Federal Court Cour fédérale

Date: 20151026

Docket: T-1161-07

Toronto, Ontario, October 26, 2015

PRESENT: Madam Prothonotary Martha Milczynski

BETWEEN:

SANOFI-AVENTIS CANADA INC., SCHERING CORPORATION AND SANOFI-AVENTIS DEUTSCHLAND GMBH

Plaintiffs

and

TEVA CANADA LIMITED

Defendant

ORDER

UPON Motion dated the 3rd day of February, 2015 by the Defendants by Counterclaim for:

1. An Order granting Sanofi increased costs, fixed as a lump sum costs award with interest, payable forthwith by Teva Canada Limited ("Teva");

2. In the alternative, directions for the assessment officer, pursuant to Rule 403 of the *Federal Courts Rules*, awarding costs to Sanofi in accordance with certain proposed directions;

3. Costs of this motion; and

4. Such further and other relief as this Honourable Court seems just.

AND UPON reviewing the motion records filed on behalf of the parties and hearing submissions of counsel;

AND UPON the parties confirming at the hearing of the motion that their preference would be for the Court to determine whether costs are payable, and if so in what amount, rather than issue directions for an assessment;

Sanofi submits on this motion that the matter of costs relating to Teva's action against Sanofi Germany were not dealt with at the conclusion of the proceeding, and consequently seeks on this motion to recover a significant amount of those costs – both for Sanofi Germany and Sanofi Canada.

As noted by Sanofi in its materials, the main action for patent infringement was commenced by Sanofi Canada (as licensee) and Schering Corporation (as patentee) on June 22, 2007. Teva defended and commenced a counterclaim, including among other things, a claim for damages pursuant to section 8 of the *Patented Medicines (Notice of Compliance) Regulations* (the "Regulations"), which provides in part as follows:

> s.8(1) If an application made under subsection 6(1) is withdrawn or discontinued by the first person or is dismissed by the court hearing the application…the first person is liable to the second person for any loss suffered during the period…
>
> s. 8(2) A second person may, by action against a first person, apply to the court for an order requiring the first person to compensate the second person for the loss referred to in subsection (1).

One of the matters that concerned Teva in respect of its section 8 claim, which led to the inclusion of Sanofi Germany, was not whether Sanofi Germany was liable to pay damages over and above what Sanofi Canada (as first person) would pay, but whether Sanofi Germany exerted the degree of control over Sanofi Canada such that Sanofi Germany would be jointly and severally liable to pay those damages to Teva, and as such be a proper party to the litigation. The claims relating to the potential liability of Sanofi Germany were generally referred to by the parties as the "Control Allegations". Teva asserted that Sanofi Germany should be joint and severally liable on the grounds that Sanofi Germany exercised complete control and direction over the actions and decision-making of Sanofi Canada relating to the section 6 application under the Regulations. Underlying the Control Allegations was Teva's concern whether Sanofi Canada could satisfy the judgment and pay the amount of damages that would be ordered.

The proceeding continued but was bifurcated. The first trial dealt with the validity of the patent in issue (Canadian Patent No. 1,341,206 – the "206 Patent"), infringement and the Plaintiffs' claims for damages. The 206 Patent was found to be invalid.

The second trial dealt with Teva's section 8 claim for damages. That second trial was also bifurcated. The Control Allegations and whether and the extent to which Sanofi Germany was liable for Teva's section 8 damages was bifurcated. The section 8 damages claim was heard and by judgment issued May 11, 2012, the Court provided directions for the calculation of the damages to be paid by Sanofi Canada. Those damages were paid by Sanofi Canada shortly thereafter; thus a determination of the Control Allegations was unnecessary.

Teva appealed the section 8 damages judgment, and Sanofi Canada cross-appealed. Both appeals were dismissed on March 14, 2014. On December 17, 2014, Teva discontinued its claim against Sanofi Germany.

The Sanofi parties note on the within motion that by letter dated January 13, 2011, Sanofi Germany proposed to settle Teva's section 8 claim against it by consenting to the filing of a discontinuance on a without costs basis. That offer was repeated on July 14, 2011 indicating that it would remain open until July 24, 2011. Teva did not accept the offer; there was still a concern at the time about Sanofi Canada's ability to satisfy the full amount of any judgment against it under section 8 and from Teva's point of view, the degree of Sanofi Germany's control and direction over Sanofi Canada's actions made Sanofi Germany jointly and severally liable for those section 8 damages. Teva proposed that Sanofi Germany agree to indemnify it in the event Sanofi Canada failed to pay. The matter was ultimately resolved as noted above – the Control Allegations were bifurcated on April 15, 2011. The bifurcation order that was issued was in the form submitted by Sanofi and on the consent of the parties stated that only if Sanofi Canada failed to pay to Teva any monetary compensation which Sanofi Canada has been ordered to pay to Teva, either party could apply to the Court to schedule a trial and steps leading to a trial of the Control Allegations to determine if Sanofi Germany was jointly and severally liable for the section 8 damages. No further steps were taken in respect of the Control Allegations, and as noted above, since Sanofi paid in full, a further trial was not necessary. Sanofi seeks to recover some amount of costs, however, up to the date of the bifurcation.

A party against whom an action has been discontinued is entitled to costs. The Court has discretion and may fix the amount in a lump sum in lieu of or in addition to any costs assessed

under the tariff. In determining the amount of costs to be awarded the Court will take a number of factors into account, including:

(i) the nature and result of the proceeding;

(ii) the amounts claimed and recovered;

(iii) any written offers to settle;

(iv) the novelty and/or complexity of the issues;

(v) the amount of time and resources expended;

(vi) the conduct of any party that tended to shorten or unnecessarily lengthen the duration of the proceeding; and

(vii) whether any step in the proceeding was improper, vexatious or unnecessary, or taken through negligence, mistake or excessive caution.

The Court may also use an award of costs as a sanction, to communicate its disapproval of an unreasonable position taken by a party.

Sanofi has made extensive submissions in respect of each of the above factors (see paras. 27-41 of Sanofi's written representations) and asks for an award of costs assessed at the mid-point of Column III, Tariff B and then elevated to take into Teva's conduct. The lump sum amount sought is $428,738.42 payable to Sanofi Germany and a further lump sum amount of $36,582.40 payable to Sanofi Canada – both to be doubled or further elevated in some manner. The apportionment is 50:50 for all disbursements.

Teva was awarded its costs in both the first and second trials. In the validity/infringement trial, costs were payable by all the Plaintiffs, including Sanofi Germany. The costs payable to Teva were reduced, however, to take into account a number of claims that were withdrawn or discontinued prior to trial.

In the second trial, the section 8 damages case, costs were payable by Sanofi Canada but not Sanofi Germany given the bifurcation of the claim against Sanofi Germany.

Throughout the two proceedings, costs of the various motions were dealt at the time of the motions, were addressed in the context of one of the two trials, or not at all.

In any event, given that Teva has discontinued its claim under the Control Allegations, I am satisfied that as contemplated by the Rules, some amount of costs should be payable to Sanofi Germany in respect of the Control Allegations that were made and ultimately withdrawn. It is clear, however, that the Control Allegations, although there from the beginning, did not require much time and expense. Both parties were content to push the matter off. The difficulty on this motion, however, is how to conclude what costs were actually incurred by Sanofi Germany with respect to the Control Allegations or how to apportion or glean it from the amounts submitted by Sanofi on this motion. What is clear to me, however, is that Sanofi ought not to recover for any amounts other than in respect of the Control Allegations. It is not appropriate given the outcomes of the validity/infringement action and the section 8 action to revisit the issue of costs that were ordered to be paid by Sanofi Canada. Justice Snider awarded costs to Teva, taking into account everything she determined to be applicable – except the Control Allegations, which she expressly noted had been bifurcated. I agree with Teva that if Sanofi Canada were to be awarded costs for those items that relate to the trials, it would

undermine Justice Snider's determination of those costs. Sanofi cannot recover some of its costs through the backdoor of the Control Allegations.

Only Sanofi Germany is entitled to claim costs, and only those costs it can establish it incurred in respect of the Control Allegations and only for those costs that would not have been incurred in any event – not for costs that would have been incurred in the course of the two trials in any event (such as the expert reports or counsel fees expended on the validity/infringement issues or Teva's section 8 damages). Accordingly, in determining quantum, I would take into account the following steps and factors:

- Pleadings were prepared for Sanofi Germany to address the Control Allegations.

- Some additional time was taken in case management teleconferences, production and discovery and correspondence/communication leading up to the bifurcation of the Control Allegations in August 2011, and then after the final disposition of the section 8 action and Sanofi Canada's payment of the section 8 damages when there was some correspondence regarding the discontinuance.

- The matter raised by Teva of possible joint and several liability of multiple parties in a section 8 damages claim was novel, but given the state of the jurisprudence on that issue and on section 8 cases generally at the time, it cannot be concluded that Teva acted in a frivolous or vexatious manner.

- The Control Allegations did not delay the proceedings.

- Sanofi Germany offered to settle Teva's section 8 claim against it on a discontinuance without costs basis, which offer was made on January 13, 2011 and remained open until July 24, 2011.

- Teva did not accept that offer but made a different proposal – Teva would agree to discontinue the action against Sanofi Germany if Sanofi Germany agreed to indemnify Teva in the event that Sanofi Canada did not pay the full amount of any award of damages made against it.

- Sanofi Germany did not accept that offer – instead the parties agreed to a compromise - the bifurcation order that held the litigation of the Control Allegations in abeyance until after the section 8 damages trial, to be resurrected only if Sanofi Canada did not pay the damages it was ordered to pay.

- The substantive result of the bifurcation order was that both Teva and Sanofi Germany effectively got what they wanted – Teva was paid its section 8 damages and no steps were taken to litigate the Control Allegations.

Sanofi's Bill of Costs includes in great detail virtually all of the steps taken in the entire proceeding – in both the validity/infringement trial and the section 8 damages action. It deals with the pleadings and the various amendments to the pleadings, motions, discovery and examination, answers to undertakings and refusals, case management conferences, pre-trial conference and Sanofi's expert reports. The difficulty is that the Bill of Costs lumps in the validity/infringement action and the section 8 damages claim, steps and costs that would have been taken by Sanofi Germany (and Sanofi Canada) in any event, and costs that were addressed

and determined by Justice Snider. The apportionment as between Sanofi Canada and Sanofi Germany in respect of disbursements is overly generous. Accordingly, I am left with a task that requires a somewhat arbitrary determination of what is fair and appropriate in the circumstances – I am satisfied that a lump sum amount, generally taking into account what can reasonably be attributable to the Control Allegations for pleadings, productions and examinations for discovery, case management conferences and correspondence between counsel should be ordered to be paid – but not for any fees or disbursements outside the Control Allegations as those were amounts that would have been expended it in any event and were taken into consideration by Justice Snider in the determination of costs payable to Teva in respect of the two trials.

THIS COURT ORDERS that costs in the amount of $2,000.00 is payable by Teva Canada Limited to Sanofi-Aventis Deutschland GMBH.

"Martha Milczynski"
Prothonotary