

Date: 20061010

Docket: A-268-06

Citation: 2006 FCA 324

**CORAM: LINDEN J.A.
SEXTON J.A.
MALONE J.A.**

BETWEEN:

Apotex Inc.

Appellant

and

**Merck & Co., Inc., Merck Frosst Canada & Co., Merck Frosst Canada Ltd., Syngenta
Limited, AstraZeneca UK Limited and AstraZeneca Canada Inc.**

Respondents

Heard at Toronto, Ontario, on September 14, 2006.

Judgment delivered at Ottawa, Ontario, on October 10, 2006.

REASONS FOR JUDGMENT BY:

MALONE J.A.

CONCURRED IN BY:

**LINDEN J.A.
SEXTON J.A.**

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REASONS FOR JUDGMENT

MALONE J.A.

[1] This appeal and cross-appeal relate to a costs order made by Hughes J. dated May 23, 2006 and reported as 2006 FC 631 (the Costs Order).

[2] The Costs Order followed lengthy litigation concerning Canadian Patent 1,275,350 (the '350 Patent) owned by Merck & Co. Inc. and its two Canadian affiliates (collectively Merck). The '350 Patent was licenced to Syngenta Limited, AstraZeneca UK Limited and AstraZeneca Canada Inc. (collectively Astra). Apotex Inc. (Apotex) is a generic manufacturer of pharmaceutical

products in Canada. In a judgment dated April 23, 2006, Hughes J. concluded that the '350 Patent had been infringed by Apotex subject to certain statutory and common law exemptions.

[3] Following written submissions, Hughes J. held that Merck and Astra were to be permitted only one set of costs as between them taxed at the upper end of Column IV. Subject to any set off otherwise due to Apotex, Merck and Astra were awarded 90% of their pre-trial taxed costs and disbursements and 80% of their trial and post trial costs and disbursements. In fulsome written reasons that accompanied the Costs Order, Hughes J. detailed the history of the litigation commenced in 1996, the conduct of the parties before and during trial, and their attempts to effect settlement. It is abundantly clear that much thought went into the Costs Order, a discretionary decision under Rule 400 of the *Federal Court Rules*, SOR/98-106 (the *Rules*), which will only be overturned where the trial judge failed to give sufficient weight to all relevant considerations, erred in law or misapprehended the facts (*Monsanto Canada Inc. v. Schmeiser*, 2002 FCA 449 at paragraph 2).

[4] In a recent decision, Chief Justice Richard of this Court neatly summarized the principles as follows:

An appellate court is not at liberty merely to substitute its own exercise of discretion for the discretion already exercised by the trial judge. However, if the decision was based on an error of law or if the appellate court reaches the clear conclusion that there has been a wrongful exercise of discretion in that no weight or no sufficient weight, has been given to relevant considerations or that the trial judge considered irrelevant factors or failed to consider relevant factors, then an appellate court is entitled to exercise its own discretion (see *Elders Grain Co. v. M/V Ralph Misener (The)*, [2005] 3 F.C.R. 367 (C.A.) at paragraph 13).

[5] Having reviewed the Costs Order and the submissions of all parties, in my analysis, the appeal and cross-appeal should be allowed in part and the Costs Order varied as follows:

I. Existence of a Binding Agreement

[6] This action was commenced by Merck and Astra by statement of claim dated December 19, 1996. The claim, as amended from time to time, sought various forms of relief in respect of the alleged infringement by Apotex.

[7] By its statement of defence and counterclaim, Apotex defended the action, asserting that the making, using and selling of its lisinopril formulations was non-infringing, and counterclaimed, asserting that the '350 Patent was invalid on various grounds. A further amended statement of defence and counterclaim was filed during the course of trial.

[8] Following a lengthy discovery and pre-trial process, the parties ultimately reached a negotiated, without costs settlement, filed with Hughes J. on January 9, 2006 at the opening of the trial. Apotex agreed not to pursue certain withdrawn allegations, namely sound prediction, inutility, insufficient disclosure, and obviousness (the Withdrawn Allegations). The Withdrawn Allegations were withdrawn with each party bearing its own costs.

[9] On April 26, 2006, following a lengthy trial, Hughes J. issued his reasons for holding that the '350 Patent was valid and had been infringed by Apotex. In these reasons, Hughes J. requested that the parties provide written submissions in respect of the costs to be awarded.

[10] In its costs submission, Apotex sought directions from Hughes J. as to the award of costs excluding those costs, fees and disbursements in respect of the Withdrawn Allegations and urged that the further resolution of such excluded costs ought to be by agreement of the parties or be determined by the assessment officer. Merck and Astra conceded in their submissions, that the assessment of costs should exclude costs and disbursements related to the Withdrawn Allegations.

[11] The reasons and the Costs Order made no reference to the fact that the parties had entered a binding agreement to bear their own costs in respect of the Withdrawn Allegations. In the maze of issues, it appears that Hughes J. overlooked the fact that the parties had agreed, by way of a negotiated agreement, to bear their own costs in respect of the Withdrawn Allegations.

[12] Left unvaried, the Costs Order will make Apotex accountable for costs that Merck and Astra agreed to bear themselves, in exchange for Apotex's negotiated withdrawal of the Withdrawn Allegations. Such a result would clearly be unjust.

II. Prior Interlocutory Cost Orders

[13] At paragraph 24 of his reasons for the Order, Hughes J. gave the following directions:

As earlier indicated, there were a vast number of motions, appeals and case management appearances in the file. To the extent that an Order or other disposition of any such matter specifically directed itself to costs, that specific direction will prevail. To the extent that such order or other disposition was silent as to costs, there is no order as to costs, thus no party gets costs. Where a successful party has been awarded costs and such costs have not been taxed, they are to be taxed and paid at the upper end of Column IV.

[14] There were a total of 34 interlocutory orders that awarded costs to a party (i.e. costs in the cause), without any stipulation as to scale or quantum.

[15] By virtue of Rule 407, an award of costs, without stipulation as to scale or quantum, is to be assessed in accordance with Column III. Awards such as ‘costs in the cause,’ while leaving the matter of the recipient of costs to be determined by the ultimate result of the case, do not defer to a trial judge the decision as to their scale. Once a motion judge issues an order for costs or costs in the cause without a modifier varying the general default parameters of Column III, the issue of scale is *res judicata*, subject to a motion brought pursuant to Rule 403 to vary the scale (see *Consorzio del Prosciutto di Parma v. Maple Leaf Meats Inc.*, 2002 FCA 417 at paragraphs 8 and 9 (F.C.A.); *AB Hassle v. Genpharm Inc.*, 2004 FC 892 (T.D.) at paragraph 8; *Aird Country Park Village Properties (Mainland) Ltd.*, 2005 FC 1170 at paragraph 10).

[16] Hughes J. was never seized of a motion under Rule 403 to vary any of the 34 interlocutory orders of costs to be assessed at Column III and he had no jurisdiction to elevate any of the interlocutory awards of costs, including awards of ‘costs in favour of Merck,’ ‘costs in the cause’ and ‘appeal is dismissed with costs,’ to the upper end of Column IV.

[17] In short, Hughes J. failed to take into account all relevant factors when he ordered that where a successful party has been awarded costs and such costs have not been taxed, they are to be taxed and paid at the upper end of Column IV. Accordingly, the Costs Order should be varied to provide that all costs awarded to Merck and Astra in interlocutory awards without stipulation as to

quantum or scale, including awards of costs in the cause, shall be assessed in accordance with Column III of the Tariff.

III. One Set of Costs to Each of Merck and Astra

[18] By way of cross-appeal, Merck and Astra seek to vary the Costs Order wherein Hughes J. denied them the rights to their respective costs associated with representation by their own counsel.

[19] Pursuant to subsection 55(2) of the *Patent Act*, R.S.C. 1985, c. P-4 as amended, a patentee must be a party in an action for patent infringement. This requirement is mirrored in subsection 6(4) of the *Patented Medicines (Notice of Compliance) Regulations*, S.O.R./93-133.

[20] As a result of the requirement that the patentee be a party in infringement proceedings, our courts have recognized the right of a patentee to be represented by counsel of its choice. As noted by Noël J. in *Pfizer Canada Inc. et al. v. Apotex Inc. et al.* (1997), 72 C.P.R. (3d) 379 (T.D.):

In seeking to preserve its rights as the owner of the patent in issue, the patentee is obviously entitled to be represented by counsel of its choice and I can see no basis for an order that would have the effect of taking away that right.

[21] In the present case, by order dated August 26, 1999, Desjardins J.A. of this Court allowed Merck and Astra to have separate counsel on the basis that Merck as owner of the patent is entitled to the counsel of its choice. Both counsel had undertaken to conduct their respective representations so as to avoid duplicity.

[22] Indeed, there may be many commercial reasons why a patentee may have a distinct interest in defending the validity of certain claims of a patent that may be of lesser importance to a licensee (*Aventis Pharma Inc. v. Apotex Inc.*, 2004 FC 570 (T.D.)). In this present case, Merck's interests do not directly overlap with Astra. Astra had no interest in the Canadian Patent No. 1,275,349 (the '349 Patent) raised in Apotex's improper divisional allegation, a point acknowledged at trial by Astra's counsel. Astra and Merck are also commercial competitors in Canada in regards to their respective lisinopril products.

[23] This Court has already decided, that despite raising overlapping issues, applicants in the same proceedings should not be required to share a single costs award (see *3430901 Canada Inc. v. Canada (Minister of Industry)* (1999), 177 F.T.R. 161, aff'd [2002] 1 F.C. 421(F.C.A.)).

[24] In summary, in my view, in the face of this Court's order of August 26, 1999 allowing separate counsel, Hughes J. failed to consider a relevant factor when he denied these parties their costs for separate counsel.

Conclusion

[25] In summary, the appeal should be allowed in part and the Costs Order of May 23, 2006 should be varied to provide as follows:

- (a) Merck and Astra shall have no costs including fees or disbursements directly relating to the allegations of invalidity at paragraphs 19(f), (g), (l), (m), (n), (o) and (p) of the

Amended Fresh as Amended Statement of Defence and Counterclaim dated May 25, 2005; and

- (b) Costs awarded to Merck and Astra in interlocutory orders, without further qualification, shall be taxed and paid in accordance with mid-level Column III of the *Rules*.

[26] The cross-appeals should be allowed in part and the Costs Order of May 23, 2006 should be varied to provide as follows:

- (a) Merck & Co., Inc., Merck Frosst Canada & Co., Merck Frosst Canada Ltd. on the one hand, and Syngenta Limited, AstraZeneca UK Limited and AstraZeneca Canada Inc. on the other hand shall each be entitled to claim their respective costs in the proceeding to be taxed at the upper level of Column IV for one senior and one junior counsel each.

[27] Due to the divided success, there should be no costs ordered on the appeal or cross-appeals.

"B. Malone"

J.A.

"I agree.
A.M. Linden J.A."

"I agree.
J. Edgar Sexton J.A."

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKET: A-268-06
(APPEAL FROM A JUDGMENT OF THE HONOURABLE MR. JUSTICE HUGHES DATED MAY 23,
2006 ON COSTS FILE NO. T-2792-96)

STYLE OF CAUSE: Apotex Inc. and Merck & Co., Inc., Merck Frosst Canada & Co.,
Merck Frosst Canada Ltd., Syngenta Limited, AstraZeneca UK
Limited and AstraZeneca Canada Inc.

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REASONS FOR JUDGMENT BY: Malone J.A.

CONCURRED IN BY: Linden J.A.
Sexton J.A.

DATED: October 10, 2006

APPEARANCES:

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