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Federal Court Issues Rare Interim Injunction in Patent Infringement Case

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If one were to have asked the question whether pre-trial injunctive relief for patent infringement is available in Canada, the practical answer for some years has been "no". The Federal Court has, over the past few years, issued interlocutory injunctions in trademark cases in *Reckitt Benckiser LLC v. Jamieson Laboratories Ltd.*, 2015 FC 215 (upheld by the Federal Court of Appeal, 2015 FCA 104) and in *Sleep Country Canada Inc. v. Sears Canada Inc.*, 2017 FC 148, but not in patent cases. A recent decision of Justice Pentney of the Federal Court in *Arysta Life Science North America, LLC and UPL Agrosolutions Canada Inc. v. AgraCity Crop & Nutrition Ltd. and NewAgco Inc.*, 2019 FC 530 now suggests that the answer in patent cases may no longer just be "no".

Arysta and UPL ("Arysta") sought an interim injunction to prevent AgraCity and NewAgco ("AgraCity") from selling and distributing in Canada a herbicide that it alleged infringed its flucarbazone sodium composition and use patent (three patents were put forward by Arysta, but the interim decision turns on only this composition and use patent).

Justice Pentney began his analysis referencing Supreme Court of Canada case law — founded in the House of Lords decision in *American Cyanamid Co. v. Ethicon Ltd.* — that provides that to obtain pre-trial injunctive relief in Canada, an applicant must satisfy the three-element test of: "a preliminary investigation of the merits to determine whether the applicant demonstrates a 'serious issue to be tried'"; "[t]he applicant must … convince the court that it will suffer irreparable harm if and injunction is refused"; and "an assessment of the balance of convenience" to the parties.

Justice Pentney then went on to discuss the two main reasons why "interim and interlocutory injunctions have often been refused by this Court and the [Federal Court of Appeal] in patent cases". He observed that "there is usually no reason why damages caused by infringement cannot be measured or calculated in a reasonably accurate way", and that the "threshold of establishing irreparable harm is very high, and the onus is on the moving party to provide clear, convincing and non-speculative evidence that such harm will be caused by the infringement".

Justice Pentney also noted that to obtain interim relief, an applicant must demonstrate a "situation of urgency". AgraCity argued that interim relief should be denied because 34 days had passed between regulatory approval of its product (advertising of its product began the same day as the approval) and Arysta's filing and service of the interim injunction application. Justice Pentney did not see the bringing of the application as delayed, noting that Arysta put forward a relatively substantial record with expert and private investigator evidence. He found

that Arysta had established that the matter was urgent. In doing so, he noted that Arysta "could not take action prior to the launch" of AgraCity's product.

On the three elements, Justice Pentney found with regard to whether there was a serious issue to be tried — the first of the three elements — that Arysta's patent infringement claim was not "frivolous or vexatious" in light of the expert evidence.

The second element is the "key question" in all pre-trial injunctive relief applications: has irreparable harm been established?

Arysta argued that there was a substantial risk that AgraCity would not be able to pay a lost profits damages award, and that this met the irreparable harm threshold. Arysta further argued that since the interim injunction squarely raised the issue of whether AgraCity would be able to pay a damages award, it would be reasonable to expect AgraCity to file evidence to establish that it could. AgraCity argued that, because Arysta was not in the market with a competing granular or powdered form, a royalty payment should be the measure of damages. It further argued that the evidence showed that it would be able to make such a royalty payment and, therefore, that the irreparable harm threshold had not been met.

Justice Pentney observed that the inability of a defendant to pay is difficult to establish. He also observed that earlier decisions described the plaintiff's onus as being that it needs to establish "a very serious doubt", "strong indications that a substantial judgement would be uncollectable", or "reasonable grounds for concern that it is unlikely that any substantial monetary judgement … could be collected or enforced".

Justice Pentney found that Arysta had "demonstrated serious issue to doubt whether AgraCity would be able to pay a damages award, and that the evidence of AgraCity falls short of what is required to meet these concerns". On AgraCity's evidence, he noted that what AgraCity had not demonstrated "is what its net revenue, income, or profit was during the prior years, nor whether any of its assets would be available to satisfy a future judgment", and found that it would have been "reasonable to expect AgraCity to file more substantial financial information than it has done here". Accordingly, he found that Arysta had met the irreparable harm test, as it had demonstrated that there was a "substantial risk" that AgraCity would not be in a position to pay a damages award.

On AgraCity's royalty argument, Justice Pentney found that, if Arysta was limited to a royalty, on the evidence it would be a substantial amount. He also observed, after commenting that it was "not necessary" for him to come to a conclusion on the question, "Arysta could, as a matter of law, establish that it will suffer damages for infringement, even though it was no longer on the market" with its granular or powdered form.

As to the third element — balance of convenience —, Justice Pentney found that the balance favoured Arysta. He noted that "AgraCity went ahead with its marketing and sales plans without taking any steps to "clear the way", either by challenging the validity of the patent or

by seeking a licence … [i]t deliberately took the risk with its eyes open to the possible consequences".

This decision, coupled with the earlier trademark decisions, suggests that at the door is opening, at least somewhat, for pre-trial injunctive relief in intellectual property cases (the perception for some time is that injunctive relief is more available in copyright infringement cases). Three quite different fact patterns have yielded a finding of irreparable harm and the granting of an injunction. This decision continues the welcome development in injunction law for intellectual property owners.

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Views from the Bench

The Hon. Peter Bawden, Superior Court of Justice

The Limits of Judicial Attention

I practised as a criminal defence lawyer for 26 years. I have now been sitting as a criminal and civil judge for over 18 months. One of the most striking things that I have come to realize as a judge is how often my time is occupied by listening to things that I do not need to know. If I could go back to being counsel again, I would continually challenge myself with the question '*why am I saying this to the judge?*'

As a judge, I am both obliged and inclined to listen to everything that counsel say. I rarely know much about a case at the outset and I am at the mercy of counsel to tell me what I need to know. I will persist beyond reason in the expectation that it is all relevant and material. Later on in the case when the issues have crystallized, I frequently look back at the early stages of the trial and recognize (a) that my attention was wasted in trying to absorb details that did not matter; and (b) that I missed points that did matter because they were hidden in a sea of unnecessary detail.

As a judge, I have come to recognize that economy of presentation is everything. Counsel who can present their case in a distilled, efficient way are enormously valuable. In the vast majority of cases, the most efficient counsel is also the most effective counsel.

Late Service of Materials

It is common for counsel to rise in the middle of a trial or application to complain about the late delivery of some portion of his or her opponent's materials. This complaint generally prompts a defensive response from the opposing counsel which includes a list of similar grievances which previously had gone unmentioned. These exchanges interrupt testimony or submissions and distract me from hearing the case. When such complaints are finally unraveled, the complaining party rarely seeks any redress for the late disclosure. Notwithstanding the late delivery of materials, counsel generally report that they have been able to accommodate the late service and file a complete response. They insist, nevertheless, on explaining to me how they have been inconvenienced.

It is human nature to want satisfaction when one is wronged. I do not mean to discourage anyone from reliance on the Rules and if the late delivery of materials has given rise to genuine prejudice, I would recommend that you seek an adjournment or a short break to review the new materials. If you have managed to make a full response despite the late delivery of materials, there is no benefit in complaining to a judge about the inconvenience. Refereeing angry exchanges between counsel is a distracting and pointless exercise unless something is at stake.

If your opponent has failed to file materials in a timely way, it can provide an opportunity to distinguish yourself as an advocate. In one of my criminal cases, defence counsel indicated on the first day of trial that he wished to bring an application to attack a search warrant. If the application had been successful, it would have resulted in the exclusion of a significant portion of the Crown's case. Defence counsel had not filed a Notice of Application or supporting materials. The Crown had every right to complain about the lack of notice and could well have argued that the application should be dismissed based on the failure to abide by the Rules.

But the Crown in this case had noted at the JPT that the defence intended to bring such an application and, notwithstanding the failure of the defence to even serve a Notice of Application, had served and filed a detailed and persuasive factum explaining why any such application should be dismissed. Her factum had even been filed within the timelines set out in the Rules. This was a memorable demonstration of good advocacy which I have enthusiastically shared with many of my judicial colleagues.

It is the nature of legal practice that your adversaries will serve materials late. You will too. You can respond to the situation by pointlessly complaining to the judge about a situation that requires no remedy or you can seize upon it to distinguish yourself as an advocate.

The Value of Candour

I have learned as a judge that the vast majority of counsel habitually overstate their positions. Every alleged Charter breach is flagrant, egregious and outrageous. In civil cases, counsel insist that their position is founded upon Black Letter Law whereas their opponent's position has utterly no merit. As a judge, I have learned to tune out such hyperbole.

It is remarkable how convincing counsel become when they acknowledge the frailties in their own case. The truth is that every case has its difficulties. If all of the facts and law of a given situation overwhelmingly favoured one party, it is unlikely that the matter would be in court. Counsel mistakenly believe that by acknowledging a weakness, whether it be factual or legal, they are fatally undermining their case. In my court, (and I believe in others as well), such allowances engender a sense of trust in counsel.

Remember that as a trial judge, my options to discuss a case are very limited. I can't turn to my registrar and ask 'so what did you think of that witness?' Even if I consult with my judicial colleagues, they didn't hear the evidence and don't have time to hear lengthy recitations about my trials. The only people that I can talk to about the evidence are trial counsel.

When I have to make difficult factual findings, it is enormously helpful to be able to confer with people that I trust. I want to test my impressions, to be reminded of evidence which I may have forgotten or to be alerted to an unconscious bias in my reasoning. It is next to impossible to establish such a rapport with counsel who are only prepared to discuss the strengths of their own positions and refuse to acknowledge any weaknesses. You can only gain trust, and the influence which accompanies trust, by some demonstration of candour.

When your object is to convey the strength of your case, do it by stating facts — not rhetoric. Provide me with a list of the facts that you want me to find and under each fact, briefly cite

the evidence that you rely on to support that finding. Let the facts speak for themselves without any characterization on your part. One of the most powerful presentations that I have received as a judge was a brief listing of facts followed by the statement "this was unfair."

Write Measured Letters

It seems that criminal defence lawyers rarely write letters. If they write at all, it tends to be emails which are often missed or ignored in the Crown's office. Rather than writing letters, defence lawyers occasionally stand up in set date court and announce their grievances "for the record". From a judge's perspective, this is maddening.

A judge sitting in a set date court does not have jurisdiction to order much of anything. The judge becomes a spectator while counsel airs his grievance and the Crown gives a surprised and usually uninformed response. Nothing useful is accomplished. As a judge, I know that the counsel who claims to speak "for the record" is never going to lay down $50 to obtain the transcript of his remarks and the court time spent debating the merits of his complaint will do nothing to solve the problem.

Writing a letter, on the other hand, is like receiving an *ex parte* hearing before the trial judge. When you write a letter, you can take the time to formulate a complete account of the problem, list your efforts to solve it and make a pointed request of opposing counsel to rectify the problem. All of this can be done without any fear that your opponent will interrupt you or otherwise dull the tip of your complaint. Sending such a letter is much more likely to establish an advantageous record of your complaint and it also has some promise of solving the problem.

A letter on stationary stands at the top of the hierarchy of legal communications. Emails are well down that list. They are only slightly better than half recalled conversations in the hallway which are the bane of every disclosure application. If the matter is important, write a real letter.

Counsel receiving such a letter should approach it as a bomb that must be defused. If opposing counsel, be it Crown or defence, writes a formal letter outlining a legitimate grievance and the letter goes unanswered, the counsel who failed to respond will be very hard-pressed to explain that failing. Even if that counsel's position ultimately prevails, a failure to respond diminishes the reputation of counsel.

Civil counsel are obviously far more apt to send letters. As a judge, I have been astounded to realize how high-handed civil counsel can be towards one another in correspondence. I have read settlement letters which are needlessly threatening and often disparaging of the opposing parties.

Whether or not you think that this is a helpful tone to resolve the case, never forget that there is always a chance that your letter may someday be read by a judge. A letter with an aggressive and disparaging tone causes a judge to take a certain view of the character of the counsel who wrote it. That characterization precedes you into court.

Few lawyers are foolish enough to act like bullies when they appear in court yet some are unabashedly bullies in their correspondence. I would recommend using the same tone in your writing as you would when making submissions to the court. I have found that one of the most effective and distinguishing traits in counsel is simple politeness.

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Hidden Traps: Defending Novel Claims Against an Estate

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In the course of advising an estate trustee as to his or her duties, two primary tasks come to mind: (i) identifying and paying the debts of the estate and (ii) distributing the balance of the estate to the beneficiaries.

While creditors of the estate will often consist of liquidated claims, such as credit card debts, lines of credit or utility bills, it is often a more complicated exercise to identify and defend more complex claims against the estate. Some of the more novel claims that are asserted may be news to an estate trustee who was not privy to the personal circumstances of the testator during his or her lifetime.

Such claims may be founded upon information that was within the knowledge of the estate trustee and the claimant but not always documented. The challenges posed to any creditor advancing such a claim and the estate trustee defending the claim are the same: the key witness is dead and the issue becomes whether the claim can otherwise be proven or defended in such circumstances. Examples of such proceedings are claims predicated upon: (i) equitable mortgage, (ii) fraudulent conveyance, and (iii) claims against insurance proceeds.

Equitable Mortgage

The requirements of an equitable mortgage are set out in *Elios Markets Ltd., Re* (2006 CANLI 31904 (ONCA)). In that case, the court held that an equitable mortgage is distinct from a legal mortgage: *"An equitable mortgage is one that does not transfer the legal estate in the property to the mortgagee but creates an equity of charge upon the property … In essence, the concept of an equitable mortgage seeks to enforce a common intention of the mortgagor and mortgagee to secure property for either a past debt or future advances where that common intention is unenforceable under the strict demands of the common law."*

The case law is clear that an equitable mortgage is a contract evidenced by an agreement between the parties which creates in equity a charge upon real property but does not pass the legal estate to the mortgagee.

In the context of the role of an estate trustee, it may be that a disappointed creditor will assert an argument against the estate on the basis that an equitable mortgage was created between the deceased in his/her lifetime and the person who lent him or her money. If a claim is asserted, the estate trustee will need to compile and assemble any evidence in defence of any such claim and this can complicate the role of the estate trustee.

Fraudulent Conveyance

A fraudulent conveyance is commonly understood to be a conveyance which is made with the intention not to benefit the recipient of the transfer but, rather, to defeat the creditors of the transferor.

Estates are particularly vulnerable to allegations of fraudulent conveyance because it may be that a testator, contemplating his or her imminent demise due to a terminal disease or otherwise, takes steps to transfer assets out of his hands so that his estate will not be left to creditors but to family members who he needs to support.

It is compelling to try and take the position that the needs of family members should triumph over those of creditors but this is not a simple exercise. Support claimants may gain some standing as creditors but it can be a difficult position to argue that such support claimants should take priority over creditors, especially creditors who have made loans to the deceased based upon representations as to the value of their assets and, in particular, the ownership of real property.

In recent years, the "estate planning defence" has been frequently asserted against a claim of fraudulent conveyance. In the most recent example, *RBC v. Scarborough* (2019 ONSC 3369), the defendant common law spouse of the deceased argued that estate planning steps initiated 2 years prior to his death (and well before any debt was accumulated) militated in favour of a finding that the intent of the conveyance was not to defeat creditors. Other factors in favour of this argument were that: (i) the testator had transferred his house into joint ownership with his long-term common law spouse consistent with the terms of his Will, (ii) there was an acknowledgment by the deceased that the debt was owing, and (iii) the deceased was actively taking steps to seek employment while the claim was asserted against him.

Notwithstanding the evidence in favour of the suggestion that the intention was not to defeat creditors but rather to benefit family members pursuant to an estate plan, the court held that the "badges of fraud" that were present nonetheless were overwhelming and found against the estate planning defence.

Life Insurance Claims

Life insurance proceeds are a concern if the estate receives the proceeds of insurance to assist in the payment of creditors. When advising a testator regarding his or her estate plan, life insurance can play an important role in providing for the payment of debts or the support of dependants (the latter often pursuant to a Separation Agreement). As such, an irrevocable beneficiary designation of a family member may be in place. However, as we have detailed in a prior issue of *The Probater*, the recent decision of the Supreme Court of Canada in *Moore v. Sweet* stands for the proposition that, if there is a prior contractual right to be a beneficiary of an insurance policy, it is not a juristic reason for a new beneficiary to be appointed in the face of such a claim.

In our experience, it would appear that claims relating to insurance proceeds are increasingly being advanced and it is prudent to advise a testator that any designation of beneficiaries must be made with a view towards whether there is any other person who has a prior legal entitlement to receipt of the proceeds. If that inquiry is not undertaken and if a beneficiary designation is vulnerable to attack, this can complicate any well-intentioned estate plan.

Summary

The bottom line is that debts of the estate can include not only liquidated debts (commonly identified by an advertisement for creditors), but more complicated claims often framed in the context of civil litigation by way of statement of claim or notice of application. In furtherance of the duty to maximize the estate for the beneficiaries, the estate trustee must carefully scrutinize with appropriate legal advice and marshal any evidence in defence of any claim that calls into question transactions alleged to have been entered into by the deceased.