

Date: 20080513

Docket: A-419-07

Citation: 2008 FCA 175

**CORAM: LINDEN J.A.
NOËL J.A.
RYER J.A.**

BETWEEN:

APOTEX INC.

Appellant

and

**SANOFI-AVENTIS CANADA INC. and
SCHERING CORPORATION**

Respondents

AND BETWEEN:

APOTEX INC.

Appellant

and

**SANOFI-AVENTIS CANADA INC.,
SCHERING CORPORATION,
SANOFI-AVENTIS DEUTSCHLAND GmbH and
RATIOPHARM INC.**

Respondents

Heard at Toronto, Ontario, on May 7, 2008.

Judgment delivered at Toronto, Ontario, on May 13, 2008.

REASONS FOR JUDGMENT BY:

RYER J.A.

CONCURRED IN BY:

**LINDEN J.A.
NOËL J.A.**

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REASONS FOR JUDGMENT

RYER J.A.

[1] The matters before the Court in this interlocutory appeal relate to an action (T-161-07) (the “Infringement Action”) commenced by way of a statement of claim by Sanofi-Aventis Canada Inc. (“Sanofi Canada”) and Schering Corporation (“Schering”) against Apotex Inc. (“Apotex”), alleging that Apotex infringed Canadian Letters Patent No. 1,341,206 (the “’206 Patent”).

[2] Schering is the patentee of the ’206 Patent, under which the compound known as ramipril is claimed. Sanofi Canada markets Altace, a drug containing ramipril, under a licence with Schering.

[3] In the Infringement Action, the plaintiffs allege that Apotex has infringed the ’206 Patent by marketing its product, Apo-Ramipril, and claim a declaration of infringement, injunctive relief restraining infringement and damages or, in the alternative, an accounting of profits arising out of the infringement.

[4] Apotex filed a statement of defence in the Infringement Action in which it alleges the invalidity of the ’206 Patent and denies the alleged infringement. In addition, in paragraphs 7(c), 15 and 16 of the statement of defence (the “Improper Conduct Pleadings”), Apotex denies the entitlement of the plaintiffs to an accounting of profits on the basis of inequitable and unlawful conduct on the part of the plaintiffs in entering into arrangements and agreements with ratiopharm inc. (“ratiopharm”) and others for the primary purpose of causing harm to Apotex, by way of unlawful anti-competitive activity.

[5] Apotex also filed a counterclaim in the Infringement Action, in which it claims damages and other relief against Sanofi Canada and Schering, as well as Sanofi-Aventis Deutschland GmbH ("Sanofi Germany") and ratiopharm who were added to the action as defendants by counterclaim. Paragraphs 73 to 120 of the counterclaim (the "Second Conspiracy Pleadings") describe one basis for the counterclaim. Those paragraphs spell out the inequitable and unlawful conduct that underpins the Improper Conduct Pleadings, including the agreement, described by Apotex as the "Pseudo-Generic Agreement", under which Sanofi Canada agreed to supply ramipril to ratiopharm for resale in Canada under the trade name ratio-ramipril.

[6] It is common ground that the subject matter of the counterclaim is also a part of an action that Apotex commenced in the Ontario Supreme Court, in 1999 (the "Ontario Action"), against a number of parties, including the predecessors of Sanofi Canada and ratiopharm, but not including Schering and Sanofi Germany. The Ontario Action remains outstanding and is apparently not proceeding quickly.

[7] The appeal before us is from an interlocutory order of Hughes J. (the "motions judge") of the Federal Court (2007 FC 907) dated September 12, 2007, striking out the portion of the statement of defence containing the Improper Conduct Pleadings as against Sanofi Canada and granting a stay of the portion of the counterclaim containing the Second Conspiracy Pleadings as against Sanofi Canada and Sanofi Germany.

[8] The motions judge also conducted a *de novo* review of an Order of Prothonotary Morneau, dated July 20, 2007, in which a stay (the "ratiopharm Stay") of the portion of the counterclaim containing the Second Conspiracy Pleadings as against ratiopharm was granted. Apotex is not appealing this decision of the motions judge.

The Motion to Strike

[9] The motions judge observed that the Improper Conduct Pleadings portion of the statement of defence, if successful, would deprive Sanofi Canada of its claim for equitable relief in the form of an injunction and/or an accounting of profits from the alleged infringement. He then went on to conclude, notwithstanding that none of the parties raised the issue, that Sanofi Canada was not entitled to claim any equitable relief in respect of the alleged infringement because it was a mere licensee of the '206 Patent.

[10] The motions judge then proceeded to review the jurisprudence with respect to improper conduct defences in intellectual property proceedings. After reviewing the decisions in *RBM Equipment Ltd. v. Philips Electronics Industries Ltd.* (1973), 9 C.P.R. (2d) 46 (F.C.A.); *Eli Lilly & Co. et al. v. Marzone Chemicals Ltd. et al.* (1976), 29 C.P.R. (2d) 255 (F.C.A.); *Procter & Gamble Co. v. Kimberly-Clark of Canada Ltd.* (1990), 29 C.P.R. (3d) 545 (F.C.A.); *Visx Inc. v. Nidek Co.* (1994), 58 C.P.R. (3d) 51 (F.C.T.D.); and *Volkswagen Canada Inc. v. Access International Automotive Ltd.* (C.A.), [2001] 3 F.C. 311, the motions judge stated, at paragraph 35, as follows:

[35] I conclude from these decisions that a pleading in a defence which raises, as a defence, unlawful conduct such as that in contravention of the *Competition Act* must relate to the acquisition of title to the patent or other intellectual property right, or to a claim for equitable relief or both.

[11] Applying his conclusion to the circumstances that were before him, the motions judge noted that Schering, not Sanofi Canada, holds title to the '206 Patent and reiterated his earlier conclusion that Sanofi Canada, as a mere licensee of the '206 Patent, was not entitled to claim equitable relief in the Infringement Action. It followed, in his view, that because the Improper Conduct Pleadings were raised as a defence to a claim that Sanofi Canada was not entitled to make, that portion of the statement of defence had to be struck out as against Sanofi Canada.

[12] It is apparent that the underpinning of the decision of the motions judge to strike out the Improper Conduct Pleadings portion of the statement of defence is his determination that the status of Sanofi Canada as a licensee, rather than a patentee, disqualified it from claiming equitable relief in the Infringement Action. In my view, this determination, which the parties agree was made without the benefit of arguments from them, is unsupportable.

[13] In the Infringement Action, Sanofi Canada is seeking equitable relief in the form of injunctions restraining the alleged infringement by Apotex and an accounting for profits in respect of the allegedly infringing activities. Both of these forms of equitable relief have been granted to licensees. (See *Fiberglass Canada Ltd. et al. v. Spun Rock Wools Ltd. et al.* (1947), 6 C.P.R. 57 (P.C.); *Domco Industries Ltd. v. Armstrong Cork Canada Ltd. et al.* (1980), 47 C.P.R. (2d) 1 at 9-10 (F.C.T.D.), aff'd on other grounds (1980), 54 C.P.R. (2d) 155 (F.C.A.), aff'd (1982), 66 C.P.R. (2d) 46 (S.C.C.); *Windsurfing International Inc. et al. v. Trilantic Corporation (Now BIC Sports Inc.)* (1985), 8 C.P.R. (3d) 241 at 244 and 268-269 (F.C.A.); *Monsanto Canada Inc. v. Schmeiser* (2001),

12 C.P.R. (4th) 204 at paras. 129-140 (F.C.T.D.), aff'd (2002), 21 C.P.R. (4th) 1 (F.C.A.), allowed in part (2004), 31 C.P.R. (4th) 161 (S.C.C.); *Wellcome Foundation Ltd. v. Apotex Inc.* (1998), 82 C.P.R. (3d) 466 at paras. 468-471 (F.C.T.D.), aff'd (2001), 11 C.P.R. (4th) 218 (F.C.A.); *Lubrizol Corp v. Imperial Oil Ltd.* (1992), 45 C.P.R. (3d) 449 at 452-453 and 479 (F.C.A.); and *Beloit Canada Ltd. v. Valmet-Dominion Inc.* (1997), 73 C.P.R. (3d) 321 at 326 and 369-370 (F.C.A.).

[14] The issue then is whether, and in what circumstances, improper conduct on the part of a claimant of equitable relief will be a sufficient basis upon which a court can deny the requested relief. This issue has been considered by this Court in *Volkswagen*, in which Sharlow J.A. stated:

[21] . . . An unclean hands defence can be made out if, but only if, there is a sufficient connection between the subject-matter of the claim and the equitable relief sought.

[25] *Visx* and *Procter & Gamble* are two examples in which the alleged breaches of the *Competition Act* by a patent holder did not cast any shadow on the patent rights themselves. Therefore, there was no relationship between the alleged unlawful behaviour and the equitable remedy sought by the patent holder that could support an unclean hands defence.

[15] In *Visx*, Justice Rothstein stated, at page 53:

It is apparent that it is not any alleged inappropriate conduct of a party that may be relevant in the consideration of whether or not to grant equitable relief. The inappropriate conduct must relate directly to the subject matter of the plaintiff's claim.

In the case at bar, it may be alleged that the plaintiff should not collect royalties in the way it is alleged it does. Or it may be that its conduct is contrary to certain provisions of the *Competition Act*. However, even if the plaintiff is acting inappropriately, such actions do not relate directly to the plaintiff's patent or whether the defendants are infringing that patent. There is no suggestion that the patent is invalid or otherwise cannot form the basis of a patent infringement action; nor is it suggested that these allegations, in some way, indicate there is no patent infringement. It has not been demonstrated that such conduct is directly related to the plaintiff's claim.

[16] These cases indicate that a party claiming equitable relief will not be disentitled to that relief by virtue of inappropriate conduct on its part unless that conduct relates directly to the subject matter of that party's claim and the equitable relief sought. In the instant circumstances, the party that is alleged to have engaged in improper conduct, Sanofi Canada, is claiming equitable relief in respect of an alleged infringement of its rights in respect of the '206 Patent by Apotex. Thus, the issue becomes whether the alleged improper conduct on the part of Sanofi Canada is related to its rights in respect of the '206 Patent that formed the basis of the claim of infringement by Apotex and the equitable remedy sought by Sanofi Canada in respect of such claim. This analysis requires a consideration of the alleged improper conduct and in the context of a motion to strike, the facts alleged in that regard must be taken as having been proved.

[17] What then is the alleged improper conduct that Sanofi Canada must be taken to have engaged in? Apotex states that the facts that pertain to the Second Conspiracy Pleadings are contained in paragraphs 73 – 120 of the counterclaim. The substance of those paragraphs is to the effect that by granting ratiopharm a right to market ratio-ramipril, Sanofi Canada, in conjunction with Sanofi Germany and Schering, permitted ratiopharm to become a new supplier of ramipril in the Canadian market that would compete with Apotex in its proposed marketing of Apo-Ramipril, thereby causing Apotex to lose potential sales of Apo-Ramipril.

[18] The impugned conduct that Sanofi Canada must be taken to have engaged in is simply its granting, in conjunction with, or with the support of, Sanofi Germany and Schering, to ratiopharm

of rights to distribute ramipril in Canada. That conduct may or may not have been proper.

Assuming, for the purposes of the motion to strike, that such conduct was in fact improper, I am unable to conclude that such conduct on the part of Sanofi Canada casts a shadow over its rights in respect of the '206 Patent. Moreover, such conduct sheds no light at all on the question of whether, by marketing Apo-Ramipril, Apotex has infringed the '206 Patent. Accordingly, I am of the view that there is no relationship between the alleged improper conduct on the part of Sanofi Canada and the equitable relief it seeks in the statement of claim, that would justify the Improper Conduct Pleadings.

[19] For these reasons, I am of the view that it is "plain and obvious" that the Improper Conduct Pleadings portion of the statement of defence discloses no reasonable defence to the claim of infringement of the '206 Patent and therefore, that defence cannot succeed as against Sanofi Canada. Accordingly, I would agree with the conclusion of the motions judge that the Improper Conduct Pleadings portion of the statement of defence should be struck out as against Sanofi Canada.

The Motion to Stay

[20] While the decision of the motions judge in relation to the ratiopharm Stay is not under appeal, it is nonetheless appropriate to refer to the reasoning of the motions judge in that regard, inasmuch as his reasoning in relation to that matter is informative of his reasoning in relation to the stay motion that was brought by Sanofi Canada and Sanofi Germany.

[21] In accordance with subsection 50(1) of the *Federal Courts Act*, R.S.C. 1985, c. F-7, the Federal Court has the discretion to stay proceedings in any cause or matter. That provision reads as follows:

<p>50.(1) The Federal Court of Appeal or the Federal Court may, in its discretion, stay proceedings in any cause or matter</p> <p>(a) on the ground that the claim is being proceeded with in another court or jurisdiction; or</p> <p>(b) where for any other reason it is in the interest of justice that the proceedings be stayed.</p>	<p>50. (1) La Cour d'appel fédérale et la Cour fédérale ont le pouvoir discrétionnaire de suspendre les procédures dans toute affaire :</p> <p>a) au motif que la demande est en instance devant un autre tribunal;</p> <p>b) lorsque, pour quelque autre raison, l'intérêt de la justice l'exige.</p>
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[22] In exercising his discretion to grant the Ratiopharm Stay, the motions judge concluded that the Ontario Action covers the same claim of relief as against Ratiopharm as that contained in the Second Conspiracy Pleadings portion of the counterclaim in the Infringement Action, thus concluding, in my view, that the ground in paragraph 50(1)(a) of the *Federal Courts Act* had been made out. In paragraph 23 of his reasons, the motions judge stated:

[23] The Counterclaim as against Ratiopharm, if allowed to continue would result, in that party being "twice vexed" in the Federal Court and the Ontario Court, a matter considered as an abuse of process by the Supreme Court of Canada in *Toronto (City) v. CUPE, Local 79*, [2003] 3 SCR 77. There is no prejudice to Apotex. It has its longstanding Ontario action available for seeking the same relief against Ratiopharm. The Stay of the Counterclaim against Ratiopharm does not impact upon its Defence in the Federal Court action since Ratiopharm is not a party to the main action.

[23] Apotex contends that the motions judge erred by basing his decision to grant the stay to Sanofi Canada and Sanofi Germany solely on the basis that Apotex has commenced duplicative proceedings. In my view, paragraph 23 of the motions judge's reasons says much more than that there is a mere duplication of proceedings in relation to the ratiopharm Stay. First, by stating that ratiopharm was "twice vexed", the motions judge concluded that ratiopharm suffered prejudice or, at the very least, annoyance, by virtue of having to contest the same matter in two forums. Secondly, the motions judge concluded that the stay, as against ratiopharm, would cause no prejudice to Apotex in that it would continue to be able to pursue its claim against ratiopharm in the Ontario Action, the same claim that is made in the Second Conspiracy Pleadings portion of the counterclaim.

[24] While paragraphs 26 and 27 of the motions judge's reasons do not repeat what was said in paragraph 23, he clearly held that the counterclaim in the Infringement Action raises the same allegations and claims the same relief as those that are contained in the Ontario Action. In my view, the reference to the "duplicative" nature of the counterclaim demonstrates a clear understanding on the part of the motions judge that Sanofi Canada and Sanofi Germany would be as "vexed" by the Second Conspiracy Pleadings portion of the counterclaim, as was ratiopharm, in the sense of having to devote additional time and attention to the duplicative action represented by that portion of the counterclaim.

[25] Paragraph 23 of the motions judge's reasons also referred to the lack of any prejudice to Apotex from the granting of the ratiopharm Stay, in that the Ontario Action continues to provide a

forum in which the same relief claimed in the Second Conspiracy Pleadings portion of the counterclaim is available to Apotex. This reason for the granting of the ratiopharm Stay similarly underpins the reasoning of the motions judge in paragraphs 26 and 27 in which he observed that it was open to Apotex to join Sanofi Germany as a party to the Ontario Action if necessary.

Accordingly, I reject the contention that in exercising his discretion to grant the stay as against Sanofi Canada and Sanofi Germany, the motions judge focused only on the duplicative nature of the Second Conspiracy Pleadings portion of the counterclaim.

[26] Apotex contends that if a stay of either of the two proceedings is warranted, it should be the Ontario Action that is stayed. In my view, this contention cannot be accepted. The motions judge was obviously without jurisdiction to grant such a stay and was obliged to deal with the issue that was before him. That is what he did, and in the exercise of his discretion to grant the stay as against Sanofi Canada and Sanofi Germany, I am not persuaded that he made any error that would warrant intervention by this Court.

[27] In upholding the motions judge with respect to his decision to grant the stays of the Second Conspiracy Pleadings portion of the counterclaim as against Sanofi Canada and Sanofi Germany, I would observe the obvious: that portion of the counterclaim has not been struck out; it has only been stayed. It follows that it is open to Apotex to move to lift the stays if the present circumstances change at some future time.

Schering

[28] Before this Court, Schering argues that the motions judge erred by not extending his orders striking the Improper Conduct Pleadings portion of the statement of defence and staying the Second Conspiracy Pleadings portion of the counterclaim to cover Schering, notwithstanding that Schering was not a party to the stay motion that was brought before him. In so deciding, the motions judge invited Schering to bring its own motion given that Apotex was unwilling to consent to the inclusion of Schering in the motion that was brought by Sanofi Canada. In my view, this was a proper exercise of discretion on the part of the motions judge that warrants no intervention from this Court.

DISPOSITION

[29] For the foregoing reasons, I would dismiss the appeals with costs to Sanofi Canada but not to Schering.

"C. Michael Ryer"

J.A.

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

"I agree.
Marc Noël J.A."

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKET: A-419-07

(APPEAL FROM AN ORDER OF THE HONOURABLE MR. JUSTICE HUGHES OF THE FEDERAL COURT DATED SEPTEMBER 12, 2007, AS PER DOCKET FILE NO. T-161-07)

STYLE OF CAUSE: APOTEX INC. v. SANOFI-AVENTIS CANADA INC. and SCHERING CORPORATION

AND BETWEEN:

APOTEX INC. v. SANOFI-AVENTIS CANADA INC.,
SCHERING CORPORATION, SANOFI-AVENTIS
DEUTSCHLAND GmbH and RATIOPHARM INC.

PLACE OF HEARING: Toronto, Ontario

DATE OF HEARING: May 7, 2008

REASONS FOR JUDGMENT BY: RYER J.A.

CONCURRED IN BY: LINDEN J.A.
NOËL J.A.

DATED: May 13, 2008

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