

The Requirement of Causation in an Accounting of Profits – Federal Court of Appeal rules on Availability of Non-Infringing Alternatives and Apportionment of Non-Infringing Services

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In a recent patent accounting of profits decision of the Federal Court of Appeal in *Apotex Inc v ADIR*, 2017 FCA 23, the Court emphasized that the profits need to be causally attributable to the invention. The Court also dealt with: 1) the availability of non-infringing alternatives on export sales; and 2) the apportionment of profit from the provision of indemnity and legal services.

The accounting of profits arose from a decision that found that Apotex Inc. and Apotex Pharmachem Inc. (collectively “Apotex”) infringed Canadian Patent No. 1,341,196 (“196 Patent”). The 196 Patent covered perindopril and is owned by ADIR, and Servier Canada Inc. was a person claiming under the patentee (collectively “Servier”). Following the liability determination, Servier elected to recover Apotex’s profits as a result of Apotex’s infringing activities.

On June 18, 2015, Justice Gagné of the [Federal Court](#) ordered Apotex to pay to Servier over \$61 million dollars in profits attributable to the infringement of the 196 Patent. Justice Gagné considered Apotex’s Canadian profits as well as profits from the sale of perindopril tablets abroad, particularly to Apotex’s affiliates located in Australia and UK.

The issue for the Federal Court of Appeal was the determination of the profits earned by Apotex on export sales. Specifically, Apotex argued that Justice Gagné erred in failing to consider non-infringing alternatives to the infringing perindopril and in failing to discount profits earned from provision of non-infringing services.

Availability of Non-Infringing Alternatives

At trial, Justice Gagné considered Apotex’s assertion that there were “a number of viable, non-infringing alternative sources” of perindopril. However, she rejected Apotex’s argument that its profits should be calculated by taking into account the availability of non-infringing perindopril for export sales.

On appeal, the Federal Court of Appeal noted that in *Monsanto Canada Inc v Schmeiser*, 2004 SCC 34:

“...the Supreme Court referred to the differential profit approach as the “preferred means” of calculating an accounting of profits – not the only means. However, *at bottom is the need to ensure that a patentee only receives that portion of the infringer’s profit that is causally attributable to the invention*” [emphasis added]

The Federal Court of Appeal accepted Apotex’s argument that the value of the invention can “only be quantified if non-infringing alternatives are considered” and held that it was an error not to take into account the availability of non-infringing perindopril for export sales.

The Federal Court of Appeal then analyzed Justice Gagné’s assessment of the evidence. In doing so, it endorsed the causation analysis used in *Apotex Inc v Merck & Co, Inc*, 2015 FCA 171 and *Pfizer Canada Inc v Teva Canada Limited*, 2016 FCA 161. In those decisions, compensatory damages and damages under section 8 of the *Patented Medicines (Notice of Compliance) Regulations*, respectively, were being considered. The Federal Court of Appeal held that the damages causation approach used in those decisions had equal application in the context of accounting of profits. For a summary of the Federal Court of Appeal decision in *Apotex Inc v Merck & Co, Inc*, and its damages causation approach, please see [“But for”, “Could” and “Would”: The Patent Damages Approach to Non-infringing Alternatives](#). The Federal Court of Appeal concluded that the trial judge failed to adequately consider the evidence as to the ability of Apotex’s suppliers to provide non-infringing perindopril and remitted the issue of non-infringing alternatives back to the Federal Court.

Apportionment of Non-Infringing Services

As part of its defence, Apotex also argued that the revenue it received under the transfer price agreements for the sale of perindopril

to its affiliates in UK and Australia should be apportioned. Apotex asserted that since perindopril was a “Patent Challenge Product” and carried a heightened risk of litigation, the higher price paid by its UK and Australian affiliates for perindopril was due to the indemnity provision and related litigation services. Justice Gagné rejected this argument and found that the heightened transfer price was due to the sale of the drug itself.

On appeal, the Federal Court of Court concluded that the apportionment would not be appropriate on the facts of this case because, “but for” its infringing activities, Apotex would not have made any profit.

What drove Apotex’ sales of perindopril were the new and useful characteristics of the drug. Had perindopril not been protected by the 196 Patent, there would have been no need for Apotex to provide an indemnity to protect the fragility of its affiliates. *“But for” the infringing qualities of perindopril, Apotex would have earned nothing on its sale, whether attributable to the drug itself or to the indemnity required to protect the affiliates. Thus, the profit resulting from the sale of perindopril was entirely causally attributable to the invention.* It follows that no apportionment is warranted. [emphasis added]

The Federal Court of Appeal held that even though the trial judge committed an extricable error of law in interpreting the contracts between Apotex and its affiliates, the need for a larger price “where the litigation risk loomed large” did not establish that Apotex’s affiliates agreed to pay the difference between the Patent Challenge Product price and the non-infringing patent price solely in exchange for Apotex’s protection. The Court noted that for any agreement to apportion the revenue in such a way, the agreement “should have precisely set out what was to be paid for what”.

In summary, the Federal Court of Appeal’s decision reaffirms the settled law that a patentee is only entitled to a portion of the infringer’s profit that is causally attributable to the invention when accounting of profits is elected, and this causal attribution requirement bears both on the consideration of non-infringing alternatives and apportionment.