The Interface Between Competition and Intellectual Property Law: A Canadian Perspective

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General Approach to the Competition / IP Interface
Overview of the Competition/IP Interface

- Once viewed as inherently in tension, competition and intellectual property (IP) laws are now seen as complementary instruments of economic policy.
  - Competition Law:
    - Promotes economic growth by ensuring an efficient allocation of resources.
    - Greater focus on short-term (static) efficiency.
    - Enforcement activities may adversely impact incentives to innovate.
  - IP Laws:
    - Promote economic growth by creating exclusive IP rights ("IPRs") to stimulate investment.
    - Greater focus on long-term (dynamic) efficiency.
    - May result in an inefficient allocation of resources in the short run.
- Both share the same ultimate objective, but since they operate through different mechanisms there is room for conflict in the short term.
The Competition Bureau’s *Intellectual Property Enforcement Guidelines* (IPEGs)

- Published by the Competition Bureau (Bureau) in 2000 to set out its approach to applying the *Competition Act* (the “Act”) to conduct involving IP.
  - Like their U.S. counterpart (Antitrust Guidelines for the Licensing of IP, 1995), the IPEGs recognize the “modern view” that competition and IP laws are complementary instruments of economic policy.

- Key enforcement principles:
  - IPRs are not presumed to confer market power.
  - Conduct in relation to IP is not presumed to be anti-competitive.
  - Licensing is generally pro-competitive.
  - Despite IP’s “special characteristics”, the same analytical approach applies to conduct involving IP as applies to conduct involving other types of property.
IPEGs Enforcement Approach

- The IPEGs distinguish between the Act’s “special” and “general” provisions.

- “Special Provisions” = s. 32 of the Act.
  - “Special remedy” for anticompetitive abuses of IPRs.
  - Applies even to the “mere exercise” of an IPR.

- “General Provisions” = the Act’s provisions of general application.
  - Require “something more” than the “mere exercise” of an IPR.

- The IPEGs define “mere exercise” of an IPR as:
  - “[T]he exercise of the owner’s right to unilaterally exclude others from using the IP” or “an IP owner’s use or non-use” of an IPR.
IPEGs Enforcement Approach (cont’d)

- A unilateral exercise of an IPR to exclude can be challenged only under s. 32 of the Act, and cannot violate the Act’s general provisions, irrespective of its impact on competition.

- This approach is consistent with:
  - The Competition Tribunal’s *Warner* decision: s. 75 (refusal to supply) does not apply to refusals to license copyrights.
  - The Competition Tribunal’s decision in *Tele-Direct*: s. 79 (abuse of dominance) does not apply to refusals to license a trade-mark, even selectively.
  - Section 79(5) of the Act: s. 79 does not apply to acts engaged in “pursuant only to” the exercise of an IPR.
“Special” Provisions of the Act

- Section 32 applies even to the “mere exercise” of an IPR, including the unilateral right to exclude.
  - Available remedies include (other than for trademarks) compulsory licensing.

- Enforced on application by the Attorney General (on recommendation of the Commissioner of Competition) to the Federal Court.

- Section 32, or provisions similar to it, have existed for most of the past 100 years with only two cases, both of which settled with the result that there are no decided cases.
“Special” Provisions of the Act (Cont’d)

- The Bureau will recommend enforcement under s. 32 if:
  - No appropriate remedy is available under the relevant IP statute (e.g., s. 65 of the *Patent Act*).
    - and -
  - The impact on competition is substantial and in a market that is different or significantly larger than the subject matter of the IP or the products that result directly from the exercise of the IP (which, in turn, is satisfied “only if” the IP holder is dominant in the relevant market and the IP is an essential input or resource for firms participating in the market).
    - and -
  - The remedy would not adversely affect incentives to invest in R & D, e.g. because the remedy addresses a refusal to license IP that is stifling competition.
“Special” Provisions of the Act (Cont’d)

- The Bureau indicates that these criteria will be satisfied only in “very rare” circumstances, and cites network industries as an example where they “could” arise.
  - In a network industry, “the value or benefit derived from using a product increases with the number of other users”.
  - Risk that the combination of IP protection and substantial positive effects associated with the size of a network may create or entrench substantial market dominance, *e.g.* by creating *de facto* industry standards.
General Provisions of the Act

- Where there is “something more” than the “mere exercise” of an IPR, conduct may be subject to the Act’s “general provisions.”

- Conduct falls within the Act’s general provisions when:
  - It ceases to be unilateral, and
  - The harm that results is not from the mere exercise of the IPR.

- The Act’s general provisions include ss. 45 (conspiracy), 47 (bid-rigging), 76 (resale price maintenance / RPM), 77 (exclusive dealing, market restriction and tied selling), 79 (abuse of dominance) and 90.1 (competitor collaborations).
Post-IPEGs Developments
Mere Exercise of an IPR


**FACTS:** Faced with a claim for patent infringement by Eli Lilly, Apotex (a generic pharmaceutical company) counterclaimed that an assignment of patent rights by Shionogi (a Japanese company) to Eli Lilly resulted in an undue lessening of competition contrary to the Act’s conspiracy provision (s. 45, as it was then worded).

**ISSUE:** Did the assignment, which conferred upon Eli Lilly patent rights for the only other known manufacturing process for its Cefaclor product, fall within the scope of s. 45 of the Act, or is it beyond its scope as the “mere exercise” of patent rights?
The Federal Court (Hugessen J.) held twice that s. 45 did not apply, that an assignment of patent rights constitutes the “mere exercise” of an IPR:

- In its 2003 decision, the Federal Court said that an assignment or transfer of patent rights can never, as a matter of law, unduly less competition.
  - “It is the existence of the patent, not the manner in which it was obtained, or how and by whom its monopoly is agreed to be enforced and defended, that impairs competition.”
- In the second decision, the Federal Court said that s. 50 of the Patent Act specifically authorizes an agreement to assign a patent right, even where it has the effect of lessening competition.
  - “... although there was an agreement between Lilly and Shionogi and although it has the effect of lessening competition, that lessening was not undue because it had been authorized by an Act of Parliament.”
Mere Exercise of an IPR: *Eli Lilly v. Apotex* (Cont’d)

- The Federal Court of Appeal disagreed (twice remanding the matter back to the Federal Court), concluding that the assignment of patent rights *can* constitute evidence of “something more” than the exercise of an IPR:
  
  - “*The assignment of a patent may, as a matter of law, unduly lessen competition.*”

- The “mere exercise” of an IPR having been settled, the Federal Court eventually dismissed Apotex’s claim as being statute-barred (the counterclaim having been brought in 2001 – seven years after the assignment, and well beyond the two-year limitation period in s. 36 of the Act).
Patent Settlement Agreements (Cont’d)


**FACTS:** Faced with a claim for patent infringement by ADIR and Servier, Apotex counterclaimed that the settlement agreement under which ADIR had been allocated the contested patent claim constituted a conspiracy to lessen competition under s. 45.

**ISSUE:** Does a settlement agreement allocating patent claims constitute “something more” than the mere exercise of an IPR?
Patent Settlement Agreements: *Servier* (Cont’d)

- Apotex argued that ADIR may not have obtained the patent rights had the Court resolved the issues, with the result that the settlement gave rise to a “probability” of ADIR being granted greater market power than it would otherwise have had.

- The Federal Court dismissed Apotex’s claim, noting that ADIR had done nothing more than exercise its rights under the *Patent Act* and the Federal Court Rules, and that the settlement had merely allocated patent *claims* – with no market power or impairment of competition possible until the patents had issued.
Patent Settlement Agreements: Servier (Cont’d)

- The Federal Court of Appeal rejected an appeal, holding that:
  - Every step of the process leading to the settlement was in accordance with ADIR’s rights under the Patent Act and the Federal Court Rules.
  - The FCA cited “some difficulty conceptualizing that an agreement effecting a remedy that was open to the court to grant and was placed before the court for its approval could constitute an offence under the Competition Act.”
  - However, the FCA did not shut the door to scrutiny of Patent settlements under the Act altogether, stating that there could be “circumstances where a settlement agreement could constitute the ‘something more’ contemplated in the Eli Lilly cases.”

*Alleged Misuse of Canada’s Drug Patent Rules* (Competition Bureau, February 27, 2004)

**FACTS:** The Bureau received a complaint about an alleged misuse of Canada’s drug patent rules by brand name pharmaceutical companies engaged in so-called “evergreening”, *i.e.* adding new patents to the patent list associated with a pharmaceutical product for the alleged purpose of delaying generic entry.

**ISSUE:** Should a complaint involving evergreening be resolved under the Act or left to be determined according to applicable patent processes?
Drug Patent Rules: “Evergreening” (Cont’d)

- The Bureau concluded that the Act was not the appropriate vehicle for resolving what amounted to a patent dispute between two companies.

- The Bureau also stated that the Government may wish to review the applicable rules to ensure that an appropriate balance is maintained between protecting IPRs and facilitating a competitive supply of pharmaceutical products for Canadian consumers. The rules have not been amended.
Restricting Competitors’ Actions

*Kirkbi AG v. Ritvik Holdings Inc.*, 2005 SCC 65 (“LEGO”)

**FACTS:** Kirkbi’s last patent for LEGO products expired in 1988, prompting entry by new competitors (including Ritvik) marketing virtually identical products. Kirkbi attempted to register the pattern of studs on a LEGO piece as a trademark in order to protect its market position. When registration was refused, Kirkbi also asserted ownership of an unregistered trade-mark.

**ISSUE:** Can trademarks be used to protect against competition once a patent has expired and technology has fallen into the public domain?
Restricting Competitors’ Actions: LEGO (Cont’d)

- The Supreme Court of Canada rejected Kirkbi’s attempt to rely on the law of trademarks and passing off to, as the SCC viewed it, “perpetuate monopoly rights enjoyed under now-expired patents.”

- The SCC examined the roles of different forms of IP and warned that “the search [by IPR owners] for continuing protection of what they view as their rightful property” could lead to “discarding basic and necessary distinctions between different forms of intellectual property and their legal and economic functions.”

- As applied to trade-mark and patent law, the SCC noted that the “basic and necessary” distinction is safeguarded by the “doctrine of functionality,” at the root of which is “a concern to avoid overextending monopoly rights on the products themselves and impeding competition, in respect of wares sharing the same technical characteristics.”

- The SCC’s decision made no reference to the Act, but underlying its application of the roles of different types of IP was a reluctance to allow one type of IP to be used to extend the protection of another.
Restricting Competitors’ Actions


**FACTS:** Kraft Canada, as the exclusive Canadian importer and distributor of Côte d’Or and Toblerone chocolate bars and the exclusive licensee of the Canadian copyright in the logos on the chocolate bar packaging, sought to rely on copyright to prevent Euro Excellence from importing and distributing and selling in Canada genuine chocolate bars that it had purchased in Europe from Kraft Canada’s parent companies (the owners of the Canadian copyright).

**ISSUE:** Could Kraft Canada, as an exclusive licensee, rely on copyrights to prevent grey marketing (parallel imports)?
Restricting Competitors’ Actions: *Kraft* (Cont’d)

- Kraft Canada was not successful in its attempt to protect its exclusive Canadian rights.

- Rothstein J. (speaking for himself, Binnie J. and Deschamps J., with Fish J. concurring) held that the case turned on a straightforward application of the *Copyright Act*’s provisions regarding “secondary infringement,” which required Kraft Canada to show that Euro Excellence had imported works that would have infringed copyright if they had been made in Canada by the persons who actually made them.
Restricting Competitors’ Actions: *Kraft* (Cont’d)

- Fish J. and Bastarache J. concurred in the result, but separately questioned attempts to use IP for potentially anti-competitive purposes.
  - Fish J. expressed “grave doubt whether the law governing the protection of intellectual property rights in Canada can be transformed [in the way that Kraft Canada urged] into an instrument of trade control not contemplated by the *Copyright Act*.”
  - Bastarache J. stated that copyright protection should not be leveraged to include economic interests that are only “tangentially related” to the copyrighted work, as is the case with a copyrighted logo on a package which he described as “merely incidental to the consumer good”. “While it is true that a logo affixed to a package can play an essential role in the sale of that package, that is the role of the logo as a trade-mark, not as a copyright.”
- Like the Court in the *Lego* case, Fish J. and Bastarache J. espoused a narrow view of IP rights that seeks to prevent the protections of one form of IPR from spilling over to spheres of the others.
Antitrust/Intellectual Property Interface
Under U.S. Law

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Patents confer a “monopoly” by giving the patent holder a right to exclude others from making or selling the invention.

Copyrights protect the owner from unauthorized copying of the author’s expression of ideas.

Early U.S. court decisions saw intellectual property law in conflict with antitrust law – Antitrust law condemns monopoly; while IP laws confers a “monopoly”.

Modern thinking is that Antitrust and IP law are complimentary – they both provide incentives to innovate – IP law by protecting new inventions and antitrust law by removing improper barriers to the introduction of new products and by protecting the competitive process.
THE DOJ/FTC INTELLECTUAL PROPERTY GUIDELINES

- The 1995 “Antitrust Guidelines for the Licensing of IP” (http://www.justice.gov/atr/public/guidelines/0558.pdf) established three basic principles:
  - First, that intellectual property should be treated like any other property.
  - Second, there is no presumption that a patent creates market power (this was a change from the prior view that a patent creates a “monopoly”). The DOJ/FTC will look at alternatives to the patented product to properly define the relevant market.
  - Third, intellectual property licensing is generally pro-competitive.
- The IP Guidelines discussed three potential kinds of markets – goods markets; technology markets; and innovation markets. These types of markets are relevant to market definition issues in merger analysis, Section 2 cases, etc.
THE DOJ/FTC INTELLECTUAL PROPERTY GUIDELINES (CONT.)

- UNDER § 2.2, Having a patent generally does not “impose on the intellectual property owner an obligation to license the use of that property to others.”
- UNDER § 2.3, Field-of-use, territorial, and other limitations on intellectual property licensing may be pro-competitive.
- UNDER § 3.1, The “Agencies will not require the owner of intellectual property to create competition in its own technology”.
NO PRESUMPTION OF MARKET POWER FROM A PATENT

- The Supreme Court in *Illinois Toolworks, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006), overruled prior precedent and ruled that there should be no presumption of market power from a patent.

- In the IP 2 Report, the DOJ/FTC reaffirmed that “antitrust doctrine does not presume the existence of market power from the mere presence of an intellectual property right.”
ANTITRUST LIABILITY FOR REFUSAL TO LICENSE INTELLECTUAL PROPERTY

- Antitrust liability for refusal to assist competitors – whether by licensing patents or otherwise – is a rare exception to the ordinary rules of antitrust.

- Under *U.S. v. Colgate*, 250 U.S. 300 (1919), the Sherman Act generally does not restrict the right of a manufacturer to decide who it will do business with; however, a refusal to cooperate with a rival can give rise to Section 2 liability in limited circumstances. *Aspen Skiing Co. v. Aspen Highlands*, 472 U.S. 585 (1985).

- In *Verizon Communications v. Trinko*, 540 U.S. 398 (2004), the Supreme Court summarized the reasons why antitrust law generally should not require a firm to cooperate with rivals:

  1. This will reduce incentives to innovate;
  2. Enforced sharing requires antitrust courts to act as regulators; and
  3. Compelling negotiation between competitors may facilitate collusion.
There is still a conflict between the 9th Circuit and the Federal Circuit regarding the consequences of a unilateral refusal to license. In *Image Technical Services, Inc. v. Eastman Kodak Co.* ("Kodak"), 125 F.3d 1195 (9th Cir. 1997), the 9th Circuit allowed a jury to determine whether a refusal to license patented parts was a mere “pretext” and affirmed a jury verdict of antitrust liability.

In *In Re Independent Service Organizations* antitrust litigation ("CSU"), 203 F.3d 1322 (Fed. Cir. 2000), the Federal Circuit granted summary judgment for defendant, declining to consider the patent holder’s reason for refusing to sell or license patent products.

The Federal Circuit ruled that a “patent holder may enforce the statutory right to exclude others… free from liability under the antitrust laws” except under very narrow circumstances where there is proof of illegal tying, fraud on the Patent Office, or sham litigation.

In the IP 2 Report, the enforcement agencies concluded that there is little chance of antitrust liability for “mere unconditional unilateral refusals to license”.

However, a patent holder’s imposition of certain conditions on the right to license, including tying arrangements and exclusive dealing – may still give rise to antitrust claims.

For example, in *U.S. v. Microsoft*, 253 F.3d 34 (D.C. Cir. 2001), the D.C. Circuit rejected Microsoft’s argument that since it had a valid copyright on Windows, it could prevent PC manufacturers from changing the appearance of the Windows desktop. “This is no more correct than the proposition that one’s use of personal property such as a baseball bat can not give rise to tort liability.”
THE “ESSENTIAL FACILITIES” DOCTRINE

- The “essential facilities” doctrine is a subset of “refusal to deal” cases. The “essential facilities” doctrine is a label sometimes used by plaintiffs or by courts to describe a situation where a dominant firm (or group of firms) is required to cooperate with rivals or make facilities available to rivals. The concept originally arose out of cases involving the collective action of a group of horizontal competitors denying access to a disfavored rival. *U.S. v. Terminal R.R. Ass’n.*, 224 U.S. 383 (1912).

- In *MCI Communications v. AT&T*, 708 F.2d 1081 (7th Cir. 1983), the Court extended the theory to unilateral conduct and identified four requirements to establish liability under an “essential facilities” theory:
  1. Control of the essential facility by a monopolist;
  2. A competitor’s inability practically or reasonably to duplicate the essential facility;
  3. The denial of the use of the facility to a competitor; and
  4. The feasibility of providing the facility.
The continued viability of the “essential facilities” doctrine (at least involving unilateral conduct) is in question after the Supreme Court’s ruling in *Verizon Communications v. Trinko*, 540 U.S. 398 (2004).

In any event, the applicability of the “essential facilities” doctrine to intellectual property has been questioned. In the case of *In Re Microsoft Antitrust Litigation*, 274 F. Supp. 2d 743 (D. Md. 2003), the Court rejected plaintiff’s argument that the Application Programming Interfaces (“APIs”) to the Windows Operating System were an “essential facility”. The Court stated, “to require one company to provide its intellectual property to a competitor would significantly chill innovation.” See also *Daisy Mountain Fire District v. Microsoft Corporation*, 547 F. Supp. 475 (D. Md. 2008) (Dismissing “essential facilities” claim against Microsoft, ruling that “essential facility claims involving tangible assets are quite different from claims involving technical innovation …”) But see Pitofsky, “The Essential Facilities Doctrine Under U.S. Antitrust Law,” 70 Antitrust L.J. 443, 452-454 (2002) (arguing that the “essential facilities” doctrine should apply to IP).
ANTITRUST ISSUES IN PROSECUTING INFRINGEMENT LITIGATION

- Bringing a legitimate patent or copyright infringement suit should not give rise to antitrust liability.
- However, there are two theories of antitrust liability that may be asserted if an infringement suit is based on a fraudulent patent or is a “sham” litigation.
- First, there is a *Walker Process* claim, named after the Supreme Court case of *Walker Process Equipment v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965). In a *Walker Process* claim, the plaintiff must prove that:
  1. The patent was procured by knowing and willful fraud;
  2. The party asserting the patent was aware of the fraud when it initiated the lawsuit;
  3. The patent would not have been granted to the defendant absent the fraud.
- “Deliberate fraud” to trigger *Walker Process* liability can be shown either by a fraudulent misrepresentation to the Patent Office or a fraudulent omission, as long as the misrepresentation or omission is material. *Nobelpharma v. Implant Innovations*, 141 F.3d 1059 (Fed. Cir. 1998).
The second theory of potential antitrust liability is that a plaintiff has filed or prosecuted a “baseless” or “sham” patent or copyright infringement suit with the purpose of hurting a competitor.

In *Professional Real Estate Investors v. Columbia Pictures Industries*, 508 U.S. 49 (1993), the Supreme Court addressed the question of how to define “sham” litigation, which would not be entitled to immunity from antitrust suit. The Supreme Court held that litigation can not be deprived of immunity as a “sham” unless the litigation is “objectively baseless” in the sense that no reasonable litigant could realistically expect success on the merits. Thus, if a court finds that an objective litigant believes that the claim has a chance of prevailing, then bringing the claim is not “objectively baseless”.

## ANTITRUST ISSUES IN PROSECUTING INFRINGEMENT LITIGATION (CONT.)

- The second theory of potential antitrust liability is that a plaintiff has filed or prosecuted a “baseless” or “sham” patent or copyright infringement suit with the purpose of hurting a competitor.
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- The Supreme Court held that litigation can not be deprived of immunity as a “sham” unless the litigation is “objectively baseless” in the sense that no reasonable litigant could realistically expect success on the merits. Thus, if a court finds that an objective litigant believes that the claim has a chance of prevailing, then bringing the claim is not “objectively baseless”.

Only if the challenged litigation is found to be “objectively baseless”, should a court get to the second step of examining the litigant’s subjective motivation. Under the second part of the definition of “sham”, the court focuses on whether the baseless suit conceals an attempt to interfere directly with the business relationships of a competitor through the use of the governmental process – as opposed to the outcome of that process.

Under the “objectively baseless” prong of this test, a lawsuit that wins by definition is legitimate. Even a losing claim would be protected as long as the law or the facts were in doubt when the case was filed so that filing the suit was an objectively plausible effort to enforce a party’s rights.
Patent Settlements
Intellectual Property and Section 90.1 of the Competition Act

CBA Competition Law Spring Forum 2011

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Scenario

• Heli-Billy has a patent for the blockbuster drug *Panacea*

• Napotex wants to sell a generic version *Apo-Pancea*

• Patent dispute, then settlement:
  ✴ Napotex agrees to stay off the market
  ✴ Gets $360 million per year (until the patent expires)
Some Basic Propositions

• Agreements among competitors not to compete are highly suspicious from antitrust perspective

• If patent is valid, any reduction of competition is a consequence of the patent. Settlement not more anti-competitive than the patent

• If patent is invalid (and parties know that it is) but competitor agrees to keep out, a naked cartel
PROBLEM
PROBLEM

valid: per se legal
PROBLEM

valid: per se legal

clearly invalid: per se illegal
Problem

valid: per se legal

Patent only
presumptively valid:

Settlement:
presumptively legal?
presumptively illegal?
something else?

clearly invalid: per se illegal
Dilemmas

• Tension between
  • Desire to encourage settlements
  • If legality of settlement depends on validity of patent there won’t be any settlement
  • Concern that settlements disguise cartels
  • Validate invalid patents
US: Tamoxifen

an agreement between a patent holder and an alleged infringer to settle their patent litigation cannot violate the antitrust laws so long as:

- the patent litigation was not a sham or otherwise baseless

- and the settlement agreement does not impose restrictions on the alleged infringer that extend beyond the scope of the patent.

(In re Tamoxifen Citrate Antitrust Litig., 466 F.3d 187, 212 (2d Cir. 2006))
Rationale

- Presumption of validity
  - Rebuttable, but only by “clear and convincing evidence”
- Public no worse off because reverse payment settlements
- *In the background:* concern about, treble damages and class actions running amok.
Comparing presumption of validity

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| 35 U.S.C. § 282:  
A patent shall be presumed valid.  
Each claim of a patent ... shall be presumed valid independently of the validity of other claims; ...  
The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity. | Patent Act, s. 43(2):  
(2) After the patent is issued, it shall, in the absence of any evidence to the contrary, be valid ... |
| “clear and convincing evidence” | much lower standard |
Conclusion

- Weaker presumption of validity in Canada
- Canadian Competition act may be less deferential to patent law
- Greater scrutiny to patent settlement?
45. (1) Every person commits an offence who, with a competitor of that person with respect to a product, conspires, agrees or arranges

(a) to fix, maintain, increase or control the price for the supply of the product;

(b) to allocate sales, territories, customers or markets for the production or supply of the product; or

(c) to fix, maintain, control, prevent, lessen or eliminate the production or supply of the product.

...

(4) No person shall be convicted of an offence under subsection (1) in respect of a conspiracy, agreement or arrangement that would otherwise contravene that subsection if

(a) that person establishes, on a balance of probabilities, that

(i) it is ancillary to a broader or separate agreement or arrangement that includes the same parties, and

(ii) it is directly related to, and reasonably necessary for giving effect to, the objective of that broader or separate agreement or arrangement; and

(b) the broader or separate agreement or arrangement, considered alone, does not contravene that subsection.
How to challenge

... Common law principles — regulated conduct

(7) The rules and principles of the common law that render a requirement or authorization by or under another Act of Parliament or the legislature of a province a defence to a prosecution under subsection 45(1) of this Act, as it read immediately before the coming into force of this section, continue in force and apply in respect of a prosecution under subsection (1).
S. 45 may not be suitable for most patent settlements (unless sham)
What about s. 90.1?

90.1 (1) If, on application by the Commissioner, the Tribunal finds that an agreement or arrangement — whether existing or proposed — between persons two or more of whom are competitors prevents or lessens, or is likely to prevent or lessen, competition substantially in a market, the Tribunal may make an order

(a) prohibiting any person — whether or not a party to the agreement or arrangement — from doing anything under the agreement or arrangement; or

(b) requiring any person — whether or not a party to the agreement or arrangement — with the consent of that person and the Commissioner, to take any other action.
## s. 45 vs. s. 90.1

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Conclusion

- S. 90.1 seems suitable for dealing with patent settlement;
- At least more than s. 45;
- Canadian competition law may be less deferential than US antitrust;
- But much weaker institutional incentives to challenge.
Reverse Payments In the Pharmaceutical Industry

- Over the past decade, the Antitrust enforcement agencies have been particularly concerned with pharmaceutical patents settlements involving “exclusion payments” – payments to delay entry of a lower-cost generic drug – and have challenged agreements believed to violate the antitrust laws. See generally, “Pay for Delay: How Drug Company Pay-Offs Cost Consumer Billions,” (FTC Staff Report January 2010) (Available at http://www.ftc.gov/os/2010/01/100112payfordelayrpt.pdf).
Such “reverse payment” settlements usually take place within the framework for generic entry established by the Hatch-Waxman Act (codified in 21 U.S.C. § 355). Under that Act, a generic competitor may seek entry prior to the expiration of the patents on a brand-name drug. The Act creates an incentive for generic companies to challenge brand name patents because the first generic to file its application can obtain 180 days of marketing exclusivity during which it is the only generic on the market (subject to limited forfeiture provisions in 21 U.S.C. § 355(j)(5)(D)). To seek FDA approval for entry before patent expiration, a generic must declare that its product does not infringe the relevant patents or that the relevant patents are invalid. Typically, brand-name pharmaceutical companies file infringement actions challenging the generic’s declaration, and litigation ensues between the brand-name and generic pharmaceutical manufacturers to determine the relevant patents are valid and/or infringed. For the brand-name manufacturer to prevail and block entry, it must successfully defend the validity of its patents and demonstrate that the generic’s product would infringed those patents. Given the cost and potential uncertainty of patent litigation, brand name and generic manufacturers often settle their patent litigation before a final court decision. In some circumstances, the settlement involves payments from the plaintiff – the brand-name manufacturer – to the defendant – the generic manufacturer. The settlements have been called “reverse payment” settlements. Since amendments to the Hatch-Waxman Act effective in January 2004, settlements of Hatch-Waxman litigation between a brand-name manufacture and a generic manufacture must be reported to the FTC and Department of Justice. See Pharmaceutical Agreement Filing Requirements (available at http://www.ftc.gov/os/2004/01/04106pharmrules.pdf).
However, a number of appellate courts have rejected the claims of the enforcement agencies and private plaintiffs, upholding “reverse payment” patent settlements as long as they are within the scope of the challenged patents. See *Schering-Plough Corporation v. Federal Trade Commission*, 402 F. 3d 1056 (11 Cir. 2005); *Valley Drug Co. v. Geneva Pharms.*, 344 F. 3d 1294 (11th Cir. 2003); *Arkansas Carpenters Health & Welfare Fund v. Bayer AG*, 604 F. 3d 98 (2d Cir. 2010), cert. denied March 7, 2011; *Federal Trade Commission v. Watson Pharmaceuticals, Inc.*, Case No. 1:09-cv-00955 (N.D. Ga. Feb. 22. 2010) (On appeal to 11th Cir.); *In re Ciprofloxacin Hydrochloride Antitrust Litigation*, 544 F.3d 1323 (Fed. Cir. 2008).
Under the approach of these courts, “reverse payment” settlements that do not exceed the scope of the challenged patents should be upheld because (1) patents are presumed valid, (2) patent law bestows the patent holder with the right to exclude others from profiting by the patented invention, (3) a settlement is not unlawful if it serves to protect that to which the patent holder is legally entitled – a monopoly over the manufacture and distribution of the patented invention. *Arkansas Carpenters*, 544 F.3d at 1337.

Under this approach, “reverse payment” settlements of patent litigation between brand name manufacturers and generic manufacturers do not violate the antitrust laws unless one of three circumstances is shown to be present: (1) the patent-in-suit was procured by fraud, (2) the suit for its enforcement is shown to be “objectively baseless”, or (3) the exclusionary effects of the settlement exceed the scope of the patent-in-suit.
The one appellate case where the “reverse payment” settlement was invalidated involved a situation where the settlement did exceed the scope of the patents in question. See *In re Cardizem CD Antitrust Litigation*, 332 F.3d 896 (6th Cir. 2003); see also *King Drug Co. of Florence, Inc. v. Cephalon*, 702 F.Supp. 2d 514 (E.D. Pa. 2010) (Motion to dismiss denied where complaint alleged the patent was invalid; the settling generic company refused to surrender its 180 day exclusivity period and the settlement exceeded the exclusionary scope of the patent.)
Reverse Payment Patent Settlements

- “Reverse payments” or “exclusion payments” in patent settlements pose significant challenges under the *Hatch-Waxman Act* (“H-W Act”) in the United States.

- Reverse payments (in this context) refer to payments made by brand-name pharmaceutical companies to potential generic entrants to delay their entry to the market.

- U.S. antitrust authorities (especially the FTC) have challenged such arrangements, on the theory that they constitute agreements to split monopoly profits rather than compete.

- The IPEGs provide no guidance on the Bureau’s approach to reverse payments, nor have there been any reverse payment cases in Canada.

- Based on *Servier* and the Drug Patent Rules case, how would Canadian courts deal with a reverse payment case?
Abuse of The Standard Setting Process

- Collaborative setting of industry standards by competitors can be enormously procompetitive, particularly where products need to interoperate.

- However, the standard setting process presents opportunities for anticompetitive conduct.

- “[A]ntitrust law historically has been concerned with the risk of one or a small number of participants in a standards setting organization capturing the economic power of an industry-wide standard and turning the SSO into a source of exclusionary power.” Rambus Inc. v. Infineon Techs., 330 F.Supp. 2d 679, 696-97 (E.D. Va. 2004); see also Amer. Soc. of Mech. Eng’rs, 456 U.S. 556 (1982).
Abuse of The Standard Setting Process (Cont.)

- Most cases relate to collusive activities to protect colluders from rivals’ innovation. But problematic unilateral activities include:
  - Misrepresenting or failing to disclose the existence or scope of intellectual property that covers a proposed standard.
  - Failing to abide by a FRAND commitment.
ANTITRUST ISSUES IN STANDARD-SETTING

- *In the Matter of Dell Computer, 121 F.T.C. 616 (1996)*, the FTC first considered the anti-competitive consequences of the belated assertion of intellectual property rights after the IP had been incorporated into a standard developed through the collaborative efforts of different companies in a standard-setting organization. A Dell representative allegedly certified in writing, under the standard-setting rules of the organization, that the proposed standard did not infringe on any of Dell’s intellectual property rights. After the standard was adopted, however, Dell informed several companies utilizing the standard that Dell’s patent rights were infringed. The FTC alleged that Dell had engaged in anti-competitive conduct by failing to disclose its patent rights and then threatening to enforce those rights after the standard had been adopted and achieved wide market acceptance. This issue has come to be known as the “patent hold-up” problem.
In *Broadcom Corp. v. Qualcomm, Inc.*, 501 F.3d 209 (3rd Cir. 2007), the 3rd Circuit recently addressed one variant of the “patent hold-up” problem – whether the antitrust laws applied to actions of a company that allegedly breached its promise to license patented technology incorporated in a standard on fair and reasonable (“FRAND”) terms. The 3rd Circuit reversed the district court’s dismissal of Broadcom’s complaint against Qualcomm, holding that a patent holder’s intentionally false promise to license essential intellectual property on FRAND terms within the context of a standard-setting organization is actionable anti-competitive conduct where the standard-setting organization relied on that promise when including the IP in a standard.
Another recent variant of this theory is the claim that a company engages in anticompetitive conduct, as well as a breach of contract, when it fails to license IP on FRAND terms. This claim was raised in *Research in Motion Ltd. v. Motorola*, Inc., 644 F. Supp. 2d 788 (N.D. Tex. 2008). There RIM brought a Section 2 monopolization and breach of contract claim against Motorola based on Motorola’s alleged failure to license patents essential to WLAN standards, as well as other standards, on FRAND terms. The court suggested that a holder of an “essential patent” incorporated into a standard possesses monopoly power in the relevant market, at least for purposes of a motion to dismiss. *Id.* at 793. The court also suggested that a holder of “essential patents” becomes a “gatekeeper” in the use of technologies necessary to the standard, and abusing that “gatekeeper” role causes antitrust injury. *Id.* at 794-95. Finally, the court stated that the complaint alleged that “by misrepresenting its intentions” in the standard-setting process, Motorola committed “anticompetitive conduct” to achieve or maintain its monopoly power. The court found such allegations sufficient to withstand a motion to dismiss a Section 2 monopolization claim. The court also ruled that RIM’s contract claim, based on a “intended beneficiary” theory, stated a valid cause of action.
Similarly, in *Ericsson v. Samsung Electric Co., Ltd.* 2007 WL 12027828 (N.D. Tex Aprl. 20, 2007), the court permitted Samsung’s breach of contract claim against Ericsson to proceed based upon an alleged failure to honor a FRAND commitment with respect to the WCDMA standard.

Microsoft recently asserted a similar case against Motorola on breach of contract, waiver, and estoppel theories, based on Motorola’s alleged breach of its commitments to standard setting organizations to license “essential patents” on FRAND terms. See complaint, filed in *Microsoft Corporation v. Motorola, Inc.*, Case 2:10-cv-01823-JCC (W. D. Wash. Filed Nov. 9, 2010) (Doc. 1).
In *Rambus v. FTC*, 522 F. 3d 456 (D.C. Cir. 2008), the Appellate Court reversed a finding of the Federal Trade Commission that Rambus had engaged in “exclusionary conduct” within the meaning of Section 2 of the Sherman Act and Section 5 of the FTC Act by failing to disclose patents and patent applications during the course of its participation in meetings of a standard-setting organization, and by using information gained from its participation in the standard-setting proceedings to modify patent applications to insure that its issued patents would apply to those industry standards. The Appellate Court reached this conclusion because there was no evidence in the record that the standard-setting organization would have adopted different technologies instead of the technologies owned by Rambus had Rambus made full disclosure. This decision rested on the lack of a causal connection between the challenged conduct and the decisions of the SSO.
One of the FTC’s latest action in the standard-setting context was the announcement of a proposed consent judgment on January 23, 2008 with Negotiated Data Solutions LLC (also called “N-Data”). In this case, the FTC alleged that N-Data had acquired technology from another company which had promised to charge only $1,000 for a paid-up license if the technology was included in an Ethernet standard. The FTC alleged that N-Data’s action in attempting to renege on this promise constituted in “unfair act or practice” and an “unfair method of competition” within the meaning of Section 5 of the FTC Act.

By order dated September 22, 2008, the FTC approved the entry of a consent judgment under which N-Data agreed not to attempt to collect higher royalties for use of the patented technologies incorporated into the Ethernet standards.
The Antitrust Enforcement agencies have encouraged SSOs to adopt clear rules so companies “know up-front, what they are getting into when they choose to participate in the SSO, when they choose to disclose or not disclose potentially relevant or intellectual property, and when they choose whether to implement a standard.” Varney speech at p. 5.

The Antitrust Enforcement agencies have also clarified that they will not pursue SSOs on a \textit{per se} price-fixing theory if the SSOs adopt rules which require or encourage the pre-disclosure of maximum royalty rates and other licensing terms by patent holders while their patented technologies are being considered for inclusion in a standard. See letter from Thomas O. Barnett, Assistant Attorney General, U.S. Dept. of Justice, to Robert A. Skitol, Esq. (Oct. 30, 2006) (Referred to as the VITA Business Review letter) (Available at http://www.justice.gov/atr/public/busreview/219380.pdf) and letter from Thomas L. Barnett, Assistant Attorney General, U.S. Dept. of Justice, to Michael A. Lindsey, Esq. (April 30, 2007) (IEEE Business Review letter) (Available at http://www.justice.gov/atr/public/busreview/222978.pdf)
As Assistant Attorney General Christine Varney recently stated, “the Division has recognized that in choosing among competing technologies, SSOs may benefit from knowing not only the performance trade-offs but also the cost of using these various technologies, including any royalty costs. Moreover, those costs should be known before technologies become incorporated into the standard, not after.” Varney speech at p. 5.
Abuse of Intellectual Property Processes

- In the United States, abuse of IP processes (and related processes, such as non-disclosure of IPRs in standard setting processes) have been the subject of antitrust enforcement.

- Only limited case law in Canada, but the tendency has been to allow IP processes to run their course (without competition law intervention).
  
  - “Evergreening” Misuse of Drug Patent Rules: The Bureau concluded that the Act is not the appropriate vehicle for resolving a patent dispute.
  
  - **LEGO**: Doctrine of functionality – Courts were permitted to decide that a trademark cannot be used to extend exclusivity beyond the life of a patent.

- Sham litigation was considered as an anticompetitive act in **DIR. v. Laidlaw Waste Systems Ltd.** (1992), 40 C.P.R. (3d) 289 (Comp. Trib.), however it was one among several anti-competitive acts considered by the Tribunal.
Collective Administration of Copyrights
The rationale

ASCAP and the blanket license developed together out of the practical situation in the marketplace: thousands of users, thousands of copyright owners, and millions of compositions.

Most users want unplanned, rapid and indemnified access to any and all of the repertory of compositions, and the owners want a reliable method of collecting for the use of their copyrights.

Individual sales transactions in this industry are quite expensive, as would be individual monitoring and enforcement, especially in light of the resources of single composers.

Indeed ..., the costs are prohibitive for licenses with individual radio stations, nightclubs, and restaurants, and it was in that milieu that the blanket license arose.

BMI v. CBS, 441 U. S. 1, 20 (1979)
Where’s the market failure?

- songwriter
- publisher
- Record label
- iTunes

**WARNING**

Policy Failure

- Reproduction right (of musical composition)
- Online reproduction right (of musical composition)
- Reproduction right (of sound recording)
- Comm. to the public by telecomm. (of musical composition)

Re:Sound “equitable remuneration”

blank media levy (iPod tax)
Will the Copyright Board solve the problem?
Seven years after the Act of 1921 came into force the legislature realized that in respect of performing rights a radical change in the statute was necessary.

Societies, associations and companies had become active in the business of acquiring such rights, and the respondents in this case admittedly have more or less successfully endeavoured to get control of the public performing rights in the vast majority of popular musical and dramatico-musical compositions which are commonly performed in public.

The legislature evidently became aware of the necessity of regulating the exercise of the power acquired by such societies ...
Access Copyright Interim Tariff (Copyright Board, 2011)

“That this argument [that the application for an interim tariff raises competitive concerns] is even raised is surprising, ...

it is now settled that the Board’s mandate is not to protect users against potential abuse of monopoly power by collectives, but to maintain a balance in the relevant markets.”
Can the Competition Act solve the problem?
Regulated Conduct?

The Bureau will apply the Act as it reads unless it can confidently determine that Parliament intended that the other federal law prevail, either by clear language in the Act or by the other federal law authorizing or requiring the particular conduct or, more generally, providing an exhaustive statement of the law concerning a matter.

Parliament's intention in the other federal law may be express or implied; in the latter situation, the Bureau will generally conclude that the enactment by Parliament of specific provisions to address the conduct in question is intended to take precedence over a law of general application such as the Act.

Accordingly, the Bureau will not pursue a matter under any provision of the Act where Parliament has articulated an intention to displace competition law enforcement by establishing a comprehensive regulatory regime and providing a regulator the authority to itself take, or to authorize another to take, action inconsistent with the Act, provided the regulator has exercised its regulatory authority in respect of the conduct in question.

Competition Bureau, “Regulated” Conduct Bulletin, Sept. 2010
Collectives and the competition act

70.5 (1) For the purposes of this section and section 70.6, “Commissioner” means the Commissioner of Competition appointed under the Competition Act.

(2) Where a collective society concludes an agreement to grant a licence authorizing a person to do an act mentioned in section 3, 15, 18 or 21, as the case may be, the collective society or the person may file a copy of the agreement with the Board within fifteen days after it is concluded.

(3) Section 45 of the Competition Act does not apply in respect of any royalties or related terms and conditions arising under an agreement filed in accordance with subsection (2).

(4) The Commissioner may have access to the copy of an agreement filed in accordance with subsection (2).

(5) Where the Commissioner considers that an agreement filed in accordance with subsection (2) is contrary to the public interest, the Commissioner may, after advising the parties concerned, request the Board to examine the agreement.

70.6 (1) The Board shall, as soon as practicable, consider a request by the Commissioner to examine an agreement and the Board may, after giving the Commissioner and the parties concerned an opportunity to present their arguments, alter the royalties and any related terms and conditions arising under the agreement, in which case section 70.4 applies with such modifications as the circumstances require.
Collectives and the competition act

- S. 70.5 applies to vertical aspects:
  - the agreement between the collective and the licensee;
  - S. 45 (Competition Act) immunity only in respect of any royalties or related terms and conditions arising under such agreement;
  - Not to the horizontal aspects (i.e., the collective itself);
  - S. 70.5 exempts only from s. 45 of the Competition Act;
  - But not other provisions (e.g., abuse of dominance);
  - Especially, not from s. 90.1
Conclusion

- The Competition Act can make sure that collective administration exists only when its necessary;
- The new s. 90.1 provides a very good tool for that;
- If not, maybe s. 32?