



Intellectual property is not exempt from Competition Act's reach

Eli Lilly and Co. v. Apotex Inc.

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On November 2 2005, the Federal Court of Appeal held that where an agreement to assign a patent increases the assignee's market power in excess of that inherent in the patent itself, the provision in the *Patent Act* (s. 50) allowing the assignment does not prevent the agreement from contravening the conspiracy provisions of the *Competition Act* (s. 45).¹ This important decision means that assignments of any intellectual property are potentially subject to scrutiny under the *Competition Act*.

The conspiracy claim

Eli Lilly & Co. Inc. and Shionogi & Co. Ltd. commenced a patent infringement action against Apotex Inc. in 1997 claiming that Apotex breached their patents over certain intermediates used to make the antibiotic Cefaclor.

Apotex counterclaimed that an assignment of the patent by Shionogi to Eli Lilly was a conspiracy to limit competition unduly contrary to s. 45 of the *Competition Act*. The nub of Apotex's claim was that Eli Lilly bought Shionogi's patents over processes for making Cefaclor in order to revive a monopoly over the drug that it lost when Shionogi obtained its process patents.

Conspiracy claim struck on motion for summary judgment

In October 2003, Hugessen J. struck out Apotex's *Competition Act* claim.² He applied the Federal Court of Appeal's conclusion in *Molnlycke AB v.*

*Kimberly-Clark of Canada Ltd.*³ that a mere assignment of patent rights cannot violate s. 45.

The first appeal: "something more"

The Federal Court of Appeal disagreed.⁴ Rothstein J.A., writing for the court, pointed out that in *Molnlycke*, there was no change in the number of patent-holders before and after the assignment; it merely transferred the patent to another company. By contrast, before Shionogi assigned its patents to Eli Lilly, there were *two companies* with commercially viable processes for making Cefaclor; afterwards, there was only one.

Rothstein J.A. held that *Molnlycke* stands for the proposition that "undue impairment of competition cannot be inferred from evidence of the exercise of [patent] rights alone". But, where there is "is evidence of *something more* than the mere exercise of patent rights that may affect competition in the relevant market, *Molnlycke* does not purport to completely preclude application of the *Competition Act*" [Emphasis added].

Thus, Rothstein J.A. concluded, *Molnlycke* did not preclude Apotex's claim. The court remanded the matter to the motions judge to consider whether the issues could be resolved on summary judgment, or must proceed to trial.

Motions judge strikes conspiracy claim again

The matter thus came before Hugessen J. again. In October 2004, he again dismissed Apotex's claim.⁵ He accepted that the assignment increased Eli

Lilly's monopoly power. The assignment agreement did no more than assign the patents; there was no other agreement. Since s. 50 of the *Patent Act*⁶ specifically authorized the assignment, it cannot be "undue" within the meaning of s. 45 of the *Competition Act*, he reasoned. Hugessen J. specifically rejected Apotex's argument that s. 50 of the *Patent Act* is simply a confirmation of the normal right of any owner of property to sell or assign it to another.

The second appeal: the meaning of "something more"

Apotex appealed again. The Federal Court allowed the appeal.

Evans J.A., writing for the court, first returned to Rothstein J.A.'s conclusion in the first appeal that *Molnlycke* does not apply where there is "something more" than a mere assignment of patent rights. The "something more" referred to in the first appeal means the anti-competitive effects of the assignment. The assignment increased Eli Lilly's market power because before the assignment, Eli Lilly already owned four of the eight existing process patents for Cefaclor. After the assignment, Eli Lilly owned all of process patents for Cefaclor. The assignment gave Eli Lilly a monopoly over the known production processes for Cefaclor that it did not have before.

Thus, the Evans J.A. concluded, where an assignment of a patent increases market power beyond that inherent in the patent, because the assignee owns other patents, s. 50 of the *Patent Act* does not immunize the assignment agreement from s. 45 of the *Competition Act*.

Interaction between the *Patent Act* and the *Competition Act*

Evans J.A. then considered the interaction between s. 50 of the *Patent Act* and the s. 45 of the *Competition Act*. He pointed out that his interpretation of s. 50 allows the two provisions to operate harmoniously. It avoids the necessity of reading restrictions into s. 45. Nor does it rob s. 50 of meaning: that provision is intended to confirm that the statutory rights granted under the *Patent Act* are assignable.

Evans J.A. also pointed out that Parliament did not intend to exclude entirely the exercise of patent rights from scrutiny under the *Competition Act*. Interestingly, he pointed to the exemption in s. 79(5) providing that "an act engaged in pursuant only to the exercise of any right or enjoyment of any interest derived under" intellectual property statutes is not an anti-competitive act. Section 45 does not contain an analogous exemption, he noted. However, the exemption in s. 79(5) is really an expression of the principle that a "mere" exercise of an intellectual property right is not subject to the *Competition Act*. The Competition Tribunal has found that leveraging a monopoly created in one market by intellectual property rights to obtain a competitive advantage in another market is an anti-competitive act.⁷ Moreover, while s. 45 does not contain an exemption for mere exercise of intellectual property rights, the word "unduly" in s. 45 has been interpreted as allowing regulatory schemes that would otherwise violate s. 45 to operate.⁸ The court's conclusion in this case should thus apply equally to s. 79, notwithstanding its reference to s. 79(5).

This interpretation of s. 50 does not offend the "bargain" between the patent owner and the state, the court held:

[31] The right to assign a patent is also valuable, and Parliament has authorized patent holders to assign their patents. No doubt, a patent holder may expect to obtain a higher price from a purchaser who already owns patents that would give the assignee a monopoly in a relevant market. However, to deter a patentee from obtaining the full potential value of the patent in these circumstances in order to maintain competition in a market is not incompatible with the essential bargain between the patentee and the state.

The court also noted the Supreme Court's finding that the *Competition Act* is "central to Canadian public policy in the economic sector"⁹ and that s. 45 is one of the Act's pillars. To narrow s. 45 would be inconsistent with this view, the court held. This suggests that courts will be reluctant to read down provisions in the *Competition Act* to accommodate other statutes. Rather, other statutes, particularly intellectual property statutes, will be interpreted so as not to interfere with the *Competition Act*.

Finally, the court noted the consistency between its interpretation of s. 50 and the views expressed by Competition Bureau in its *Intellectual Property Guidelines*.¹⁰ Indeed, the court's reasoning lends support to the Competition Bureau's view that intellectual property should be treated like other kinds of property.

As a result of this decision, those involved in assignments of intellectual property must consider whether the assignment increases the assignee's market power because of intellectual property rights already owned by the assignee. If it does, the transaction will need careful analysis to determine whether it offends the *Competition Act*.



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¹ 2005 FCA 361

² 2003 FC 1171, [2003] F.C.J. No. 1488

³ (1991), 32 C.P.R. (3d) 493

⁴ 2004 FCA 232, [2004] F.C.J. No. 1049

⁵ 2004 FC 1445, [2004] F.C.J. No. 1753

⁶ "50. (1) Every patent issued for an invention is assignable in law, either as to the whole interest or as to any part thereof, by an instrument in writing." R.S.C, 1985, c. P-4, s. 50.

⁷ *Canada (Director of Investigation and Research) v. NutraSweet Co.* (1990) 32 C.P.R. (3d) 1 at 45-46.

⁸ See for example *Garland v. Consumers Gas Co.*, [2004] 1 S.C.R. 629; *Jabour v. Law Society of British Columbia*, [1982] 2 S.C.R. 307.

⁹ *R. v. Nova Scotia Pharmaceutical Society*, [1992] 2 S.C.R. 606 at 648.

¹⁰ Competition Bureau, *Intellectual Property Guidelines*, 2000.