

Federal Court



Cour fédérale

Date: 20180927

Docket: T-608-17

Citation: 2018 FC 956

Ottawa, Ontario, September 27, 2018

PRESENT: The Honourable Mr. Justice Ahmed

BETWEEN:

**SEEDLINGS LIFE SCIENCE
VENTURES, LLC**

Plaintiff

and

PFIZER CANADA INC.

Defendant

ORDER AND REASONS

I. Overview

[1] This is an appeal of a Prothonotary’s order dated April 3, 2018 that dismissed a motion for a protective order. The underlying action is for patent infringement. Seedlings Life Science Ventures, LLC (the “Plaintiff”) alleges that Pfizer Canada Inc. (the “Defendant”) infringed Canadian Patent No. 2,486,935. The Defendant responds that it did not infringe the patent, and that the patent is invalid, void, and of no force and effect.

[2] The parties are about to begin the discovery process. In so doing, they are likely to exchange sensitive and confidential information which, if misused, could cause them significant prejudice. Accordingly, they negotiated a protective order (the “Draft Protective Order”) to govern the way in which such information will be exchanged. The Defendant then filed a motion to have the Draft Protective Order issued, which went unopposed by the Plaintiff.

[3] The Prothonotary dismissed the Defendant’s motion. She held that the decision to issue a protective order is a matter of discretion and is to be viewed in the particular circumstances of each case. She reasoned that the implied undertaking rule exists at common law, and it affirms that documents or information transmitted in the course of pre-trial discovery constitutes an undertaking to the Court that such information will not be used by the parties for purposes other than the litigation. As such, misuse or collateral use of that information would constitute contempt of court. In analyzing the Draft Protective Order, the Prothonotary found that the Defendant had not met its burden to demonstrate the need for the order, and expressed her view that the order would not offer any great advantage above the protections offered by the implied undertaking rule.

[4] The Defendant contests the Prothonotary’s decision, claiming that she erred in law by creating a new test for the issuance of protective orders. As on the motion below, the Plaintiff takes no position with respect to the appeal currently at bar.

[5] For the reasons that follow, I shall allow the appeal, set aside the Prothonotary’s order, and issue the requested Draft Protective Order.

II. The Draft Protective Order

[6] As the facts of the underlying action are not pertinent to the issue before me, I will not set them out in any detail. Nevertheless, it will be useful to briefly describe the content of the Draft Protective Order that was before the Prothonotary.

[7] The Draft Protective Order would apply to confidential information shared between the parties to the litigation. Importantly, it does not apply to confidential information filed with the Court – in such circumstances, the parties are to follow the procedure set out for confidentiality orders under Rule 151 of the *Federal Court Rules*, SOR/98-106 [the “*Rules*”]. The Draft Protective Order sets out the class of information that may be designated as confidential (research and development information, data, trade secrets, financial information, customer information, etc.), and also specifies what information cannot be considered confidential. The agreement does not foreclose the possibility of challenging designated information as, in fact, not confidential, and provides that parties retain the right to modify or vacate the restrictions on their disclosures.

[8] The Draft Protective Order also restricts who may view designated confidential information (e.g. counsel, independent experts, service contractors, court personnel) and creates a model undertaking form that is to be used when confidential information is disclosed among those parties. It also specifies that the termination of proceedings does not relieve a person of his or her confidentiality obligations, and provides modalities for the return of confidential information.

III. The Prothonotary's Order

[9] In dismissing the Defendant's motion to issue the Protective Order, the Prothonotary conducts a comprehensive review of the legal framework on protective orders. She notes that the terms "protective order" and "confidentiality order" have often been used interchangeably in the jurisprudence relating to intellectual property matters, with this Court only recently making a clear distinction between the two. The modern understanding is that a protective order governs the way in which parties may designate information as confidential and handle such information during the pre-trial disclosure phase of an action. A confidentiality order, on the other hand, allows parties to file confidential information under seal with the Registry. To do so, the party must first obtain a confidentiality order from the Court pursuant to Rule 151. The Prothonotary affirms that the motivation behind a Rule 151 confidentiality order is the open court principle; to obtain one, the parties must convince the Court that the need for confidentiality outweighs the public interest in open and accessible court proceedings.

[10] In reviewing the relevant intellectual property jurisprudence, the Prothonotary observes that in many cases, orders interchangeably referred to as "protective" or "confidentiality" orders contained provisions allowing the parties to file materials under seal with the Registry (without prior Court scrutiny), as well as detailed provisions to govern the exchange and treatment of information between parties. In this sense, those orders were "hybrid" versions of what is understood today by the terms "protective order" and "confidentiality order." The Prothonotary reasons that the test for the issuance of such orders, if there ever was one, is the test to be applied for confidentiality orders alone, and notes that the old test in *AB Hassle et al v Canada (Minister of National Health and Welfare) et al* (1998), 161 FTR 15 [*AB Hassle*] and *Apotex Inc and Novopharm Ltd v Wellcome Foundation Ltd* (1993), 69 FTR 161 [*Wellcome*], has been

displaced by Rule 151 and the Supreme Court of Canada's decision in *Sierra Club of Canada v Canada (Minister of Finance)*, 2002 SCC 41 [*Sierra Club*].

[11] In assessing what test might apply to a protective order, the Prothonotary reviews a substantial body of jurisprudence that I do not propose to reproduce here. The gist of the Prothonotary's review suggests that the sufficiency of the common law implied undertaking rule has long guided Canadian courts when determining whether a protective order is necessary. The Prothonotary finds that the existence of an implied undertaking rule was not always a foregone conclusion; she traces the first formal recognition of the doctrine to an Ontario case, and notes that the very next year the British Columbia Court of Appeal rejected its existence in that province: *Kyuquot Logging Ltd v British Columbia Forest Products Ltd* (1986), 30 DLR (4th) 65 [*Kyuquot*]. The issue as to whether the decision in *Kyuquot* applied in the Federal Court was later decided in *Canada v ICHI Canada Ltd (TD)* (1991), [1992] 1 FC 571 (FCTD), with the Court finding – after considering jurisprudence from the United Kingdom, other provinces, the Federal Court, and the United States – that the implied undertaking rule applies in matters before the Federal Court. The Prothonotary observes that the principle was subsequently applied by the Ontario High Court of Justice and the Manitoba Court of Queen's Bench. In short, the Prothonotary affirms the (now) longstanding existence of the implied undertaking rule.

[12] By contrast, the Prothonotary says that the Defendant in the case at bar has not provided any rule of practice that would provide a rationale for issuing a protective order absent circumstances where the implied undertaking rule or the parties' express agreements would be insufficient. She is unpersuaded by the Defendant's case law which, according to the Prothonotary, only constitutes a non-binding routine practice in the Federal Court to issue

protective orders in intellectual property cases. She adds that most of those cases were focused on public disclosure of confidential information, rather than the exchange of information between parties. In the Prothonotary's view, the practice of routinely issuing protective orders is no longer necessary because the applicability and scope of the implied undertaking rule has been clarified.

[13] Having affirmed that well-entrenched and long-standing practice does not constitute a rule of law that the Court is obliged to follow, the Prothonotary goes on to consider whether a protective order is appropriate in the case at bar. The Prothonotary finds that a majority of the terms in the Draft Protective Order are covered by the implied undertaking rule. According to the Prothonotary, most of the other clauses in the Draft Protective Order could be covered by way of a private agreement between the parties and need not be enshrined in an order.

[14] Finally, the Prothonotary goes on to consider no fewer than seven concerns that the Defendant highlighted with the supposed gap in protection that arises in the absence of a protective order: (1) a protective order makes confidentiality orders clearly applicable to third parties; (2) it may be difficult to enforce the implied undertaking rule on persons outside the Court's jurisdiction; (3) the implied undertaking rule is not codified in the *Rules*, its scope is uncertain and the jurisprudence inconsistent; (4) the implied undertaking applies only to discovery evidence, calling into question its application to proceedings other than actions; (5) the implied undertaking rule applies equally to confidential and non-confidential discovery evidence, creating a *prima facie* obligation of non-disclosure, even if the information could have been acquired in another manner; (6) the implied undertaking rule does not attract clear and immediate sanctions for non-compliance; and (7) the implied undertaking rule does not limit the number or

types of persons who may receive discovery evidence, provided it is for the purpose of the litigation.

[15] The Prothonotary dismisses each of these concerns in turn. The Prothonotary acknowledges that only one case has affirmed the applicability of the implied undertaking rule to experts and consultants (third parties), but suggests that this does not make the correctness of the proposition uncertain. In her view, the lack of case law could easily be equated with the obviousness of the principle and it would be “unthinkable” that third party agents would not be bound by the same obligation as their principals. With respect to jurisdiction, the Prothonotary says that the Defendant’s argument ignores that option of negotiating a private agreement in which the parties agree to attorn to the jurisdiction of the Federal Court, and also ignores the fact that the Court does not have the ability to enforce the execution of its judgements outside of Canada. With respect to the third issue, namely the lack of codification of the implied undertaking rule in the *Rules*, the Prothonotary states that the Supreme Court of Canada has already affirmed in *Juman v Doucette*, 2008 SCC 8 [*Juman*] that the scope and content of the rule is now unambiguous. Fourth, the Prothonotary refuses to consider her decision’s implication in proceedings other than actions, because it is an action which is before her. Fifth, the Prothonotary rejects the Defendant’s suggestion that the implied undertaking rule applies equally to confidential and non-confidential discovery evidence because, in her view, the case law recognizes that the rule does not prevent the use of information that was obtained from other sources. Sixth, the Prothonotary notes that the implied undertaking rule can attract clear and immediate sanctions for non-compliance, and adds that the Draft Protective Order does not appear to add anything further because there are no sanction provisions in the text. Finally, with respect to the number of parties that may access designated confidential information, the

Prothonotary again states that this issue can be easily resolved by way of a private agreement between the parties. Having summarized the decision above, I shall now turn to the Defendant's arguments on appeal.

IV. **The Defendant's Position**

[16] The Defendant submits that the Prothonotary applied the incorrect legal test, arguing that she failed to follow binding jurisprudence, the long-standing practice of this Court with respect to the issuance of protective orders, and effectively created a new test for the same. In the Defendant's estimation, the test is one of necessity, it is derived from the Supreme Court of Canada's decision in *Sierra Club*, and it applies equally to protective orders, confidentiality orders and "hybrid" orders. The Defendant explains that the test in *Sierra Club* affirmed the approach in *AB Hassle* and *Wellcome*, and points out that all of these cases contained true protective order provisions. The Defendant traces those cases through various levels of appeal, and urges the Court to conclude that the test outlined in *Sierra Club* was intended to apply to both protective and confidentiality orders. Moreover, the Defendant contends that the *Sierra Club* test has been applied consistently by this Court, with the exception the Prothonotary's previous decision in *Live Face on Web, LLC v Soldan Fence and Metals (2009) Ltd*, 2017 FC 858 [*Live Face*]. Finally, the Defendant submits that the implied undertaking rule was well-established at the time of *Sierra Club*. It says that, if the Supreme Court of Canada believed that the implied undertaking rule obviated the need for protective orders, it could have said so. Instead, it points to the Supreme Court of Canada's decision in *Juman*, in which it was recognized that disputes about trade secrets and intellectual property may involve exceptional prejudice that is not resolved by the implied undertaking rule alone.

[17] In the alternative, the Defendant argues that that if the *Sierra Club* test does not apply to protective orders, the “new” test found in *Life Face* (i.e. “unusual circumstances”) is not appropriate. According to the Defendant, the *Life Face* test was applied in the case at bar, with the Prothonotary concluding that protective orders should not be issued on consent absent evidence of such “unusual circumstances.” The Defendant submits that such a test is not well-suited to patent litigation, because the discovery process in such cases almost always involves exchange of sensitive information between competitors which exceeds the scope of the implied undertaking rule.

[18] Finally, the Defendant argues that a private agreement between parties is not the appropriate mechanism to protect confidential information during pre-trial discovery. It claims that the Prothonotary cited no case, rule or statute that affirms the Federal Court’s jurisdiction to enforce a private agreement to enforce such agreements by way of contempt proceedings (absent a prior court order). It notes that neither *Live Face* nor the Prothonotary’s decision in the instant case have provided any guidance as to the form and substance of such agreements, and suggests that this approach will be a disincentive to full and frank discovery. Similarly, the Defendant claims that such important changes to established practice should not come from jurisprudence, but rather should arise from a practice direction or an amendment to the *Rules*. It also takes issue with the private agreement approach because it would require a party to negotiate solely with its competitor to draft a fair agreement.

V. **Issue**

[19] The core issue that arises in this appeal is whether the Prothonotary erred in law by applying an incorrect legal test in dismissing the Defendant's motion to issue the Draft Protective Order.

VI. **Standard of Review**

[20] On appeal of a discretionary decision by a prothonotary, questions of law are reviewable on a standard of correctness: *Hospira Healthcare Corporation v Kennedy Institute of Rheumatology*, 2016 FCA 215 at para 64. If the Prothonotary erred in law, I am to substitute the decision below with my own.

VII. **Analysis**

A. *What, if any, is the test for issuing a protective order?*

[21] Is there an existing, binding test for the issuance of a protective order? The question cuts to the heart of the case at hand. The Prothonotary found that the *Sierra Club* test only applies to confidentiality orders. She questions whether there is, or ever was, a recognized jurisprudential test for protective orders: *Seedlings Life Science Ventures, LLC v Pfizer Canada Inc*, 2018 FC 443 [*Seedlings*] at paras 15-16. The Defendant, on the other hand, argues that the *Sierra Club* test applies to protective orders. It is clear that the decision below did not apply such a test; instead, the Prothonotary held that such orders should be produced only where the implied undertaking rule and a private agreement between the parties would insufficiently protect the parties' interests: *Seedlings* at paras 31, 33-34, 65.

[22] If the Prothonotary's decision failed to apply a binding test established in the jurisprudence in favour of another test, that is an error of law.

[23] As mentioned above, the Defendant has argued that *Sierra Club* contains a binding jurisprudential test – from the Supreme Court of Canada, no less – to guide the decision around issuing a protective order: *Sierra Club* at para 60. The authority for that proposition is worth reproducing in full:

[60] Pelletier J. noted that the order sought in this case was similar in nature to an application for a protective order which arises in the context of patent litigation. Such an order requires the applicant to demonstrate that the information in question has been treated at all relevant times as confidential and that on a balance of probabilities its proprietary, commercial and scientific interests could reasonably be harmed by the disclosure of the information: *AB Hassle v. Canada (Minister of National Health and Welfare)* (1998), 83 C.P.R. (3d) 428 (F.C.T.D.), at p. 434. To this I would add the requirement proposed by Robertson J.A. that the information in question must be of a “confidential nature” in that it has been “accumulated with a reasonable expectation of it being kept confidential” as opposed to “facts which a litigant would like to keep confidential by having the courtroom doors closed” (para. 14).

[Emphasis added.]

[24] Thus, in the Defendant's estimation, the applicable test is that: 1) the information has been treated as confidential and that on a balance of probabilities its proprietary, commercial and scientific interests could reasonably be harmed by the disclosure of the information, and 2) it is of a confidential nature with a reasonable expectation that it be kept confidential.

[25] The Prothonotary dismisses this notion in the case at bar, and similarly her reasons are worth reproducing in full:

[15] Thus, in the *Sierra Club* passage referred to above, where the Supreme Court cites Pelletier J. as saying that the confidentiality order sought was “similar in nature to an application for a protective order which arises in the context of patent litigation”, one must understand the Court to be referring to the aspect of these orders that permitted the parties to file materials into court under seal. The “test” or “requirement” for the issuance of such orders, as described in *AB Hassle* and *Apotex v Wellcome*, above, is therefore not, as suggested by Pfizer, a test for the issuance of a “pure” protective order, but the test that used to be applied for the issuance of a confidentiality order. Moreover, that test has been displaced by the requirement of Rule 151 and the Supreme Court’s decision in *Sierra Club*.

[Emphasis added.]

[26] My own review of *Sierra Club* suggests that the Prothonotary’s distinction cannot be maintained. The Prothonotary has not explained why the test in *Sierra Club* must be understood to exclusively apply to the filing of materials with the Court under seal. To be certain, it is clear that the issue in that case was the filing of sensitive information with the Court, and the need to balance the parties’ confidentiality interests with that of the open court principle. However, there is nothing in the text of *Sierra Club* which supports the distinction offered by the Prothonotary. Rather, in my view, the Supreme Court of Canada stated the test concerning protective orders in the context of patent litigation by recalling the decision of this Court in *AB Hassle* (and modifying it slightly). We have the benefit of knowing what was in the *AB Hassle* order (it was annexed to the decision) and it is clear that it contained provisions relating to the exchange of confidential information between parties – in other words, the same subject matter which is contained in contemporary protective agreements. Admittedly, today the order in *AB Hassle* would be characterized as a “hybrid” order, but that fact alone does not, in my view, justify a departure from the existing test. The rationale behind the *Sierra Club* test, whether one is considering a confidentiality order, a protective order, or a hybrid order, is the same: that is, the

protection of sensitive information – whether from the general public or other business adversaries – from abuse or use in activities collateral to the litigation. In this sense, the Prothonotary’s attempt to read *Sierra Club* as exclusive to confidentiality orders is effectively an exercise in splitting hairs.

[27] Having decided that the Prothonotary erred by applying the incorrect legal test, I am compelled to apply the correct legal test and substitute my decision for that of the Prothonotary. I need not engage with the Prothonotary’s reasons – or the Defendant’s argument – respecting the “unusual circumstances” test that was applied in the decision below and as set out in *Live Face*.

B. *Application of the Sierra Club Test*

[28] In my view, both criteria in the *Sierra Club* test are met with regard to the Draft Protective Order before the Court. The definition of “confidential information” appears to be carefully set out in the Draft Protective Order, and it includes such sensitive information as research and development information, existing patent and patent application documents, trade secrets, financial information, confidential information of third parties, etc. This information is what one would expect, in the normal course of business, to constitute confidential information. Aside from the fact that the parties do not dispute that these categories of sensitive information are the proper subject of a protective order, it is reasonable to assume that the parties would have kept such information confidential, and that the disclosure of such information outside of the instant litigation could negatively affect their proprietary, commercial and scientific interests if disclosed. For those reasons, I find that the Draft Protective Order meets the test set out by the Supreme Court of Canada in *Sierra Club*.

VIII. Conclusion

[29] This appeal is allowed. The Prothonotary erred in law by failing to apply the correct legal test, and I have substituted her opinion with my own after applying the Supreme Court of Canada's binding jurisprudence in *Sierra Club*. Accordingly, I shall order that the Draft Protective Order be issued.

[30] While I have not addressed it in my reasons, the Prothonotary's examination of the evolution of the implied undertaking rule and protective orders, as well as their application in the modern context, is not without substantial merit. In reading the decision below, and her decision in *Live Face*, it is clear that she is motivated by a desire to respond to a problem in contemporary patent litigation. In her view, routine motions for protective orders do not add substantial protection above and beyond what is already available under the implied undertaking rule or achievable through private agreements, and the judicial processing of these orders constitutes a substantial burden to the Court: *Seedlings* at paras 64-65, 69; *Live Face* at paras 4-10, 13-15. Surely those observations are not without merit and it may well be the time for change. However, it is not appropriate, in my view, for a fundamental shift in longstanding practice to arise from the jurisprudence of this Court. That is the role of the legislature, or perhaps the courts above. Moreover, in my view it would be unjust to the litigants in the case at bar to have the so-called "rules of the game" changed partway through these proceedings.

[31] As mentioned above, I have not waded into the Prothonotary's reasons as they relate to the elements of a new test, and instead have restricted my decision to an application of what I believe to be the correct legal test applicable to the case at bar. However, having listened carefully to the oral submissions of the Defendant, I cannot help but express my view that there

appear to be real and genuine concerns with an exclusive reliance on the implied undertaking rule and private agreements negotiated between litigants to protect pre-trial discovery productions. Take, for example, the proposition that the implied undertaking rule applies to third party experts and consultants. The Prothonotary admits that there is a single case directly affirming the principle: *Winkler v Lehndorff Management Ltd*, [1998] OJ No 4462 (Ont Ct J (Gen Div)). Not only is this case two decades old, but it is not jurisprudence of this Court, and has nothing to do with patent litigation. I make this observation not to contest the legal validity of the underlying principle, but merely to affirm that it is an exceptionally tenuous basis upon which the Defendant's concerns could be put to rest. The litigant in this case, and in future cases, would understandably take very little comfort in the notion that this singular piece of jurisprudence will protect sensitive discovery information from misuse by third parties, along with the Prothonotary's affirmation that it is "unthinkable" that third party agents would not be bound by the implied undertaking rule (but cited no rule or supporting jurisprudence). Should the time have come for a new approach to protective orders, it would do well to fully consider the concerns raised by the Defendant herein.

ORDER in T-608-17

THIS COURT ORDERS that:

1. The appeal is allowed;
2. The Draft Protective Order is issued;
3. No costs are awarded.

"Shirzad A."

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-608-17

STYLE OF CAUSE: SEEDLINGS LIFE SCIENCE VENTURES, LLC v
PFIZER CANADA INC.

PLACE OF HEARING: TORONTO, ONTARIO

DATE OF HEARING: MAY 30, 2018

ORDER AND REASONS: AHMED J.

DATED: SEPTEMBER 27, 2018

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