

CANADA / JUDGMENT

Eli Lilly and Co. v. Apotex Inc.

2003 FC 978

COURT

Federal Court

DECIDED

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Eli Lilly and Co. v. Apotex Inc. Court (s) Database Federal Court Decisions Date 2003-08-13 Neutral citation 2003 FC 978 File numbers T-1321-97 Notes Reported Decision Decision Content Date: 20030813 Docket: T-1321-97 Citation: 2003 FC 978 BETWEEN: ELI LILLY AND COMPANY and ELI LILLY CANADA INC. Plaintiffs (Defendants by Counterclaim)

- and - APOTEX INC. Defendant (Plaintiff by Counterclaim) AND BETWEEN: APOTEX INC. Defendant (Plaintiff by Counterclaim)
- and - ELI LILLY AND COMPANY and ELI LILLY CANADA INC. Plaintiffs (Defendants by Counterclaim)
- and - SHIONOGI & CO. LTD. Defendant by Counterclaim REASONS FOR ORDER ARONOVITCH P.

- [1] The plaintiffs, ("Lilly") wish to amend their statement of claim in the context of a patent infringement suit relating to the antibiotic drug cefaclor. Apotex manufactures and sells its own product, Apo-Cefaclor, in Canada. The bulk active ingredient in Apotex' cefaclor is said to be infringing by the use of the intermediate compounds or processes claimed in the eight patents at issue. It is fair to summarize the substantive matters in dispute between the parties as involving, the infringement and invalidity of the subject patents, and the alleged anti-competitive conduct of Lilly, and Shionogi, the holder of patent rights in four of the eight patents in suit.
- [2] For the most part, the proposed amendments are not contentious. The disputed amendment, is to the effect that Lilly is entitled to an award of solicitor and client costs, and exemplary damages, as a consequence of Apotex having allegedly withheld relevant documents, and failed in its discovery obligations, in the course of this proceeding. The focus of the controversy between the parties is the following paragraph sought to be added to the claim.
33. Moreover, Apotex withheld documents and details in its possession concerning the processes used by Apotex' suppliers including, but not limited to, the documents contained in its New Drug Submission for Apo-cefaclor or documents filed with the Minister of Health. Apotex' failure to disclose relevant documents prolonged the prosecution of this action and

needlessly caused the Plaintiffs to incur expense. The Plaintiffs claim that Apotex is responsible for the Plaintiffs' costs that flow from Apotex' failure to disclose relevant process documents on a solicitor and client scale and such conduct justifies an award of exemplary damages.

- [3] Lilly says that the amendment ought to be allowed as the conduct complained of is relevant to pleadings in respect of the burden of proof, as well as Lilly's claim to exemplary damages, and solicitor and client costs. Apotex opposes the amendment, arguing that the allegations contained therein do not disclose a reasonable cause of action, are irrelevant, frivolous and vexatious and will therefore not withstand a motion to strike.
- [4] It is well settled, and common ground between the parties, that amendments may be made to pleadings at any time, so long as the amendment does not give rise to prejudice that is not compensable by an award of costs. In addition, the proposed amendment is meant to be subjected to the same test as applies on a motion to strike (*Visx Inc. v. Nidek Co.*, [1996] F.C.J. No. 1721 (QL) (F.C.A) at para 16; *Eli Lilly and Co. v. Apotex Inc.*, [2002] F.C.J. No. 1304 (QL) (F.T.D.) at paras 20 to 27). Indeed, pleadings may be struck on the basis of each of the enumerated grounds under Rule 221(1) of the Federal Court Rules, 1998. These include pleadings that disclose no reasonable cause of action, are immaterial, frivolous or vexatious, or are such as to prejudice and delay the fair trial of the action. Apotex, as we have seen, invokes a number of these grounds to preclude the amendment. Burden of Proof
- [5] Lilly refers to the common law principle that, if a party that is best situated to prove or disprove a fact fails to present relevant evidence, it can lead to an inference adverse to that party. Lilly has pleaded, at paragraph 32 of its statement of claim, that information relating to the synthetic processes used by Apotex are particularly within its knowledge, are beyond the power of the plaintiffs to discover, and that the common law burden therefore falls on Apotex to prove that a non-infringing process is being used. Lilly maintains in this motion, that Apotex' alleged failure to disclose documents is relevant to its plea of the common law burden.
- [6] In support of this proposition, Lilly relies on *Hoffman La-Roche Ltd. v. Apotex Inc.* (1983), 71 C.P.R. (2d) 20 (Ont. H.C.), *aff'd* 1 C.P.R. (3d) 507 (C.A.), leave to appeal denied, 2 C.P.R. (3d) 431 (S.C.C.). In that case, counsel for Apotex instructed its supplier in Italy not to divulge certain relevant information. The Court held that Apotex was best situated to present that evidence, and that its failure to disclose the evidence led to an inference unfavourable to Apotex. In other words, the burden of proof shifted to Apotex, and Apotex failed to discharge it. Lilly relies on the below comment of the Court in *Hoffman La-Roche* having to do with Apotex' instructions to its supplier not to divulge information. Therefore, in a case such as this where the plaintiff holds a process patent and the defendant is granted a compulsory licence, the onus shifts to the defendant to show that the supplier he selects abroad does not use the plaintiff's patented process. The defendant of the two parties involved is the only one having any real opportunity of determining the actual foreign process being employed. This is particularly so as the defendant and its solicitor instructed

the foreign supplier not to divulge any information on its manufacturing process to the plaintiff's solicitor. (emphasis added)

- [7] Hoffman La-Roche does not have the effect suggested by Lilly, in this case. First, assuming that Apotex is best situated to present certain evidence and that the burden of proof should shift accordingly, it would do so on the basis of the unavailability of the evidence and Apotex' special knowledge of the process at issue, not on the basis of its conduct. To the extent that the Court, in Hoffman La-Roche, took into account the instructions of Apotex' solicitor not to disclose information, the present case is distinguishable, as in this case, Apotex did eventually disclose the evidence in question. I fail to see how the former unavailability of the process information can be taken into account in shifting the burden of proof. I conclude therefore, that there is not a subsisting legal issue related to the burden of proof left to which Apotex' failure to disclose may be relevant. Exemplary Damages
- [8] Apotex submits that, unlike costs, exemplary damages are awarded to sanction, the malicious, vicious or oppressive conduct of a party in the course of committing the legal wrong that is the subject-matter of the litigation. Inappropriate conduct in the course of litigation may justify an elevated award of costs, says Apotex, but it cannot be used as a basis for claiming exemplary or punitive damages. Such damages are awarded to sanction a party's egregious conduct giving rise to the litigation. In support of these propositions, Apotex relies on numerous cases, including *Olson v. (New Home Certification Program) Alberta*, [1986] A.J. No. 347 (QL) (Q.B.); *Waters v. MTI Canada Ltd.* (1996), 19 C.C.E.L. (2d) 24 (Ont. Gen. Div.); and *Millar v. General Motors of Canada*, [2002] O.J. No. 2769 (QL) (S.C.). Apotex further urges that a party cannot be entitled to both exemplary damages and solicitor and client costs for the same alleged conduct, it constituting an impermissible double recovery.
- [9] On the matter of double recovery, I take Lilly's point that it may be justifiable to award both exemplary damages and solicitor and client costs on the same factual basis. As M. Orkin explains in his treatise, "The Law of Costs", [2nd ed. (Aurora: Canada Law Book Inc.) at 2-172, 2-173] ... the two issues are legally distinct or, putting it another way, the issue of indemnifying a plaintiff for legal costs is sufficiently distinct from punishing a defendant for misconduct... Consequently, depending on the circumstances, courts have not hesitated to award solicitor-and-client costs in addition to an award of exemplary, or aggravated, or punitive damages. Conversely, to deny a plaintiff punitive damages does not justify a denial of solicitor-and-client costs: the issues are distinct. [footnotes omitted]
- [10] Orkin's view is confirmed in the Ontario Court of Appeal decisions in *Ross v. Lamport* (1957), 9 D.L.R. (2d) 585 (C.A.) ("Ross") and *Leenen v. Canadian Broadcasting Corp.* (2001), 54 O.R. (3d) 612 (C.A.) ("Leenen"). I am satisfied that a potential for double recovery is not in itself a valid ground to strike the pleadings in question.

- [11] That said, I conclude on a review of the jurisprudence, that Apotex' alleged misconduct in the discovery process, is not of a kind or character to attract an award of exemplary damages. Such damages were indeed awarded in Ross, and Leenen, inter alia, for the defendants' conduct in the course of the litigation. The cases however are clearly distinguishable. Both were libel cases, where the award of punitive or "aggravated damages" reflected the Court's strong condemnation of the defendant's conduct. In Leenen, there "was never an apology or withdrawal of the libel; rather to the very end and throughout the trial, there was an uncompromising defence of the activities of the defendants". The Court found that, the defendants in the course of the proceedings, conducted themselves in a manner to "heighten Dr. Leenen's anxiety and delay his opportunity to clear his name". As with Ross, this conduct constituted an aggravation of the original injury to the plaintiff and essentially formed part of the cause of action.
- [12] The factual situation in *Hill v. Church of Scientology of Toronto*, [1995] 2 S.C.R. 1130, resembles that in Ross. The defendants in that case persisted in their defamatory statements throughout the trial. The Supreme Court justified an award of aggravated damages, explaining the applicable principles as follows (at para. 191): There are a number of factors that a jury may properly take into account in assessing aggravated damages. For example, was there a withdrawal of the libellous statement made by the defendants and an apology tendered?.. The jury may also consider whether there was a repetition of the libel, conduct that was calculated to deter the plaintiff from proceeding with the libel action, a prolonged and hostile cross-examination of the plaintiff or a plea of justification which the defendant knew was bound to fail.
- [13] It is evident, that where the cause of action is grounded in the defendant's libellous statements, the defendant's conduct during litigation, may continue, or aggravate the original injury, increasing the humiliation and anxiety suffered as a result of being defamed. In those cases the assessment of aggravated damages, which are compensatory in nature, "requires consideration by the jury of the entire conduct of the defendant prior to the publication of the libel and continuing through to the conclusion of the trial" (*Hill v. Church of Scientology* at p. 1205). The same factors are present and were persuasive to the Court in *Atlas Janitorial Services Co v. Germanis* 53 C.P.R. (3d) 1 on which Lilly relies. Punitive damages were awarded in that case, for "high-handed and subversive" conduct, that aggravated the breach of a restrictive covenant on which the plaintiff had sued.
- [14] Such is not the case at bar. The underlying action, is on account of patent infringement. Apotex' alleged failure to disclose relevant documents such as to needlessly prolong the prosecution of this action and cause the plaintiffs to incur expense, is not a means, aggravation or continuation, of the alleged infringement. Any delay and additional expense Lilly incurred in prosecuting the action can be compensated by an award of costs. This is not conduct that can ground an award of punitive or exemplary damages.

- [15] I would add that *Apotex Inc. v. Merck & Co.*, unreported, March 5, 1999, Court File T-294-96 (F.C.T.D), does not assist Lilly. In that case, Reed J. allowed an amendment to the statement of defence to add a counterclaim to plead violation by Apotex of an injunction earlier imposed by the Court, in another proceeding. The Court accepted, in that case, that the breach of the injunction was relevant to properly asserted claims for a declaration and exemplary damages. Solicitor and Client Costs
- [16] In contrast to the issue of damages, it is not disputed that the allegations contained in paragraph 33, may be relevant to the issue of costs. The further question is whether such relevance, is sufficient to justify the presence of this paragraph in the pleadings.
- [17] The defendant maintains that pleadings should not contain allegations which are only relevant to the issue of costs, as facts and allegations related to the parties' conduct during litigation, do not form part of the subject matter that gives rise to the litigation, in other words, do not form part of the *lis* between the parties but are a matter for determination following adjudication of the substantive issues on the merits.
- [18] Lilly, on the other hand, contends that pleadings related to costs are not unnecessary or inappropriate: where costs are claimed by a party, it becomes one of the issues to be decided in the proceedings. By including the relevant facts in the pleadings, Lilly says it is putting Apotex on notice that its conduct during litigation will be the basis for Lilly's claim for costs. Moreover, Lilly submits that the appropriateness of pleadings relevant to costs may be regarded as a contentious legal issue, and as such should not be determined on a motion to strike. (*Apotex Inc. v. Glaxo Group Limited and Glaxo Wellcome Inc.*, 2001 F.C.T. No. 1351).
- [19] As to whether the issue is truly contentious, on close scrutiny, I find the conflict in the jurisprudence more apparent than real. The following judgments are fundamental to the debate. *Bonner v. Day* (1985), 49 O.R. (2d) 268 (Ont. H.C.) ("*Bonner*"); *Royal Bank of Canada v. Fogler, Rubinoff* (1985), 3 C.P.C. (2d) 248 (Ont. H.C.) ("*Royal Bank of Canada*"); and *A.I. MacFarlane & Associates v. Delong* (1986), 10 C.P.C. (2d) 25 (Ont. H.C.) ("*A.I. MacFarlane*").
- [20] *Bonner*, has been relied upon to support the proposition that conduct merely giving rise to costs may be pleaded. Interestingly, the issue in that case was as to whether the pleadings could include facts relevant to prejudgment interest. Rosenberg J. decided that the plaintiffs' entitlement to prejudgment interest was a material issue in dispute, and therefore pleadings relevant to it should be allowed to stand. This was followed by the *Royal Bank of Canada*, where the defendant was trying to plead facts related to the plaintiff's motive in bringing the action, as relevant to the issue of solicitor and client costs. Potts J. affirmed the decision of Master Sandler to allow such pleadings. *Bonner* was cited as the only helpful precedent.
- [21] In *A.I. MacFarlane*, the issue was the same as in *Royal Bank of Canada*: the defendant's pleadings contained an allegation of the plaintiff's motive in bringing the action and a related claim for solicitor-client costs. McRae J. did not feel bound by *Royal Bank of Canada*, and struck that offending pleadings, explaining his rationale as follows (at p. 27): It seems to me that to permit a pleading which is only relevant to the issue of costs, whether it be

solicitor and client costs, or party and party costs, would be a dangerous precedent. Costs are not an issue and are not part of the lis between the parties but are a separate matter to be decided after all of the issues have been settled.

- [22] The Court's preference for the reasoning of McRae J. in *A.I. MacFarlane* was subsequently confirmed in numerous decisions including: *Delray Development Corp. v. Rexe* (1986), 13 C.P.C. (2d) 133 (Ont. H.C.), *Wood Gundy Inc. v. Financial Trustco Capital Ltd.* (1988), 26 C.P.C. (2d) 274 at 290 (Ont. H.C.), *Drexler v. State Farm Mutual Automobile Insurance Co.*, [1995] O.J. No. 899 (QL) (Ont. Gen.Div.) and most recently in *Rundle v. Kruspe*, [1998] O.J. No. 899 (QL) (Ont. Gen.Div.). Having discussed the conflicting authorities the Court also preferred to follow *A.I. MacFarlane* in *Four Twenty-Seven Investments Ltd. (Trustee of) v. Ryan*, [1988] O.J. No. 244 (QL) (Ont. H.C.). Notably, the judge in that case was Rosenberg J., who did not consider it helpful to refer to his own decision in *Bonner*.
- [23] The jurisprudence of this Court references the two lines of cases. In *Starline Agencies Inc. v. MacIntosh Graphics Inc.* (1988), 24 C.P.R. (3d) 263 (F.T.D.), Giles A.S.P. noted that he was unable to reconcile the holdings in *Royal Bank of Canada* and *A.I. MacFarlane*, but nevertheless struck the pleadings at issue before him, not convinced that they were relevant even to the issue of costs. In *Imperial Tobacco Ltd. v. Rothmans, Benson & Hedges Inc.*, [1998] F.C.J. No. 1085 (QL) (T.D.), Reed J. noted that the jurisprudence relating to pleadings regarding costs was "somewhat unsettled" (at para. 9) and struck the pleadings in that case, on the basis the Court was not persuaded that the alleged facts could be properly pleaded at that stage, even if they were relevant to the issue of costs. In that judgment, Reed J. alludes to two decisions of this Court which, without reference to the two lines of cases, nevertheless disallowed pleadings, as improper, that alleged the motive of the plaintiff, or raised issues that were relevant only to costs. (*Norac Systems International Inc. v. Massload Technologies Inc.* (1996), 70 C.P.R. (3d) 88 (F.C.T.D.), *Nolan v. Silex International Chemical Systems Inc.*, [1994] F.C.J. No. 1599). In the latter decision, Richard J. as he then was, made the point that the issue was best left to be dealt with by the Court following determination of the issues in the action.
- [24] Costs are typically awarded to compensate parties for the costs of the litigation. As with Rule 57.01(1) of the Ontario Rules of Civil Procedure, referred to by Master Donkin in *Delray Development Corp.*, Rule 400(3) of the Federal Court Rules, describes the factors to be taken into consideration by the Court in awarding costs. They include, "the result of the proceeding", "the amounts claimed and the amounts recovered" and "the apportionment of liability" - matters that can only be determined when the substantive part of the trial is over. This fortifies the presumption against pleadings relating exclusively to costs, in that these are not matters for trial, but are properly dealt with in the aftermath of the adjudication of the substantive allegations on their merits.
- [25] Considering these authorities in their totality, and being mindful of the specific context of the Federal Court Rules and the broader principles governing their practice, I conclude that the judgment in *A.I. MacFarlane* is the prevailing and correct view of the law, and that

allegations of facts that are relevant only to costs, and are immaterial to the substantive issues in dispute, are not appropriate for pleading. Indeed while cases still reference Bonner, and the conflicting opinions expressed in Royal Bank of Canada and A.I. MacFarlane, the preponderance have resoundingly resolved the conflict in favour of the latter.

- [26] I share the view that it is not procedurally just or expedient to allow matters unrelated to the lis, and going exclusively to an entitlement of costs to detract from the substantive issues to be decided at trial. To allow such pleading to stand, is to invite grievances as to a party's conduct, to become a basis to amend allegations of fact, as these grievances arise, thereby engendering delays and potentially, needlessly, expanding the ambit of discoveries.

Conclusion

- [27] In sum, I find that the allegations contained in paragraph 33 of Lilly's proposed statement of claim are not relevant or material to the legal burden of proof in the underlying action. Nor are the allegations sufficient to ground a claim for exemplary damages. While the allegations may be relevant to costs, I conclude that leave should be denied as it pertains to the impugned allegations. They are immaterial to the substantive issues for determination at trial, will only serve to colour the pleadings, and will detract from, and delay the disposition of the proceeding on the merits. An order will go accordingly. "Roza Aronovitch"
Prothonotary FEDERAL COURT NAMES OF COUNSEL AND SOLICITORS OF RECORD
DOCKET:T-1321-97 STYLE OF CAUSE:Eli Lilly and Company and other
- and - Apotex Inc. and others PLACE OF HEARING:Ottawa, Ontario DATE OF HEARING:April 30, 2003 REASONS FOR ORDER:MADAM PROTHONOTARY ARONOVITCH DATED:August 13, 2003 APPEARANCES: Mr. Patrick Smith and Ms. Kristi Rowe FOR THE PLAINTIFFS Mr. David Scrimger Mr. A. David Morrow and Mr. Colin Ingram FOR THE DEFENDANT (Apotex Inc.) FOR DEFENDANT (Shionogi & Co. Ltd.) SOLICITORS OF RECORD: Gowling Lafleur Henderson LLP, Ottawa, Ontario FOR THE PLAINTIFFS Goodmans, Toronto, Ontario Smart & Biggar, Ottawa, Ontario FOR THE DEFENDANT (Apotex Inc.) FOR DEFENDANT (Shionogi & Co. Ltd.)

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