

**Federal Court of Appeal**



**Cour d'appel fédérale**

**Date: 20121017**

**Docket: A-61-12**

**Citation: 2012 FCA 261**

**CORAM: NADON J.A.  
DAWSON J.A.  
STRATAS J.A.**

**BETWEEN:**

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

**Appellants**

**and**

**WEATHERFORD CANADA LTD.  
WEATHERFORD CANADA PARTNERSHIP,  
DARIN GRENKE, as Personal Representative of the Estate of EDWARD GRENKE,  
and GRENCO INDUSTRIES LTD.**

**Respondents**

Heard at Toronto, Ontario, on September 19, 2012.

Judgment delivered at Ottawa, Ontario, on October 17, 2012.

**REASONS FOR JUDGMENT BY:**

**DAWSON J.A.**

**CONCURRED IN BY:**

**NADON J.A.  
STRATAS J.A.**

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**Respondents**

**REASONS FOR JUDGMENT**

**DAWSON J.A.**

[1] This is an appeal from a judgment of the Federal Court, reported as 2012 FC 76, (redetermination reasons). The Federal Court was required to re-determine whether the defendants in a patent infringement action, the appellants in this Court, had infringed claim 17 of Canadian Patent No. 2,095,937 (Patent). On the redetermination a judge of the Federal Court (Judge) held that the appellants could not argue that their instruction manuals did not teach the method claimed in

claim 17 of the Patent. In the Judge's view, this was "an effort to argue a point found against [them] and not overturned on appeal. That point is *res judicata*" (redetermination reasons, paragraph 6).

[2] A single issue is raised on this appeal: did the Judge correctly define the scope of the matter remitted to him by this Court, or, put another way, did he err by relying upon the doctrine of *res judicata*?

[3] For the reasons that follow, I have concluded that the Judge erred. I would therefore remit the issue of infringement of claim 17 to the Judge, as more particularly described later in these reasons.

### **Factual Background**

[4] The appellants manufacture and assemble equipment used in oil production. One product manufactured by the appellants is an Enviro stuffing box which is used to protect against leakage and loss of oil at the surface of a producing oil well. The respondents own the Patent in issue.

[5] The respondents sued the appellants, alleging that the Enviro stuffing box infringed the Patent. For reasons reported as 2010 FC 602, 84 C.P.R. (4th) 237 (trial reasons), the Judge issued a declaration that the Patent was valid and was infringed by the appellants jointly and severally.

[6] The judgment of the Federal Court was appealed to this Court. On the appeal, for reasons cited as 2011 FCA 228, 95 C.P.R. (4th) 101 (appeal reasons), this Court allowed the appeal in

respect of the Judge's finding that claim 17 of the Patent had been infringed by the appellants. In all other respects the appeal was dismissed.

[7] Claim 17 is a method claim, directed to a specific manner of operating the patented stuffing box. Of relevance to this appeal are subparagraphs (c) and (d) of claim 17. In material part, claim 17 provides:

Claim 17

A method for restraining oil leakage in a pump for oil wells [...] said method comprising the steps:

[...]

- a. injecting a lubricant through the leak passage of the furthest upstream seal cartridge and then plugging that leak passage, while leaving open the leak passage of a seal cartridge downstream of the furthest upstream cartridge,
- b. monitoring the left-open leak passage for leaking oil, and [emphasis added]

[8] It is common ground that, on the facts of this case, the appellants did not directly infringe claim 17. Therefore, as a matter of law, the appellants could only be found to have infringed claim 17 if they were found to have induced others to breach claim 17.

[9] On the appeal, this Court wrote that there are three elements to the test for inducing patent infringement:

1. The act of infringement must have been 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 must know that this influence will result in the completion of the act of infringement.

(Appeal reasons, paragraph 162.)

[10] The only evidence adduced at trial from which it could be inferred that the appellants influenced others to directly infringe claim 17 is the content of an instruction manual distributed by the appellants with their Enviro stuffing boxes. As this Court noted in the appeal reasons, at paragraph 164, a central issue at trial was whether the instruction manual instructed the practice of the method of claim 17.

[11] This Court's analysis of the issues surrounding claim 17 of the Patent is found at paragraphs 157-171 of the appeal reasons. At paragraph 171, Madam Justice Layden-Stevenson, writing for the Court, concluded her analysis in the following terms:

I agree with the appellants that, in view of the test for inducement, the judge's reasons do not provide for meaningful appellate review. Consequently, given the judge's intimate familiarity with the record, I would return the issue of infringement of claim 17, that is inducement, to the judge to be determined in accordance with the established test. [emphasis added]

[12] The Court's judgment stated:

The appeal from the judgment of the Federal Court with respect to infringement of Claim 17 of Canadian Patent No. 2,095,937 is allowed and the question of infringement of Claim 17 is returned to the Federal Court for redetermination. In all other respects, the appeal is dismissed. The respondents shall have 80% of their costs.

### **The redetermination decision of the Federal Court**

[13] The Judge began by noting that this Court upheld the trial decision except as it related to claim 17 (redetermination reasons, paragraph 3). The Judge interpreted the decision of this Court as upholding his finding that the appellants' instruction manual taught the practice of the method described in claim 17 (redetermination reasons, paragraph 5). In his view, the appeal decision meant that the issue was *res judicata* (redetermination reasons, paragraph 6). In the words of the Judge:

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*.

[14] The Judge went on to state that this Court remitted the task of considering the facts needed to support a conclusion that third parties used the method of claim 17 and did so because they were induced by the appellants (redetermination reasons, paragraph 8).

[15] After setting out the test for inducement as framed by this Court, the Judge reasoned as follows:

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)

I have quoted the Judge's reasons at some length because at the time of writing these reasons the redetermination reasons have not been distributed by the Federal Court.

### **Applicable legal principles**

[16] Two fundamental legal principles underlie this appeal. The first is the principle of finality of litigation, as embodied in the doctrines of issue estoppel, cause of action estoppel and *functus officio*. The second is the principle of *stare decisis*.

[17] After the Judge rendered judgment following the trial, he was *functus officio* and the issues and causes of action decided by the Judge were *res judicata*. This continued until the judgment of this Court which set aside certain findings made by the Judge and required him to redetermine the matter remitted to him.

[18] The principle of *stare decisis* requires lower courts to follow the law as interpreted by a higher coordinate court. In *Canada (Commissioner of Competition) v. Superior Propane Inc.*, 2003 FCA 53, [2003] 3 F.C. 529, at paragraph 54, this Court confirmed the perhaps obvious point that this principle applies equally to tribunals which must follow the directions given by a reviewing court. On a redetermination, the duty of a tribunal, or a lower court, is to follow the directions of the reviewing court.

[19] In the present case, without doubt, the Judge endeavoured to follow the direction of this Court. He looked to the reasons given in support of this Court's judgment in order to ascertain the reach of the matter remitted to him.

[20] In my view, the Judge was correct to look to the reasons of this Court in order to determine the scope of the matter remitted to him. In *Superior Propane*, in order to determine whether in a redetermination decision the Competition Tribunal failed to follow the directions of this Court, this Court looked, among other things, to the relevant findings of the Competition Tribunal in its original decision and what this Court had found to be in error in the Tribunal's original decision. This Court reviewed both the original reasons given by the Competition Tribunal and the reasons given by this Court in support of its judgment to determine the scope of the redetermination.

[21] In the present case, the Judge was required to determine the scope of the matter remitted to him for redetermination. This required the Judge to consider both the reasons given in support of the trial judgment and the reasons of this Court on appeal.

### **Standard of review**

[22] The Judge's conclusion that *res judicata* applied to the finding that the instruction manual taught claim 17 of the Patent is a question of law, subject to review on the standard of correctness. The Judge's related determination of the scope of this Court's remission is equally a question of law, subject to review on the correctness standard.

**What this Court directed the Federal Court to do**

[23] For ease of reference, I repeat paragraph 171 of the appeal reasons:

I agree with the appellants that, in view of the test for inducement, the judge's reasons do not provide for meaningful appellate review. Consequently, given the judge's intimate familiarity with the record, I would return the issue of infringement of claim 17, that is inducement, to the judge to be determined in accordance with the established test. [emphasis added]

[24] In this paragraph the issue of inducement is remitted to the Federal Court.

[25] At paragraph 162 of the appeal reasons, Madam Justice Layden-Stevenson framed the test for inducement in the following terms:

[...] First, the act of infringement must have been completed by the direct infringer. Second, 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. Third, 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 infringement: *Dableh v. Ontario Hydro*, [1996] 3 F.C. 751, paras. 42, 43 (C.A.), leave to appeal refused, [1996] S.C.C.A. No. 441; *AB Hassle v. Canada (Minister of National Health and Welfare)*, 2002 FCA 421, 22 C.P.R. (4th) 1, para. 17 (C.A.), leave to appeal refused, [2002] S.C.C.A. No. 531; *MacLennan v. Les Produits Gilbert Inc.*, 2008 FCA 35, 67 C.P.R. (4th) 161, para. 13.

[26] Integral to the issue of inducement is the requirement that the alleged inducer influence the direct infringer. On the facts of the present case, this required the Federal Court to determine whether the instruction manual instructs the practice of the method set out in claim 17.

[27] The Judge concluded that this issue was not remitted to him because he had previously found that the appellants' instruction manual instructed the practice of the method in claim 17 and this finding "was not disturbed on appeal" (redetermination reasons, at paragraph 5).

[28] In my respectful view, in so finding the Judge incorrectly construed the scope of the issue remitted to him. I reach this conclusion for the following reasons.

[29] First, in paragraph 171 of the appeal reasons, this Court stated that the issue of inducement was remitted to the Federal Court. No qualification or limitation was placed upon the remission of the issue of inducement. A finding of inducement required determination of whether the instruction manual directed the method set out in claim 17.

[30] Second, the reasons of this Court for setting aside the Judge's finding of infringement of claim 17 constituted a rejection of the Federal Court's decision on this point. At paragraph 168 of the appeal reasons, Madam Justice Layden-Stevenson wrote "[i]n view of the stringent test for inducement, I cannot determine whether the judge, had he explicitly applied the test, would have arrived at a conclusion that the appellants indirectly infringed claim 17 of the [...] Patent." At paragraph 169, she noted that there seemed to be "significant gaps in the evidentiary basis needed to support what appears to be an implicit finding of third party use." At paragraph 170, she expressed concern that "I am not satisfied that the judge seized the substance of the critical issue in respect of inducement. His conclusion appears to be derived from his earlier finding of direct infringement." Finally, at paragraph 171, she wrote "in view of the test for inducement, the judge's reasons do not provide for meaningful appellate review."

[31] This Court thus impugned both the legal and factual components of the decision regarding claim 17 and remitted the entire issue of inducement to the Federal Court. In this circumstance it

was incorrect to state that any finding of fact relevant only to the issue of inducement was undisturbed.

[32] The respondents place reliance upon two portions of the appeal reasons to argue that the Judge correctly interpreted the scope of the matter remitted to him: paragraphs 164 and 169.

[33] At paragraph 164, Madam Justice Layden-Stevenson wrote:

The issue of adverse inference arose during the respondents' closing submissions at trial. The respondents conceded there was "no evidence that any operator actually practised a method that would infringe claim 17": appeal book, vol. 19, tab 295, p. 5917. Since the appellants had not called anyone to testify with respect to the use of their instruction manual, the respondents suggested the inference should be drawn that the evidence would have been that people follow the instructions and operate their machines in accordance with the way it is set out in the manual: appeal book, vol. 18, tab 291, transcript p. 73; vol. 19, tab 295, p. 5917. The respondents further referred to "the expert evidence of the [appellants] who say that people would normally follow directions as to lubrication and how to operate a machine", as well as the evidence of the respondents' expert Skoczylas that the instructions "are a functional equivalent of claim 17": appeal book, vol. 18, tab 291, transcript p. 93; vol. 19, tab 295, p. 5918. It is not clear on what basis the expert purported to make the first statement. I should also note that, while not conceding use, the appellants did not appear to contest that customers would follow their instructions. The debate centered on whether the instruction manual instructs the practice of the method (of claim 17). The judge determined that it did.

[emphasis added]

[34] The respondents argue that the last sentence of this paragraph shows that this Court accepted and did not disturb the Judge's finding concerning what the instruction manual directs. I disagree for the following reasons.

[35] First, during oral argument counsel for the respondents could not point to such a finding in the trial reasons. At paragraph 179 of the trial reasons the Judge wrote:

The Plaintiffs' expert Skoczylas concluded that the Defendants' devices have the same sealing assembly described in Claims 1, 6, 9, 11, 14-16 (although the retrofit units do not include a drive means as per Claims 15 and 16) and the manuals for the devices teach the practice in Claim 17.

[36] However, nowhere in the reasons does the Judge accept the evidence of Mr. Skoczylas on this point. At best, such a finding is implicit in the Judge's finding of infringement.

[37] Second, nowhere in her reasons does Madam Justice Layden-Stevenson endorse or comment on the Judge's finding. It was unnecessary for her to do so because the Judge's finding of infringement was to be set aside and the entire issue of inducement was to be returned.

[38] Turning to the second portion of the appeal reasons relied upon by the respondents, at paragraph 169, Madam Justice Layden-Stevenson set out certain examples of gaps in the evidentiary record. The respondents argue that none of the examples related to whether the appellants influenced third parties to practice the method taught by claim 17. This is said to show the limited scope of the matter remitted to the Judge.

[39] Madam Justice Layden-Stevenson wrote at paragraph 169:

There seem to be significant gaps in the evidentiary basis needed to support what appears to be an implicit finding of third party use. For example, although the instruction manual may have been directed to oil well operators, were they the customers? Who is the end-user? Was the instruction manual provided to the end-user? Was the instruction manual provided in the normal course of the appellants' business? While I do not suggest that the judge was obliged to answer these specific questions (perhaps the record did not permit him to do so), I raise them to illustrate a factual matrix that would support the judge's inferences. There is an important distinction between inference and conjecture. The dividing line between the two is often a very difficult one to draw. "A conjecture may be plausible but it is of no legal value, for its essence is that it is a mere guess. An inference in the legal sense, on the other hand, is a deduction from the evidence, and if it is a reasonable

deduction it may have the validity of legal proof”: *Jones v. Great Western Railway Co.* (1930), 47 T.L.R. 39, p. 45, 144 L.T. 194 (H.L.).

[40] In my view, this paragraph does not assist the respondents because it was expressly limited to gaps in the evidence relevant to the Judge’s implicit finding of third-party use. At paragraph 161, Madam Justice Layden-Stevenson summarized the Judge’s analysis of inducement:

With respect, the appellants could not infringe claim 17 in the absence of a finding of inducement. The judge determined that the appellants infringed claim 17 and only then turned to the question of inducement. The analysis of inducement in his reasons comprises the following points: there was no evidence from any customers; it is only common sense that sales were made to customers: reasons, para. 205. He had earlier noted that there was no evidence of use by customers but they are more likely than not to follow the instructions in the manuals.

[emphasis added]

[41] Missing from the Judge’s analysis was any analysis of the need for the appellants to have influenced third parties to infringe claim 17. Madam Justice Layden-Stevenson’s comments at paragraph 169 were directed to a different deficiency in the analysis, the evidentiary gap relevant to the issue of third-party use.

## **Remedy**

[42] For the above reasons, I have found that the Judge erred when he defined the scope of the matter remitted to him. It follows that I would set aside the redetermination decision.

[43] In this circumstance the appellants ask that, for reasons of judicial economy, this Court find that the instruction manual does not teach end users to use an infringing method and to then find that claim 17 of the Patent was not infringed by inducement by the appellants.

[44] Specifically, the appellants state that this Court, in the appeal reasons, found that all of the elements of claim 17 were regarded and treated as essential. Based on that construction, the appellants argue that the essential elements of claim 17 require the leak passages to be left open during operation in accordance with elements (c) and (d) of claim 17. In their submission, the instruction manual teaches end users to close the leak detention ports during operation.

[45] The respondents argue that if the appeal is allowed, the matter should be remitted to the Judge because of his familiarity with the evidentiary record.

[46] In my view, the issue of whether the instruction manual directs end users to use an infringing method is more nuanced than the appellants suggest. The instruction manual states that after the sampling valve has been lubricated “the valve can be closed”. At trial, the respondents’ (plaintiffs’) expert testified that “a person of ordinary skill reading this [instruction manual] would know that you don’t actually leave it open, except when you are coming to monitor it [...] because you don’t want oil leaking out” (Appeal Book, Volume 2, Tab 36, page 437). The Judge is better situated than this Court to address what the manual teaches and how an ordinarily skilled person would interpret the instruction manual as it relates to keeping the valves opened or closed. This is in large part a question of fact.

[47] In the result, I would remit the following issue to the Judge: does the appellants’ instruction manual, properly understood, instruct the practice of the method of claim 17? Once this issue is determined, on the basis of the Judge’s findings at the prior redetermination hearing (which have



not been challenged on this appeal), the Judge will decide whether the appellants have infringed claim 17.

**Conclusion**

[48] For these reasons, I would allow the appeal with costs and set aside the judgment of the Federal Court. I would return the issue of infringement of claim 17 to the Judge for redetermination. On redetermination the Judge is to determine whether the appellants' instruction manual, properly understood, instructs the practice of the method of claim 17.

“Eleanor R. Dawson”

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J.A.

“I agree.

M. Nadon J.A.”

“I agree.

David Stratas J.A.”

**FEDERAL COURT OF APPEAL**

**NAMES OF COUNSEL AND SOLICITORS OF RECORD**

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**CONCURRED IN BY:** Nadon J.A.  
Stratas J.A.

**DATED:** October 17, 2012

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