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CANADA: THE INTERFACE BETWEEN PATENT LAW AND COMPETITION LAW

In a 2001 patent case, *Free World Trust v. Électro Santé*, the Supreme Court of Canada quoted with approval a 1653 English case saying that “the effect of an unjustified monopoly was ‘to take away free-trade, which is the birthright of every subject’”. The patent law was carved out of the general principle of freedom of trade. But there has always been a tension between the patent law and competition law, between the limited exclusive right granted by a patent and the ordinary principle of freedom of competition. In Canada, until very recently this tension was largely suppressed as the courts had almost invariably denied defendants in patent infringement actions a defence or counterclaim based on alleged anti-competitive conduct on the plaintiff’s part. Such defendants usually attempted to rely upon §45 of the *Competition Act*, which reads in part as follows:

Every one who conspires, combines, agrees or arranges with another person... to otherwise restrain or injure competition unduly, is guilty of an indictable offence...

But in a recent decision, *Eli Lilly v. Apotex*, the Federal Court of Appeal addressed this question:

As a matter of law, can an assignment of a patent constitute an agreement or arrangement to lessen competition unduly, contrary to section 45 of the *Competition Act*, if it results in an increase to the assignee's market power greater than that inherent in the patents assigned?

The Court answered this question “yes”.

The general point had been litigated 15 years earlier in *Molnlycke AB v. Kimberly-Clark of Canada*. In that case, the same Court had said:

Certainly the existence of a patent is apt to limit, lessen, restrain or injure competition - monopolies do - but its issuance and the inherent impairment of competition has been expressly provided for by an Act of Parliament, which has made provision for compulsory licensing in circumstances where it has considered the ordinary incidence of the statutory monopoly to be contrary to public policy. It is the existence of the patent, not the manner in which issue was obtained or how and by whom its monopoly is agreed to be enforced and defended, that impairs competition... Parliament has, in the *Patent Act*, defined a “due” impairment of competition. In my opinion, as a matter of law, it is not arguable that the impairment of competition inherent in the exercise of rights expressly provided by that Act - the obtaining of a patent or reissue of a patent, its assignment and action by the assignee to enforce its monopoly - can be undue. It follows that undue impairment of competition cannot be inferred from evidence of the exercise of those rights alone.

How did Apotex get around this previous holding? The present Court summarized its position this way:

Apotex... submits that section 50 of the *Patent Act* [relating to assignment of patents] and section 45 of the *Competition Act* can be read harmoniously: section 50 enables patents to be assigned, but does not purport to exempt assignments from the need to comply with other laws, including section 45 of the *Competition Act*. Hence, it is argued, when the effect of an assignment is to increase the assignee's market power by more than that inherent in the rights assigned, section 50 does not preclude the possibility, as a matter of law, that the assignment unduly lessened competition. Apotex says that *Molnlycke* is distinguishable on the ground that the Court in that case was not considering a situation in which the assignment created in the assignee market power greater than that inherent in the patents assigned. In contrast, such power was conferred in the present case because of the assignee's existing ownership of related patents.

The Court agreed with Apotex, finding that in certain circumstances, the assignment of a patent could unduly lessen competition, contrary to §45 of the *Competition Act*. The Court pointed out that

In the case of *Molnlycke*, there was a single supplier lawfully entitled to sell the subject of the patent prior to the patent being assigned. The assignment merely transferred the patent to another company. The only effect of the assignment was that a different company could sue the defendant for infringement. There was no change in the number of patent-holders before and after the assignment...*Molnlycke* held that, in order to provide scope for the statutory monopolies granted by the *Patent Act* to operate, Parliament must have intended that “undue impairment of competition cannot be inferred from evidence of the exercise of [patent] rights alone”. Where, however, there 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*... section 50 of the *Patent Act* does not immunize an agreement to assign a patent from section 45 of the *Competition Act* when the assignment increases the assignees's market power in excess of that inherent in the patent rights assigned....Since section 50 neither compels nor expressly authorizes what section 45 forbids, there is no true conflict between these two provisions of statutes which have different purposes...

There are other manifestations of the patent law/competition law tension. In any of the following circumstances, the Commissioner of Patents may find that there has been an abuse of the exclusive rights under a patent pursuant to §§65ff of the *Patent Act*:

- the demand for the patented article in Canada is not being met to an adequate extent and on reasonable terms;
- by reason of the refusal of the patentee to grant a licence on reasonable terms, the trade or industry of Canada or the trade of any person or class of persons trading in Canada, or the establishment of any new trade or industry in Canada, is prejudiced;
- if any trade or industry in Canada, or any person or class of persons engaged therein, is unfairly prejudiced by the conditions attached by the patentee to the purchase, hire, licence, or use of the patented article, or to the using or working of the patented process; or
- if it is shown that the existence of a patent for a process involving the use of materials not protected by the patent or for a substance produced by such process, has been utilized by the

patentee so as unfairly to prejudice in Canada the manufacture, use or sale of any materials.

Although the Commissioner has the power pursuant to the *Patent Act* in an extreme case to revoke a patent if it has been abused as defined above, nevertheless there is no history of a patent ever having been revoked pursuant to this part of the *Act* or any of its precursors. The usual remedy is the grant of a compulsory licence under the patent to a party injured by such abuse. There have been relatively few cases decided under these provisions.



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