Market Share Used to Establish Sales a Patentee “Could and Would” Have Made but for Infringement: Grenke v DNOW Canada ULC

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In *Grenke v DNOW Canada ULC*,[1] Justice Phelan granted the plaintiffs $7,915,000 in damages for patent infringement relating to oil production equipment. The decision is the latest chapter in protracted litigation dating to 2001, and follows a 2010 decision in which Justice Phelan held that the defendants’ Enviro “stuffing boxes” infringed a Grenke patent relating to seals used in stuffing boxes.[2] Justice Phelan remarked: “It has taken a long time to reach this point.”[3]

The plaintiffs elected to pursue their damages in lost profits and a reasonable royalty in lieu of seeking disgorgement of the defendants’ profits. *Grenke* deals with a range of issues typical in a reference on monetary relief. Possibly the most interesting discussion, however, relates to determining the plaintiffs’ damages for lost sales and reconstruction of the but-for world in which the defendants did not infringe.

Before addressing the issues directly, Justice Phelan described the state of the market at the beginning of the infringement period in 2000 as including three major players: the patentee, GrenCo; the infringer, Corlac/NOV; and a licensee, Weatherford. He also refers to other smaller players in the market.[4] In his discussion of their operations, he makes two important findings foreshadowing his later conclusions on the sales lost to NOV’s Enviro stuffing boxes:

> *GrenCo was active in every part of the Canadian oil market such that wherever NOV was competing, GrenCo was also in that area. GrenCo directly competed with NOV and, as NOV said, competition in this market was a “zero sum game”, so any sales made by NOV were at the expense of GrenCo. This is borne out throughout the period by the direct infringement of GrenCo’s Product.*[5]

And:

> *The infringing Enviro stuffing boxes were a direct substitute for the GrenCo Product.*[6]

On the law, Justice Phelan reviewed the basic principle of damages is to place a plaintiff in the position it would have been in if not for infringement, and referred to the aspirational balance of “perfect compensation” postulated by the Court of Appeal in *Lovastatin*.[7] He commented that the broad axe principle may be used to approximate an appropriate award, and noted it is the plaintiff’s burden to prove lost sales:

> *In calculating damages, the Court may assess the sales that the plaintiff patentee has lost due to the actions of the infringer (the “captured market”) and, if there are infringing sales that the plaintiff could not or would not have made, the quantum of damage for those latter sales will be a “reasonable royalty”. The Plaintiffs bear the burden of establishing what would have happened in that hypothetical world.*[8]

It is not contentious that damages are limited to a reasonable royalty on a defendant’s sales where the plaintiff fails prove it lost a sale due to infringement. It is noteworthy, however, that in his statement of the principle, Justice Phelan adopted the “could have and would have” analysis developed by the Court of Appeal in *Lovastatin* addressing the availability of non-infringing alternatives (“NIAs”), and then applied in *Venlafaxine* on the issue of damages under section 8 of the *PM(NOC)* regulations.[9]

This makes good sense. As Justice Stratas said in *Venlafaxine*: *"…in both types of claims the court's task is the same: to assess a hypothetical world where the defendant's impugned conduct did not take place. And in both the overriding principle is the same: a plaintiff is to be compensated, no more, no less…".*[10] It is sound reasoning that the same principles apply to a plaintiff seeking to discharge its burden of establishing the counterfactual world in a claim for infringement damages. The "would have" requirement has stood in the way of every defendant's alleged NIA since *Lovastatin*; but it should be less difficult for patentees to establish. An infringer must establish that in the hypothetical world, it would have sold a different product than the one it actually chose to sell. In contrast, a patentee only needs to show that it would have sold more of the same product it was already selling.

There was little dispute in *Grenke* that the defendants sold close to a total of 4,000 new and used infringing Enviro stuffing boxes. Justice Phelan approached the issue of how many of those sales would have been made by GrenCo by first considering whether GrenCo had established any lost sales. Based on evidence that the parties' products were essentially the same, that they competed in the same geographic market, and of actual lost sales, he concluded it had.[11] The main dispute, however, was whether it was appropriate to use market share information to determine the extent of the lost sales, and whether the plaintiffs had put forward sufficiently reliable data do to so.

The defendants argued that the plaintiffs failed to present reliable data on market share or provide any reason to believe that market share is a reasonable proxy for what could have or would have occurred in the but-for world. They criticized the plaintiffs for not leading evidence about how customers would have behaved in the absence of Corlac/NOV's infringing sales, and argued it could not be assumed that their customers would have purchased drives from the plaintiff in the but-for world.[12]

Citing the Court's decision in *Jay-Lor*,[13] Justice Phelan held market share is an appropriate method of determining damages.[14] He rejected the need for evidence addressing specific lost sales:

> *This is not a case with a small number of customers, referenced above in Jay-Lor, which might require "customer-specific" evidence, as was suggested by the Defendants. The more pressing question is whether the Plaintiffs have sufficiently established the market share that they would have had in the but-for world, as discussed below.*[15]

The plaintiffs' expert evidence regarding market share suffered weaknesses: "*The expert evidence of Freeson, which was intended to provide the necessary market share information, was flawed – both of the parties agree that it cannot be trusted for certain periods.*"[16] While he noted that it was open to reject the evidence, Justice Phelan accepted his evidence of the market generally, and the size and nature of competition until the entry of some other competition. In keeping with the broad axe approach, he made do with the available information and the analyses put forward by the parties. As stated by Justice Phelan: "*This is not a case of no evidence being available but of evidence which can be used to draw reasonable conclusions.*"[17]

To assess market share, the Court focused on what the defendants' customers would have done if the infringing stuffing boxes had not been on the market and evidence they were looking for an environmentally friendly option. Justice Phelan thus defined the relevant market as the "environmentally friendly stuffing box market". He excluded from the relevant market non-infringing rope style stuffing boxes that were known to leak oil, and which the Court had previously found the market was moving away from in favour of the GrenCo product.[18]

Justice Phelan's consideration of the rope style stuffing box implicitly addresses the "other competitors" aspect of the first branch of perfect compensation from Justice Dawson's reasons in *Lovastatin*:

> *Perfect compensation requires consideration of: (i) what, if any, non-infringing product the defendant or any <u>other competitors</u> could and would have sold "but for" the infringement and, (ii) the extent lawful competition would have reduced the patentee's sales.*[19]

In the context of the *Lovastatin* factors for a non-infringing alternative,[20] the rope style stuffing box failed on the first prong. It was not a true substitute nor a real alternative because customers did not want it. Rope style stuffing boxes neither could nor would have been purchased by customers who wanted an environmentally friendly product.

Having dismissed effects outside the environmentally friendly stuffing box market, Justice Phelan then reviewed the evidence of lawful competition in the relevant market from a number of competitors between 2000 and 2010. Ultimately, he preferred what appears to have been a more realistic construction of the but-for world advanced by the plaintiffs:

> *Overall, I would accept the conceptualization of the market, the numbers, and the models put forward by the Plaintiffs subject to adjustments discussed. I find the Defendants' conceptualization of the market to be problematic in that it takes into account matters inconsistent with the better evidence and thus leads to under compensation of the Plaintiffs.*[21]

Using an estimate from the plaintiffs' expert that GrenCo would have had an average market share of 40.5% and lost 1,051 drive sales, Justice Phelan awarded $4,468,000 in damages for direct lost profits.

Grenke also raises a number of other interesting issues in relation to calculation of a reasonable royalty, damages for convoyed sales, punitive damages and pre-judgment interest. With respect to the market analysis approach discussed here, the decision is noteworthy in that the Court awarded damages for lost sales based purely on a market share analysis, and without reliance on specific lost sales to any particular customer.

The evidence mentioned above from the NOV defendant that competition in the market was a "zero sum game", so that sales by one party were made at the expense of another, and Justice Phelan's finding that the infringing product was a direct substitute may have simplified the approach. The overall size of the market remained the same in the but-for world as what it actually was in the real world. The Court calculated the number of GrenCo's lost sales by multiplying the total number of actual infringing sales by GrenCo's estimated percentage market share in the but-for world. Although useful in the circumstances of a fixed market size, further analysis may be necessary on other facts. For example, in situations where infringing activity increased the overall size of the market, or where a defendant competed more directly with a market player other than the plaintiff a more sophisticated model would be required. Still, *Grenke* stands a good example of the utility and flexibility of a market share approach in calculation of lost profits for patent infringement.

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[1] 2018 FC 564 [*Grenke*]

[2] *Weatherford Canada Ltd v Corlac Inc*, 2010 FC 602

[3] *Grenke* at para 1

[4] *Ibid* at para 46

[5] *Ibid* at para 50

[6] *Ibid* at para 52

[7] *Apotex Inc v Merck & Co, Inc,* 2015 FCA 171 at para 42 [*Lovastatin*]

[8] *Grenke* at para 75 [emphasis added]

[9] *Pfizer Canada Inc v Teva Canada Ltd*, 2016 FCA 161 [*Venlafaxine*]

[10] *Ibid* at para 47

[11] *Grenke* at para 90

[12] *Ibid* at para 93

[13] *Jay-Lor International Inc v Penta Farm Systems Ltd,* 2007 FC 358 at paras 208-209 [*Jay-Lor*]

[14] *Grenke* at para 91, 96

[15] *Ibid* at para 97

[16] *Ibid* at para 98

[17] *Ibid* at para 101

[18] *Ibid* at paras 58 and 83

[19] *Lovastatin* at para 50 [emphasis added]

[20] *Ibid* at para 73

[21] *Grenke* at para 114