Federal Court of Appeal | Cour d'appel fédérale

**Date: 20221201**

**Docket: A-159-21**

**Citation: 2022 FCA 207**

**CORAM:** **GLEASON J.A.**
**MACTAVISH J.A.**
**MONAGHAN J.A.**

**BETWEEN:**

**PHARMASCIENCE INC.**

**Appellant**

**and**

**TEVA CANADA INNOVATION,**
**TEVA CANADA LIMITED and**
**YEDA RESEARCH AND DEVELOPMENT CO., LTD.**

**Respondents**

Heard at Toronto, Ontario, on October 5, 2022.

Judgment delivered at Ottawa, Ontario, on December 1, 2022.

PUBLIC REASONS FOR JUDGMENT BY: MONAGHAN J.A.

CONCURRED IN BY: GLEASON J.A.
MACTAVISH J.A.

Federal Court of Appeal  Cour d'appel fédérale

**Date: 20221201**

**Docket: A-159-21**

**Citation: 2022 FCA 207**

**CORAM:** **GLEASON J.A.**
**MACTAVISH J.A.**
**MONAGHAN J.A.**

**BETWEEN:**

**PHARMASCIENCE INC.**

**Appellant**

**and**

**TEVA CANADA INNOVATION,**
**TEVA CANADA LIMITED and**
**YEDA RESEARCH AND DEVELOPMENT CO., LTD.**

**Respondents**

**PUBLIC REASONS FOR JUDGMENT**

This is a public version of confidential reasons for judgment issued to the parties. The two are identical, there being no confidential information disclosed in the confidential reasons.

**MONAGHAN J.A.**

[1] Pharmascience Inc. (Pharmascience) appeals an unreported decision of the Federal Court (*per* Kane, J.), in Federal Court files T-2182-18 and T-2183-18, awarding costs to Teva Canada

Innovation and Teva Canada Limited (collectively Teva) following two infringement actions brought by Teva, and heard together, under the *Patented Medicines (Notice of Compliance Regulations)*, S.O.R./93-133. The actions alleged that, were Pharmascience to enter the market with its product Glatect® 40mg, Pharmascience would infringe Canadian Patents Nos. 2,702,437 (the 437 Patent) and 2,760,802 (the 802 Patent).

[2] In one action, Teva was unsuccessful because the Federal Court determined that Patent 437 was invalid. However, Teva was successful in the other; the Federal Court decided Patent 802 is valid and would be infringed by Pharmascience. That decision was upheld by this Court (2022 FCA 2) and Pharmascience's application for leave to appeal to the Supreme Court was dismissed, 40100 (29 September 2022).

[3] Given the divided success, the Federal Court encouraged the parties to come to an agreement on costs. Because they were unable to do so, the Federal Court made a costs award in Teva's favour based on the parties' written submissions. In those submissions, each party advanced various reasons why costs awarded to one party or the other should be increased or decreased.

[4] Pharmascience expressed a preference for each party to bear its own costs, given the divided success, but suggested another alternative would be to award each party costs in its successful action, dividing aggregate costs incurred by each between the two actions.

[5] Teva had sent Pharmascience two proposals to settle in the course of the litigation, one in January 2019 and a second in September 2020. Teva asserted that these "settlement offers" should be reflected in the costs award, and should entitle it to increased costs and Pharmascience to no costs with respect to the 437 Patent litigation. While conceding its offers did not qualify under Rule 420 of the *Federal Court Rules* S.O.R./98-106 (the Rules) and it was not entitled to double costs, Teva submitted the offers were relevant under Rule 400(3).

[6] Pharmascience asserted neither proposal qualified for consideration under Rule 400(3)(e) or 420 because, to be given any consideration as an offer to settle under those Rules, "the offer must be definite, and 'normally capable of acceptance and [one] which, if accepted, would bring the dispute between the parties to an end'." citing *TRW v. Walbar*, [1992] F.C.J. No. 606, 43 CPR (3d) 449 (FCA) [*TRW*]; *Cami Automotive, Inc. v. Westwood Shipping Lines Inc*., 2010 FC 26 [*Cami*]; *Syntex Pharmaceuticals International Ltd. v. Apotex Inc*., 2001 FCA 137 [*Syntex*]; and *Alcan Aluminum Ltd. v. Unican International S.A. et al.* (1996), 120 F.T.R. 44, 66 A.C.W.S. (3d) 616 (FCTD) [*Alcan*].

[7] The Federal Court did not accept Pharmascience's submission that Teva's proposals could not be considered, citing *Sanofi-Aventis Canada Inc. v. Novopharm Limited*, 2009 FC 1139, aff'd 2012 FCA 265 [*Sanofi/Novopharm*]. Given "Teva's proposals to settle", the Federal Court said that an order that each party bear its own costs (in view of the divided success) "would not reflect the goal of encouraging settlement and reflecting settlement offers in costs awards." The Federal Court noted that Pharmascience did not provide "any information regarding its response to the overtures made by Teva at the relevant times or any explanation

why these proposals could not have been a jumping off point for further discussions about settlement" (Reasons at para. 42).

[8] Relying largely on *Sanofi/Novopharm*, the Federal Court concluded "Teva's good faith efforts to resolve the litigation, in a manner that would have resulted in a more favourable outcome than that determined by the Court, should be reflected in the determination of costs in a manner favourable to Teva" (Reasons at paras. 40–43). Accordingly, the Federal Court determined that Teva should be awarded some costs with respect to its successful action, and ordered Pharmascience to pay Teva lump sum costs of $277,500 (inclusive), reflecting 50% of its disbursements for, and 25% of its fees estimated by the Federal Court as allocable to, the 802 Patent action.

[9] Pharmascience appeals that decision asserting that the Federal Court erred in considering Teva's settlement proposals because "neither of the two pieces of correspondence sent by Teva… constituted an offer capable of acceptance". Teva sent its first proposal directly to Pharmascience under cover of an email describing the enclosure as a "draft settlement agreement" for Pharmascience's consideration. The draft settlement agreement was marked "without prejudice and without instructions". The cover email for the second, sent by Teva's counsel to Pharmascience's counsel, described the enclosure as a "draft" term sheet "setting out a proposed settlement framework", and was marked non-binding and for discussion purposes.

[10] Pharmascience submits that "written offer to settle" in Rule 400(3)(e) must be interpreted in the same manner as it is interpreted for purposes of Rule 420—that is, a definite offer made in

writing and capable of acceptance that would, if accepted, bring the dispute to resolution. Moreover, says Pharmascience, Rules 400(3)(e) and 420 "occupy the field" such that any settlement offer that is not a "written offer to settle" as so interpreted cannot be considered in a costs award.

[11] I disagree.

[12] Rule 400 expressly grants the Federal Court "full discretionary power over the amount and allocation of costs." It then sets out a non-exhaustive list of factors that the Court may consider, including any written offer to settle (Rule 400(3)(e)) and any other matter that the Court considers relevant (Rule 400(3)(o)).

[13] The cases Pharmascience relies on are distinguishable from the situation here. *Syntex* and *Cami* were concerned with Rule 420, not Rule 400. While *TRW* predated Rule 420, the offer was characterized as "quite indefinite" and "merely as an attempt to sound out the opposite side on a possible basis for settlement". As described below, the Federal Court did not agree with that characterization of Teva's offers. In *Alcan*, the defendant's proposal to the plaintiffs was conditional on another defendant agreeing to four conditions that were "of no concern to the plaintiffs. Rather, they form[ed] the basis of a possible agreement between the defendants" and there was no evidence the other defendant had agreed to those conditions (*Alcan* at para. 31). While the offers or proposals to settle were not factors in the cost awards in those cases, the cases do not establish that a court is precluded from considering settlement offers under Rule 400 unless they meet certain conditions.

[14] Even if I accepted Pharmascience's argument that "written offer to settle" is given the same meaning in Rules 420 and 400(3)(e), Pharmascience did not direct us to any jurisprudence that supports its assertion that an offer that fails to satisfy the requirements of Rule 420 cannot be considered relevant because Rule 400(3)(e) occupies the field. To the contrary, the list of factors in Rule 400(3) inform the genus or class of matters that may be considered under Rule 400(3)(o), but does not otherwise restrict it: *Walker v. Ritchie*, 2006 SCC 45 at paras. 25–27.

[15] Pharmascience's argument would suggest that the Court could not consider any matter described in Rule 400(3)(a) to (n) unless the relevant description was met because the field is occupied. Yet the Court relies on Rule 400(3)(o) where it believes matters that may not fall squarely within other parts of Rule 400(3) should factor into a costs award: see, for example, *Hornepayne First Nation v. Medeiros*, 2015 FC 411; and *Caruana v. Canada (Attorney General)*, 2006 FC 1355.

[16] In making its award, the Federal Court did not expressly state it was relying on Rule 400(3)(e) but rather said it had considered "[a]ll of the relevant factors set out in Rule 400(3)… including Teva's offer or proposal to settle" (Reasons at para. 33). Moreover, while the Federal Court sometimes used the expression "offer to settle" to describe the two documents Teva sent to Pharmascience, it also uses the word "proposals", either alone or together with "offer to settle", and "overture". It expressly disagreed with Pharmascience's characterization of Teva's second proposal as no more than a recommendation by counsel to its client.

[17] Pharmascience points to *Apotex Inc. v. Allergan Inc.*, 2016 FCA 155 [*Apotex*], suggesting the principles from that case are relevant to assessing whether an offer has been made. *Apotex* was concerned with the enforceability of a settlement agreement where one party sought to argue there was no binding agreement, not what qualifies as an offer to settle. Different considerations apply when the question is whether an enforceable agreement exists, and not whether an offer that might lead to an enforceable agreement, either on the offered terms or after negotiation, has been made.

[18] Costs awards serve many purposes, including providing compensation, promoting settlement and deterring abusive behaviour: *British Columbia (Minister of Forests) v. Okanagan Indian Band*, 2003 SCC 71 at para. 25; and *Air Canada v. Thibodeau*, 2007 FCA 115 at para. 24. In keeping with those objectives, proposals advanced in an effort to settle litigation cannot be said to be irrelevant to costs as a matter of principle. Rather, settlement proposals or offers that do not meet the conditions of Rule 420 may be considered under Rule 400 in making a costs award: *Dimplex North America Ltd. v. CFM Corporation*, 2006 FC 1403; *Sanofi/Novopharm*; *Sanofi-Aventis Canada Inc. v. Apotex Inc.*, 2009 FC 1138, aff'd 2012 FCA 265 [*Sanofi/Apotex*]; *Gélinas v. Canada (Financial Transactions and Reports Analysis Centre)*, 2005 FC 478; and *Allergan Inc. v. Sandoz Canada Inc.*, 2021 FC 186. See also *Stewart Estate v. TAQA North Ltd.*, 2016 ABCA 144 at paras. 52–54 (although conditional, the offers were "a sincere attempt to settle the dispute"); *Fullowka v. Royal Oak Ventures Inc.*, 2008 NWTCA 9 at page 7; and *Bifolchi v. Sherar (Litigation Administrator of)* (1998), 38 O.R. (3d) 772, [1998] O.J. No. 115, (ONCA).

[19] A similar view is taken under the *Tax Court of Canada Rules (General Procedure)*, S.O.R./90-688a (the TCC Rules): *SCDA (2005) Inc. v. Canada*, 2017 FCA 177 at paras. 29–30 [*SCDA*]. In *SCDA*, the appellant argued that the offer of settlement did not contain an element of compromise and so the Tax Court erred in relying on TCC Rule 147(3.2), the equivalent of Rule 420, in doing so because to qualify under that rule an element of compromise is required: *Venngo Inc. v. Concierge Connection Inc. (Perkopolis)*, 2017 FCA 96. This Court agreed that the element of compromise identified by the Tax Court did not qualify as such. However, the Tax Court had not relied solely on the equivalent of Rule 420 in making its costs award. Rather, it examined all of the factors before concluding that, in the circumstances, although the Crown relied on TCC Rule 147(3.2), the Crown would have been entitled to enhanced costs without doing so. In so dismissing the appeal, this Court quoted paragraph 15 from *Allen (Next Friend of) v. Mueller*, 2006 ABCA 101, emphasizing the following statement:

> Where a settlement offer does not contain an element of compromise, the court may nevertheless consider it to have been reasonable in the circumstances and exercise its discretion to award enhanced costs.

This Court then said "the Tax Court judge did not commit any error in considering the Crown's offer as one of the factors under Rule 147(3)." Rule 147(3) of the TCC Rules is the equivalent of Rule 400(3) of the Rules.

[20] Awarding costs is a case-by-case exercise and, in each case, a court must be sensitive to the particular circumstances. Thus, not all settlement offers or proposals will be a factor in costs awards under Rule 400. Rather, the impact a settlement offer or proposal has, if any, will depend on the circumstances of the case and the exercise of a court's discretion.

[21] The two *Sanofi* decisions are particularly apt here. In both, in making costs awards, the Federal Court considered offers to settle that the Federal Court described as not "formal or substantive enough to satisfy Rule 420". However, the Federal Court had "no doubt [the offers] were made in a good faith effort to end the litigation", that "Novopharm made very serious efforts to settle the litigation" and had drawn up "draft terms of settlement, to which there appears to have been no response". Despite Sanofi's explanation as to why it could not accept the offers, the Federal Court could "see no evidence that Sanofi ever tried to make responding offers" and was critical of Sanofi's failure to properly consider them. In the circumstances the Federal Court was "convinced that the settlement offers by Novopharm should result in an increase in the overall award" of costs: *Sanofi/Novopharm* at para. 22.

[22] The Federal Court took a similar view in *Sanofi/Apotex*. While agreeing that one of Apotex's offers appeared "vague" and "to have had little substance", it said the other "contained significant compromise" and "some elements that could and should have been seriously considered by Sanofi." Sanofi was again criticized because it did not "appear to have provided any explanation directly to Apotex at the time [why it could not accept a term of the second offer] or any counterproposal that did not include [that] term." The Federal Court determined that a 20% increase in the overall cost award would be "fair and just in the circumstances." (*Sanofi/Apotex* at para 22).

[23] Thus, in both *Sanofi* cases, the Federal Court considered the circumstances in which the settlement offer was made and the nature of the settlement offer, asking itself such questions as whether the offer had substance and addressed the essential matters, was made in good faith, was

a serious effort to settle the litigation, contained significant compromise, and was worthy of serious consideration. The Federal Court adopted the same approach when considering Teva's settlement proposals in the present case.

[24] This Court upheld both *Sanofi* decisions. In a single set of reasons, this Court confirmed that all of the factors considered were "well within the discretion of [the judge] in considering matters of costs after a trial" and detected "no error of law or principle": *Sanofi-Aventis Canada Inc. v. Novopharm Limited*, 2012 FCA 265 at para. 4. The same must be said here.

[25] Accordingly, I would dismiss the appeal with costs.

"K.A. Siobhan Monaghan"
J.A.

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

"I agree
Anne L. Mactavish J.A."

**FEDERAL COURT OF APPEAL**

**NAMES OF COUNSEL AND SOLICITORS OF RECORD**

**APPEAL FROM A JUDGMENT OF THE HONOURABLE JUSTICE KANE DATED MAY 12, 2021, DOCKETS NO. T-2182-18 and T-2183-18**

| | |
|---|---|
| **DOCKET:** | A-159-21 |
| **STYLE OF CAUSE:** | PHARMASCIENCE INC. v. TEVA CANADA INNOVATION, TEVA CANADA LIMITED AND YEDA RESEARCH AND DEVELOPMENT CO., LTD. |
| **PLACE OF HEARING:** | TORONTO, ONTARIO |
| **DATE OF HEARING:** | OCTOBER 5, 2022 |
| **PUBLIC REASONS FOR JUDGMENT BY:** | MONAGHAN J.A. |
| **CONCURRED IN BY:** | GLEASON J.A.<br>MACTAVISH J.A. |
| **DATED:** | DECEMBER 1, 2022 |

**APPEARANCES:**

| | |
|---|---|
| Jordan Scopa<br>Jaclyn Tilak | FOR THE APPELLANT |
| Devin Doyle | FOR THE RESPONDENTS |

**SOLICITORS OF RECORD:**

| | |
|---|---|
| Goodmans LLP<br>Toronto, Ontario | FOR THE APPELLANT |
| Aitken Klee LLP<br>Ottawa, Ontario | FOR THE RESPONDENTS |