authority otherwise for the Federal Court to step in and designate a patent to be a SEP, or require a patentee to license their invention, or formulate/determine a fair, reasonable and non-discriminatory royalty under such license. The actual process contemplated to be established in future, as described in the Government of Canada's Intellectual Property Strategy, engages the Standards Council of Canada, and various Standards Development Organizations.

Consequently, of note: the 470 Patent has not been designated a SEP by anyone – the Defendants argue the Federal Court can and should in this case.

Section 20(2) of the *Federal Courts Act*, however, has no application in the within case— There must be a source in federal law to grant the Court jurisdiction in respect of the relief sought regarding patents, and which then permits the Court to engage in an ancillary or corollary inquiry affecting the relief sought (which it has the authority to grant, such as to vary ownership or title or expunge). In *Salt Canada Inc. v. John Baker* 2020 FCA 127 the Court engaged in interpreting agreements, but it was to determine the proper patent ownership. In that regard, I agree with the submissions of the Plaintiff, as set out in paragraphs 38-45 of their written representations. There is no federal law respecting SEPs other than the transfer provisions and no jurisdiction for the Federal Court to designate SEPs or set royalties under the *Patent Act* or other federal law.

Accordingly, for the reasons above the motion for leave to amend the Fresh as Amended Statement of Defence and Counterclaim to include proposed paragraphs 17, 24, 28 and 29 shall be dismissed. These proposed amendments have no reasonable prospect of success and are doomed to fail.

THIS COURT ORDERS that:

1. Leave to include proposed paragraphs 17, 24, 28 and 29 in the Fresh Amended Statement of Defence and Counterclaim is denied.

2. Costs are payable to the Plaintiff in the amount of \$2,000.00 (inclusive) in any event of the cause.

“Martha Milczynski”
Case Management Judge