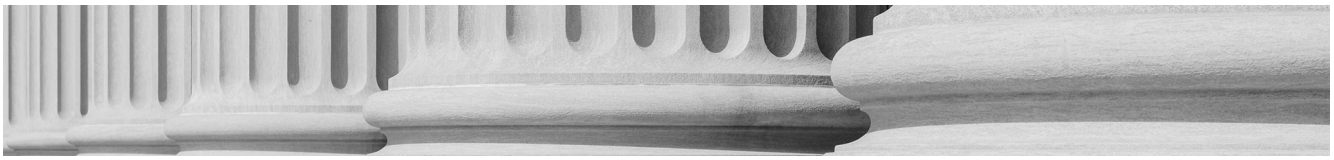

Litigation - 2016 Year in Review

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By Amrita V. Singh and Jerry Chen

In 2016, the Federal government proposed changes to the rules that govern litigation, the Federal Courts issued directions for the conduct of intellectual property litigation and Canadian courts issued decisions that affected expert evidence, standard of review, costs, varying judgments, and summary trials. Below are our summaries of key Canadian decisions and advisories that will affect intellectual property litigation.

Changes to the Rules of the Supreme Court of Canada

A number of proposed amendments to the *Rules of the Supreme Court of Canada* were introduced in November 2016, and came into effect on January 1, 2017. The amendments include a new process for providing notice of constitutional issues, changes to filing deadlines, and electronic filing of documents.

Proposed Amendments to *Federal Courts Rules*

Late last year, the Federal Courts Rules Committee recommended amendments to the *Federal Courts Rules* to account for technological advancements, codify existing informal practices, improve judicial efficiency, increase monetary jurisdictions in accordance with inflation, and ensure that confidentially filed material is, in fact, confidential. Below is a brief synopsis of the proposed changes that may affect intellectual property litigation.

- **Rule 50** relates to the monetary jurisdiction of Prothonotaries hearing actions. Currently Prothonotaries may hear trials for actions in which up to $50,000 is claimed. The amendment would increase this limit to $100,000 to account for inflation since the last amendment and anticipates future inflation of the next decade.
- **Rule 292** relates to the monetary limit for simplified actions. The amendment would increase the limit to $100,000 for the same reasons discussed above.
- **Rules 70 and 348** require parties to file their authorities, which is usually done in paper format and involves several volumes. The amendment would instead require parties to file only the excerpts from cited authorities where those authorities are available via a public electronic database, e.g. CanLII.
- **Rule 348** relates to the timeline for filing books of authorities in appeals. Often the books are filed late, inhibiting the Court's ability to prepare for a hearing. The amendment would require parties to file their books at the time of requisitioning a hearing.
- **Rule 348.1** would be a new rule that codifies an existing informal practice of parties providing the Court with compendia that include extracts from the appeal book, and book of statutes, regulations and authorities that will be referred to in oral submissions.
- **Rule 151** relates to confidentiality orders. The amendment would improve the consistency between the French and English versions of the rule, and the structure of the rule, while maintaining the key parts of the test.
- **Rule 152** would be a new rule that requires parties filing confidential material under seal with the Court to also file public versions of the same material with the confidential portions redacted, along with a statement from counsel that the only material redacted from the public version is actually confidential under a confidentiality order. This should improve judicial transparency and limit the confidential material filed.
- **Rules 204, 204.1 and 208** relate to the timing for filing a defence. The amendment would permit a defendant to file a Notice of Intention to Respond, which would add an additional 10 days to the deadline to file a defence. This would not be an attornment to the jurisdiction of the Court. The amendments would also eliminate the difference between serving a claim in Canada vs. the United States and its effect on the timing for filing a defence.

- **Rule 309(2)(e.1)** provides that an applicant may file in its record any material to be used at the hearing in compliance with certain disclosure obligations. The amendment would clarify that the respondent may also include in their own record materials that they intend to refer to which are not in the applicant's record.

These proposed amendments were published in *The Federal Gazette*, and the public was invited to make submissions until early January 2017. The amendments have yet to be registered, after which they will come into force.

Experimental Testing Direction

The Federal Court also issued a Notice to the Parties and Profession relating specifically to patent litigation and experimental testing. The Court noted that where a party intends to establish a fact in issue by experimental testing, it must provide reasonable notice at least two months before serving its expert reports of:

1. the facts to be proven by the testing;
2. the nature of the experimental procedure being performed;
3. when and where the opposing counsel and representatives can attend to observe the experiment(s); and
4. when and in what format the data and testing results from the experiments will be shared with opposing parties.

Where there is no two-month notice possible, the notice period may be abridged by the case management judge. If agreement cannot be reached between the parties, the case management judge may resolve these matters.

If this procedure is not followed, a party cannot lead evidence relating to such experimental testing for the purpose of litigation at the trial or hearing, without leave of the Court.

This formalizes the Court's practice of allowing parties to attend any experimental testing intended to be relied upon by another party in litigation, and to have access to the results of such testing before expert reports are due. For a decision that relates to this issue, see *The Dow Chemical Company et al v Nova Chemicals Corporation*, 2012 FC 754.

Directions for PM(NOC) proceedings

In May 2016, the Federal Court issued a Notice to the Parties and the Profession relating to the management of proceedings under the *PM(NOC) Regulations.* Some of the changes include:

- Hearings will typically be conducted in 2 or 3 days, and not more than 5 days
- Claim charts are now required from both parties at least 90 days prior to the hearing
- Case management conferences (CMCs) are to take place over the course of a proceeding:
    - A first CMC, involving the case management judge and the hearings judge, is to be held within 30 days of filing the requisition to address general timing of events.
    - A CMC is to be held after exchange of application records, about 2 months prior to the hearing, to discuss identify the parties and counsel, the necessity of a "tutorial session" for the Court, remaining motions, the prospect of settlement, and the identification of evidence for the hearing.
    - A CMC is to be held 30 days prior to the hearing, to deal with patents and claims remaining at issue, and statement of agreed facts or documents, confidentiality order, and any other outstanding issues.
- Electronic compendiums, comprised of relevant portions of the evidence and jurisprudence from the Memoranda of Fact and Law, are to be filed 15 days prior to the hearing.

Demonstratives evidence is to be exchanged by the parties at least 30 days prior to the hearing.

Expert Evidence

In *Airbus Helicopters v Bell Helicopter Textron Canada Limitée*, 2016 FC 590, Bell brought a motion to rely upon four damages experts' reports in the damages trial, or in the alternative, to rely on expert reports of two damages experts, with the other two experts being considered part of Bell's five "as of right" expert witnesses under the *Canada Evidence Act* and the *Rules.*[1] During the liability trial, Bell had called three expert witnesses and tendered the reports of a fourth.

No distinction may be drawn between the number of experts called at trial and the number of experts whose reports may be served before trial.[2] Bell argued that the liability and damages aspects of the case were separate proceedings, and therefore it could call additional experts. The Court held that Bell had used four of its five "as of right" experts during the liability phase of the trial, and therefore could only call one additional expert in the damages phase without leave; both the

liability and damages phases together constituted one proceeding under the *Evidence Act*. Bell was permitted to rely upon two experts' reports (one above and beyond the limit) because of Airbus' initial failure to raise the issue Bell had used four, not three, of its experts during the liability phase.

The Court clearly intends to abide by the five-expert limit and will only grant leave in exceptional circumstances. To avoid such circumstances arising, clear and accurate notice should be given regarding any intention to challenge the number of experts being tendered in a proceeding.

Costs

In *The Dow Chemical Company et al v Nova Chemicals Corporation*, 2016 FC 91, Dow sought a lump sum award of between $6.5 and $4.7 million, including disbursements of $3.6 million and fees between $2.9 million and $1.1 million. Despite Nova's objection that Dow had provided deficient evidence to support these numbers, the Court noted that Nova had not presented any data regarding its own costs and that awarding fees under Column V of Tariff B would result in a recovery of only 11% of Dow's total legal costs, which was "totally inadequate". The Court therefore awarded the 30% of Dow's actual costs as requested ($2.9 million). In addition, the Court assumed that Dow could have proven its disbursements on assessment, despite no affidavit having been filed, and on that basis awarded the full quantum of disbursements sought ($3.6 million). This $6.5 million award is the largest costs award granted by the Federal Court.

Varying Judgment

In the reference to determine damages or profits following the liability phase of trial in *The Dow Chemical Company et al v Nova Chemicals Corporation*, 2016 FC 361, Dow sought relief relating to products that had not specifically been at issue in the liability phase of the trial. To obtain this relief, Dow brought a motion seeking a declaration that the additional products were within the scope of the trial judgment and accordingly infringed. In its amended pleading during the liability phase, Dow had not identified these particular products, despite listing some 59 products in four categories. The Order of the Court on liability stipulated, however, that products under a certain brand name were the subject of the reference.

The Court agreed with Nova that varying the order due to a new discovery was inapplicable because Dow knew about the additional products before the liability trial, but concluded that a new trial would be a waste of judicial resources. Instead, the Court permitted Dow to amend its claim to add the additional products, Nova to amend its response thereto, the parties to apply the previous discoveries and evidence to this issue, and to conduct further discovery as necessary. A trial of further issues on infringement of the additional grades was to be held before the reference took place. This unique solution to the issue should be kept in mind for situations where varying an order or judgment is not appropriate.

In *Pfizer Canada Inc v Teva Canada Limited*, 2016 FCA 218, Pfizer had paid Teva damages pursuant to a Federal Court order. On appeal, the Federal Court of Appeal set aside the damages award against Pfizer and remitted it back to the Federal Court for reconsideration. Once the damages award was set aside, Pfizer requested that Teva return Pfizer's prior damages payment, with interest. Teva refused. Pfizer therefore asked the Court of Appeal to vary its judgment to require Teva to return the payment with interest. The Court held variation was inapplicable because the issue of returning the payment and interest was foreseeable and could have been dealt with as part of the underlying appeal. The Court held that Pfizer could sue Teva to recover the monies, or wait until the Federal Court decides the matter on reconsideration. It is clearly quite difficult to vary an order or judgment where the moving party ought to have contemplated an issue beforehand.

Standard of Review

In *Hospira Healthcare Corporation v Kennedy Institute of Rheumatology*, 2016 FCA 215, the Federal Court of Appeal altered the standard of review to provide greater deference to the discretionary orders of Prothonotaries. The FCA held that the SCC's *Housen* standard of review (applying the standard of correctness on questions of law, and palpable and overriding error standard for questions of fact) now applies to Prothonotaries' orders. This holding consolidates the standard applicable to first instance decisions of both Federal Court Judges and Prothonotaries, and likely makes it more difficult to appeal the decisions of Prothonotaries.

Greater deference to the orders of Prothonotaries was reinforced by the Federal Court in *Teva Canada Limited v Janssen Inc,* 2016 FC 318, where the Federal Court found that Teva failed to demonstrate that the Prothonotary's application of the legal test for bifurcation orders was clearly wrong in fact or law, and accordingly declined to interfere with the order.

In *Nova Chemicals Corporation v Dow Chemical Company*, 2016 FCA 216, in dismissing an appeal from the decision of the

Trial Judge, the FCA emphasized that a trial judge is entitled to deference relating to their analysis of factual evidence. The FCA found that as the Trial Judge was aware of the conflicting expert evidence of the parties, and provided reasons for preferring the interpretation of one expert over another, such a finding was "unassailable". The FCA also noted that while claim construction, being a matter of law, is to be reviewed on the basis of correctness, trial judges are nonetheless entitled to some leeway in that they are often in a much better position than appellate judges to understand the intricacies of the art underlying the invention disclosed in a patent.

In *Teva Canada Limited v Novartis Pharmaceuticals Canada Inc*, 2016 FCA 248, the Federal Court of Appeal held that the standard of review given to the Minister in issuing an NOC is that of reasonableness, and not correctness as found by the Federal Court in the first instance.

Summary Trials

In *Cascade Corporation v Kinshofer GmbH*, 2016 FC 1117, the parties agreed to adjudication of the plaintiff's allegations of patent infringement by way of a two-day summary trial under Rule 213 of the *Federal Courts Rules*. The case involved a patent for a "quick coupler" for attaching buckets and other implements to the arm of an excavator. The only issues before the Court were: 1) whether or not the defendant infringed the asserted claims of the patent; 2) whether the defendant Kinshofer induced or procured infringement of the asserted claims; and 3) the plaintiff's entitlement to the claimed remedies. There were no allegations of patent invalidity, and the action was bifurcated.

Fact evidence was adduced by way of affidavits in chief and cross-examinations out of Court. Both parties called experts to provide *viva voce* testimony in chief at the hearing, and the experts were cross-examined. Written arguments were exchanged following the two-day trial. Weighing the evidence, including the evidence of the experts and the wording of the patent specification, the Federal Court concluded that Kinshofer's coupler did not infringe the patent.

In *Kwan Lam v Chanel S de RL,* 2016 FCA 111, the FCA endorsed the summary trial procedure in a counterfeiting case decided by the Federal Court in 2015 FC 1091. The FCA noted that there is no need for a full trial in cases where there are ongoing sales of counterfeit goods and where the defendant puts forward weak evidence to support its defence. Notwithstanding this endorsement, the trial decision was set aside and remitted back to the Trial Judge for redetermination based on ambiguity in the trial decision as to the extent of the infringement by the defendant.

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1 *Federal Courts Rules*, rule 52.4(1) provides that if a party wishes to call more than five experts, it must seek leave of the Court. This has also been addressed in the June 2015 Proportionality Practice Direction.

2 *Apotex v Sanofi-Aventis*, 2010 FC 1282 at para 31.

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