

## Springing into Action: Supreme Court of Canada Clarifies Accounting of Profits Remedy in Patent Infringement Cases

Mark Davis, Stephen I. Selznick, Kassandra Shortt, Steven Henderson

November 22, 2022

On November 18, 2022, the Supreme Court of Canada released its decision in *Nova Chemicals Corp. v. Dow Chemical Co.*<sup>1</sup> In a near-unanimous decision, the Court upheld the largest monetary award ever in a Canadian patent case and, in doing so, clarified the test for an accounting of profits. The Court also confirmed that springboard profits — profits that a patent infringer made from an infringing product after the patent expired but which are attributable to infringement that took place during the term of the patent — may be included in an accounting. This is an important decision because it sets out the analytical framework that litigants will have to consider, and courts will have to apply, to determine patent remedies.

### Background

Dow Chemical Co. (Dow) sued Nova Chemicals Corp. (Nova) for patent infringement, arguing that Nova's polyethylene plastic products infringed Dow's patent. In 2014 the Federal Court,<sup>2</sup> as affirmed in 2016 by the Federal Court of Appeal,<sup>3</sup> found that Nova infringed and allowed Dow to seek an accounting of profits that Nova made from that infringement.

In a subsequent 2017 Federal Court reference,<sup>4</sup> Dow was awarded Nova's actual revenue from selling the infringing plastics, minus Nova's actual costs of producing them. For the first time in Canadian law, the reference judge awarded Dow "springboard profits", profits Nova made after Dow's patent expired, but which were causally attributable to the head start Nova gained from its infringement during the term of the patent.

In 2022, the Federal Court of Appeal upheld this reference decision,<sup>5</sup> leaving Nova to further appeal to the Supreme Court of Canada (SCC).

### Analysis

The majority of the SCC began its analysis by confirming that the *Patent Act* provides three different monetary remedies for patent infringement:

- **Reasonable Compensation** – subsection 55(2) - Reasonable compensation can be granted for any

loss caused by the infringer's use of the invention between the patent's publication and the grant of the patent. Reasonable compensation is typically computed as the "reasonable royalty" that the infringer would have had to pay in order to obtain a licence.

- **Damages** – subsection 55(1) - Damages compensate the patentee for all pecuniary losses causally attributable to infringement after the grant of the patent. Damages can include lost profits on sales or due to depression of prices, and lost income from licensing opportunities, among others.
- **Accounting of Profits** – paragraph 57(1)(b) - An accounting of profits requires that the infringer disgorge all profits causally attributable to infringement of the invention after the grant of the patent. An accounting is an equitable and discretionary remedy that is awarded as an alternative to damages in appropriate cases.

## A Simplified Test for Accounting of Profits

The SCC reiterated that an accounting of profits requires an infringer to disgorge all the profits it made that are "causally attributable" to the infringement of the patent after the patent was granted.

Courts have typically characterized accounting of profits as a choice between various calculation approaches (including the "differential costs" approach, the "full costs" approach, and the "differential profits" approach). However, the SCC noted that these approaches are not that distinct, as they all begin by determining the infringing product's actual revenues and actual costs.

Therefore, the SCC simplified the accounting of profits assessment into a single three-step test:

1. Calculate the actual profits the infringer made by selling the infringing product (i.e., actual revenues minus actual costs). Since this step looks only at *actual* profits, a court should not consider profits an infringer could have made had it been more efficient.
2. Consider whether the infringer had a non-infringing option it could have sold instead of the infringing product. This will help identify the portion of the infringer's profits that were truly causally attributable to the patented invention.
3. If a non-infringing option is found, subtract the profits the infringer could have made by selling the non-infringing option from the actual profits it made by selling the infringing product.

## Clarifying the "Non-Infringing Option"

The SCC defined a "non-infringing option" as any product that can help the court isolate the profits causally attributable to the patented invention from profits which arose at the same time but were not causally attributable to the invention.

In other words, a non-infringing option helps a court deduce what portion of the infringer's profits were made *because of the patented invention*, as opposed to other non-infringing aspects of the infringing

# Cassels

product. This is done by comparing the profit the infringer made from the infringing product to the profit it could have made if it had sold a similar product without the patented feature.

While a non-infringing option does not need to be an exact market substitute for the infringing product, the majority found that it is not simply the infringer's most profitable alternative product that it would have sold in place of the infringing product. The infringer has the evidentiary burden of proving a non-infringing option exists.

## Springboard Profits are Legally Permissible

Lastly, the SCC confirmed that “springboard profits” — profits an infringer made *after* the patent expired, but which are nonetheless attributable to infringement that occurred *during* the term of the patent — can be awarded in Canada.

Springboard profits are awarded as part of an accounting of profits assessment because they are consistent with the overall emphasis on causal attribution. Specifically, if an infringer begins to sell, take orders for, or advertise an infringing product during the term of the patent, the infringer can build up market share and sales capacity for the infringing product and depress the patent owner's sales, which the infringer can exploit after the patent expires. Therefore, the profits the infringer made after the patent expired can be attributed to the initial infringement during the term of the patent, making them appropriate to award in an accounting of profits assessment.

## The Dissent

Madam Justice Côté wrote a strong dissenting opinion. She would have allowed the appeal on the basis that a non-infringing option does not have to be a true consumer substitute for the patented product. Justice Côté agreed that springboard profits can be included in an accounting.

## Conclusion

In the result, the SCC dismissed Nova's appeal, concluding that the reference judge did not err in any of his key findings: Nova's profits from its sales of the infringing plastics product were causally attributable to Dow's patent. The SCC also held that the reference judge did not err by awarding springboard profits to Dow. Nova used its infringement of Dow's patent to enter the market early, build market share, and exploit that market share after Dow's patent expired, so its post-expiry profits were causally attributable to the infringement.

## Key Takeaways

# Cassels

This decision provides structure to calculating an accounting of profits award. By re-characterizing the assessment as one test instead of a choice between three approaches, accounting of profit assessments can be more consistent and straightforward. This case also confirms that springboard profits can be awarded.

Despite these useful clarifications, some uncertainty remains:

- The SCC declined to comment on whether courts should use “full costs” or “differential costs” as the actual costs in Step 1 of the test.
- Evidentiary disputes over the factual question of what qualifies as a non-infringing option can be expected.
- While springboard profits are clearly available in theory — the factual circumstances in which they are available will have to be worked out. The recognition of springboard damages will affect how competitors assess the risk and attendant cost of potential infringement during the wind-down or sunset phase of an incumbent patent.

Stay tuned — additional clarification on the accounting of profits remedy may come soon as lower courts apply the SCC's analytical framework to the matters before them.

---

<sup>1</sup> *Nova Chemicals Corp. v. Dow Chemical Co.*, 2022 SCC 43

<sup>2</sup> 2014 FC 844

<sup>3</sup> 2016 FCA 216

<sup>4</sup> 2017 FC 350

<sup>5</sup> 2022 FCA 141