

Under the Arbitration Rules of the
United Nations Commission on International Trade Law and
the North American Free Trade Agreement
(Case No. UNCT/14/2)

ELI LILLY AND COMPANY

Claimant

v.

GOVERNMENT OF CANADA

Respondent

CLAIMANT'S SUBMISSION ON COSTS

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1. Lilly respectfully requests an award of the costs that it has incurred in connection with this arbitration, including ICSID and Tribunal fees, costs of legal representation, and interest. Part I sets out the basis of Lilly's request. Part II summarizes the costs Lilly seeks to recover.

I. Lilly Is Entitled To Costs as the Proper Prevailing Party and Under the Circumstances of the Case.

2. Under UNCITRAL Rule 40(1), the costs of arbitration are, "in principle . . . borne by the unsuccessful party." Under Rule 40(2), reasonable costs of legal representation and assistance may be allocated at the Tribunal's discretion, having regard to the "circumstances of the case." Such circumstances include "the degree to which a party prevails on its claim."¹ The UNCITRAL Rules also permit the Tribunal to consider, in apportioning both costs of legal representation and other costs, the conduct of the parties during the arbitral proceedings.² On balance, these factors favor awarding Lilly its full costs, including costs of legal representation.

A. Lilly Is Entitled to Full Costs As the Proper Prevailing Party and As a Result of Canada's Inefficient Conduct.

3. First, for the reasons set forth in its prior written and oral submissions, Lilly is the proper prevailing party in this arbitration. Accordingly, Lilly should be awarded its costs under Rule 40(1) and its costs of legal representation under Rule 40(2).³

4. Second, Canada has detracted from the efficiency of these proceedings through (i) its delayed jurisdictional objection, (ii) its decision to introduce extensive

¹ David D. Caron & Lee M. Caplan, *THE UNCITRAL ARBITRATION RULES: A COMMENTARY* § 27.4.B(2)(a) (2013) (CL-200). Costs of legal representation and assistance may not be assessed against a prevailing party, only in its favor. See UNCITRAL Rule 38(e) (referring to "costs for legal representation and assistance of the successful party").

² See Caron & Caplan, at § 27.4.B(2)(b); see also Thomas Webster, *Handbook of UNCITRAL Arbitration* § 42-14 (2010) (CL-201).

³ See *BG Group Plc. v. Argentina*, UNCITRAL 1976, Award (24 Dec. 2007), at ¶ 460 (awarding successful claimant the majority of its costs and fees) (CL-111); *Khan Resources Inc. v. Mongolia*, UNCITRAL 2010, Award (2 Mar. 2015), at ¶ 450 (awarding successful claimant its reasonable costs and legal fees) (CL-202).

evidence on unrelated Lilly patents through Dr. Marcel Brisebois, and (iii) its focus on substantive patent law negotiations among non-NAFTA states.

1. Canada's Delayed Jurisdictional Objection

5. Canada's jurisdictional objection — which it raised in its Rejoinder despite repeated prior assurances that it accepted the Tribunal's jurisdiction — is untimely and inadmissible under UNCITRAL Rule 21(3).⁴ It is also unfounded, resting on brazen mischaracterizations of Lilly's arguments and of the applicable law.⁵ Canada's untimely objection delayed the briefing period with respect to amicus and Article 1128 submissions⁶ and required Lilly to prepare an additional jurisdictional submission. Moreover, in the course of prosecuting its objection, Canada:

- Rejected Lilly's request that Canada withdraw its jurisdictional objection. In a letter Lilly sent a week after Canada submitted its Rejoinder, Lilly explained that Canada's objection was premised on the "fundamental misunderstanding" that Lilly had "reorient[ed] its claims . . . after Canada filed its Counter-Memorial."⁷ Lilly also noted that Canada's objection was untimely and would result in procedural inefficiencies. Canada rejected Lilly's request within a day of receiving it, suggesting that Canada did not even take the time to consider the merits of the request.⁸
- Sought to deny Lilly the opportunity to respond to its objection, resulting in needless procedural briefing on Lilly's right to respond.⁹ As the Tribunal noted in granting Lilly leave to file its Opposition to Respondent's Jurisdictional Objection, given it was "undisputed that the Respondent's objection to jurisdiction *ratione temporis* [was] raised for the first time in the Respondent's Rejoinder . . . , [p]rocedural fairness demand[ed] that the Claimant be given an opportunity to respond."¹⁰

⁴ See Cl. Opp. to Resp. Jur. Objection at Part I.A.

⁵ See *id.* at Parts I.B, II; Cl. Post-Hearing Mem. at Part I.

⁶ See Letter from Lilly to the Tribunal (13 Jan. 2016).

⁷ Letter from Lilly to Canada (17 Dec. 2015).

⁸ Letter from Canada to Lilly (18 Dec. 2015).

⁹ *Id.* (arguing that Lilly "has no right to file any additional written submissions"); Letter from Lilly to Canada (21 Dec. 2015); Letter from Lilly to the Tribunal (5 Jan. 2016).

¹⁰ See Procedural Order No. 3, at ¶ 1.

- Repeatedly changed its justification for the untimeliness of its objection and pursued manifestly erroneous legal arguments (such as the claim that NAFTA Articles 1116 and 1117 exempt Canada from complying with the very procedural rules identified by NAFTA to govern this arbitration).¹¹
- Made its jurisdictional objection a focus of its cross-examination of several Lilly witnesses, even though its questions bore no relation to the testimony submitted by those witnesses and were in some cases outside the scope of their personal knowledge.¹²

These tactics compounded the burden of defending against Canada’s untimely jurisdictional objection and should be considered by the Tribunal in allocating costs.

2. Canada’s Extensive, Irrelevant Evidence on Unrelated Lilly Patents

6. With regard to Canada’s use of Dr. Brisebois’s testimony, this also resulted in inefficiency. Dr. Brisebois submitted evidence regarding 68 distinct patents on raloxifene¹³ – a drug that is not at issue in this arbitration. Canada’s focus on raloxifene required Lilly to collect, review, and submit evidence on its decades of research into that compound.¹⁴ Moreover, because Canada asserted that its raloxifene evidence showed that Lilly’s overall research and development practices were “speculative,” Lilly was compelled to demonstrate the falsity of this claim with

¹¹ See Cl. Post-Hearing Mem. at ¶¶ 36-38; see NAFTA Arts. 1120(1) and 1126(1).

¹² See Resp. Post-Hearing Mem. at ¶ 94 & n.166, ¶¶ 103-105. Canada’s cross-examination of Anne Nobles, a retired former Lilly executive who managed the global launch of Strattera, was particularly notable in this regard. Canada cross-examined Ms. Nobles for a total of twelve minutes. See Tr. at 440:14-452:1. Aside from asking her general questions about her job responsibilities, confirming that patent protection was “an extremely important consideration in determining whether and how to launch Strattera,” and confirming that she was advised by qualified counsel on Canadian patent law (points that are not in contention, and are in fact part of Lilly’s affirmative case), Canada asked Ms. Nobles exclusively about whether she had read or been briefed on individual patent cases that came out *after* the launch of Strattera – *i.e.*, after the period relevant to her legitimate expectations. *Id.* These included cases decided in 2008 and 2010, years after Ms. Nobles had moved to a position entirely unrelated to patents and patent law. See Witness Statement of Ann Nobles at ¶ 4. Canada then relied on its cross-examination of Ms. Nobles in support of its jurisdictional objection in its Post-Hearing Memorial. Resp. Post-Hearing Mem. at ¶ 94 & n.166.

¹³ First Witness Statement of Marcel Brisebois at Annex E.

¹⁴ See Cl. Reply at ¶¶ 199-209; Second Witness Statement of Robert Armitage at ¶¶ 17-23.

evidence on its drug development process as a whole.¹⁵ Dr. Brisebois also submitted evidence on an additional 27 patents covering uses of olanzapine and atomoxetine that are not at issue in this case.¹⁶ These detours, which were the subject of substantial written briefing by Canada,¹⁷ became entirely irrelevant when Dr. Brisebois conceded that his conclusions lacked a strong evidentiary foundation.¹⁸

3. Canada's Unnecessarily Extensive Evidence on Substantive Patent Law Negotiations Among Non-NAFTA States

7. Through Professor Daniel Gervais, Canada submitted extensive documentary evidence concerning negotiations among non-NAFTA parties over the draft Substantive Patent Law Treaty ("SPLT") at the World Intellectual Property Organization ("WIPO"), arguing that these documents showed that the utility requirement was controversial in the 2000s.¹⁹ Lilly had not previously invoked the SPLT in support of its claim.²⁰ Once Canada raised this issue, however, Lilly was required to retain an expert with experience working on SPLT issues at WIPO and to canvass the entire four-year documentary record of SPLT negotiations.²¹ While this

¹⁵ See Cl. Reply at ¶¶ 199-209; Second Witness Statement of Robert Armitage at § I.

¹⁶ First Witness Statement of Marcel Brisebois at Annex E.

¹⁷ Part II.E of Canada's Counter-Memorial was entitled "Claimant's Own Patenting Behaviour Illustrates Why Rules to Prevent Speculative Patenting Are Needed," and relies entirely on Dr. Brisebois's evidence. Part II.B of Canada's Rejoinder – one of only two factual background sections in the Rejoinder – is entitled "Claimant's Invalid Raloxifene, Atomoxetine and Olanzapine Patents Were Speculative Secondary Patents," and relies principally on Dr. Brisebois's evidence.

¹⁸ In his written testimony, Dr. Brisebois relied on his raloxifene evidence to conclude that Lilly's patenting practices reflected a "scattershot" approach to filing patents on the basis of "very preliminary experimental data." First Statement of Marcel Brisebois at ¶ 68. He ultimately conceded at the hearing, however, that he had "no insight" into the research and business decisions that caused Lilly to file for patents. See Cl. Post-Hearing Mem. at Part IV.C.2(b)(2). Canada dropped its allegation that Lilly patents speculatively in its Post-Hearing Memorial. See Cl. Reply Post-Hearing Mem. at ¶ 31; see also Resp. Reply Post-Hearing Mem. at ¶ 42 (claiming incorrectly that "Canada has never argued that the rationale underlying the utility requirement in Canada is tied specifically to Claimant's patents").

¹⁹ See Resp. CM at ¶¶ 181-195.

²⁰ Lilly's Memorial discussed WIPO documents only in connection with: (i) the procedural requirements of the Patent Cooperation Treaty and (ii) documents prepared by WIPO in the context of TRIPS negotiations. See Cl. Mem. at ¶¶ 202, 205, 280 & accompanying footnotes.

²¹ Professor Gervais relied on documents from throughout the draft SPLT negotiation period to argue that WIPO member states were at an "impasse" over the application of the utility requirement. Gervais First (continued...)

evidence is of some relevance to the case – it confirms that the utility standard was broadly understood to be a low bar among WIPO members²² – the Tribunal need not resort to this supplemental authority to appreciate that Canada’s utility requirement is an outlier. This unnecessary foray also should be considered by the Tribunal in allocating costs, and weighs in favor of costs being borne by Canada.

B. Lilly Is Entitled to Full Costs Because Its Costs Are Reasonable.

8. It is appropriate to award Lilly its full costs in this proceeding because those costs are reasonable. In contrast to Canada, Lilly pled a targeted case. Lilly’s opening witnesses were narrowly focused on the core issues before the Tribunal: Canada’s patent utility requirement, the patent utility requirement of the other NAFTA parties, and testimony related to Lilly’s legitimate expectations. Lilly presented expert testimony on both the substantive law of utility and patent office practice, as both were relevant to demonstrating that Canada’s utility requirement (in contrast to the utility requirements of the other NAFTA parties) has changed dramatically since 2005.²³ Lilly also provided discrete testimony on the form and contents requirements of the Patent Cooperation Treaty, which related to its Strattera claims. After Canada filed its Counter-Memorial, Lilly’s document production requests of Canada were targeted to the issues in dispute, and Lilly complied in full with the Tribunal’s orders to produce documents to Canada.²⁴

Report at ¶¶ 29-47. Unlike the remaining sections of his report, which generally comprised legal argument over the interpretation of the TRIPS and NAFTA agreements, this section of his report could not be addressed without responsive expert evidence. Lilly definitively demonstrated, through the testimony of Mr. Thomas, that the utility requirement was not the least bit controversial in the SPLT talks, which faltered for unrelated reasons. *See* Cl. Post-Hearing Mem. at ¶¶ 160-161.

²² *See* Cl. Post-Hearing Mem. at Part II.F.

²³ As noted in Lilly’s Post-Hearing Memorial, at Appendix p. 5, “[t]he utility standards in the United States and Mexico are relevant to Lilly’s claims in two respects. Factually, they demonstrate that the change in the utility requirement is unique to Canada. Legally, they inform the interpretation of ‘capable of industrial application’ consistent with Article 31 of the Vienna Convention, which provides for interpretation based on subsequent practice in the application of the treaty which establishes the agreement of the parties.”

²⁴ Canada took issue with the scope of Lilly’s document production only in its December 2015 Rejoinder, months after document exchange was completed (in June 2015). *See* Resp. Rejoinder at ¶¶ 154-155. As Lilly explained in its Post-Hearing Memorial, at ¶ 289 & n.532, the absence of documents responsive to (continued...)

9. Moreover, the additional expert evidence in Lilly’s Reply was closely targeted to rebutting Canada’s Counter-Memorial: Professor Levin directly rebutted a subset of Dr. Brisebois’s testimony related to the discriminatory effects of the promise utility doctrine; Mr. Thomas directly rebutted a subset of Dr. Gervais’s testimony related to draft SPLT negotiations at WIPO and the common understanding internationally of the utility requirement; and Mr. Reddon directly rebutted a subset of Mr. Dimock’s testimony on litigation practices in Canada.

* * *

10. In short, Lilly has consistently presented reasonable and focused evidence to meet its burden and to refute Canada’s defenses. Against this background, the inefficiencies Canada has introduced into this proceeding justify an award of all costs in favor of Lilly if it is the prevailing party. They also establish that, even if Canada were the prevailing party, it would not be entitled to its costs and attorney’s fees.²⁵

11. Tribunals have recognized that claimants in investment arbitration must often present “novel issues of international law, the resolution of which cannot be easily predicted.”²⁶ Moreover, arbitrators have noted that awards of costs against claimants

Canada’s requests concerning pre-2002 legal advice on Canada’s utility requirement merely serves to confirm that Canada’s traditional utility requirement was well-understood and did not require analysis.

²⁵ See, e.g., *Gami Investments Inc. v. Mexico*, UNCITRAL 1976, Award (15 Nov. 2004), at ¶ 135 (declining to award costs to prevailing NAFTA respondent where it “raised an unsuccessful jurisdictional objection which became a major feature of the proceedings”) (CL-108); *Mondev v. United States*, ICSID Rules, Award (11 Oct. 2002), at ¶ 159 (declining to award costs where, *inter alia*, respondent “succeeded on the merits, but . . . [not] on all of the many arguments it has advanced, including a number of arguments on which significant time and costs were expended”) (CL-7); *S.D. Myers Inc. v. Canada*, NAFTA/UNCITRAL 1976, Award (30 Dec. 2002), at ¶ 26 (considering “the late delivery by [claimant] of a significant quantity of evidentiary material”) (CL-203); see also *Azinian v. Mexico*, NAFTA/ICSID Rules, Award (1 Nov. 1999), at ¶ 126 (declining to award costs where, *inter alia*, the unsuccessful party “presented their case in an efficient and professional manner”) (CL-61).

²⁶ Caron & Caplan, at § 27.4.B(2)(d) (citing, *inter alia*, *Azinian v. Mexico* at ¶ 126) (CL-200); see *Fireman’s Fund Ins. Co. v. Mexico*, NAFTA/ICSID Rules, Award (17 July 2006), at ¶ 221 (concluding that, given Fireman’s Fund’s “respectable claims on the merits” and a close jurisdictional question lost on a “technicality,” the parties would bear their own costs) (CL-45); *Loewen v. United States*, NAFTA/ICSID Rules, Award (26 June 2003), at ¶ 240 (“[T]he Tribunal is of the view that the dispute raised difficult and novel questions of far-reaching importance for each party, and the Tribunal therefore makes no award of costs.”) (RL-13).

may deter investors from seeking to enforce the rights accorded under investment treaties.²⁷ In light of these considerations, even if Canada were the prevailing party, the Tribunal could reasonably order the parties to bear their own costs.²⁸

II. Summary of Lilly’s Costs and Attorneys’ Fees.

12. Lilly’s “costs [of] legal representation and assistance” under UNCITRAL Rule 38(e), including legal fees and disbursements, are set out in Table 1, below.²⁹

Table 1: Costs of Legal Representation and Assistance

Fees	
Covington & Burling LLP	US\$ 6,287,745
Gowling WLG (Canada) LLP	US\$ 1,577,017
Subtotal	US\$ 7,864,762
Disbursements	
Printing and Graphics (incl. Hearing Graphics)	US\$ 128,546
Research and Publications	US\$ 36,584
Travel	US\$ 83,694
Other	US\$ 14,858
Subtotal	US\$ 263,682
Total	US\$ 8,128,444

²⁷ See Caron & Caplan, at § 27.4.B(2)(d) (2013) (citing *International Thunderbird v. Mexico*, Separate Op. of Wälde, at ¶ 139) (CL-200).

²⁸ In both NAFTA arbitrations and other arbitrations under the 1976 UNCITRAL Rules, tribunals have ordered each party to bear its own costs. See *Vito G. Gallo v. Canada*, NAFTA/UNCITRAL 1976, Award (15 Sept. 2011), at ¶ 358 (adopting the rule that the parties should bear their own costs of legal representation and assistance) (CL-204); *ICS Inspection and Control Servs. Ltd. v. Argentina*, UNCITRAL 1976, Award on Jurisdiction (10 Feb. 2012), at ¶ 340 (same) (CL-205); *Centurion v. Canada*, NAFTA/UNCITRAL 1976, Award and Order Terminating Proceedings (2 Aug. 2010), at ¶¶ 75, 78 (declining to award costs of legal representation to Canada even though claimants had failed to “meet their basic obligations and to orderly prosecute their claims”) (CL-206); *Merrill & Ring Forestry L.P. v. Canada*, NAFTA/ICSID Rules, Award (31 March 2010), at ¶¶ 270-271 (“Professional competence characterized the submissions, allegations and arguments of both parties at all times. Because of this, the Tribunal concludes that each party should bear equally the costs of the arbitration and that each shall pay for its own costs.”) (CL-51).

²⁹ Canadian dollar fees and disbursements have been converted to U.S. dollars at a rate of 1.29 Canadian dollars per U.S. dollar. This reflects the spot exchange rate quoted by Bloomberg Markets as of the close of business on the business day prior to this submission (Friday, 19 August 2016).

13. Lilly’s other costs under UNCITRAL Rule 38, including its share of ICSID and Tribunal fees, are set out in Table 2, below.

Table 2: Other Costs

Experts and Witnesses	
Professor Jay Erstling	US\$ 27,952
Ms. Gilda Gonzalez-Carmona	US\$ 70,821
Mr. Steven G. Kunin	US\$ 120,089
Professor Bruce Levin	US\$ 55,768
Professor Robert P. Merges	US\$ 146,285
Mr. Andrew J. Reddon	US\$ 47,362
Mr. Fabián Ramón Salazar	US\$ 46,114
Professor Norman V. Siebrasse	US\$ 213,692
Mr. Philip Thomas	US\$ 29,504
Mr. Murray Wilson	US\$ 39,615
Fact Witnesses	US\$ 42,360
Subtotal	US\$ 839,562
ICSID & Tribunal Fees	
ICSID & Tribunal Fees	US\$ 460,000
Subtotal	US\$ 460,000
Total	US\$ 1,299,562

14. For the reasons stated in Part I, Lilly requests an award of the costs set out in Tables 1 and 2.

Respectfully submitted,

[signed]

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