

New directions for biotech infringement remedies



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Two companion cases now working through Canadian courts could have a big impact on remedies for biotechnology patent infringement. Defendants in biotech patent lawsuits seem to be better off than previously thought. The result could mean revaluing Canadian patent portfolios based on enforceability issues, and revising business and intellectual property practices accordingly.

Appeals in *Monsanto v. Rivett*, [2009] F.C.J. No. 410, and *Monsanto v. Janssens*, [2009] F.C.J. No. 411, will soon be heard by the Federal Court of Appeal. Last year, Justice Russell Zinn ruled that farmers who infringed Monsanto's patents for genetically modified crops need only account for the portion of their profits attributable to the patented invention. That approach seems sensible, but the details are different from remedial calculations made during the past few decades of Canadian patent law.

In Canada, patent infringement damage awards are normally equal to the royalties that would have been earned had a license been taken (i.e. the value of a plaintiff's loss). Obviously, that does little to deter infringement. So plaintiffs typically ask instead for an accounting of profits (i.e. a defendant's gain).

Calculating profits isn't always easy, however, and the challenge is not just mathematical. Everyone agrees that the focus should be on net, not gross, profits. But controversy exists over which expenses are properly deductible to determine this number.

Some courts and commentators have said all expenses incurred may be deducted. Others have said only expenses related to the infringement are relevant. How closely related to the infringement deductible expenses must be is another matter.

Courts have muddled in these murky legal waters for nearly 30 years. At least, however, the controversy was only about properly deductible expenses. Courts were



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A court ruled that farmers who infringed patents for genetically modified crops need only account for the portion of their profits attributable to the patented invention.

reluctant to even enter debates about which revenues were attributable to a patent infringement, because doing so could become too speculative.

An arbitrary division arose; courts used a "differential" method of computing expenses but not revenues, while misleadingly calling it the differential profits approach. The problem was that nobody really explained (or perhaps realized) in the jurisprudence or scholarly literature what was in fact happening.

Inconsistent and often inaccurate use of about a half dozen different terms for various legal and financial principles at issue compounded the problem. Lawyers and judges still treat terms like direct versus indirect, capital versus current, fixed versus variable, and so on, as synonymous. Any accountant can tell you they are not.

Simmering issues finally boiled over in *Monsanto v. Schmeiser*, [2004] S.C.J. No. 29. Many biotech patent owners believed they got a big boost from the Supreme Court's decision, which affirmed the patentability of molecularly engineered genes and cells.

But buried in eight of the

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more than 170 paragraphs of that divisive judgment was an important change to infringement remedies. The court said about the differential profit approach: "A comparison is to be made between the defendant's profit attributable to the invention and his profit had he used the best non-infringing option."

In *Schmeiser's* case, that was zero. Monsanto's patents covered genetically engineered herbicide-resistance, but *Schmeiser* hadn't used herbicide. Plus, he sold the canola not as special seed but as an ordinary commodity. He had

gained no advantage in cost, yield or price.

With that ruling the Supreme Court made a leap—perhaps inadvertently, perhaps not—to a more consistent and rational approach to accounting of profits, applied implicitly to *both* expenses and revenues.

Only recently has realization of the impact begun. In the first cases to test the new principle, *Rivett* and *Janssens*, Justice Zinn held that the Supreme Court's statement was not an accident. The same rules applied to defendants in these latter cases who did take advantage of herbicide tolerance, Monsanto's patented trait. The open question was how much, relatively, that benefited their financial bottom line.

Based on expert evidence the answer was, basically, not much. And the figure could have been even lower had some of the defendants' key evidence not been disallowed due to legal procedural mistakes. The end result was an award of profits equaling more than the license royalty payment would have been (about \$45 instead of \$15 per acre) but nowhere near the amounts patent owners have publicized (up

to \$275 per acre) following settlements or default judgments in other cases.

How might judges continue to apply this new approach, and what are parties to do about it in practice?

First, my ongoing work with a team of students and research collaborators is seeking to bring definitional and conceptual consistency to this topic. Precise labels make a world of difference.

Who would favour the "differential" approach, for example, depends entirely on whether it applies to expenses, revenues or both (i.e. profits). Applied only to expenses, the differential approach works well for plaintiffs. It can limit deductions and therefore increase net profits to account for. Applied holistically, however, defendants might benefit because the differential approach can also reduce revenues attributable to infringement, and therefore lower awards.

There are other practical matters to consider. What will happen to patent portfolio valuations when owners and investors realize that remedies for infringement may be inadequate to protect investments in research and development? Will defendants react to the fact that they are probably less vulnerable to bankrupting liability than they might have believed? How can lawyers and judges handle the compounding legal complexity that scientific advancement, such as stacked genetic traits with multiple layers of patents, will trigger?

We will find out whether and how our legal system can deal with these difficult questions as cases like these arise more frequently. ■

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