Federal Court of Appeal | Cour d'appel fédérale

Date: 20210311

Docket: A-390-18
A-391-18

Citation: 2021 FCA 54

CORAM: **RENNIE J.A.**
DE MONTIGNY J.A.
GLEASON J.A.

Docket: A-390-18

BETWEEN:

APOTEX INC.

Appellant

and

SHIRE LLC and SHIRE PHARMA CANADA ULC

Respondents

Docket: A-391-18

AND BETWEEN:

APOTEX INC.

Appellant

and

SHIRE PHARMA CANADA ULC, SHIRE LL C and THE MINISTER OF HEALTH

Respondents

Heard at Ottawa, Ontario, on December 15 and 16, 2020.

Judgment delivered at Ottawa, Ontario, on March 11, 2021.

REASONS FOR JUDGMENT BY: RENNIE J.A.

CONCURRED IN BY: DE MONTIGNY J.A.
GLEASON J.A.

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REASONS FOR JUDGMENT

RENNIE J.A.

[1] Apotex Inc. appeals from a judgment of the Federal Court (2018 FC 1106, *per* Fothergill J.) (the *Decision*) awarding Shire ULC $1,000,000 in costs and $600,000 in disbursements following its success at trial on a patent infringement action and ancillary Patented Medicines (Notice of Compliance) prohibition application (*Apotex Inc. v. Shire LLC*, 2018 FC 637).

[2] For the reasons that follow, I would allow the appeal in part.

[3] The Notice of Compliance (NOC) application and patent impeachment action concerned the drug L-lysine-d-amphetamine (LDX), patented under Canadian Patent 2,527,646 (CA 646). LDX is a sustained-release prodrug that provides for an abuse-resistant release of amphetamine into the body.

[4] The judge concluded the asserted claims of CA 646 were valid. The application for prohibition was granted, prohibiting the Minister of Health from issuing Apotex an NOC for its proposed LDX containing the generic drug, Apo-Lisdexamfetamine, until after the expiration of CA 646. The appeal from those decisions was dismissed by judgment and reasons cited as 2021 FCA 52.

[5] In the subsequent hearing before the Federal Court judge to assess costs, Shire requested that costs be assessed in a lump sum, fixed at 50% of the actual legal fees incurred plus

disbursements. Shire submitted a Bill of Costs for $3,468,984.18 for legal fees and $828,570.97 for disbursements. Applying the 50% reduction, Shire sought costs of $1,734,492.09. Apotex, in turn, contended that an award of $134,182.56, inclusive of disbursements was appropriate. This represented a 25% reduction from Tariff values calculated at the mid-point of Column IV.

[6] Shire's claim for disbursements included payments made to four of its expert witnesses, only two of whom testified at trial. It also included payments made to two fact witnesses, one of whom had a particularly high hourly rate due to his position as chief executive officer of a publicly-traded pharmaceutical company. The disbursement claim also included costs related to Apotex's discovery of the eight inventors of CA 646, who were not employees of Shire at the time they were examined at Apotex's request.

[7] The judge decided that a lump sum award was appropriate. He noted that lump sum awards are specifically contemplated by Rule 400(4) of the *Federal Courts Rules* and may be particularly appropriate in complex matters where a precise calculation of costs would be unnecessarily complicated and burdensome (*Nova Chemicals Corporation v. Dow Chemical Company*, 2017 FCA 25 at para. 12 (*Nova Chemicals*)). Again, citing *Nova Chemicals* at para. 21, the judge noted that the determination of a lump sum award was not an exact science, but reflects the amount the Court considers to be a reasonable contribution to the successful party's actual legal fees (*Decision* at para. 28).

[8] The judge noted that Shire enjoyed a high level of success in the proceedings, but that its counterclaim was dismissed, and that Apotex had pursued a dual litigation tactic that had added

some cost and complexity to the proceedings. The judge was unwilling to limit the assessment of legal fees to solely one senior counsel and one junior counsel at trial and examinations for discovery given the complexity of the proceeding and the relative parity between the number of lawyers employed by both sides.

[9] The judge concluded that these considerations balanced out and that the usual partial indemnity rate used in pharmaceutical patent litigation was appropriate; one-third of costs actually incurred (*Philip Morris Products S.A. v. Marlboro Canada Limited*, 2015 FCA 9 at para. 6 (*Philip Morris Products S.A.*)). Rounded down, this equalled $1,000,000.

[10] Although the judge had reservations that some of the disbursements requested by Shire seemed inordinately high and that others were unsupported by invoices, he elected, "[f]or the sake of simplicity", to set disbursements at $600,000 (*Decision* at para. 32). The judge allowed the fees for all four expert witnesses to be included as disbursements as their services were not "clearly superfluous", even if they did not testify at trial (*Hoffman-La Roche Limited v. Apotex Inc.*, 2013 FC 1265 at paras. 37, 44; *Biovail Corporation v. Canada (Health)*, 2007 FC 767 at paras. 28-29).

[11] Apotex contends that the judge erred by awarding costs roughly five times the amount that would be awarded under the mid or upper range of Column IV of the Tariff, the Column routinely chosen in intellectual property litigation (see, *e.g.*, *Leuthold v. Canadian Broadcasting Corporation*, 2012 FC 1257 at para. 92; *Eurocopter v. Bell Helicopter Textron Canada Limitée*, 2012 FC 842 at para. 22). Apotex contends that since a lump sum was chosen instead of the

Tariff amount, its value must be justified in relation to the circumstances of the case and cannot simply be a number or percentage plucked out of the air. It says that Shire did not meet the burden on the party requesting an increased award to show that it was warranted in the circumstances (*Nova Chemicals* at paras. 11-13, 15, 19).

[12] Apotex notes that the range of increased awards vary greatly, as does the method by which the amount is determined. Some judges have chosen to set a lump sum of costs at a certain percentage above the Tariff values while others have selected a value based on a percentage of the fees actually incurred (*Nova Chemicals* at paras. 2-3; *Teva Canada Limited v. Janssen Inc.*, 2018 FC 1175 at paras. 35-36 (*Teva Canada Limited*)). In this instance, Apotex contends that the judge chose a value far in excess of the Tariff values without properly considering whether it was warranted by the circumstances of the case. Apotex notes that some more complex trials have awarded lump sum payments totalling 25% of actual legal fees, or less (see, *e.g.*, *Teva Canada Limited* at para. 36).

[13] Additionally, Apotex contends that when a trial judge decides to make a lump sum costs award based on the actual costs incurred, it is incumbent on the judge to ensure that the actual costs included in that calculation are, themselves, reasonable. To this end, "actual costs" can only be used if identified senior and junior lawyers actually worked on the various stages of the proceeding (see, *e.g.*, *Pfizer Canada Inc. v. Teva Canada Limited*, 2017 FC 777 at Schedule A). It was an error for the judge to accept all of the legal fees incurred by the respondent without ensuring that the counsel fees were appropriate.

[14] Finally, according to Apotex, it was an error for the judge to select $600,000 for disbursements given evidentiary gaps in the claim for disbursements as well as the discrepancies between the disbursements reported against those prescribed in Section 3 of Tariff A of the *Federal Courts Rules*. The judge offered no reasons in support of the disbursements award, other than to say simplicity favoured a discounted award.

[15] In response, Shire notes that lump sum costs are expressly contemplated in the *Federal Courts Rules* and play an important role, particularly in light of dissatisfaction of the bar with the amounts available under the Tariff. Choosing 30% of actual legal fees as the appropriate partial indemnity percentage is a number routinely selected in pharmaceutical patent litigation (see, *e.g.*, *Nova Chemicals*; *Philip Morris Products S.A.* at para. 6). Here, the judge properly recognised these principles and thus made no error of law.

Analysis

[16] Although this appeal deals with a single discretionary decision, namely the award of costs, it involves, in essence, a series of discretionary decisions. These include: the selection of a lump sum award versus costs awarded from a Tariff calculation; the selection of the actual costs incurred as a starting point for the lump sum award instead of a grossed up value based on the Tariff values; the assessment of what should reasonably be included in the actual costs; the selection of 30% as the appropriate partial indemnity percentage; the decision to include all four expert witness fees in the calculation for disbursements; and the decision to select a “reasonable” disbursement value of $600,000 in light of the inordinately high bill of costs. Each one of these discretionary decisions is reviewable against the *Housen* standards (*Housen v. Nikolaisen*, 2002

SCC 33, [2002] 2 S.C.R. 235 at paras. 8, 10, 36; *Nova Chemicals* at para. 6; *Hospira Healthcare Corporation v. Kennedy Institute of Rheumatology*, 2016 FCA 215, [2017] 1 F.C.R. 331 at para. 69).

[17] In analysing a discretionary decision, the role of this Court is not to reweigh the facts to see if we would reach the same decision as the trial judge. This is particularly so in the case of an assessment of costs, where the judge has had the benefit of observing both the conduct of the parties as well as the ebb and flow of the evidence, assessing its utility and ruling on motions and objections. The onus is thus on Apotex to show that there was a reversible error in the exercise of discretion which requires demonstration of either an error in principle, reviewable for correctness, or in the case of questions of fact or questions of mixed fact and law, that that error was palpable and overriding.

[18] The selection of a lump sum award is not problematic in principle. It is permitted under Rule 400(4). As noted in *Nova Chemicals* at paragraphs 11-12, a lump sum award can simplify the costs determination and further the goal articulated in Rule 3 of the *Federal Courts Rules* of ensuring "the just, most expeditious and least expensive determination of every proceeding on its merits". A judge is intimately familiar with the conduct of the trial and thus has a wide latitude in assessing what is an appropriate lump sum. It can be assessed at enhanced, lesser, or approximated values to those calculated by the parties or as based on the Tariff. The advantages of a lump sum award are self-evident – but, if selected, it "cannot be justified solely on the basis that a successful party's actual fees are significantly higher than the Tariff amounts" (*Nova Chemicals* at para. 13). The rationale must be tailored to the circumstances of the case.

[19] That is what happened here. The judge concluded that a lump sum based on actual costs was appropriate in light of the complex nature of the underlying dispute – pharmaceutical patent litigation conducted by sophisticated parties. The judge noted in light of this that the Tariff values may be inadequate in fulfilling the objective of costs (*Nova Chemicals* at para. 13). The judge also considered other factors pertinent to the exercise of his discretion: the high level of success enjoyed by Shire, the number of counsel and the conduct of the parties (*Decision* at paras. 25, 29).

[20] Although Apotex alleges this pharmaceutical patent litigation was less complex than others, the judge nonetheless characterized it as complex pharmaceutical litigation with numerous counsel on each side, including "some of the most senior and respected members of the patent bar" (*Decision* at para. 25). While Apotex may be correct that this proceeding may have been less complex than others seen by the Federal Court, it does not change the fact that it was open to the judge to conclude that it was nonetheless a complex proceeding, argued by experienced counsel.

[21] Indeed, it was for this reason that the judge decided to include the fees for all lawyers involved in the actual costs calculation. He viewed this as necessary in order to calculate a reasonable contribution to the costs of litigation. Although Apotex has pointed to situations where other judges have adopted a different approach (see, *e.g.*, *Airbus Helicopters, S.A.S. v. Bell Helicopter Textron Canada Limitée*, 2017 FC 170 at para. 461), I am not convinced that this choice, in these circumstances and justified as it is by the reasons given, constitutes a reviewable error.

[22] The next discretionary decision was the percentage of the actual fees to be awarded. The judge awarded $1M, approximately 29%, of Shire's actual fees. I see no error in this. Although the case law indicates that lump sum awards range from 10% to 50% of actual fees, awards between one-quarter and one-third of fees are the norm (*Nova Chemicals* at paras. 15, 22; *Philip Morris Products S.A.* at para. 6). While some cases have allowed more, they are exceptional.

[23] Although Apotex can point to pharmaceutical patent litigation cases where costs were awarded at Tariff values or some modest multiple thereof, most of those were applications under the old PMNOC regime, as opposed to actions with *viva voce* evidence. Those cases are not an accurate comparator. It is important to distinguish between costs awards in applications and trials; the percentages allowed in one are not a proxy for the percentages to be allowed in the other.

[24] What is important is that there be some measure of predictability in the range of award of lump sum costs. As noted by this Court in *Nova Chemicals*, predictability and consistency in the award of costs allows counsel to properly advise their clients so that they, in turn, may make informed decisions about litigation risks. For these reasons, while the discretion to award a lump sum is broad, it is not a field day; the exercise of discretion is framed, in part, by considerations of judicial policy – the purpose of costs being a reasonable contribution to legal costs, fairness and predictability.

[25] I turn to the award of disbursements.

[26] The first issue pertains to the disbursements requested for a fact witness, Dr. Mickle. The inclusion of the fee paid to Dr. Mickle for his time in preparation and attendance at discovery and trial is problematic as it exceeded the amounts specified in Section 3 of Tariff A for a fact witness. Excessive payments to fact witnesses, in general, require justification and it is not clear whether the trial judge intended for this overpayment to be included in the 25% reduction he applied to the disbursements.

[27] The second issue with the disbursements pertains to the selection of a discount of approximately 25% notwithstanding the inordinately high amounts claimed for some items and weakness in the supporting evidence for others as identified by the judge. It is not clear if this reduction was intended to address the concerns and weakness noted, including for example, claims for items that could not otherwise be claimed, such as overhead charges. Parenthetically, the fact that Apotex did not cross-examine on the Shire affidavit in support of the claim for disbursements does not mean that the judge was obliged to accept the facts asserted.

[28] The assessment of whether a claim for disbursements was permissible, actually incurred and reasonable cannot be sacrificed on the altar of simplicity. Put otherwise, reducing a disbursement by 25% does not justify compelling a party to pay 75% of a cost that was never incurred, not properly incurred or not properly substantiated. In the ordinary course, a claim for disbursements should also be supported by evidence in the form of an affidavit (*Nova Chemicals* at para. 20).

[29] A trial judge has a discretion whether to undertake this analysis or remit the matter to the assessment officer. If remitted, the assessment officer can exercise their discretion after full consideration of the evidence and case law. The role of the assessment officer is to conduct a detailed and probing review of the disbursements with the objective of ensuring that a successful party is not denied proper recovery at the same time as verifying that the disbursements are reasonably incurred and aligned with the jurisprudence (*Apotex Inc. v. Merck & Co. Inc.*, 2008 FCA 371 at para. 14; *Lundbeck Canada Inc. v. Canada (Health)*, 2014 FC 1049 at para. 34). Also, assessment officers may be better suited, by virtue of their experience, to assess the reasonableness of certain items.

[30] I therefore would allow this appeal in part. I would set aside the portion of the Federal Court's judgment dealing with disbursements and remit the matter to the trial judge for reconsideration, including whether to remit the matter to an assessment officer on the basis of the record already filed. Given the divided success on appeal, I would make no order as to costs of this appeal.

"Donald J. Rennie"
J.A.

"I agree.
Yves de Montigny J.A."

"I agree.
Mary J.L. Gleason J.A."

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

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