

Date: 20070912

Docket: T-161-07

Citation: 2007 FC 907

Toronto, Ontario, September 12, 2007

PRESENT: The Honourable Mr. Justice Hughes

BETWEEN:

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

Plaintiffs

and

APOTEX INC.

Defendant

AND BETWEEN:

APOTEX INC.

Plaintiff by Counterclaim

and

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

Defendants by Counterclaim

REASONS FOR ORDER AND ORDER

[1] Two matters arising in these proceedings were heard at the same time on Monday, September 10, 2007. One was an appeal by Apotex Inc. in respect of an Order of Prothonotary Morneau in these proceedings dated July 20, 2007. The second was a motion by Sanofi-Aventis Canada Inc. and Sanofi-Aventis Deutschland GmbH to strike out certain paragraphs of Apotex's Defence and Counterclaim or, in the alternative staying proceedings pursuant to those paragraphs. These matters are closely related, they were argued together and one set of Reasons and one Order will be issued.

[2] This action as instituted January 2007 by the Plaintiffs Sanofi-Aventis Canada Inc. (Sanofi Canada) and Schering Corporation against Apotex Inc. as Defendant is a fairly straightforward patent infringement action. It alleges that certain claims of Canadian Patent 1,341, 206 (the '206 patent) relate to a drug known as ramipril. It is alleged that Schering owns the '206 patent and Sanofi Canada is a licensee. The claim alleges that Apotex is dealing in ramipril in Canada without authorization and is infringing those claims of the '206 patent. The patent will expire in 2018. An injunction, damages or alternatively profits are claimed as well as other relief.

[3] Apotex has filed a Defence. Infringement is denied and several more or less standard attacks on the validity or the patent are raised. In addition, however, Apotex has counterclaimed. The Counterclaim is made not only against the Plaintiffs, Sanofi Canada and Schering, but adds as

party Defendants-by-Counterclaim, Sanofi-Aventis Deutschland GmbH (Sanofi Germany) and Ratiopharm Inc.

[4] The Counterclaim raises two separate issues as to alleged conspiracy. The first conspiracy, so called, is in respect of conflict proceedings in the Canadian Patent Office and later in this Court as between, among others, Schering and Sanofi Germany. The ultimate result of these proceedings was the grant of the '206 patent to Schering. Pleadings in respect of this first conspiracy are set out at paragraphs 61 to 72 of the Counterclaim and are not at issue in any of the matters now before me.

[5] The second issue raised in the Counterclaim is the so-called second conspiracy or Pseudo-generic Agreement. Paragraphs 73 to 120 of the Counterclaim dealt with this allegation. This allegation appears in paragraph 109 to be directed against all Defendants-by-Counterclaim and specifically mentions Ratiopharm, Sanofi Germany and Schering. Sanofi Canada is specifically mentioned in paragraph 110.

[6] The Counterclaim ends with paragraph 125 making claims for relief that the '206 patent, and the pertinent claims should be declared invalid and unenforceable and, for damages, unspecified as to amount.

[7] The second conspiracy alleges, in brief, that an agreement was entered into by the Defendants-by-Counterclaim whereby a license was given to Ratiopharm, a generic, to deal in ramipril on a generic basis, which licence was structured so as to defeat several aspirations of Apotex, another generic, who had to bring ramipril to the Canadian market the hard way without a license.

[8] These second conspiracy allegations were incorporated into paragraph 7 of the Defence where it is alleged that the Plaintiffs (Sanofi Canada and Schering) are disentitled to any relief that they claim and in particular disentitled to any claim for profit.

[9] The second conspiracy pleadings must be considered in light of an action commenced by Apotex in the Ontario Superior Court against a number of parties including corporations then called Aventis Pharmaceutical Products Inc. which is now known as Sanofi-Aventis Canada Inc. (Sanofi Canada) and Altimed Pharmaceutical Company Inc. now known as Ratiopharm Inc. In the Ontario action, Apotex makes allegations that are essentially the same as in the second conspiracy Counterclaim in this Federal Court action except that they are much broader and encompass a large number of transactions in respect of a large number of drugs of which ramipril, the drug at issue in the Federal Court action, is but one. Paragraph 8 of the most recent Statement of Claim in Apotex's Ontario action (December 19, 2001) purports to sweep in activities commencing "... *at some time in or around 1994 and continuing to the present...*" Apotex claims in the Ontario action relief

including declarations as to unlawful practices contrary to certain provisions of the *Competition Act*, certain prohibitions and damages in the order of \$500 million.

[10] The Defendants in the Ontario action made an early challenge to the pleadings which was resolved by a decision of the Ontario Court of Appeal on December 14, 2000 reported as *Apotex Inc. v. Hoffmann La-Roche Ltd.* (2000), 9 CPR (4th) 417. Since that time the Ontario action appears to have proceeded at a leisurely pace. The evidence shows that by late 2005 the parties were still engaged in discovery of documents and, from what I was advised by counsel on the motion before me, the action is still in the discovery of documents stage. I am advised that the Ontario action is under case management.

[11] Therefore, taking into consideration the Ontario action and the Federal Court action including the Counterclaim in the Federal action, it can be seen that:

1. The Ontario action includes within its scope as against Sanofi Canada and Ratiopharm all that which is within the scope of the Federal Court Counterclaim. The Ontario action however is broader. The Ontario action was commenced about seven years before the Federal Court Counterclaim was made and is proceeding slowly. Apotex, as Plaintiff in the Ontario action, has carriage of that proceeding and is expected to take all reasonable measures to move it along.

2. Apotex has in paragraph 7 of its Defence in the Federal Court action in the opening words and in sub-paragraph 7(c) made reference to arrangements and agreements conducted between the Plaintiffs Sanofi Canada and Schering and Ratiopharm. This conduct, Apotex alleges, disentitles the Plaintiffs Sanofi Canada and Schering to any relief or at least to profits. The arrangements and agreements Apotex's counsel advises are those as pleaded in respect of the so-called second conspiracy. Thus the second conspiracy is pleaded by Apotex as a defence as well as affirmatively in the Counterclaim.

Motion before Prothonotary Morneau

[12] Ratiopharm brought a motion in these Federal Court proceedings that was heard by Prothonotary Morneau. That motion requested first that the Counterclaim against Ratiopharm be struck out in its entirety, or in the alternative to stay that counterclaim. The motion also requested that certain particular pleadings in the Counterclaim be struck out.

[13] Prothonotary Morneau on July 20, 2007 made an Order, which is now under appeal by Apotex. That Order stayed the Counterclaim as against Ratiopharm and struck out certain specific pleadings in the Counteraction namely:

- *the expressions or numbers "32" and "78 and 79" in paragraph 115;*
- *the following words at the end of paragraph 117: "all contrary to subsection 32(1) of the Competition Act";*

- *the following words at the end of paragraph 120:
“all contrary to sections 78 and 79 of the
Competition Act”.*

[14] Apotex has not appealed from that part of the Order striking those portions of the pleadings. A question arose as to whether the Order struck those portions as against Ratiopharm only or as against all parties. Apotex’s counsel advised that it was content to have those portions struck as against all parties.

[15] Prothonotary Morneau did not strike the Counterclaim in its entirety as against Ratiopharm. He stayed the Ratiopharm proceeding instead. Ratiopharm has not appealed against the refusal to strike out the pleading. Such refusal is not explicit in the Order of Prothonotary Morneau but is implicit in his decision to stay and to strike only portions of the pleadings.

[16] Thus, in respect of Prothonotary Morneau’s Order what I am being asked to consider is only Apotex’s appeal against that part of the Order that says:

Considering that for the above reasons, this Court hereby orders that insofar as Ratiopharm is concerned, and in addition to the partial strike out ordered in the following paragraph, paragraphs 73 to 120 and 125 c) and d) of the Counterclaim are stayed against Ratiopharm under subsection 50(1) of the Act;

[17] At this point it is important to note that the Prothonotary did not strike out any portion of Apotex’s Defence, indeed he could not since Ratiopharm was not a party to the main action. It is only a Defendant-by-Counterclaim.

[18] The standard of review to be observed by a Court in dealing with a Prothonotary's Order varies having regard to whether the Order disposes of an issue vital to the case. Where a stay is refused all matters continue to trial and no issue has been finally determined, the standard is therefore, one of deference as to matters of discretion (*Vogo Inc. v. Acme Window Hardware Ltd.* (2004), 256 FTR 37). However, where a stay has been ordered, a vital issue has been determined, thus the Court should consider the matter *de novo* (*Apotex Inc. v. AstraZeneca Canada Inc.* (2003), 23 CPR (4th) 371 at para. 11 (FC) aff'd without reference to this point, (2003), 25 CPR (4th) 142 (FCA)). Thus in the present case, I must consider the issue determined by the Prothonotary *de novo*.

[19] Nonetheless, I come to the same conclusion as Prothonotary Morneau. The Ontario action instituted by Apotex some seven years previous and in respect of which Apotex has carriage, encompasses as against Ratiopharm all (and more) than that which is asserted as against Ratiopharm in the Federal Court Counterclaim. The relief sought by Apotex in both proceedings is, as against Ratiopharm, essentially the same.

[20] Apotex's counsel, during the course of argument before me said that he had received instructions to give the following undertaking to the Court:

“If the appeal from Prothonotary Morneau's Order is allowed, Apotex undertakes that no claim for the ramipril conspiracy as pleaded in paragraphs 73 to 120 of the Counterclaim will be pursued in the Ontario action.”

[21] After some discussion, Apotex's counsel also advised that the undertaking would be given if Sanofi's motion before me were to be dismissed.

[22] However, Apotex's counsel made it clear that Apotex wished to continue to assert, as a defence, all factual circumstances as alleged in these paragraphs. Thus the parties would still be obliged to pursue on discovery and at trial, the matters as alleged in those paragraphs. I view the saving in time and expense, to be marginal, if any.

[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.

[24] Therefore, the appeal against the Order of Prothonotary Morneau will be dismissed with costs to Ratiopharm at the middle column III.

Sanofi's Motion

[25] Sanofi Canada and Sanofi Germany have, jointly, brought a motion before me to strike out paragraphs 7(c), 15 and 16 of the Defence and all of the Counterclaim as against them, or, alternatively they request a stay of proceedings against them pursuant to those paragraphs.

[26] As with Ratiopharm, it is clear that Apotex's Ontario action seeks essentially the same relief as against Sanofi Canada in the Federal Court Counterclaim. Sanofi Germany is not a party to the Ontario action. The allegations made against Sanofi Germany in the Federal Court Counterclaim are found in paragraph 109 of the Counterclaim. It alleges that the so called Pseudo-Generic Agreement was "... pursuant to the direction and authority of Sanofi Germany and Schering," and in paragraph 123 where it is alleged that Sanofi Germany exercised control over Sanofi Canada such that Sanofi Germany is liable to Apotex. Thus it is evident that the relief sought against Sanofi Canada in the Ontario action would encompass that sought against Sanofi Germany in the Counterclaim and, if there was doubt, Apotex would have its remedy in seeking joinder, if proper, of Sanofi Germany in the Ontario action.

[27] Thus I view the Counterclaim as duplicative of the larger Ontario action and should be stayed as against Sanofi Canada and Sanofi Germany.

[28] However, with respect to paragraphs 7, 15 and 16 of the Defence, that defence, if successful would deprive Sanofi Canada (Sanofi Germany is not a Plaintiff) of its rights, if any, to seek the relief claimed by it or at least profits. However Sanofi Canada is not the owner of the '206 patent at issue, it is a licensee as pleaded in paragraph 8 of the Statement of Claim, a matter in respect of which Apotex pleads in paragraph 2 of its Defence that it has no knowledge. As a licensee the only relief to which Sanofi Canada is entitled is that afforded by section 55 of the *Patent Act*, R.S.C. 1985, c. P-4 as applicable to patents applied for before October 1, 1989 of which the '206 patent is

one; namely damages. Sanofi Canada cannot seek an injunction or profits or any equitable relief. Apotex, at paragraph 58 of its Defence, submits that the action be dismissed and at paragraph 7 denies that any of the Plaintiffs are entitled to any relief, including that of damages.

[29] Given that Sanofi Canada as licensee, cannot seek equitable relief, it is appropriate at this point to consider the motion to strike. In this regard, the development of the law in respect of pleading breaches of the *Competition Act* or its predecessor the *Combines Investigation Act* as a defence in intellectual property proceedings must be considered.

[30] The first time such a matter was considered was in respect to an Industrial Design infringement action in *RBM Equipment Ltd. v. Philips Electronics Industries Ltd.* (1973), 9 CPR (2d) 46. In that case Thurlow J.A. for the Federal Court of Appeal held at page 59:

It seems, therefore, to be an open question whether the Court will ever decline relief in an infringement action to a party holding the title to industrial property save where what it is being sought in the action is in substance the enforcement or furtherance of the illegal conspiracy or agreement itself.

[31] The next case is that of *Eli Lilly and Co. v. Marzone Chemicals Ltd.* (1979), 29 CPR (2d) 253 (FCTD) in which Addy J. stated at page 255:

A more cogent reason, however, is that the plaintiffs are seeking equitable relief and must come into the Court with their hands clean. Should they in fact be in breach of the Combines Investigation Act, as alleged in para. 9 of the statement of defence, this would constitute a most valid reason for refusing

injunctive relief although the allegations might well not constitute a defence to a claim at law.

[32] However the view expressed by Addy J. in the Trial Division has been restated by the Federal Court of Appeal in *Procter & Gamble Co. v. Kimberley-Clark of Canada Ltd.* (1990), 29 CPR (3d) 545 at 546 when Hugessen J.A. for the Court said:

Where all of the view that the motions judge erred in law since these allegations [breaches of the Competition Act] can simply have no bearing on the defence to the plaintiffs' action for patent infringement. The motions judge indicated [at p. 230] that, because para. 16 speaks to plaintiffs's entitlement to equitable remedies, the amendment would be relevant to the court's "discretion to grant or refuse such relief having regard to all of the surrounding circumstances including the past conduct of the plaintiffs." This is error. For past conduct to be relevant to a refusal of equitable relief under the "clean hands" doctrine, relief to which the party would otherwise be entitled, such conduct must relate directly to the subject-matter of the plaintiffs' claim, in this case their patent...

[33] These two cases, *Eli Lilly* and *Procter & Gamble* were considered by Rothstein J. (as he then was) in the Federal Court in *Visx Inc. v. Nidek Co.* (1994), 58 CPR (3d) 51. He concluded 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 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.

[34] The last decision to be considered is that of the Federal Court of Appeal in *Volkswagen Canada Inc. v. Access International Automotive Ltd.*, [2001] 3 FC 311. That Court reviewed the *Procter & Gamble* decision and apparently, the *Visx* decision by Rothstein J. although it is wrongly cited in the reasons as 68 CPR (3d) 272 and 72 CPR (3d) 19 (those decisions in *Visx* related to another pleading in that case, not a *Competition Act* pleading). In *Volkswagen*, Sharlow J.A. for the Court held at paragraphs 25 and 26:

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.*

26 *The Motions Judge concluded that the same could be said of this case, with the result that there was no hope of a successful unclean hands defence. I must respectfully disagree. In this case, Access International wishes to argue that the assignment of copyright in the VW and Audi logos to Volkswagen Canada is conduct described in subsection 32(1) of the Competition Act, because the result of Volkswagen Canada's obtaining the copyright was*

to unduly limit or prevent competition in authentic Volkswagen and Audi parts and accessories. This allegation is quite different from the allegations considered in Visx and Procter & Gamble. In my view, it is at least arguable [page325] that in this case there is a sufficient relationship between the copyright and the unclean hands defence that the equitable remedy might not be granted.

[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.

[36] In this action Sanofi Canada, as licensee, cannot seek equitable relief nor does it have title to the patent at issue. The patent is owed by Schering and it is Schering that could make a claim for equitable relief. Thus the pleadings in paragraphs 7(c), and 15 and 16 of the Defence as they relate to Sanofi Canada and the allegations raised in paragraphs 73 to 120 of the Counterclaim, must be struck out.

[37] As discussed earlier, the Counterclaim itself against Sanofi Canada and Sanofi Germany is to be stayed but not struck out since the Counterclaim is an assertive and not defensive pleading in which the Ontario action already encompasses the larger picture.

[38] In the result paragraphs 7(c), 15 and 16 as they relate to Sanofi Canada and assert what is alleged in paragraphs 70 to 120 of the Counterclaim are struck out as against Sanofi Canada. The

Counterclaim as against Sanofi Canada and Sanofi Germany as set out in those paragraphs is stayed.

Sanofi Canada and Sanofi Germany are entitled to costs as to the middle of Column III.

Schering

[39] Schering is a Plaintiff in the Federal Court action and a Defendant-by-Counterclaim but not a party to the Ontario action. Schering was not a party to any motion before me.

[40] Schering's counsel appeared before me and spoke briefly asking that it be joined in with Sanofi's motion. I would only do so if Apotex consented. Apotex did not. Therefore Schering, should it wish to take any steps in relation to what has been considered here, must do so in a formal way.

ORDER

For the Reasons given:

1. The appeal from the Order of Prothonotary Morneau dated July 20, 2007 is dismissed with costs to Ratiopharm at the middle of Column III.

2. The motion brought by Sanofi Canada and Sanofi Germany by Amended Notice of Motion dated August 31, 2007 is allowed in part, and in particular:
 - a) the Counterclaim against those parties as asserted in paragraphs 73 to 120 of the Counterclaim is stayed under the provision of subsection 50(1) of the *Federal Court Act*; and
 - b) paragraphs 7(c) and 15 and 16 of the Defence to the extent that they relate to or incorporate that which is alleged in paragraphs 73 to 120 of the Counterclaim as against Sanofi Canada are struck out.
 - c) Sanofi Canada and Sanofi Germany are entitled to costs at the middle of Column III.

"Roger T. Hughes"

Judge

FEDERAL COURT

NAME OF COUNSEL AND SOLICITORS OF RECORD

DOCKET: T-161-07

STYLE OF CAUSE: SANOFI-AVENTIS CANADA INC. ET AL v.
APOTEX INC.

PLACE OF HEARING: Toronto, Ontario

DATE OF HEARING: September 10, 2007

**REASONS FOR ORDER AND
ORDER:** Hughes J.

DATED: September 12, 2007

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