STIKEMAN ELLIOTT

North American Developments in the Interface Between Intellectual Property and Competition Law

SUSAN HUTTON AND ALEXANDRA STOCKWELL

OCTOBER 2008

North American Developments in the Interface Between Intellectual Property and Competition Law

SUSAN M. HUTTON (shutton@stikeman.com) AND ALEXANDRA STOCKWELL (astockwell@stikeman.com)

PRESENTED AT THE IBA ANNUAL CONFERENCE, BUENOS AIRES, ARGENTINA – OCTOBER 2008

Introduction

In both Canada and the United States, it is generally accepted that intellectual property (IP) laws and competition laws are not, as they may once have seemed, antithetical. Rather, they are increasingly recognized as complementary bodies of law which share the common purposes of promoting an efficient economy, innovation and consumer welfare.[1] In practice, however, there is still substantial room for conflict between these complementary instruments due to the different mechanisms they employ. Competition law promotes economic growth by ensuring that there is an efficient allocation of economic resources, typically focussing on a fairly short time horizon. Conversely, IP laws promote economic growth by creating exclusive IP rights ("IPRs") to stimulate investment, which may result in an inefficient allocation of resources in the short run but is thought in the long run to stimulate economic growth. This perhaps explains the cautionary tone of a recent report commissioned by Canada's Competition Bureau regarding the interface between IP and competition law: "there is an inherent need to be mindful of the appropriate balance between the proprietary rights accorded to creators by IP laws and the promotion of principles of sound competition policy."[2] This paper surveys recent developments in Canada and the United States which touch upon and illustrate the challenges of striking this delicate balance.

Canada

In Canada, competition law is set out in the federal *Competition Act* (the "Act"). The *Competition Act* distinguishes between criminal offences and civilly reviewable conduct. The former include conspiracy, bid rigging, predatory pricing, price discrimination, resale price maintenance and some types of misleading advertising. The latter includes abuse of dominance, deceptive marketing, refusal to deal, market restriction, exclusive dealing, tied selling and consignment selling. The *Competition Act* also establishes a merger control regime.

[1] For recent expressions of this view in Canada, see Competition Bureau, *Intellectual Property Enforcement Guidelines* (Ottawa: Industry Canada, 2000) ("IPEGs"), preface; Richard F.D. Corley, Navin Joneja, and Prakash Narayanan, *The Interface Between Competition Law and Intellectual Property Law: Present Concerns and Future Challenges Facing Industry Canada* (Ottawa: Industry Canada, 2007) ("Canada IP/Competition Report"), at I.A. In the United States, see *Atari Games Corp. v. Nintendo of America, Inc.*, in which the Federal Circuit stated: "[t]he aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are complementary, as both are aimed at encouraging innovation, industry and competition." (897 F.2d 1572, 1576 (Fed. Cir. 1990).); US DOJ and FTC, *Antitrust Guidelines for the Licensing of Intellectual Property* (Washington, D.C.: U.S. Government Printing Office, 1995) ("U.S. Licensing Guidelines"), para. 1.0; and US DOJ and FTC, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Washington, D.C.: U.S. Government Printing Office, 2007) ("U.S. Antitrust and IP Report"), Introduction.

[2] Canada IP/Competition Report, *ibid.*, at I.A.1.

Several sections of the *Competition Act* make specific references to IPRs, suggesting how the principle of competition is meant to apply to these rights. For example, section 32 of the Act provides a special remedy in respect of anti-competitive abuses of IPRs, and sub-section 79(5) of the Act specifies that acts engaged in pursuant only to the exercise of an IPR will not be subject to sanction under the general abuse of dominance provision.

Other provisions of the Act make no specific reference to intellectual property, but are drafted and interpreted in such a way that they can be comprehensive enough to apply to owners dealing with their patents, copyrights, trade-marks and other IPRs. For example, the conspiracy provision of the Act, section 45, provides that any agreement among competitors or between suppliers and customers that would lead or would likely lead to an undue lessening or prevention of competition is a criminal offence. This provision is broad enough that it could apply to agreements between owners of competing IP rights and between licensors and licensees.

The *Competition Act* is enforced primarily by the Commissioner of competition (the "Commissioner") who is the head of the Competition Bureau (the "Bureau"). The Commissioner and the Bureau investigate potentially anti-competitive behaviour. Where the Commissioner believes that a criminal offence under the Act is being or has been committed, she will recommend to the Director of Public Prosecutions (DPP) of Canada that charges be laid. The Commissioner herself acts as prosecutor with respect to civilly reviewable matters before the specialist Competition Tribunal (the "Tribunal").

Private parties may sue in court for damages incurred as a result of a violation of a criminal provision, regardless of whether there has been a conviction, although a conviction does create a presumption that the alleged violation occurred[3]. In respect of civil provisions other than mergers and abuse of dominance ("which latter comprises a practice of anti-competitive acts with substantial anti-competitive effect"), private parties may also, with leave, bring their own actions seeking injunctive relief (but not damages) from the Competition Tribunal in respect of the specific reviewable practices of the specific reviewable practices of refusal to supply, exclusive dealing, tied-selling and market restriction.[4]

Intellectual Property Enforcement Guidelines and Section 32

In September 2000, the Bureau released its *Intellectual Property Enforcement Guidelines*, which outline the Bureau's approach to applying the *Competition Act* to conduct involving IPRs.[5] In these guidelines, the Bureau takes the position that, in general, provisions of the Act apply to conduct that involves "something more" than the "mere exercise" of an IPR.[6] This approach expands upon and is consistent with the exception in s.79(5) of the Act noted above, which states that the mere exercise of an IPR will not be considered an abuse of dominance.

The IPEGs list several examples of conduct which may be considered to be "something more" than the "mere exercise" of an IPR. One such example addresses the issue of patent pooling. This practice involves two or more owners of different patents agreeing to pool together their individual patents and collectively license the pooled set of patents. The IPEGs recognize that patent pools can be pro-competitive, for example by overcoming the "patent thicket" that occurs where use of a technology requires access to blocking patents from different owners, or by simply reducing transaction costs.[7] However, if a patent pool were to

---

[3] *Competition Act*, section 36.
[4] *Ibid*, section 103.1.
[5] IPEGs, *supra* note 1.
[6] *Ibid.* at 4.2.1.
[7] *Ibid.* at 7.6.

include a concurrent agreement to fix prices of licenses to the relevant patents, it could be subject to prosecution as a conspiracy to "unduly" prevent price competition under section 45 of the Act.[8]

The IPEGs note that only section 32 of the Act contemplates that the "mere exercise" of an IPR might be subject to intervention by the Bureau.[9] Where the Bureau establishes that such an exercise of an IPR (typically, the refusal to license IP) has unduly restrained trade or lessened competition, the IPEGs outline a two-step approach which the Bureau will use to determine whether an application to the Federal Court for a special IP remedy (described below) is appropriate.[10]

First, the Bureau will consider whether the unilateral exercise of an IP right has adversely affected competition to a degree that would be considered substantial in a relevant market. This market must be, however, different or significantly larger than the subject matter of the IP or the products or services which result directly from the exercise of the IP. This first step is satisfied only by the combination of the following factors:

- the holder of the IP is dominant in the relevant market; and
- the IP is an essential input or resource for firms participating in the relevant market – that is, the refusal to allow others to use the IP prevents other firms from effectively competing in the relevant market.

In the second step, the Bureau must establish that invoking a special remedy against the IP holder would not adversely alter the incentives to invest in research and development in the economy. According to the IPEGs, this step is satisfied if the refusal to license the IP is stifling further innovation.

The remedies provided for in section 32 are also IP-specific. They range from compulsory licensing to voiding licences to imposing new terms, and in the case of a trade-mark or an integrated circuit topography, expunging or amending a registration. In addition, the Court is given discretion to make any direction that it feels is necessary to prevent further anti-competitive use of the IP.

In the IPEGs, the Bureau recognizes that only in very rare circumstances would this test be satisfied and states that it will generally recommend to the attorney general that an application be made to the Federal Court under section 32 only when no appropriate remedy is available under the relevant IP statute. There have been no such applications to date.

Areas of Concern for Competition Bureau

A review paper on the interface between competition law and IP law was jointly commissioned by the Bureau, the Canadian Department of Industry, and the Canadian Intellectual Property Office (CIPO), and released in March 2007.[11] The dearth of Canadian cases deciding issues raised by the competition/IP interface was frequently noted in the paper. With respect to section 32, the paper noted that "no contested case […] has ever been brought to a trial under this Section in […] 70 years."[12] In light of this, the authors suggested that the utility of the provision may need to be reviewed.[13]

---

[8] *Ibid.*

[9] *Ibid.* at 4.2.2.

[10] It should be noted that the test outlined in the IPEGs for the use of section 32 is essentially the same as that which was affirmed by the Court of First Instance of the European Communities (Grand Chamber) in *Microsoft v. Commission* (17 September, 2007) T-201/04.

[11] Canada IP/Competition Report, *supra* note 1 at, for example, II.A.1 and IV.A.3.

[12] *Ibid.* at IV.A.3.

[13] On that note, however, it should be borne in mind that the Competition Tribunal held in *Director of Investigation and Research v.Warner Music Canada Ltd.* ((1997) 78 C.P.R. (3d) 321) that the refusal to deal and abuse of dominance provisions of the act did not apply to a mere refusal to license copyrighted music. In its reasons, the Tribunal indicated that it had interpreted the refusal to deal and abuse of dominance provisions "in the context of sections 32 and 79(5) of the Act" (at 333). The Tribunal noted how section 32, which allows for a compulsory license such as the applicant was seeking, differed from section 75: for instance,

The review paper also noted that Canadian courts and the Competition Tribunal had not yet had the chance to consider a case involving patent pooling, and recommended an empirical study of patent pooling in Canada. Such a study would enquire into how prevalent the practice is in Canada, and whether it is being used with anti-competitive or competitive effect.

The paper also raised competition concerns regarding practices that were not discussed in the IPEGs, such as the use of technical protection measures (TPMs, also referred to as digital rights management or DRMs) to reduce interoperability and to limit consumers' access to legally-acquired copies of copyrighted material, and the practice of settling patent litigation on potentially anti-competitive terms (for example where a "reverse payment" is made pursuant to which the patent holder pays an alleged infringer to refrain or delay entry into a market).

The paper suggested that it may be time for the Bureau to elaborate and clarify the IPEGs. As a first step in this direction, in March 2007 the Bureau held a top-level symposium among 40 to 50 selected participants including leading academics, practitioners and government representatives. The symposium studied some of the topics raised in the review paper, including authorized generics, collective management of copyright, extension of IPRs, compulsory licensing, bundling or tying, and a comparison of Canada's patent regime in the international context.

Apotex Inc. v. Eli Lilly and Company

One of the few recent Canadian cases dealing with competition/IP interface is the case of *Apotex Inc. v. Eli Lilly and Company,*[14] which was decided by the Federal Court of Appeal ("FCA") in November 2005. This case arose from a claim by Eli Lilly ("Lilly") that Apotex had infringed a number of Lilly's patents. In its defence and counterclaim, Apotex alleged that the assignment by which Lilly had obtained half of the patents at issue was an agreement which unduly lessened competition contrary to the criminal conspiracy provision (section 45) of the *Competition Act*. It was accepted as a fact in the case that the assignment of the patents had resulted in Lilly having a monopoly over the known production processes for the antibiotic cefaclor.

In its November 2005 decision, the Federal Court of Appeal considered an appeal from a lower court's decision to strike the allegations from Apotex's defence and counterclaim regarding section 45. The lower court judge had granted the motion to strike, ruling that any lessening of competition caused by the assignments could not be undue because assignment of patents is authorized by the *Patent Act*. The FCA overturned this decision, holding that there is no inherent conflict between section 45 of the *Competition Act* and the right of a patent holder to assign a patent under the *Patent Act*. The court rejected the argument that because the assignment of patents is permitted under the *Patent Act*, all such assignments should be immunized from the conspiracy provision of the *Competition Act*. On appeal, the court held that where the assignment of a patent increases the assignee's market power in excess of that inherent in the patent rights assigned, section 45 may apply. The court's finding was therefore supportive of the Bureau's IPEGs, which provide that the Bureau may challenge an IP license where it creates, enhances or maintains market power.

---

section 32 fell under the Federal Court's jurisdiction, and required a competitive impact test to be met. Perhaps that case would have been better brought, accordingly, under section 32.

[14] [2006] 2 F.C.R. 477.

Laboratoires Servier v. Apotex Inc.

In a July 2008 patent case, Apotex was faced with allegations that it had infringed a patent for perindopril, the active ingredient in the drug COVERSYL, which patent was owned by a company named ADIR.[15] The patent in this case had been the subject of a dispute between ADIR and two other companies before it was issued. The matter was brought before the Federal Court for resolution, but soon afterwards a settlement was reached, whereby the patent was issued to ADIR. Apotex argued in its defence and counterclaim to the infringement action that the settlement agreement amounted to a conspiracy to lessen competition unduly contrary to section 45 of the *Competition Act*. The Federal Court followed the basic reasoning in *Apotex Inc. v. Eli Lilly and Company*, discussed above, but distinguished the two sets of facts, indicating that in this case, since ADIR did not already hold any other relevant patents, the settlement did not result in the parties obtaining any more market power than was inherent in the patent itself.[16] This case is currently being appealed to the Federal Court of Appeal.[17]

Kraft Canada v. Euro Excellence Inc.

In July 2007, the Supreme Court of Canada decided a case which dealt with the use of copyright as a method for preventing grey marketing (also called parallel imports).

In Canada, importing for the purpose of selling or distributing into Canada any copies of a copyrighted work which have not been made or authorized by the owner of the Canadian copyright is termed "secondary infringement" and is prohibited by section 27(2)(e) of the *Copyright Act*.[18] The language of the statute implies that if a work has been legitimately made and sold in a different country by the same person who owns the Canadian copyright, the importation and sale of such a work will not be considered an infringement under the *Copyright Act*. Therefore, although no reference is made in the cases to so-called "copyright exhaustion", this doctrine is to some extent carried out in Canada through the statutory definition and limitations of secondary infringement.[19] However, in situations where a foreign owner of copyright has assigned the Canadian copyright to another entity, including a subsidiary company, the foreign owner no longer has the right to make copies in Canada. If copies made or authorized by that foreign owner (although legitimate in the country of origin) are then imported into Canada, the Canadian copyright owner (assignee) can make a claim of infringement under s.27(2)(e) of the *Copyright Act*. In *Kraft Canada v. Euro Excellence Inc.,*[20] six of the nine Supreme Court justices confirmed this position, stating that assignees can bring infringement actions against assignors, as well as against parallel importers.

Whether copyright can be used by exclusive licensees (as opposed to assignees) to prevent the importation of copies made or authorized in another country by a licensor who remains the owner of the Canadian copyright is, however, less clear. In *Kraft*, the Supreme Court faced such a plaintiff: Kraft Canada (the exclusive Canadian importer and distributor of *Cote*

[15] *Laboratoires Servier v. Apotex Inc.* 2008 FC 825.
[16] *Ibid.* at para. 476.
[17] *Apotex et al. v. ADIR et al.* A-393-08 (Fed. C.A.) (Notice of Appeal filed 1 Aug. 2008).
[18] Section 27(2) states:

> "It is an infringement of copyright for any person to
> (a) sell or rent out,
> (b) distribute to such an extent as to affect prejudicially the owner of the copyright,
> (c) by way of trade distribute, expose or offer for sale or rental, or exhibit in public,
> (d) possess for the purposes of doing anything referred to in paragraphs (a) to (c), or
> (e) import into Canada for the purpose of doing anything referred to in paragraphs (a) to (c),
> a copy of a work […] that the person knows or should have known infringes copyright or would infringe copyright if it had been made in Canada by the person who made it."

[19] Similarly, the term "copyright exhaustion" was not used in the Supreme Court's decision in *Théberge v. Galerie d'Art du Petit Champlain Inc.* ([2002] 2 S.C.R. 336), but the principle is embodied in the Court's holding that Canadian copyright law does not give a copyright owner a *droit de destination*, but rather that "[o]nce an authorized copy of a work is sold to a member of the public, it is generally for the purchaser, not the author, to determine what happens to it" (at paras. 28 and 31).
[20] [2007] 3 S.C.R. 20.

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 s.27(2)(e) to prevent another firm, Euro-Excellence, from importing and then distributing and selling in Canada legitimate chocolate bars that had been purchased in Europe from Kraft Canada's parent companies (the owners of the Canadian copyright). Three majority judges (in *obiter*) and two dissenting judges held that an exclusive licensee can sue a copyright owner for infringement (and can therefore sue parallel importers for secondary infringement), while four majority judges found that it could not. In the result, based on all the facts of the case and sharp divisions within the Court on several aspects of the case, the exclusive licensee, Kraft Canada, was not successful, and the right of exclusive licensees to challenge parallel importing remains in doubt.

Interestingly, although the Court did not expressly deal with the issue based on competition law principles, Mr. Justice Fish stated in *obiter* that the exclusive licensing agreements entered into between Kraft Canada and its parent companies appeared to have more to do with enforcing a monopoly on the sale of these chocolate bars in Canada than with copyright protection of the works that appear on the packaging.[21] Justice Fish went on to say that he expressed "grave doubt whether the law governing the protection of intellectual property rights in Canada can be transformed in this way into an instrument of trade control not contemplated by the *Copyright Act.*" No reference was made by Mr. Justice Fish to the *Competition Act* or competition law principles and, in particular, no evidence was discussed which would suggest an attempt to properly define a relevant competition market.

The Supreme Court decision was not the end of the battle between Kraft Canada and Euro-Excellence. Six months later, Kraft Canada commenced a new copyright infringement case against Euro-Excellence, but this time, not as an exclusive licensee of the relevant copyrights, but as the assignee.[22] If this case proceeds to trial, it will be interesting to see if Euro-Excellence raises competition concerns as part of its new defense, taking a cue from Mr. Justice Fish's doubts about the ability of litigants to use IP laws as instruments of trade control.

The United States

In the United States, transactions and conduct relating to intellectual property fall within the scope of the various antitrust laws, although these laws do not specifically refer to IP rights. For example, section 1 of the Sherman Act[23] prohibits concerted action that unreasonably restrains trade, and section 2 of that same law prohibits monopolization, attempts to monopolize, and conspiracies to monopolize. Section 7 of the Clayton Act,[24] which prohibits acquisitions where "the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly," can apply to acquisitions of IP, whether they occur through assignment or through exclusive license.

The antitrust enforcement authorities in the United States are the Antitrust Division of the Department of Justice ("DoJ") and the Federal Trade Commission ("FTC"). The responsibility for investigating particular matters is determined informally between the two agencies, based upon recent experience in an area and industry expertise. For example, the DoJ normally

[21] Mr. Justice Fish described the issue in the case as whether the *Copyright Act* entitled the Kraft parent companies who manufactured chocolate in Europe "to prevent the sale in Canada of that very same chocolate, packaged exactly as it was when they sold it. Their claim that it does is based on agreements between commonly owned corporations—agreements that have more to do with a monopoly on the sale in Canada of those chocolates than with copyright protection of the "works" that appear on the package" (at para. 54). Mr. Justice Fish's use of quotation marks around the word "works" is also interesting, because none of the parties or any of the other justices contested that the logos resulted from exercises of skill and judgement and thus met the definition of artistic works in the *Copyright Act*. Mr. Justice Bastarache took issue with the "merely incidental" presence of the works on the true objects of sale (chocolate bars), but Mr. Justice Fish disagreed with this approach.

[22] *Kraft Canada v. Euro Excellence Inc.* T-2103-07 (Fed. Ct.) (Notice of Application filed 4 Dec., 2007).

[23] 15 USC, s. 1.

[24] 15 USC, s. 18.

handles matters involving the software industry, while the FTC typically investigates conduct involving pharmaceuticals.

Joint Report on the Antitrust/Competition Interface

In 2007, almost concurrently with the release in Canada of the review paper discussed above, the DoJ and the FTC produced a joint report entitled *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*.[25] This report builds upon a set of antitrust guidelines created in the mid-1990s for the licensing of IP,[26] and a 2003 report which focused on recommendations for the reform of the patent system.[27]

The 2007 report examined the potential for anti-competitive effects when a patented technology is incorporated into an industry standard, as well as a variety of issues arising from licensing practices, such as patent pooling, and tying and bundling practices.

With respect to the work of standard-setting organizations ("SSOs"), the report recognized that while industry standards can have pro-competitive benefits, the adoption of a patented technology into a standard creates the potential for "patent hold-up" (also called "patent ambush") and other anti-competitive effects. Patent hold-up occurs where the owner of the patented technology sets higher royalties and/or less favourable licensing terms for the technology than it could have done before the standard was set. The DoJ and FTC conclude in the report that activities which attempt to mitigate patent hold-up, such as advance and/or collective negotiation of license terms, will not be considered a *per se* antitrust violation, but rather will be evaluated according to the rule of reason on a case-by-case basis.[28]

Similarly, the DoJ and the FTC concluded that patent pools will also continue to be analyzed under the rule of reason, on a case-by-case basis, although they did note that combining complementary patents within a pool is generally pro-competitive.[29]

As with non-IP products, the report also concluded that the DoJ and the FTC would consider both the anti-competitive effects and efficiencies attributable to a practice of tied selling or bundling. Such an arrangement would be subject to challenge if: (1) the seller has market power in the tying product, (2) the arrangement has an adverse effect on competition in the relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anti-competitive effects.[30]

Many of the issues discussed in the FTC and DoJ report have also been the subject of recent American jurisprudence, as discussed below.

U.S. Tying and Bundling Cases

One of the most famous recent cases involving the practice of tied selling is the 2001 *Microsoft* case, in which Microsoft was alleged to have attempted to eliminate its competition in the internet browser market by tying its Internet Explorer browser to its Windows operating system. In that case, the D.C. Court of Appeal rejected the traditional approach of considering tying arrangements to be *per se* anti-competitive, and instead adopted the "rule of reason" approach discussed above. Microsoft was found to have violated section 2 of the *Sherman Act*, and entered into a settlement with the DoJ which prohibited it from retaliating against industry participants who choose to develop or use competing middleware products. The settlement also allowed customers to remove icons from some Microsoft features, and

[25] *Supra,* note 1.
[26] U.S. Licensing Guidelines, *supra* note 1.
[27] US DoJ and FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003), available at <www.ftc.gov/os/2003/10/innovationrpt.pdf>.
[28] U.S Antitrust and IP Report, *supra* note 1 at 54-55.
[29] *Ibid.* at 84-85.
[30] *Ibid.* at 110.

required Microsoft to disclose some technical data and restrict some of its business practices. However, Microsoft was not called upon to unbundle Internet Explorer or applications such as Media Player from Windows.

Another case considered whether the GNU General Public License ("GPL") devised by the Free Software Foundation, Inc. violated antitrust laws. In its 2006 decision in *Wallace v. IBM*,[31] the U.S. Court of Appeals for the Seventh Circuit rejected an allegation that the GPL, which authorizes the free use of licensed works and creation of derivative works on the condition that any derivative works also be distributed under the GPL, constitutes either predatory pricing or price fixing. In the decision, the court noted that the plaintiff did not contend that free licensing of software under the GPL will lead to monopoly prices in the future (so-called recoupment), which is an inherent element of predatory pricing under US law. Similarly, although IPRs give authors the *right* to charge a price for using IP despite the fact that the marginal cost of an additional user is zero, the law does not *require* that they do so.

Another important tied selling case involving IPRs was decided by the U.S. Supreme Court in March 2006. The facts of *Illinois Tool Works Inc. et al. v. Independent Ink, Inc.*,[32] were that Illinois Tool Works manufactured and sold printing systems, including a patented printhead and ink container and unpatented ink, to original equipment manufacturers who agreed not to purchase ink from any other source. Independent Ink claimed that the patent automatically gave Illinois Tool Works market power, and thus the tying arrangement violated antitrust laws. The Supreme Court held that a patent does not create a presumption of market power, and that in all cases involving a tying arrangement, a plaintiff must prove that the defendant has market power in the tying product.

Interestingly, although there has not been any case in Canada on this point, the U.S. Supreme Court's holding is consistent with the position taken by the Canadian Bureau in the IPEGs that there is no presumption that IPRs confer market power on the owner.[33] Indeed, as noted above, for purposes of Canada's "abuse of dominance" provision, the statute specifies that "an act engaged in pursuant only to the exercise of any right or enjoyment of any interest derived under" Canada's IP laws is not an "anti-competitive act."

Patent Hold-Up Cases

As discussed above, patent hold-up, or patent ambush, occurs when a patent owner participates in the process of adoption of an industry standard by a standard setting organization ("SSO") without disclosing its ownership of pending patent applications or patents relating to an aspect of the standard. Once the standard is adopted and others begin to use that aspect of the standard, the owner uses its patent rights to take unfair advantage of its strengthened position, such as by launching infringement actions, or by demanding high royalties or imposing strict licensing terms.

In Canada, patent hold-up has not been dealt with in the *Competition Act*, the IPEGs, or the case law. In the United States, however, numerous cases have arisen. In February 2007, the FTC issued its final opinion and remedy in the *Rambus* case,[34] in which computer technology developer Rambus Inc. participated in the Joint Electron Device Engineering Council (JEDEC) for over four years without disclosing to JEDEC or its members that it was actively working to develop, and possessed, a patent and several pending patent applications that involved specific technologies ultimately adopted by JEDEC in a standard.

---

[31] 467 F.3d 1104.

[32] 126 S.Ct. at 1281.

[33] IPEGs, *supra* note 1 at para. 4.1.

[34] *In the Matter of Rambus, Inc.* (2007) FTC Docket No. 9302.

The FTC held that in doing so, Rambus had denied JEDEC of the opportunity to either exclude Rambus' technologies, or to secure a commitment from Rambus to license the technology on fair, reasonable and non-discriminatory ("FRAND") terms. The FTC found that this behaviour constituted exclusionary conduct under section 2 of the *Sherman Act*, and that Rambus had unlawfully monopolized the markets for four technologies. Rejecting Rambus' arguments that the FTC's remedial powers were limited to prohibiting it from engaging in deceptive conduct in the future, the FTC also imposed maximum royalty rates for Rambus' patented technologies, and prohibited Rambus from enforcing any royalty agreements already in effect which would be prohibited under the terms of the FTC order. In the order, the FTC stated that it had the right to impose royalty-free licensing, but that in this case doing so was not necessary to restore the competition that would have existed absent Rambus' deception.

On April 22, 2008, however, the U.S. Court of Appeal for the District of Columbia Circuit reversed the FTC's decision.[35] The court noted that the FTC had "expressly left open the likelihood that JEDEC would have standardized Rambus's technologies *even if Rambus had disclosed* its intellectual property. Under this hypothesis, JEDEC lost only an opportunity to secure a FRAND commitment from Rambus. But loss of such a commitment is not a harm to competition from alternative technologies in the relevant markets."[36] Due to this failure to prove harm to competitors, the FTC's decision was reversed.

Several recent decisions have elaborated variations on the Rambus theme. Two such decisions have stemmed from Rambus' infringement action against Hynix Semiconductor Inc. In response to the infringement claim, Hynix raised an equitable estoppel defense and antitrust claims under California state law against Rambus. In September, 2007, the district court in the Northern District of California ruled that the FTC's previous findings regarding Rambus' anti-competitive conduct under federal law were insufficient to justify granting summary judgment to Hynix.[37] In November, the same court considered whether patent infringement litigation could be considered part of a broader anti-competitive scheme (Rambus' patent hold-up), which would allow Hynix to claim its costs of defense to the infringement action as part of its antitrust damages. The court, noting lack of guidance from the Supreme Court, decided that it would take a "causal connection" approach: if the patent litigation is causally connected to anti-competitive harm, then the costs of defense may be considered damages. In this case, the court found that there was such a causal connection, because "a patent 'ambush' or 'hold-up' is ineffective without the threat of litigation."[38]

In *Broadcom v. Qualcomm*, a standard-setting organization called the European Telecommunications Standards Institute ("ETSI") required Qualcomm Inc. to agree to license its patented technology known as Wideband CDMA ("WCDMA") to others on FRAND terms before the WCDMA was incorporated into an industry standard. The plaintiff in the case, Broadcom Corporation, claimed that Qualcomm had engaged in anti-competitive conduct by breaching its commitment to ETSI and licensing the technology on non-FRAND terms. The U.S. Court of Appeals for the Third Circuit held that: "(1) in a consensus-oriented private standard-setting environment, (2) a patent holder's intentionally false promise to license essential proprietary technology on FRAND terms, (3) coupled with an SDO's reliance on that promise when including the technology in a standard, and (4) the patent holder's subsequent breach of that promise, is actionable anti-competitive conduct."[39]

---

[35] *Rambus Inc. v. FTC* (2008), 522 F.3d 456.
[36] *Ibid.* at 466 (emphasis in original).
[37] *Hynix Semiconductor Inc. v. Rambus Inc.* 2007 U.S. Dist. LEXIS 74407 (N.D. Cal. Sept. 25, 2007).
[38] *Hynix Semiconductor Inc. v. Rambus Inc.* (2007) 527 F.Supp. 2d 1084 at 1098.
[39] *Broadcom v. Qualcomm* (2007) 501 F.3d 297 at 314.

Finally, the FTC announced in January 2008 that it had settled its complaint against Negotiated Data Solutions LLC ("N-Data") in another version of a patent hold-up case.[40] In this case, several patents originally held by National Semiconductor Corporation ("National") had been incorporated into an industry standard after National had promised the relevant SSO that it would offer to license the technology at a one-time, paid-up royalty of $1000 per licensee to manufacturers and sellers of products using the standard. N-Data obtained the patents knowing about National's promise to the SSO, but refused to comply with the commitment, charging far higher royalties. In the settlement, N-Data was placed under an order prohibiting it from enforcing the patents unless it offered a license based on the terms offered before the patented technology was incorporated into the standard, including specifically the one-time $1000 license fee.

Reverse Payments in Litigation Settlements

An issue which has become an increased source of concern in the United States, at least for the FTC, is the potential for anti-competitive effects from so-called "reverse payments" in litigation settlements, sometimes seen in patent infringement cases brought by owners of pharmaceutical patents against would-be generic drug makers. Rather than a payment from the defendant to the plaintiff as would be seen in a typical law suit settlement, a "reverse" payment sees the patent-holder plaintiff pay the defendant for delaying or cancelling plans to enter the market (in a manner which allegedly infringed the patent).

In *In re Cardizem CD Antitrust Litigation*,[41] the U.S. Court of Appeals for the 6th Circuit considered such a settlement. Hoescht Marion Roussel, Inc. ("HMR"), manufacturer of the prescription drug Cardizem CD, had sued Andrx Pharmaceuticals, Inc. ("Andrx"), a would-be manufacturer of a generic version of the drug, for patent infringement. In settling the action, HMR agreed to pay $40 million per year in exchange for which Andrx would refrain from marketing its generic version of Cardizem CD even after it had received U.S. Food and Drug Administration ("FDA") approval. The Court of Appeals ruled that such an agreement "is a horizontal market allocation agreement and, as such, is *per se* illegal under the *Sherman Act* and under the corresponding state antitrust laws."[42]

In contrast, in 2005, the 11th Circuit Court of Appeals held in *Schering-Plough* that neither the *per se* nor a rule of reason approach is suited to antitrust analysis of patent settlements. Rather, the court held that a proper analysis requires an examination of: (1) the scope of the exclusionary potential of the patent; (2) the extent to which the agreements exceed that scope; and (3) the resulting anti-competitive effects.[43] This approach was also adopted by the Second Circuit in *In re Tamoxifen Citrate Antitrust Litigation*, where the court emphasized that neither the existence of a reverse payment nor the amount of such a payment would be sufficient to render an agreement anti-competitive.[44] Rather, the question is "whether the 'exclusionary effects of the agreement' exceed the 'scope of the patent's protection."[45] This approach appears to presume that the patent in question must be valid, even where, as in *Tamoxifen*, a decision in the earlier part of the litigation had declared the patent invalid. The result in both cases was that the reverse payments were held not to be anti-competitive.

The U.S. Supreme Court refused applications for certiorari in both *Cardizem* and *Schering-Plough*. Notably, the DoJ had argued against the applications, taking the position that the

---

[40] FTC, "FTC Challenges Patent Holder's Refusal to Meet Commitment to License Patents Covering 'Ethernet' Standard Used in Virtually All Personal Computers in U.S." (January 23, 2008) available at <www.ftc.gov/opa/2008/01/Ethernet.shtm>.
[41] 332 F.3d 896 (6th Cir. 2003).
[42] *Ibid.*, at 900.
[43] *In re Schering-Plough Corporation* 402 F.3d 1056 (11th Cir.2005) at 1066.
[44] *In re Tamoxifen Citrate Antitrust Litigation*, 429 F.3d 370 (2nd Cir. 2005).
[45] *Ibid.* at 397.

issue was not ripe for Supreme Court review.[46] The DoJ also questioned the FTC's approach to the issue, stating that the approach "seems to reflect a high degree of suspicion of any reverse settlement payment."[47]

Despite the DoJ's lack of support for its approach, the FTC has pursued a course of challenging reverse payments in patent settlements. In October 2006, for example, the FTC obtained an order settling a suit it had brought against drug company Warner Chilcott alleging that it had made an agreement with Barr Laboratories which unlawfully delayed entry of Barr's generic version of Chilcott's birth control drug Ovcon.[48]

More recently, in January 2008, the FTC filed an amicus brief with the U.S. Court of Appeals for the Federal Circuit, requesting the reversal of a lower court's decision in *In re Ciprofloxacin Hydrochloride Antitrust Litigation* to the effect that patent law, combined with a mere allegation of infringement, "immunized" the defendants' challenged patent settlement from antitrust claims.[49] Notably, the FTC argues in the brief that in analyzing settlements where a patent owner has made an allegation of infringement, there should be no presumption of the validity of the patent, because such a presumption would, in the context, effectively establish a presumption of infringement.[50] Rather, courts should analyze settlements taking into account the uncertainty (both regarding infringement and the validity of the patent) which existed at the time the settlement was reached.

Finally, in February 2008, the FTC filed a complaint against Cephalon, Inc. for anti-competitive conduct which included paying four firms to refrain from selling generic versions of Cephalon's drug Provigil until 2012. The FTC alleged that the four firms had either designed around or challenged the only remaining patent on Provigil, and in 2005 the entry of a generic seemed imminent. The agreement the firms entered with Cephalon in exchange for over $200 million delayed entry until 2012 (three years prior to the expiry of the remaining patent).

It will be interesting to observe whether the outcome of any of these cases will advance to a review before the Supreme Court. The FTC seems to be striving for such a review, which might provide a resolution to the apparently divergent appeal court decisions in *Cardizem* on the one hand, and *Schering-Plough* and *Tamoxifen* on the other.

Supreme Court Upholds Doctrine of First Sale/Exhaustion

In the United States, as in Canada,[51] the doctrine of exhaustion, or first sale, has long defined the point at which the ability of IPRs to control the trade in goods ends and competitive forces are given free rein. In a patent context, the doctrine provides that after the initial authorized sale of a patented item, the rights of the patent owner over the patented item terminate. The U.S. Supreme Court decided a case in January 2008 in which a patent owner attempted to avoid the exhaustion doctrine through its contract with a licensee.[52] LG Electronics, the owner of several computer patents, imposed as a term of its patent license with Intel Corporation that the patent license would not extend to any product which combined an Intel product with a non-Intel product. When Quanta Computer, Inc. manufactured computers using Intel chips and non-Intel components, LG sued Quanta for

---

[46] Oral Statement of Commissioner J. Thomas Rosch, FTC Oversight Hearing (April 10, 2007), available at <www.ftc.gov/speeches/rosch/070410Roschsenatestatment.pdf>.

[47] DoJ Amicus Curiae Brief on Petition for a Writ of Certiorari, *FTC v. Schering-Plough Corporation, et al.*, (May 17, 2006) available at < http://www.usdoj.gov/atr/cases/f216300/216358.pdf>.

[48] FTC, "Court Enters Final Order Settling FTC's Charges Against Warner Chilcott" (October 24, 2006), available at <http://www.ftc.gov/opa/2006/10/chilcottorder.shtm>.

[49] FTC Amicus Curiae Brief in Support of Appellants and Urging Reversal, *In re Ciprofloxacin hydrochloride Antitrust Litigation,*(2008) 363 F.Supp. 2d 514 ("*In re Ciprofloxacin*").

[50] *Ibid.* at 25.

[51] In Canada, the theory of exhaustion was considered by the Supreme Court in *Théberge v. Galerie d'Art du Petit Champlain Inc.* [2002] 2 S.C.R. 336.

[52] *Quanta Computer, Inc. et al. v. LG Electronics, Inc.* 128 S.Ct. 2109; 2008 U.S. Lexis 4702 (U.S.S.C.).

infringement of the patents incorporated in the Intel chips. LG claimed that the exhaustion doctrine did not apply to method patents, but the Supreme Court rejected this argument, stating that such a categorical exception would seriously undermine the entire doctrine by allowing patent owners to bypass it by drafting their claims to describe a method rather than an apparatus. The Supreme Court also noted that Intel's license did not prevent it from selling the patented chips to third parties, but merely asserted that the license would not apply to third parties who combined the chips with non-Intel parts. Since Quanta had legitimately acquired the patented item, however, the theory of exhaustion made the lack of a license irrelevant.

Conclusion

The recent legal developments in Canada and the United States dealing with the interface of competition and intellectual property laws all testify to the practical difficulty of striking an appropriate balance between the two regimes.

In the United States, the apparent lack of consensus between the DoJ and the FTC regarding the proper approach to reverse payments in patent litigation settlements is perhaps the best evidence of this. The lower court's decision in *In re Ciprofloxacin*, holding that patent law immunized the settlement agreement at issue from antitrust claims, would shield a significant range of economic activity from the reach of antitrust laws, and is comparable to the trial judge's treatment of a patent assignment in the Canadian *Apotex* case. The FTC's rejection of this kind of immunity is consistent with the Canadian Commissioner's position in the *Apotex* appeal, which was ultimately adopted by the Canadian Federal Court of Appeal. Only time will tell which approach the US Supreme Court will adopt on this issue.

Meanwhile, as products incorporating IPRs play an increasingly prominent role in our daily lives, the IP/antitrust interface promises to be a lively area of legal development in both Canada and the United States.

Susan Hutton is a senior partner with Stikeman Elliott's Competition/Antitrust practice group, in Ottawa, Canada. Alexandra Stockwell practices intellectual property law with Stikeman Elliott LLP, also in Ottawa. The views expressed in this paper, along with any errors or omissions, are those of the authors alone.

This publication provides general commentary only and is not intended as legal advice.
© Stikeman Elliott LLP