

Federal Court



Cour fédérale

**Date: 20111109**

**Docket: T-1844-07**

**Citation: 2011 FC 1169**

**Ottawa, Ontario, November 9, 2011**

**PRESENT: The Honourable Mr. Justice Hughes**

**BETWEEN:**

**TEVA CANADA LIMITED**

**Plaintiff**

**and**

**WYETH LLC AND PFIZER CANADA INC.**

**Defendants**

**PUBLIC REASONS FOR JUDGMENT AND JUDGMENT**  
**(Confidential Reasons for Judgment and Judgment issued on October 17, 2011)**

[1] The Plaintiff Teva Canada Limited has brought a motion under the provisions of Rules 213 ff. of the *Federal Courts Rules*, SOR/98-106, for a Summary Trial in respect of matters at issue in this action. For the reasons that follow, I find that the motion will proceed as a summary trial and that Teva can no longer pursue the section 8 claim initiated by ratiopharm in this action.

[2] This action was commenced by a company called ratiopharm inc. as Plaintiff. By a Statement of Claim dated October 22, 2007 ratiopharm claimed damages as against companies

known as Wyeth and Wyeth Canada based under the provisions of section 8 of the *Patented Medicines (Notice of Compliance) Regulations*, SOR/93-133 (*NOC Regulations*). That claim arose following earlier proceedings taken by Wyeth under the *NOC Regulations* against ratiopharm involving Canadian Patent No. 1,248,540 (the '540 patent) and Canadian Patent No. 2,199,778 (the '778 patent). Wyeth had counterclaimed in the present action alleging infringement of the '540 and '778 patents and seeking, among other things, damages or profits. However, just prior to the hearing of the present motion, Wyeth discontinued the counterclaim. In the course of this action, the Plaintiff became Teva Canada Limited (Teva); the Defendants became Wyeth LLC and Pfizer Canada Inc. The change respecting the Plaintiff will be examined in some detail. It is convenient simply to refer to the Defendants collectively as Wyeth.

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### **THE NOC REGULATIONS PROCEEDING**

[4] As a starting point, the proceedings taken by Wyeth against ratiopharm will be considered. On December 23, 2005, ratiopharm served on Wyeth a Notice of Allegation in which ratiopharm stated that it wished to market in Canada a generic version of a drug sold by Wyeth in Canada under the brand name EFFEXOR XR. In that Notice, ratiopharm stated that it accepted a Notice of Compliance would not be granted to it until the expiry of the '540 patent, and alleged that the '778 patent was invalid and would not be infringed by the ratiopharm product.

[5] On January 10, 2006, the term of the '540 patent expired. Given the discontinuance of the counterclaim, no further consideration needs to be given to the '540 patent.

[6] On February 10, 2006, Wyeth commenced proceedings against ratiopharm under the provisions of the *NOC Regulations*, seeking to prohibit the issuance of a Notice of Compliance to ratiopharm until the expiry of the '778 patent.

[7] On December 18, 2006, ratiopharm brought a motion for dismissal of Wyeth's NOC proceedings on the basis that the '778 patent was not eligible for listing under the *NOC Regulations*. On March 29, 2007, the Federal Court made an Order dismissing that motion but only in part. On August 1, 2007, the Federal Court of Appeal allowed ratiopharm's appeal and dismissed Wyeth's application for prohibition in its totality.

[8] On August 2, 2007, ratiopharm received a Notice of Compliance from Health Canada, thus receiving approval from the Minister of Health for the sale of its product, ratio-*VENLAFAXINE XR* in Canada. On August 15, 2007, it commenced selling this product in Canada.

### **THE NOVOPHARM LICENCE**

[9] Novopharm Limited was, since before the time that the NOC proceedings against ratiopharm were initiated, a Canadian corporation which, like ratiopharm, carried on business in Canada in the marketing of generic drugs. Novopharm and ratiopharm were competitors at that time.

[10] On December 7, 2005, Novopharm and Wyeth entered into a License Agreement. Among other patents, Wyeth licensed Novopharm to sell Novopharm's generic version of the drug at issue under the '778 patent. Novopharm began to sell this version in Canada about December 1, 2006.

[11] The License Agreement included terms whereby [omitted]

*[omitted]*

[12] Wyeth, early in 2006, notified Novopharm that ratiopharm had served a Notice of Allegation on Wyeth. An exchange of communications between their respective solicitors occurred following which Wyeth instituted the NOC proceedings. This exchange will be discussed later.

[13] On February 6, 2010 Novopharm changed its name to Teva Canada Limited. The several named licensors in the Agreement have changed to some degree; however, Counsel for each of the parties at the hearing before me agreed that they can simply be called Wyeth for the purposes of this motion.

### **AMALGAMATION**

[14] On August 10, 2010 ratiopharm (and three other related companies) amalgamated with Teva Canada Limited (formerly Novopharm) and continued under the name Teva Canada Limited.

[15] Since the amalgamation, Teva has sold both the ratiopharm and Novopharm generic drugs pursuant to the License Agreement with Wyeth.

[16] The amalgamation of ratiopharm (and others) and Teva (nee Novopharm) took place under the provisions of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44. Section 186 of that Act provides:

*186. On the date shown in a certificate of amalgamation*

- (a) the amalgamation of the amalgamating corporations and their continuance as one corporation become effective;*
- (b) the property of each amalgamating corporation continues to be the property of the amalgamated corporation;*
- (c) the amalgamated corporation continues to be liable for the obligations of each amalgamating corporation;*
- (d) an existing cause of action, claim or liability to prosecution is unaffected;*
- (e) a civil, criminal or administrative action or proceeding pending by or against an amalgamating corporation may be continued to be prosecuted by or against the amalgamated corporation;*
- (f) a conviction against, or ruling, order or judgment in favour of or against, an amalgamating corporation may be enforced by or against the amalgamated corporation; and*
- (g) the articles of amalgamation are deemed to be the articles of incorporation of the amalgamated corporation and the certificate of amalgamation is deemed to be the certificate of incorporation of the amalgamated corporation.*

[17] Prior to the amalgamation, ratiopharm's founder died tragically. That company was part of a larger group of companies owned directly or indirectly by a European company Merckle GMBH. Preceding the amalgamation, there were a series of complex corporate sale and restructuring steps involving ratiopharm, none of which is relevant to the issues here. Teva (nee Novopharm) and ratiopharm then amalgamated.

[18] The parties are agreed that, prior to the date of amalgamation, no litigious rights of ratiopharm in the present action or any other assets of ratiopharm were purchased by Teva or its parent companies.

### **THE EVIDENCE**

[19] Teva, the moving party, provided two affidavits, each with exhibits. One was the affidavit of Kane Denike, Director, Intellectual Property at Teva, who attested to much of the history respecting ratiopharm and the Novopharm licence. The other was the affidavit of Ildiko Mehes, Vice President and General Counsel of Teva Canada Limited, with exhibits. She testified as to the corporate restructuring of ratiopharm and its acquisition by Teva Canada Limited. Both affiants were cross-examined.

[20] Wyeth provided in evidence the affidavit of Denise Pope, a paralegal in its Counsel's Office. She attached as exhibits a transcript of the examination for discovery of Kane Denike and certain correspondence between the lawyers for the parties. She was not cross-examined.

[21] Counsel for Teva, in a letter dated May 13, 2011 to Counsel for Wyeth stated:

*For the purpose of summary trial, Teva is prepared to accept:*

*1. Novopharm Limited entered into the December 7, 2005 License Agreement and later changed its name to Teva Canada Limited. Ratiopharm did not enter into the License Agreement at any time prior to amalgamation. The legal effect of amalgamation in relation to this issue is not a "fact" that requires discovery, and is properly a matter for determination on summary trial.*

2. *Teva accepts that Novopharm benefited during the period from January 10, 2006 to August 2, 2007 (the “Relevant Period”) from the fact that ratiopharm was not on the market, because Novopharm was a licensee under the License Agreement. The quantum of Teva’s benefit is not relevant and no discovery is required unless and until it is established on summary trial that the legal effect of the amalgamation allows Wyeth to offset Teva’s gains against ratiopharm’s losses.*

3. *Teva accepts that paragraph 5.1 of the License Agreement obliges Wyeth to use commercially reasonable efforts to address any actual or potential infringement of Canadian Patent No. 2,199,778 by a generic drug company, and that the Prohibition Application was in compliance with that obligation. The legal effect of amalgamation in relation to this issue is not a “fact” that requires discovery, and is properly a matter for determination on summary trial.*

### **THE MOTION FOR SUMMARY TRIAL**

[22] Teva has brought this motion for summary trial in which it seeks the following relief:

#### ***Order sought***

40. *The plaintiff (defendant by counterclaim) requests that the Court grant an order on summary trial in favour of the plaintiff pursuant to Rule 216 of the Federal Court Rules that:*

- (a) *Teva Canada is entitled to make the claim under section 8 of the NOC Regulations formerly made by ratiopharm in this action;*
- (b) *Irrespective of quantum, Wyeth is not entitled to offset any gains realized by Novopharm as a licensee of Wyeth under the License Agreement against any damages suffered by Ratiopharm in the period in which it was kept off the market;*
- (c) *(Deleted as a result of the discontinuance of the counterclaim).*



[23] The Defendants Wyeth ask for the following Order in their Memorandum of Argument:

1. *An Order that the issues raised in the plaintiff's motion are not suitable for summary trial and summary trial will not assist in the efficient resolution of the action;*
2. *In the alternative, an Order declaring that Teva is not entitled to continue Ratiopharm's claim for damages under section 8 of the Regulations;*
3. *If Teva is entitled to make the claim, an Order declaring that any damages suffered by Teva may be offset by the gains realized, or that would have been realized, by Teva under the License Agreement;*
4. *Costs of this Motion, in any event of the cause; and*
5. *Such further or other relief as counsel may advise and as to this Honourable Court may seem just.*

#### **RELEVANT DATES AND NAMES**

[24] Dates and events relevant to the discussion of the issues in this motion are not contested. I will set them out below. Also, for convenience and to avoid possible confusion, while it is recognized that Novopharm changed its name to Teva before the merger with ratiopharm, and the merged corporation carried on under the name Teva. I will call Novopharm by that name up to the point of merger. Thus, for purposes of these Reasons, I will say that Novopharm and ratiopharm merged and continued under the name Teva.

[25] Relevant dates include:

a. Dec. 7, 2005

Wyeth and Novopharm entered into the License Agreement.

b. Dec. 7, 2005

The Minister of Health certifies that, but for the NOC proceedings, ratiopharm would have received an NOC on this date.

c. Jan. 10, 2006

The '540 patent expired; ratiopharm had undertaken in its Notice of Allegation not to sell its drug in Canada before the expiry date. This is the date from which ratiopharm claims section 8 damages.

d. Feb. 10, 2006

Wyeth commenced NOC proceedings against ratiopharm.

e. Dec. 1, 2006

Novopharm commenced selling its drug in Canada pursuant to its licence from Wyeth.

f. Aug. 1, 2007

Federal Court of Appeal dismissed Wyeth's NOC proceedings.

g. Aug. 2, 2007

ratiopharm received its NOC. This is the end date for the period over which ratiopharm seeks section 8 damages.

h. Aug. 15, 2007

ratiopharm commenced selling its drug in Canada.

i. Oct. 22, 2007

ratiopharm filed its Statement of Claim in the present action, seeking section 8 damages.

j. Dec. 6, 2007

Wyeth filed its Defence and Counterclaim.

k. Feb. 16, 2010

Novopharm changed its name to Teva.

l. March 2010

Teva acquired ownership interest in ratiopharm.

m. Aug. 10, 2010

ratiopharm and Novopharm (now called Teva) merged under the name Teva.

n. Sept. 19, 2011

Wyeth discontinued its counterclaim.

[26] A chart where these dates and events may be visualized is attached as Schedule A to these Reasons.

### **ISSUES**

[27] The following issues have emerged :

**Issue #1:** Is it appropriate to determine this matter by way of summary trial?

**Issue #2:** On a summary trial, where does the burden lie?

**Issue #3:** Is Teva, the merged corporation, entitled to maintain the claim for the section 8 damages as initiated by ratiopharm in this action?

**Issue #4:** If the answer to Issue #3 is yes, is Wyeth entitled to offset against the section 8 claim any gains realized by Teva/Novopharm under the License Agreement?

**Issue #1: Is it appropriate to determine this matter by way of summary trial?**

[28] Rules 213 to 219 of the Federal Courts Rules are recent additions to the Rules, having been added in 2009. In large part, they have been modeled after Rule 18-A (now 9 – 7) of the British Columbia Supreme Court Civil Rules (B.C. Reg. 168/209).

[29] The Federal Court has considered these new Rules and on occasion, applied jurisprudence from the British Columbia Courts in decisions, including, *Wenzel Downhole Tools v National-Oilwell Canada Ltd*, 2010 FC 966, 87 CPR (4<sup>th</sup>) 412, at paras 33 to 40; *Louis Vuitton Malletier SA v Singga Enterprises (Canada) Inc*, 2011 FC 776, at paras 92 to 99; *TPG Technology Consulting Ltd v The Queen*, 2011 FC 1054, at paras 16 to 23; and *Trevor Nicholas Construction Co v Canada*, 2011 FC 70, at paras 43 to 46.

[30] In dealing with the Rules, including the ones at issue here, Rule 3 establishes the guiding principles. The Rules must be interpreted so as to secure the just, most expeditious and least expensive determination of every proceeding on the merits:

*3. These Rules shall be interpreted and applied so as to secure the just, most expeditious and least expensive determination of every proceeding on its merits.*

*3. Les présentes règles sont interprétées et appliquées de façon à permettre d'apporter une solution au litige qui soit juste et la plus expéditive et économique possible.*

[31] These principles are not to be passed over quickly or only given lip service; they are the basic guiding principles behind the interpretation of every Rule of this Court. The Rules provide a variety of “tools” for the determination of a proceeding, including motions to strike, questions of

law, determination of an issue, full trial or hearing, and now summary trial and judgment. These are tools to be applied judiciously; each case may require a separate and distinct determination.

However, one cannot view the Rules as requiring a full trial *unless* one fits one of the other categories. The proper approach is to consider that there is provided a number of means or “tools” by which a just, expeditious and least expensive determination can be made in dealing with a matter on the merits with an appropriate selection to be made among them..

[32] The jurisprudence is evolving in this regard with the ultimate goal of providing the Court with a discretion over its own process so as to achieve a just, expeditious and inexpensive determination; they include:

- a. summary trial need not be reserved only in cases where there will be a determination of every issue. The Court in its discretion can look at the issue or issues in question and determine if it is appropriate to deal with the those issues by summary trial (Rule 213(1));
- b. the party seeking a summary trial should put in all its evidence relevant to the issues, as should the responding party; a responding party cannot assert that there may be better evidence later (Rule 214);
- c. where the evidence is uncontested, or uncontroversial, or where there are no serious issues as to credibility, the Court should be more inclined to allow a summary trial. This does not mean that if the evidence is contested or controversial, or credibility is

at issue, then there shall be no summary trial. It means that the Court must decide if there is “no genuine issue” (Rule 215); and

- d. the Court should not avoid summary trial simply because there is a serious legal issue (Rule 215(5)).

[33] These Rules are intended to be used, not avoided or distinguished. In a proper case, it is appropriate to hold a summary trial and grant summary judgment.

[34] In the present case, I find that a summary trial and summary judgment is an appropriate way to proceed so as to secure a just, expeditious and least expensive determination of the issues before the Court. I do so for the following reasons:

- a. the issues are well defined and , while a disposition of the issues may not resolve every issue in the action, they are significant issues and their resolution will allow the action or whatever remains, to proceed more quickly or be resolved between the parties acting in good faith;
- b. the facts necessary to resolve the issues are clearly set out in the evidence;
- c. the evidence is not controversial and there are no issues as to credibility; and

- d. the questions of law, though novel, can be dealt with as easily now as they would otherwise have been after a full trial.

**Issue #2: On a summary trial, where does the burden lie?**

[35] There are several burdens to consider. First, the party seeking a summary trial bears the burden of demonstrating that a summary trial is appropriate (*Trevor Nicholas Construction, supra* at para 44). This is the usual level of burden which the moving party here, the Plaintiff Teva, has satisfied.

[36] Once the matter is before the Court for determination by summary trial, the usual burden in a civil trial applies. In brief, the party making an assertion must prove it by relevant evidence and the application of appropriate law.

[37] Here, the Plaintiff Teva asserts that it is entitled to damages under the provisions of section 8 of the *NOC Regulations*. It bears that burden. The Defendants Wyeth assert that by reason of the amalgamation, the Novopharm licence, and other events, Teva is disentitled to such damages. They bear that burden. In each instance, the burden is the usual burden in civil cases – a balance of probabilities.

**Issue #3: Is Teva, the merged corporation, entitled to maintain the claim for the section 8 damages as initiated by ratiopharm in this action?**

[38] It is reasonable to approach this issue by addressing first a situation where no merger has occurred and ratiopharm alone is making a section 8 claim under the *NOC Regulations*. All the necessary criteria to establish a section 8 claim would be met. Ratiopharm is a “second person”; it



was kept off the market until the Federal Court of Appeal “dismissed” the Wyeth claim. The beginning and ending dates asserted by ratiopharm for the claim period; namely, beginning at the date of expiry of the '540 patent, until the date of dismissal by the Court of Appeal, are reasonable. The quantum of damages would have to be assessed and any arguments raised by Wyeth would have to be considered.

[39] The matter shifts to Wyeth and its arguments as to why the amalgamation, the licence to Novopharm and other events affect the section 8 claim. Wyeth bears the burden in this respect. Wyeth’s Counsel raised three arguments. I repeat the titles given to those arguments in Wyeth’s Counsel’s Memorandum:

*Teva is not entitled to damages for the period ending on December 1, 2006 since it contractually agreed not to enter the market before that date*

*Teva is not entitled to damages for the period between December 1, 2006 to August 2, 2007 since it was admittedly on the market during that time*

*Teva required that Wyeth institute the Prohibition Application but now claims damages, alleging it should never have been brought*

[40] Generally, with respect to the effect of an amalgamation, the parties are agreed that the principles as set out by the Supreme Court of Canada in *R v Black & Decker Manufacturing Company Limited*, [1975] 1 SCR 411, at pages 421-422 are applicable:

*[...] But in an amalgamation a different result is sought and different legal mechanics are adopted, usually for the express purpose of ensuring the continued existence of the constituent companies. The*

*motivating factor may be the Income Tax Act or difficulties likely to arise in conveying assets if the merger were by asset or share purchase. But whatever the motive, the end result is to coalesce to create a homogeneous whole. The analogies of a river formed by the confluence of two streams, or the creation of a single rope through intertwining of strands have been suggested by others.*

...

*[...] The effect of the statute, on a proper construction, is to have the amalgamating companies continue without subtraction in the amalgamated company, with all their strengths and their weaknesses, their perfections and imperfections, and their sins, if sinners they be. Letters patent of amalgamation do not give absolution.*

[41] To this can be added the comments of Justice Feldman (as she then was) in *Heidelberg Canada Graphic Equipment Ltd v Arthur Anderson Inc*, (1992), 7 BLR (2<sup>nd</sup>), 236 at paragraph 56 (Ont CJ in Bankruptcy):

56 *Those cases hold that the amalgamating companies do not end their lives with amalgamation, but continue to exist in the amalgamated company. There is no “old” company extinguished or “new” company created. There is no transfer of the assets of the amalgamating companies to the amalgamated company; this is indicated by the use of the term “continues” in the statute together with the statement that the amalgamated company “possesses all the property...” of the amalgamating companies. In respect of those two terms Dickson J. said the following in Black & Decker at p. 417 [S.C.R.]:*

*“If corporate birth or death were envisaged, one would have expected to find, in the statute, some provision for transfer or conveyance or transmission of assets and not simply the word ‘possesses’, a word which re-enforces the concept of continuance;...”*

*(The Canada Corporations Act, R.S.C. 1970, c. C-32 and the Ontario Business Corporations Act, R.S.O. 1990, c. B.16 (“O.B.C.A.”) contain the same language; the Canada Business Corporations Act, R.S.C. 1985, c. C-44 contains similar language.)*

[42] Section 186 of the *Canada Business Corporations Act, supra*, was enacted after the Supreme Court decision in *Black & Decker, supra*, but captures the principles set out in that decision. In particular, as may be relevant to this case, section 186 a), b), c) and d) say:

<i>186. On the date shown in a certificate of amalgamation</i>	<i>186. À la date figurant sur le certificat de fusion :</i>
<i>(a) the amalgamation of the amalgamating corporations and their continuance as one corporation become effective;</i>	<i>a) la fusion des sociétés en une seule et même société prend effet;</i>
<i>(b) the property of each amalgamating corporation continues to be the property of the amalgamated corporation;</i>	<i>b) les biens de chaque société appartiennent à la société issue de la fusion;</i>
<i>(c) the amalgamated corporation continues to be liable for the obligations of each amalgamating corporation;</i>	<i>c) la société issue de la fusion est responsable des obligations de chaque société;</i>
<i>(d) an existing cause of action, claim or liability to prosecution is unaffected;</i>	<i>d) aucune atteinte n'est portée aux causes d'actions déjà nées;</i>

[43] In the present case, there can be no doubt that the amalgamated corporation, Teva, in the absence of the arguments raised by Wyeth, can carry on the section 8 claim made in this action as begun by ratiopharm. The question arises, however: what is the effect of the presence of Novopharm as an amalgamating party on the amalgamated corporation; and, in particular, the effect of the Novopharm licence and the activities carried out on Novopharm's behalf by its solicitors?

[44] Wyeth's Counsel argued that the merged corporation, Teva, continues to be licensed under the Novopharm License Agreement by operation of law under section 186 of the *Canada Business Corporations Act*. Teva's Counsel agrees. Wyeth's Counsel then proceeded to make an argument that the Court must therefore clothe ratiopharm, retrospectively, with all of Novopharm's obligations as licensee. This argument was made with Wyeth's Counsel protesting all the while that no argument was being made that there was retrospective application; rather, that Teva (hence, ratiopharm as a merged party) was clothed with the obligations prospectively with retrospective effect. The argument would give even a Jesuit scholar reason to pause. I will not go further into this argument, as I find another argument made by Wyeth's Counsel to be dispositive.

[45] The dispositive argument is that respecting the equitable doctrine of election. This doctrine has enjoyed a renaissance beginning with the Ontario Court of Appeal decision in *Granot v Herson* (1999), 43 OR (3d) 421, at page 424, followed by the Ontario Superior Court decision in *Bickley v Bickley Estate* (1999), 29 ETR (2d) 132.

[46] Recently, this doctrine has been thoroughly considered by the Ontario Court of Appeal in *Charter Building Co v 1540957 Ontario Inc*, 2011 ONCA 487, where Justice Epstein, for the panel, including Justices Armstrong and Karakatsanis, reviewed and distinguished between the common law doctrine of election and the equitable doctrine of election. The doctrine of election holds that a person is precluded from exercising a right that is inconsistent with another right if that person has consciously and unequivocally exercised the latter. To establish an election in equity, it is unnecessary to show that the electing party made a conscious choice between inconsistent rights at

the time when the original decision was made; an equitable election does not involve making a choice at all – it involves accepting the consequences of a decision already made.

[47] I repeat what Epstein JA wrote at paragraphs 15 to 22:

*15 The essence of the doctrine of election is that a person is precluded from exercising a right that is inconsistent with another right if he has consciously and unequivocally exercised the latter.*

*16 The doctrine is set out in the oft-quoted decision of Lord Atkin, in United Australia Ltd. v. Barclays Bank Ltd., [1941] A.C. 1 (H.L), in which the appellant had started an action against a company on a cheque, framing the action as money had and received to the use of the appellant. The cheque had been unlawfully issued. The action was discontinued and no judgment obtained. The appellants then brought an action against the bank for conversion of the cheque. It was held that the commencement of the first action did not amount to an election to waive the tort so as to preclude the bringing of the second action. In the course of his decision, Lord Atkin said at pp. 29-30:*

*It seems to me that in this respect it is essential to bear in mind the distinction between choosing one of two alternative remedies, and choosing one of two inconsistent rights. As far as remedies were concerned, from the oldest time the only restriction was on the choice between real and personal actions. If you chose the one you could not claim on the other*

...

*On the other hand, if a man is entitled to one of two inconsistent rights it is fitting that when with full knowledge he has done an unequivocal act showing that he has chosen the one he cannot afterwards pursue the other, which after the first choice is by reason of the inconsistency no longer his to choose. Instances are the right of a principal dealing with an agent for an undisclosed principal to choose the liability of the agent or the principal: the right of a landlord where forfeiture of a lease has been committed to exact the forfeiture or to treat the former tenant as still tenant and the like. To those cases the statement of Lord Blackburn in Scarf*

*v. Jardine [ (1882) 7 App. Cas. 345, 360] applies "where a man has an option to choose one or other of two inconsistent things when once he has made his election it cannot be retracted." In a later passage [(1882) 7 App. Cas. 345, 361] Lord Blackburn speaks of a man choosing between two remedies: but it is plain that he is speaking of remedies in respect of the inconsistent things as stated above. The case was one where the plaintiff had a right of recourse against two former partners, or against two new partners: but obviously not against both. Lord Blackburn quotes Dumpor's case [(1601) 4 Co. Rep. 119(b)] which was a plain case of inconsistent rights, the question of waiver of a forfeiture. I therefore think that on a question of alternative remedies no question of election arises until one or other claim has been brought to judgment.*

**17** *The doctrine has been endorsed by Canadian courts. See, for example: Findlay v. Findlay, [1952] 1 S.C.R. 96, at pp. 103-104 and 110.*

**18** *The doctrine of election has been broken down into two categories - the common law doctrine of election and the equitable doctrine of election.*

**19** *Election at common law takes place where a party is faced with a choice between two inconsistent courses of action that affect another party's rights or obligations, and knowing that the two courses of action are inconsistent and that he or she has the right to choose between them, makes an unequivocal choice and communicates that choice to the other party. The doctrine provides that the party making the election is afterwards precluded from resorting to the course of action that he has rejected. The election is effective at the point of communication on the basis that the parties to an ongoing relationship are entitled to know where they stand: The Commonwealth of Australia v. Verwayen (1990), 170 C.L.R. 394 (H.C.A.), at pp. 421-422.*

**20** *Subsequent to the development of the common law doctrine, the courts of equity developed a separate principle - the equitable doctrine of election - in the context of wills and trusts. The doctrine is based on the fact that the electing party, having obtained a particular benefit from a transaction, must accept all of the consequences that flow from that transaction, including those to his detriment: Granot v. Hersen (1999), 43 O.R. (3d) 421 (C.A.), at p. 424; Piers Feltham, Daniel Hochberg & Tom Leech, The Law*

*Relating to Estoppel by Representation, 4th ed. (London: LexisNexis UK, 2004), at pp. 361-362.*

**21** *The two doctrines are distinct. This point is clearly stated in the following passage in Banner Industrial and Commercial Properties Ltd. v. Clark Paterson Ltd., [1990] 2 E.G.L.R. 139: There is, however, another principle upon which a party may be held to his choice and that is the doctrine of election. "Election", as Viscount Maugham pointed out in Lissenden v. CAV Bosch Ltd [1940] A.C. 412 at pp 417-418, is a term used in different senses. There is an equitable doctrine of election (known in Scotland as the doctrine of "approbate and reprobate") encapsulated in Lord Eldon's dictum that "no person can accept and reject the same instrument": Ker v. Wauchope (1819) 1 Blight 1 at p 21. Its main application has been to a will, deed or other instrument which confers a benefit upon a party and at the same time purports to dispose of his property to someone else. The principle requires that if he accepts the benefit, he must also accept the burden of giving effect to the purported disposition of his own property or compensating the person intended to benefit thereby. There is also the common law principle of election, under which in certain circumstances a party faced with a choice of remedies (such as whether to affirm or repudiate a contract induced by misrepresentation) may be held to the choice he has made. The circumstances in which the two doctrines will apply are quite distinct. [Emphasis added].*

**22** *As can be seen, there is a fundamental difference between the two doctrines. The equitable doctrine of election does not involve choice between alternatives. To establish an election in equity, it is unnecessary to show that the electing party made a conscious choice between inconsistent rights at the time when the original decision was made. In fact, an equitable election does not involve making a choice at all - it involves accepting the consequences of a decision already made. On the other hand, the common law doctrine is all about choice. It applies to prevent a person who has made a decision from resorting to an inconsistent course of action that he has specifically rejected.*

[48] Most recently, Justice Newbould of the Ontario Superior Court considered a similar matter in *Barclays Bank PLC v Metcalfe & Mansfield Alternative Investments VII Corp*, 2011 ONSC 5008, at paragraphs 210 to 218 where he wrote:

**210** *Devonshire contends that by its actions Barclays should be taken to have abandoned its ability to rely on the insolvency of Devonshire.*

**211** *The general conditions of the ISDA Master Agreement contain provisions regarding the requirement to pay money. They provide:*

**2. Obligations**

**(a)**

**General Conditions.**

**(i)**

*Each party will make each payment or delivery specified in each Confirmation to be made by it ...*

**(iii)**

*Each obligation of each party under section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing ...*

**212** *Therefore the obligation to make payments under the relevant agreements is subject to the condition precedent that there is no existing event of default. Thus, the obligation of Barclays to make payments to Devonshire for credit protection under the swap contracts was subject to the condition precedent that there was no insolvency event of default on the part of Devonshire.*

**213** *Barclays did not take the position following the Suspension Notice that an event of default had been committed by Devonshire under 5(a)(vii) of the ISDA Master Agreement, which I shall refer to as taking the position that Devonshire was insolvent, or take steps to terminate the swaps. It could have. Barclays as a credit protection buyer continued to pay monthly payments to Devonshire as the credit protection seller against the possibility of defaults in the underlying portfolio of debt obligations. This carried on right to the end until Barclays delivered its early termination notice on January 13, 2009. Likewise, Barclays continued to charge Devonshire for liquidity protection against a market disruption*



*event under the liquidity line until that protection terminated by its terms in February, 2008 by deducting the liquidity premium payable by Devonshire from the protection premium payable to Devonshire.*

**214** *Devonshire contends that by making these protection payments and not taking steps to terminate under section 6(a) of the ISDA Master Agreement, Barclays elected to affirm the ISDA Master Agreement and abandoned its right to claim insolvency as an event of default.*

**215** *Devonshire relies on a passage in Firth, Derivatives Law and Practice, (London: Thomson Reuters (Legal) Limited 2010). The same text is relied on by Barclays for a different point. In chapter 11, dealing with the ISDA Master Agreement, it is stated on p. 11-59 that a right to terminate will be lost if the non-defaulting party affirms the agreement. It is also stated that it is a question of fact whether this has occurred and that notwithstanding a non-waiver clause, for the non-defaulting party to continue to perform the agreement without protest for a significant period may be construed as an election by it to abandon its right to terminate. Two cases are cited for these propositions. Neither case deals with an ISDA Master Agreement.*

**216** *The first case is Motor Oil Hellas (Corinth) Refineries SA v. Shipping Corp of India [1990] 1 Lloyd's Rep. 391 (H.L.). In that case, a vessel was chartered to load oil at a safe port. The port nominated by the charterer was not safe, but by various actions the owner was taken to have acted on the nomination. It was held that by its actions, the owner of the vessel elected to accept the nomination and thereby waived or abandoned its right to reject the nomination. In the course of his judgment, Lord Goff made an extensive analysis of the doctrine of election and affirmation of a contract. He stated, amongst other things:*

*It is a commonplace that the expression "waiver" is one which may, in law, bear different meanings. In particular, it may refer to a forbearance from exercising a right or to an abandonment of a right. Here we are concerned with waiver in the sense of abandonment of a right which arises by virtue of a party making an election. Election itself is a concept which may be relevant in more than one context. In the present case, we are concerned with an election which may arise in the context of a binding contract, when a state of affairs comes into existence in which one party becomes entitled, either under the terms of the contract or by the*

*general law, to exercise a right, and he has to decide whether or not to do so. His decision, being a matter of choice for him, is called in law an election. Characteristically, this state of affairs arises where the other party has repudiated the contract or has otherwise committed a breach of the contract which entitles the innocent party to bring it to an end, or has made a tender of performance which does not conform to the terms of the contract.*

...

*In all cases, he has in the end to make his election, not as a matter of obligation, but in the sense that, if he does not do so, the time may come when the law takes the decision out of his hands, either by holding him to have elected not to exercise the right which has become available to him, or sometimes by holding him to have elected to exercise it. Instances of this phenomenon are to be found in s. 35 of the Sale of Goods Act, 1979. In particular, where with knowledge of the relevant facts a party has acted in a manner which is consistent only with his having chosen one of the two alternative and inconsistent courses of action then open to him - for example, to determine a contract or alternatively to affirm it - he is held to have made his election accordingly, just as a buyer may be deemed to have accepted uncontractual goods in the circumstances specified in s. 35 of the 1979 Act.*

**217** *The second case cited in Firth, supra, is Tele2 International Card Co. SA v. Post Office Ltd [2009] All E.R. (D.) 144. In that case Tele2 had failed to provide a guarantee of its parent company to the Post Office for obligations under a phone card supply contract, which failure gave the Post Office the right to terminate the contract. However, it was held that under the doctrine of affirmation of a contract by election, the Post Office had elected not to terminate the contract by continuing with the contract for a year after the breach.*

**218** *See also Charter Building Company v. 1540957 Ontario Inc. (Mademoiselle Women's Fitness & Day Spa), 2011 ONCA 487 for a recent discussion by Epstein J.A. of the doctrine of election.*

[49] There is no doubt, having regard to sections 3 and 20(2) of the *Federal Courts Act*, RSC 1985, c. F-7, that the Federal Court is a Court at law and in equity and can apply principles of equity including in intellectual property matters such as those relating to patents, as is the case here.

[50] Turning to the facts, Novopharm entered into a License Agreement with Wyeth, which Agreement has been previously reviewed in these Reasons. Novopharm received a licence to sell its generic version of the drug at issue commencing as of a certain date and subject to paying certain royalties. Wyeth, among other things, undertook to take “*commercially reasonable efforts*” to address infringement.

[51] As set out in “THE EVIDENCE”, Teva’s Counsel stated that Teva was prepared to accept, among other things, the following:

*Teva accepts that Novopharm benefited during the period from January 10, 2006 to August 2, 2007 [the period over which ratiopharm claimed section 8 damages] from the fact that ratiopharm was not on the market, because Novopharm was a licensee under the License Agreement.*

[52] The evidence is, particularly in correspondence exhibited to the affidavit of Pope and acknowledged as authoritative in the discovery of Denike, that when ratiopharm first triggered the *NOC Proceedings* by sending a Notice of Allegation to Wyeth, the solicitors for Wyeth and Novopharm entered into discussions as to steps that may be taken by Wyeth. In particular:

a. Jan. 12, 2006

Wyeth notified Novopharm (Teva) that it had received ratiopharm’s Notice of Allegation and provided a copy (Pope – Exhibit 2A).

b. Jan. 12, 2006

Novopharm's solicitors sent an email to Wyeth's solicitors offering to consult and requesting a conference call (Pope – Exhibit 2B).

c. Feb. 2, 2006

Novopharm's solicitors, not having heard from Wyeth's solicitors, sent a follow-up email stating:

*We assume that Wyeth will be filing a timely notice of application and seek your confirmation. Please advise.*

(Pope – Exhibit 2C)

d. Aug. 8, 2007

Novopharm's lawyers wrote a letter to Wyeth's lawyers requesting that infringement proceedings be taken against Ratiopharm, who had, because the NOC proceedings had been dismissed, received its NOC. That letter stated, in part:

***Wyeth's Continuing Obligation to Enforce and Defend the 778 Patent Against Infringement***

*Section 5.1 of the Agreement requires that Wyeth and Novopharm provide each other with notice of any potential or actual infringement of Canadian Patent 2,199,778 (the "778 Patent"). Novopharm hereby notifies Wyeth of such infringement by Ratiopharm Inc.*

*Section 5.1 of the Agreement also requires that Wyeth "shall use its commercially reasonable efforts" to address infringement arising from "making, using, selling, offering for sale, or importing or having imported any generic equivalent" to EFFEXOR XR.*

*Wyeth took the position in Court File No. T-243-06 that Ratiopharm Inc. would infringe the 778 Patent if it were to market venlafaxine XR. Now that this eventuality has been realized, Novopharm expects that Wyeth will commence legal proceedings against Ratiopharm to stop such infringement, in keeping with its obligations under the Agreement.*

(Pope – Exhibit 2D)

e. Aug. 15, 2007

Wyeth's solicitors responded to the letter of August 8, 2007. No specific mention was made of the point set out above (Pope Exhibit 2E).

[53] As set out in the timeline earlier in these Reasons, ratiopharm commenced this action on October 22, 2007. Wyeth filed a Defence and a Counterclaim for infringement (now discontinued) on December 6, 2007.

[54] It is clear from the foregoing that Novopharm, as a licensee, encouraged and expected Wyeth to commence the NOC proceedings against ratiopharm. Novopharm believed that Wyeth was acting consistent with its obligations to take "*commercially reasonable efforts*" to address infringement.

[55] Thus, Novopharm's actions fit within the criteria of the equitable doctrine of election. It has taken a deliberate course of action, the encouragement and expectation that Wyeth must take proceedings against ratiopharm. Novopharm, by its Counsel as previously set out in a review of the evidence, has accepted that it has benefited from the License Agreement.

[56] What, then, is the effect of the merger between ratiopharm, who otherwise would have a perfectly valid section 8 claim, and Novopharm, who would be precluded by the equitable doctrine of election from asserting such a claim? Section 186 of the *Canada Business Corporations Act*, supra, subsection (d) says an existing cause of action is unaffected (ratiopharm) and subsection (e) says that a pending civil action (this one) may be continued. However, subsection (c) says that the amalgamated corporation is liable for the obligations of the amalgamating corporations (Novopharm equitable election).

[57] I find that on the basis of subsection 186(c) of the *Act*, the doctrine of equitable election is carried forward as it applies to Novopharm, and as of the date of amalgamation and thereafter affects Teva, the amalgamated corporation, which carries with it the obligation of equitable election so as to make the ratiopharm section 8 claim no longer enforceable.

**Issue #4: If the answer to Issue #3 is yes, is Wyeth entitled to offset against the section 8 claim any gains realized by Teva/Novopharm under the License Agreement?**

[58] The answer to Issue #3 is no; therefore, this Issue #4 does not need to be addressed. Given the emerging nature of jurisprudence in respect of section 8 of the *NOC Regulations*, it would be prudent to avoid making speculative or “in case of appeal” analyses of matters that do not require analysis at this time.

**CONCLUSIONS AND COSTS**

[59] In conclusion, this motion is allowed to proceed as a summary trial and summary judgment is given. That judgment is that Teva cannot continue the section 8 claim initiated by ratiopharm.

The parties are agreed that costs of this motion shall be fixed in the sum of \$20,000.00 and shall follow the event; which in this case, is an award of costs to the Defendants Wyeth.

**POSTSCRIPT**

[60] These Reasons for Judgment and Judgment contain redactions made to the Confidential Reasons for Judgment and Judgment that were issued on October 17, 2011, pursuant to the Protective and Confidentiality Order dated November 5, 2008. The redactions were made in accordance with correspondence received from the solicitors for the Plaintiff Teva Canada Limited, with which this Court agrees, and are now incorporated in the within Public Reasons for Judgment and Judgment.

**JUDGMENT**

**FOR THE REASONS PROVIDED:**

**THIS COURT'S JUDGMENT is that:**

1. This motion is allowed to proceed as a summary trial and summary judgment is given herein.
2. The Plaintiff Teva is not entitled to continue ratiopharm's claim for damages under section 8 of the *NOC Regulations*; and
3. The costs of this motion, fixed in the sum of \$20,000.00, are awarded to the Defendants.

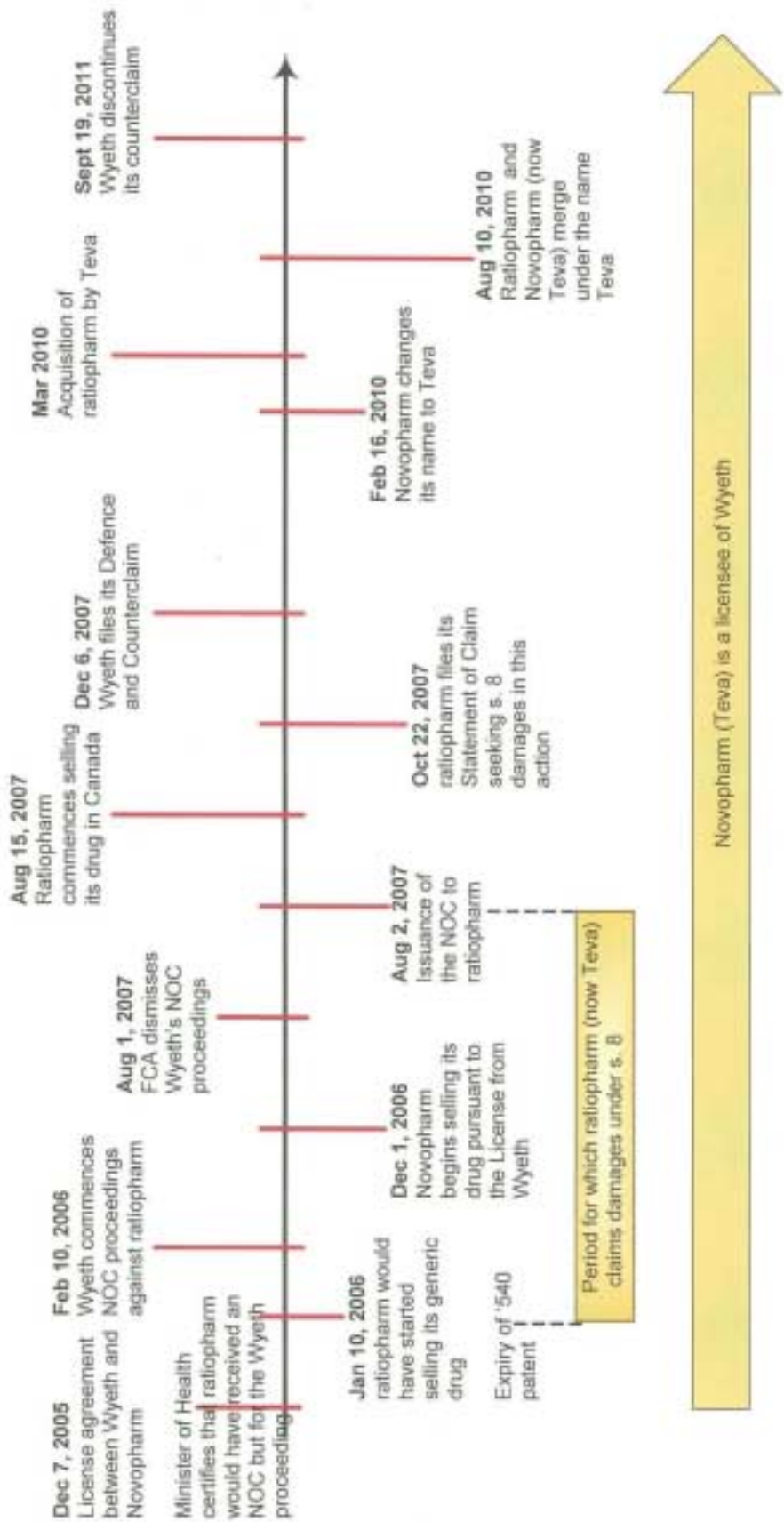
\_\_\_\_\_  
"Roger T. Hughes"

Judge

Public Reasons issued – November 9, 2011  
Confidential Reasons issued – October 17, 2011



**SCHEDULE "A"**



**FEDERAL COURT**  
**SOLICITORS OF RECORD**

**DOCKET:** T-1844-07

**STYLE OF CAUSE:** TEVA CANADA LIMITED v WYETH LLC AND  
PFIZER CANADA INC.

**PLACE OF HEARING:** Toronto, Ontario

**DATE OF HEARING:** October 11, 2011

**PUBLIC REASONS FOR JUDGMENT  
AND JUDGMENT BY:** HUGHES J.

**DATED:** November 9, 2011

**APPEARANCES:**

David Aitken and  
Bryan Norrie

FOR THE PLAINTIFF

Brian Daley and  
Joanne Chriqui

FOR the Defendants WYETH LLC and PFIZER  
CANADA INC.

**SOLICITORS OF RECORD:**

Osler, Hoskin & Harcourt LLP  
Barristers & Solicitors  
Ottawa, Ontario

FOR THE PLAINTIFF

Norton Rose OR LLP  
Montreal, Quebec

FOR the Defendants WYETH LLC and PFIZER  
CANADA INC.