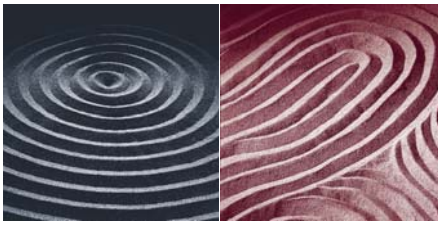
MILLER THOMSON LLP
Barristers & Solicitors
Patent & Trade-Mark Agents

Scotia Plaza
40 King St. West, Suite 5800
P.O. Box 1011
Toronto, ON Canada
M5H 3S1
Tel. 416.595.8500
Fax.416.595.8695
www.millerthomson.com



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Can Assigning Your Patent Rights Violate Canada's *Competition Act*?

Michael Piaskoski
and
Sterling Kendall

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Can Assigning Your Patent Rights Violate Canada's *Competition Act*?

By Michael Piaskoski and Sterling Kendall, Miller Thomson LLP

Could you be accused of criminal offence for assigning or acquiring patent rights? Could you be sued for damages by the victims of your "crime"? The short answer to both of these questions is "yes" following the recent decision (the "**Apotex Decision**")[1] of the Federal Court of Appeal (the "**FCA**") in the patent infringement litigation between drug manufacturers, Apotex and Eli Lilly ("**Lilly**").

Background

In 1997, Lilly sued Apotex, alleging infringement of eight of its patents for the manufacture of the antibiotic, *cefaclor*. Four of Lilly's patents had been previously assigned to it by Shionogi, a non-related Japanese company, thereby giving Lilly a monopoly in Canada over the *cefaclor* manufacturing process. Apotex filed a defence and a counterclaim, alleging that the assignment had violated the criminal conspiracy provisions of section 45 of the *Competition Act*.[2] Under section 45, it is an offence to enter into any agreement or arrangement that will prevent or lessen competition "unduly".[3]

During the proceeding, Lilly was twice successful in having Apotex's counterclaim struck out as disclosing no cause of action, only to have it restored each time by the FCA.[4] In doing so, the FCA distinguished its earlier decision of *Molnlycke*[5] in which it had held that an assignment under the *Patent Act* could not be an offence because any resultant lessening of competition could not be "undue". The FCA stated that *Molnlycke* was restricted to situations where the assignment of a patent *in and of itself* increased or created market power, and not where an assignment increased the assignee's market power *in excess of that inherent in the patent rights assigned*. Therefore, Lilly's market power from the combination of its own patents and the Shinogi patents could, as a matter of law, result in an undue lessening of competition under section 45.[6]

The Treatment of Intellectual Property under Canadian Competition Law

The Apotex Decision is part of a growing body of jurisprudence recognizing[7] the fundamental tension between the *Competition Act*'s purpose of maximizing competition and the *Patent Act*'s purpose of granting a long-term monopoly to an inventor.[8] Under the *Patent Act*, patents are assignable in whole or in part, and patent licensees have standing to sue an infringer of their licensed patent rights. The Canadian Competition Bureau has also recognized the right of patent holders to exclude others, but has retained the power to intervene in cases where arrangements among independent entities to use or enforce their intellectual property rights ("**IPRs**") may result in competitive harm.[9]

Criminalizing the Assignment of IPRs?

Has the Apotex Decision gone too far in holding that criminal penalties could apply to an otherwise "legitimate" transfer of IPRs?

Does section 45 criminalize transactions that might be permitted as mergers?

Criminal conspiracies typically arise from deceitful or fraudulent agreements among competitors *not* to compete (*e.g.*, with respect to prices, products, customers, geographic markets). However, as the assignment to Lilly had no intent to deceive or defraud

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1 *Eli Lilly and Co. v. Apotex Inc.*, 2005 FCA 361.

2 In section 45. Section 36 creates a statutory cause of action (or counterclaim) for any person harmed by conduct contrary to the criminal provisions of the Act.

3 Conviction under section 45 can result in imprisonment for up to five years or to a fine of up to $10 million, or both.

4 *Apotex Inc. v. Eli Lilly and Company*, (2003), 28 C.P.R. (4th) 37, 2003 FC 1171; overruled by *Apotex Inc. v. Eli Lilly and Company*, 2004 FCA 232; *Eli Lilly and Company v. Apotex Inc.*, [2005] 2 F.C.R. 225, 2004 FC 1445.

5 *Molnlycke AB v. Novopharm Kimberly-Clarke of Canada Ltd.* (1991), 32 C.P.R. (3d) 493.

6 As of the date of this publication, Eli Lilly and Shionogi had not sought to appeal the Apotex Decision to the Supreme Court of Canada.

7 For example, see *Astrazeneca Canada Inc. v. Minister of Health et al.* (leave granted to the SCC, May 18, 2005 and *Bristol-Myers Squibb Co. v. Canada*, [2005] SCC No. 26 (October 20, 2005) as cases where the courts have attempted to encourage competition by placing limits the rights of the original innovators of patents.

8 Harvard Professor of Law and Economics, Louis Kaplow, well explained this tension: "a practice is typically deemed to violate the antitrust laws because it is anticompetitive. But the very purpose of the patent grant is to reward the patentee by limiting competition, in full recognition that the monopolistic evils are the price society will pay." "The Patent-Antitrust Intersection: A Reappraisal", (1984) 97 Harv. L. Rev. 1813 at 1817.

9 Whether such arrangements are in the form of a transfer, licensing arrangement or agreement See Competition Bureau, *Intellectual Property Enforcement Guidelines*, 2000.

anyone, it is inapt to characterize it as a "conspiracy" when it more properly resembles a merger or the sale of a business. If Shionogi had moved its patents into a separate corporation and sold that corporation to Lilly, that would likely have fallen under the Act's merger provisions, which permit the Bureau to challenge and ultimately prohibit a transaction, with no threat of criminal prosecution.[10]

The Apotex Decision reveals a statutory inconsistency in that a mere patent assignment can attract criminal and civil liability whereas the sale of a business comprising the same patent rights attracts only a merger review by the Bureau. Taken to its extreme, *any* commercial agreement involving the sale of a business to a competitor could be subject to section 45.

How do the parties even know if they have committed a conspiracy?

For a successful conviction under section 45, the prosecutor must establish that (1) the parties *subjectively* intended to enter into the agreement (and intended to carry it out) and (2) *objectively*, a reasonable person would (or should) have known that its effect would be to lessen competition unduly. Obviously, Lilly and Shionogi subjectively intended to enter into the assignment agreement, and did carry it out. Further, they must have known that moving from a duopoly to a monopoly in the manufacture of *cefaclor* would likely result in a lessening of competition. But, could or should they have known that the result would be an *undue* lessening, whatever that might be?

Section 45 provides no definition of "undue" and the conspiracy case law is not very helpful as the judicial analysis provided in the few reported cases centres around the concept of "market power" - a rather nebulous concept that is determined largely by how one chooses to define the relevant product market. Here, it is not clear whether the relevant market is "*cefaclor*" itself, or *cefaclor* plus any adequate substitutes that would permit a broader market. The difference is crucial.[11] As well, in the absence of any "smoking gun" memo proving what the parties actually knew, a court would have to engage in a highly speculative assessment of what the parties *should have known*, considering such factors as the existence of reasonable substitutes, barriers to entry and the potential responses of actual or potential competitors, all within a product market capable of more than one legitimate definition. Similarly, before assigning a patent, the parties would need to retain economics consultants to conduct a detailed market analysis to predict whether competition would be lessened unduly. Only then would they "know" if they were parties to a crime.

Conclusion

Apotex has not yet succeeded at trial on its counterclaim. Nevertheless, two successive panels of the FCA have held that, based on the wording of section 45, the counterclaim should not be struck out because it is not plain and obvious that it cannot succeed under that section. However, as a matter of policy, Parliament could not have intended that section 45 should be interpreted so broadly so as to stigmatize these kinds of transactions as criminal conduct.

The Competition Bureau has for some time been actively considering amendments to section 45 (for reasons unrelated to the Apotex Decision). Although the Bureau has not yet decided on a specific legislative model to recommend to the government, and any new legislation may be some years away, the business community can only hope that the over-inclusiveness and vagueness of section 45 revealed in the Apotex Decision will be sufficient to demonstrate the need for a careful circumscription of Canada's criminal conspiracy legislation.

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[10] Even if the transaction is permitted to proceed, any exercise of monopoly power by the new patent holder can be kept in check through the "abuse of dominance" review provisions of the Act.

[11] The adoption of a narrower market definition may result in a finding of market power and a deemed knowledge that competition would be lessened unduly, whereas adoption of a broader market definition would not.