SELECTED TOPICS IN COMPETITION LAW
AND INTELLECTUAL PROPERTY INTERFACE

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William L. Vanveen
Gowling Lafleur Henderson LLP
160 Elgin Street, Suite 2600
Ottawa, ON  K2P 0L2
(613) 786-0153
This is not intended as a review of all issues arising from the interplay between competition law and intellectual property. Rather, it is a selected review of a few issues that may be discussed by the panel.

It has become fashionable to state that intellectual property law and competition law can be seen as complementary bodies of law seeking to enhance innovation and competition. If these two bodies of law are complementary, I believe it is at too high a level of abstraction to be of real value. It is akin to the military and the Red Cross both having the ultimate goal of peace, but there is no disputing the difference in methodology. In many situations, one body of law or the other must in the end be paramount.

**Licensing**

- Licensing generally seen as pro-competitive.
- Intellectual property rights allow for exclusive use and control.
- Refusal to licence is inherent intellectual property right and competition law does not create a duty to licence.
- Refusing to licence is not likely to raise *Competition Act* issues.
- **DIR v. Tele-Direct** (1997), 73 CPR (3d)(1), alleged abuse of dominance by refusal to licence trademark to competitors.
- Section 79(5) states no anti-competitive act where no more than exercising rights under IP statutes.
- Tribunal held no breach because refusal to licence was a right under the *Trademark Act* and Tele-Direct was doing no more than exercising its IP right.
- Tribunal stated could be instances where trademark could be abused, such as perhaps in a tying situation, but stated something more than mere exercise of statutory rights must be present even if those rights have an exclusionary effect.
- *Trademark Act* allows owners to decide who to licence to and selective refusal is not anti-competitive according to Tribunal. Tribunal held that Tele-Direct's competitive motives in refusing licence was irrelevant.
- **DRI v. Warner Music Canada** (1997) 78 CPR (3d) 321 - Bureau sought order to require Warner to licence a competitor to make and sell recordings made from Warner master recordings.
- Case under section 75, refusal to supply.
- Tribunal held that section 75 did not compel the supply of IP rights.
- Tribunal held that the right to exclude others is fundamental to IP rights and therefore mere exclusion cannot be considered anti-competitive.
If bare refusals to licence generally are not anti-competitive, when might issues arise? One may be entitled to refuse to licence, but if the decision is made to grant a licence, then issues might arise with respect to the terms.

Issues can arise when parties seek to overreach the scope of IP exclusivity to gain further advantages that can be anti-competitive.

Issues of IP abuse can arise under section 32 or under specific reviewable practices.

There have been no litigated cases under section 32, but there were two settlements with the Bureau by Union Carbide in the 1960's.

Union Carbide licensed its patented process and machinery, but required licensees to use its resins which were not patented and excluded use of interchangeable and cheaper competing resins available on the market.

Therefore, Union Carbide tied use of its unpatented resins with a licence for its patented process.

In the second Union Carbide case, there were several licensing provisions that were attacked as improper, such as restricting the use of the patented process, granting Union Carbide a paid up licence on any improvement patents obtained by licensees, prohibition of patent challenges by licensees, and requiring licensees to recognize Union Carbide patents beyond the initial period of patent grant.

These and other issues can be dealt with under abuse of dominance as well. A list of potential licensing abuses are as follows:

- charging royalties after an expiry or imposing other restrictions continuing after expiry;
- tying arrangements, such as requirements to purchase inputs or use services of the patent holder which would otherwise be freely available in the market;
- restricting or penalizing exports, such as charging higher royalties;
- requiring acceptance and payment for additional patents;
- prohibiting challenges to validity of patents;
- requiring the transfer of any inventions or improvement on the patented technology made by the licensor;
- requiring cross-licensing.

In some instances, only one or a few of these licensing terms could raise an issue, whereas in others it may take a greater array before there is a problem as it will depend upon the circumstances of each case. It cannot be said that each
and every one of these licence terms on their own would raise a competition issue, but use of any of these terms should be reviewed carefully.

**Assignments/Acquisition**

- Mere assignments without more should not engage *Competition Act* scrutiny.
- The owner of intellectual property should be able to assign it or, as with licensing, refuse to assign it.
- There are many pro-competitive reasons to assign intellectual property which should not raise issues under section 45 or other provisions (although it might engage merger review).
- Issue of whether assignment or acquisition of IP can engage section 45.
- **Molnlycke AB v. Kimberly-Clark** (1991), 36 CPR (3rd) 493 (F.C.A.) It was alleged that the assignment of a patent breached section 45. In dismissing the allegation, the Federal Court of Appeal (FCA) stated that by virtue of the *Patent Act*, parliament had defined a "due" impairment of competition, and the Court held that the obtaining of a patent or assignment of a patent cannot be "undue".
- Case was decided under existing section 45 with "undue" requirement. Case was not decided upon market power or breach of the "undue" requirement but on the proposition that assignment or acquisition of a patent by definition could not breach section 45.
- **Molnlycke** was revisited and qualified in two decisions of the FCA in **Eli Lilly v. Apotex**¹ (2004), 32 CPR (4th) 195, and (2005), 44 CPR (4th) 1. On a summary judgment motion, the FCA held that in certain circumstances, acquisition or assignment of patents could breach section 45 if there was something more beyond the mere acquisition of IP rights. Agreements related to patents could be the subject of a section 45 claim when an acquisition or assignment increases market power in excess of that inherent in the patent rights assigned. In **Eli Lilly**, the FCA restricted the broad reach of **Molnlycke**.
- In **Eli Lilly**, the allegation was that Lilly had certain patents for a process to produce cefaclor, and that it acquired by assignment patents from another company for the other only known commercial process to produce cefaclor. This assignment agreement was alleged to breach section 45.
- The FCA held that since Eli Lilly had already owned the patents for one cefaclor process, its acquisition of the patents for the only other known process increased its market power in excess of that inherent in the patent rights assigned, and therefore could create the "something more" beyond the mere assertion of patent rights. Adding to existing patents through assignments, and thereby shutting out

¹ **Note:** I was co-counsel for Eli Lilly on the trial of this matter and hereby declare my bias.
potential competitors, was considered "something more". This was only a
summary judgment decision and not a determination of fact on a trial.

- Therefore, in *Eli Lilly*, the FCA concluded that *Molnlycke* did not mean that
obtaining patents could never raise breach of section 45. On the facts of *Molnlycke*, there was no "something more" because the only effect of the
assignment was that a different company could sue for infringement, but there
was no adding to existing market power.

- *Eli Lilly* proceeded to full trial and a decision is pending. The factual issues at
trial included market definition, the pre-existence of a joint research agreement
between Lilly and the assignor of the other patents, and lack of anti-competitive
impact.

- Nonetheless, *Eli Lilly* stands for the proposition that acquiring patents can
engage section 45 in some circumstances.

- Cases were under existing 45 with "undue" requirement.

- What will happen under new section 45 without "undue" requirement?

- Even without "undue" requirement, mere acquisition of IP rights should not be
breach of section 45. The "something more" requirement would still apply.

- If only acquiring the rights normally flowing from IP, then it can't be a breach of
section 45 or else *Competition Act* will trump IP laws.

- A grant or exchange of IP rights under joint research and development programs
can become more problematic under new section 45.

- Ancillary restraints defence will likely be engaged, but new section 45 will require
greater care in joint R&D.

- The definition of "competitor" in the new provision may also come into play.

- Recent case of *Servier v. Apotex*, Federal Court, July 2008, straddles patent
acquisition and IP settlement areas.

- In this case, ADIR and two other pharma companies were applying for patents
related to a particular drug. There were conflicting claims among the three
patent applications, which were therefore in dispute in the formal conflict claims
processed before the Commissioner of Patents. None of the patents had yet
issued. The overlapping claims were resolved in a settlement which was
embodied in Minutes of Settlement which were attached to a court order.
Thereafter, the patents issued and ADIR obtained the patent at issue in the
litigation with Apotex. Apotex alleged that the agreement among the three brand
companies was a section 45 conspiracy, because the actions of ADIR and the
other parties to the settlement agreement ensured that those parties would gain
effective control over the manufacture and supply of a number of drugs, including
those within the scope of the patent at issue in the litigation. In other words,
Apotex alleged that the settlement permitted all of the patents to issue, and alleged that the three parties had divided up the various claims among them so as to gain effective control over a number of drugs. It was alleged that they entered into the settlement agreement for the purpose of unduly lessening competition contrary to section 45.

- The patent at issue had been found valid in the patent litigation.
- Absent court determination to the contrary, the other patents resulting from the settlement agreement are also valid (presumed valid?).
- No evidence that the parties did anything contrary to the Patent Act in order to obtain the patents (i.e. no fraud on the Patent Office etc.).
- The parties acted within their rights under the Patent Act in obtaining the patents.
- Court held that the very existence of a patent lessens competition but, in this case, obtaining the patent did not offend the Competition Act. There was no "something more" beyond obtaining the patents through the settlement. Unlike the Lilly case, there was no existing ownership by ADIR of any patent rights that would result in more market power than that inherent in the patents that were obtained.
- Unlike the Lilly situation, the settlement agreement was entered into prior to the grant of any patents to ADIR and the other brand companies, and unless and until the patents were issued there could be no market power held by ADIR.
- ADIR had applied for a patent and was waiting for final resolution, but the Patent Act provided for appeals of the Commissioner's decisions to the Federal Court, and the Federal Court Rules allow for settlements.
- The settlement was simply one step in ADIR's exercise of patent rights.
- ADIR held no other patents related to the drug in question, and the only market power it gained was inherent in the patent at issue. As it had not obtained the patent and inherent market power in it by means other than those authorized by the Patent Act, the "something more" that was referred to in Lilly was absent and therefore Molnlycke applied.

**IP Settlements**

- Settlements of IP claims such as patents can raise issues under the Competition Act when the patent holder achieves continued monopoly through settlement of a lawsuit challenging the patent.
- Frequently arises in pharmaceutical cases where generics challenge the validity of patents seeking to enter the market with lower price versions prior to expected patent expiry.
- No Canadian jurisprudence or specific guidance from Competition Bureau.
Several USA cases dealing with brand-generic drug patent settlements.

FTC and courts accept that patent settlement can result in delayed generic entry.

Most controversial issue is cash "reverse payments" from brand to generic as part of settlement to keep the generic off the market.

FTC strongly opposes reverse payments and has taken them to court, but to date courts have generally accepted reverse payments as part of patent settlements.

Main two criteria for acceptable settlement is that

(a) the patent litigation that is being settled is not a sham and there has been no fraud on the Patent Office;

(b) there is no bottleneck or anti-competitive exclusion beyond the zone of exclusion created by the patent itself (i.e. no overreaching).

See for example:

- Schering-Plough Corp. v. Fed. Trade Comm'n, 402 F. 3d 1056 (11th Cir. 2005);
- In Re Tamoxifen Citrate Antitrust Litigation, 46 F. 3d 187 (2d Cir. 2006)
- In Re Cipro, No. 2008-1097 (11th Cir. October, 2008).

Assume in Canada a Bureau challenge would be under section 45 (or perhaps a new civil equivalent) but regardless of provision chosen, outcome should be the same.

Reasonable to apply USA approach.

If there were litigation in Canada, the Bureau or Crown should have to establish that the patent litigation that was settled was a sham or that some fraud on the Patent Office had been perpetrated.

Even if a patent were later found to be invalid, if there was a reasonable case and it was legitimately fought, then it should not be inappropriate to settle it even if that involves reverse payments to the patent challenger.

Although Servier was not an IP settlement case in the sense of settling a disputed patent, it was a settlement among brand companies of conflicting patent claims, and the court's comment that the parties were simply pursuing their legitimate rights under the Patent Act would also be applicable to patent infringement settlements.

It is also interesting to note that in Servier, the Court stated that the other patents that were not the subject of the litigation were valid "absent any court determination to the contrary", which indicates the Court was relying on the presumption of patent validity.
Also reasonable to apply USA criteria of overreaching. Should be no issue as long as settlement does not go beyond the zone of exclusion of the patent, such as extending the patent monopoly period or obtaining other benefits that would not normally flow from the patent itself.