

CANADIAN COMPETITION LAW AND POLICY DEVELOPMENTS

**BOOK REVIEW: *LITIGATING
CONSPIRACY:
AN ANALYSIS OF COMPETITION CLASS
ACTIONS***

*Edited by Stephen G.A. Pitel (Toronto: Irwin Law
Inc., 2006. 429 Pages)*

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Litigating Conspiracy: An Analysis of Competition Class Actions contains several articles, authored by lawyers, economists and academics, which were prepared for a Symposium organized by the Faculty of Law of the University of Western Ontario in late March 2005. In a somewhat unintended but ironic twist, Professor Pitel, in the introductory chapter, notes that the Symposium was made possible as part of a *ex pres* distribution of the settlement of *Bona Foods Ltd. v. Pfizer Inc.*, a case relating to alleged price-fixing in the sale of sodium erythorbate. While the relationship between the Faculty of Law and sodium erythorbate is not immediately obvious, the Faculty has used its portion of the distribution to defray the cost of a Symposium and to publish a book which underscores the benefits of class proceedings in conspiracy cases.

This book is not for the faint of heart. While the subject matter may be of interest to lawyers, economists and academics, the audience is likely limited. Moreover, there are several lengthy, scholarly articles which explore the intersection between class proceedings and claims for damages for economic losses in conspiracy cases. In addition, and this is most important to

an appreciation of some of the articles, the authors are engaged, either as counsel or as experts, in the prosecution and defence of class actions. Although they are experienced and knowledgeable, they can hardly be said to be objective observers of the scene. In these circumstances, the reader is well advised to consider the author's perspective on class proceedings. In other words, the articles should be read with some caution.

On the other hand, this collection offers a useful survey of most of the current issues in litigating class actions in Canada. Whether it is a discussion of the rationale for class proceedings and the proper balance between public and private law enforcement, an issue on which both proponents and opponents of class proceedings in conspiracy cases have strong views, or estimating damages for price fixing, there is something in this book for everyone. There are also a number of useful comparisons between the experience in Canada and the United States.

This book also offers an insight into the current law and practice in class actions involving conspiracies in restraint of trade. It is an invaluable tool for those new to the field and those with considerable expertise. For example, have you ever compared the approach to class proceedings in Quebec with similar proceedings in Ontario and British Columbia, the three Provinces where conspiracy class actions are most prevalent? Catherine Pichet's interesting article, *Class Actions Against Multiple Defendants in Quebec: The Issues of Legal Interest and Standing to Sue*, provides a survey which most lawyers in Ontario and British Columbia

CANADIAN COMPETITION RECORD

will wish to consult when confronted with claims in Quebec. What about estimating damages and pass-through? These are issues of considerable complexity and practical difficulty. This is partly attributable to the fact that apportioning global damages between direct purchasers, who may have both the ability and the incentive to pass on their increased costs, and indirect purchasers, while theoretically possible, can be difficult to determine. There are also potential conflicts between members of the class which must be considered and reconciled. The book addresses these questions, among others, in three separate articles on this subject, including references to the American experience.

For my money, however, I welcomed the attempt to offer some perspective between competing views on the merits of class proceedings. Is there too much enforcement or too little? Margaret Sanderson and Michael Trebilcock in their article, *Competition Class Actions: An Evaluation of Deterrents and Corrective Justice Rationales*, provide an analysis of this issue in the Canadian context. Can a system of public law enforcement and private action work? David Rosenberg and James T. Sullivan offer an American perspective, in their article *Coordinating Public Class Action and Public Agency Enforcement of Anti-Trust Law*, and put forward a proposal to ensure harmony between the two systems.

The book is best treated as a reference text to be consulted on particular issues as opposed to being read from beginning to end. In this respect, the article *Certification of Competition Related Class Actions* by John B. Laskin, Linda M. Plumpton and Amanda M. Kemshaw is a perfect illustration. It provides an excellent overview of the practice and procedure in conspiracy class actions in Canada. Similarly, the article, *Jurisdictional Issues in International Cartel Cases: A Canadian Perspective*, by Donald B. Houston and Jeanne L. Pratt, provides an invaluable summary

of the jurisdictional issues confronting both Plaintiffs and Defendants in cases in more than one jurisdiction, most notably, Canada and the United States.

I have one minor criticism of the text. I did not find the Table of Contents particularly user friendly. While it is detailed, I encountered some difficulties in understanding the precise content of some of the articles without examining them in some detail. Perhaps this is inevitable in a series of articles dealing with a number of different topics. That said, the book is a useful collection of articles which provides a number of insights into many of the issues in this developing field.

**ELI LILLY AND COMPANY ET AL.
v. APOTEX INC. – THE FEDERAL
COURT OF APPEAL CLARIFIES THE
APPLICATION OF SECTION 45
TO PATENT ASSIGNMENTS**

By: Subrata Bhattacharjee and Gregory
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On November 2, 2005, the Federal Court of Appeal delivered its second judgment in *Eli Lilly and Company et al. v. Apotex Inc.*¹ Though the case began as a patent infringement claim brought by Eli Lilly and Company (“Eli Lilly”) against Apotex Inc., the proceedings also involved consideration of the question of whether the assignment of a patent under subsection 50(1) of the *Patent Act*² can constitute an agreement or arrangement to lessen competition unduly, contrary to subsection 45(1) of the *Competition Act*. The unanimous decision of the Federal Court of Appeal in *Apotex* suggests that, in certain circumstances, the answer to this question is yes. In reaching this conclusion, the Federal Court of Appeal has taken an approach consistent with that articulated in the *Intellectual Property Enforcement Guidelines*.³

CANADIAN COMPETITION RECORD

Judicial History

The course of the proceedings in *Apotex* has not been straight.⁴ On June 18, 1997, Eli Lilly brought an action against Apotex Inc. in the Federal Court for the alleged infringement of seven patents relating to (i) processes that could be used in the making of the antibiotic cefaclor, (ii) intermediates that could be formed using those processes, and (iii) a compound used in the processes. Eli Lilly's statement of claim was later amended to add an eighth patent which it alleged had also been infringed by Apotex Inc. In 2001, Apotex Inc. amended its statement of defence and brought a counterclaim against Eli Lilly, alleging that certain conduct on the part of the latter violated subsection 45(1) of the *Competition Act* and that Apotex Inc. was, therefore, entitled to damages under section 36 of that Act. Apotex Inc. further amended its statement of defence and counterclaim in 2002 to add a further defendant to the counterclaim – Shionogi & Co. Ltd. ("Shionogi"). The basis of the counterclaim was that four of the eight patents which Eli Lilly alleged had been infringed by Apotex Inc. had been assigned to Eli Lilly by Shionogi in 1995. Apotex Inc. argued that the assignments constituted an agreement that resulted in an undue lessening of competition and, as such, violated subsection 45(1) of the *Competition Act*.

In response to Apotex Inc.'s counterclaim, Eli Lilly and Shionogi brought motions to strike certain paragraphs of the statement of defence and counterclaim and for summary judgment to dismiss the counterclaim. The defendants to the counterclaim argued, and the Honourable Mr. Justice Hugessen agreed, that any lessening of competition which arose from the assignment of the patents could not be "undue", as subsection 50(1) of the *Patent Act* specifically authorized the assignment of patents.⁵ In holding that the motions should be allowed, Hugessen J. referred to the Federal Court of Appeal's decision in *Molnlycke*,⁶

which he regarded as binding authority. As in *Apotex*, *Molnlycke* involved an assignment of a patent which the alleged infringer claimed amounted to an unlawful agreement under subsection 45(1) of the *Competition Act*. Hugessen J. cited various extracts from *Molnlycke* to support his decision, including the following:

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.⁷

Following *Molnlycke*, Hugessen J. concluded that "[a]n intention to lessen competition, so long as the means to achieve the end remain within the four corners of the *Patent Act*, is not an intention to lessen competition unduly and is therefore not illegal."⁸

Apotex Inc. appealed the decision of Hugessen J. to the Federal Court of Appeal. That Court held that while Hugessen J. was correct in holding that *Molnlycke* was binding authority, it was necessary to determine whether he had correctly interpreted the scope of that case.⁹ The Honourable Mr. Justice Rothstein, writing for a unanimous Court, distinguished the facts in *Molnlycke* from those in the present case as follows:

[i]n 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

CANADIAN COMPETITION RECORD

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.¹⁰

Rothstein J.A. agreed that *Molnlycke* stood for the proposition that “undue impairment of competition cannot be inferred from evidence of the exercise of [patent] rights alone.”¹¹ However, he found that:

[w]here... 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*.¹²

Apotex Inc. had argued that the assignment of patent rights to Eli Lilly by Shionogi resulted in the former controlling all of the commercially viable processes for making ceflaxor, whereas before, those processes were controlled by two companies.¹³ This consolidation, according to Apotex Inc., was “something more” than the mere exercise of patent rights.¹⁴ Rothstein J.A. held that the motions Court should have considered this argument and, as a result, remitted the motions for summary judgment to Hugessen J. for further consideration.¹⁵

In reconsidering the motions for summary judgment, Hugessen J. conceded that it was “undoubted” that the *Patent Act* did not insulate “any and every agreement which may also have to do with the exercise of patent rights” from the application of the *Competition Act*.¹⁶ However, again relying on the decision in *Molnlycke*, he asserted that:

...where an agreement deals only with patent rights and is itself specifically authorized by the *Patent Act*, any

lessening of competition resulting therefrom, being authorized by Parliament, is not ‘undue’ and is not an offence under section 45.¹⁷

Hugessen J. considered whether there was some other agreement which could constitute the “something more” to which Rothstein J.A. had alluded.¹⁸ However, the learned Justice found that there was no such agreement:

[t]he agreement which constitutes the conspiracy alleged by Apotex... is solely and exclusively the assignment of the Shionogi patents and there is no other agreement alleged or shown by the evidence which could be the basis of a section 45 offence.¹⁹

In (again) allowing the motions for summary judgment, Hugessen J. found that while there was an agreement between Eli Lilly and Shionogi which had the effect of lessening competition, that lessening was not “undue”, as it was authorized by subsection 50(1) of the *Patent Act*.²⁰ Hugessen J. concluded that:

...since the agreement has been so authorized and deals with nothing other than the permitted assignment of patents, its effects cannot be undue and the number of patents involved or of other players in the market is irrelevant.²¹

Apotex Inc. again appealed to the Federal Court of Appeal.

The Federal Court of Appeal’s Second Decision

The Federal Court of Appeal considered four issues on appeal: i) whether, as a matter of law, an assignment of a patent may unduly lessen competition; ii) whether the assignment of patents by Shionogi to Eli Lilly lessened competition; iii) whether Apotex Inc.’s

CANADIAN COMPETITION RECORD

counterclaims are statute-barred; and iv) whether Apotex Inc. sustained any damage as a result of the alleged conspiracy.

On appeal, the Honourable Mr. Justice Evans, writing for a unanimous Court, held that, as a matter of law, the assignment of a patent may unduly lessen competition. While Evans J.A. determined that issues iii) and iv) should be resolved at trial, he found that Hugessen J. had already decided that the assignments in question lessened competition (issue ii) and that that decision should not be disturbed.

The proceedings before the Federal Court of Appeal were notable in that the Commissioner of Competition sought and obtained leave to intervene. The Commissioner's intervention was limited to two issues: i) whether subsection 50(1) of the *Patent Act* precluded the application of subsection 45(1) of the *Competition Act* to an assignment of a patent and ii) whether Hugessen J. was correct in stating that his decision was fully compatible with the IPEGs.²² With respect to the first issue, the Commissioner maintained that the relevant provisions of the *Patent Act* and *Competition Act* could exist harmoniously -- a point seemingly adopted by the Court in the reasons for its decision. The Commissioner questioned Hugessen J.'s apparent failure "...to consider the possibility that Parliament intended to enable patent owners to assign patents... provided such assignment does not unduly lessen or prevent competition"²³ In the affidavit of Gwilym Allen, Senior Economic and Major Case Advisor with the Competition Bureau, filed in support of the Commissioner's motion to intervene, concern was also raised over the possibility that Hugessen J.'s decision could lead to "perverse results"²⁴ Mr. Allen outlined the following example of such a result in his affidavit:

...if the same two parties didn't transfer their IP but simply decided

to fix prices then this conduct would be captured by section 45. Hugessen J.'s decision would, however, allow the parties to achieve the same result by allocating the patents through an assignment or licence (thereby distributing the anti-competitive premium between them and injuring competition without challenge).²⁵

Mr. Allen also addressed the second issue with respect to which the Commissioner was granted leave to intervene. His affidavit set out the Bureau's position with respect to the exercise of intellectual property rights, as articulated in the IPEGs:

...although intellectual property laws confer on its holders a variety of rights, it is only the 'mere exercise' of an intellectual property right that is exempt from the application of the general provisions of the [*Competition Act*] and a 'mere exercise' is limited to the owner's right to use or not use IP and to, unilaterally, exclude others from using the IP.²⁶

Mr. Allen continued:

[u]nder the Bureau's treatment of IP, any business conduct that transfers ownership through assignment or licensing of IP involves two or more business entities taking such conduct beyond unilateral behaviour. The IPEGs make clear that business conduct involving IP is never exempt from the [*Competition Act*].²⁷

May the Assignment of a Patent, as a Matter of Law, Unduly Lessen Competition?

In determining that the assignment of a patent may unduly lessen competition, the Court first considered the decision in *Molnlycke*. Evans J.A. acknowledged

CANADIAN COMPETITION RECORD

that Rothstein J.A. had already held that *Molnlycke* was good law and should be followed, as argued by Eli Lilly and Shionogi.²⁸ However, the Court indicated that it was necessary to consider the scope of that decision:

[i]f, as Lilly and Shionogi argue, Apotex is bound by the Court's conclusion that *Molnlycke* should be followed, Lilly and Shionogi, in my opinion, are equally bound by the Court's view of the ratio of *Molnlycke*.²⁹

Evans J.A. then considered Rothstein J.A.'s assessment of the scope of *Molnlycke*. In particular, he noted that Rothstein J.A. had determined that *Molnlycke* stood only for the proposition that "undue impairment of competition cannot be inferred from evidence of the exercise of [patent] rights alone"³⁰ but that where "there is evidence of something more than the mere exercise of patent rights that may affect competition in the relevant market", the application of the *Competition Act* is not precluded.³¹ Evans J.A. observed that Rothstein J.A. had referred to Apotex Inc.'s argument that Eli Lilly's consolidation of patent rights was "something more than the mere exercise of patent rights."³² As Rothstein J.A. "did not refer to any other basis on which Apotex Inc. sought to distinguish *Molnlycke*", Evans J.A. concluded that the "something more" in this case must mean:

...the anti-competitive effects of the assignment, namely, the increased power of Lilly in the market for bulk cefaclor, as a result of its existing ownership of the patents for the other known, commercially-viable processes for manufacturing the medicine.³³

Ultimately, the Court concluded that *Molnlycke* was distinguishable from the present case, as the former dealt "with a situation where the only market power

created by the assignment was that inherent in the patent assigned"³⁴ and where "[t]here was no change in the number of patent-holders before and after the assignment."³⁵

While Evans J.A. suggested that this interpretation of *Molnlycke* was sufficient to allow Apotex Inc.'s appeal, the Court nonetheless set out additional reasons for agreeing with the conclusion that the *Patent Act* did not "immunize" the assignment of a patent from the application of section 45 of the *Competition Act* "when the assignment increases the assignee's market power in excess of that inherent in the patent rights assigned."³⁶ In so doing, the Court provided some useful clarification of the relationship between the *Patent Act* and section 45 of the *Competition Act*.

First, the Court indicated that its interpretation of section 50 of the *Patent Act* enabled that provision to "operate harmoniously" with section 45 of the *Competition Act*.³⁷ Specifically, this interpretation, according to the Court, avoided limiting the scope of section 45 while at the same time prevented section 50 from being rendered ineffective.³⁸ As the Court concluded, "[s]ince 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."³⁹ Though this conclusion is suggestive of the analytical approach taken in regulated conduct cases, the Court did not refer to any of those cases in its reasons.⁴⁰

Second, the Court maintained that, on the facts of the case, subjecting the right to assign patents to section 45 of the *Competition Act* was consistent with both the scheme and the purpose of the Act. Evans J.A. first noted that while subsections 45(3), 45(7), and 45(7.1) of the *Competition Act* provided specific exceptions and defences to the offences under subsection 45(1), none dealt with intellectual property rights (though

CANADIAN COMPETITION RECORD

the Court observed that this was not the case under section 79).⁴¹ As section 45 “contains no analogous exemption”, Evans J.A. applied the principle of statutory interpretation *expressio unius est exclusio alterius* to support:

...an interpretation of section 45 that does not impliedly exclude an assignment of patents which lessens competition by increasing the market power of the assignee beyond that inherent in the rights assigned.⁴²

The Court further referred to the purpose of the *Competition Act* and, specifically, the importance of section 45 to the statutory scheme contemplated by the legislation. Citing the Supreme Court of Canada’s decision in *R. v. Nova Scotia Pharmaceutical Society*,⁴³ Evans J.A. noted that the Supreme Court described the Act as being “central to Canadian public policy and the economic sector” and that it considered section 45 as “one of the pillars of the Act.”⁴⁴ He concluded:

[i]t would be inconsistent with this view of the *Competition Act*, and of the place of section 45 within it, to reduce the scope of section 45 by reading in words that exclude an assignment of patents which lessens competition in the relevant market.⁴⁵

Finally, the Court noted that its interpretation of the interaction between section 45 of the *Competition Act* and section 50 of the *Patent Act* was consistent with the IPEGs. While the Court acknowledged that it was not bound by the IPEGs, it found that “they may be considered by the Court as an aid to the [Competition] Act’s interpretation”⁴⁶ The Court quoted from the IPEGs and noted that the following excerpt was particularly relevant:

[i]f an IP owner licenses, transfers or sells the IP to a firm or a group

of firms that would have been actual or potential competitors without the arrangement, and if this arrangement creates, enhances or maintains market power, the Bureau may seek to challenge the arrangement under the appropriate section of the *Competition Act*.⁴⁷

Did the Assignment of the Patents by Shionogi To Eli Lilly Lessen Competition?

Eli Lilly and Shionogi argued that, even if the assignment of the patents was subject to the application of section 45 of the *Competition Act*, there was no evidence that the assignment lessened competition. In particular, they argued that, as Eli Lilly had granted a non-exclusive licence to Shionogi with respect to the patents in question contemporaneously with the assignment from Shionogi, there were actually two sources from which a competitor could purchase, or seek a licence to manufacture, cefaclor – namely, Eli Lilly or Shionogi.⁴⁸

Evans J.A., however, found that the issue of whether the assignment resulted in a lessening of competition was a question of fact and that Hugessen J. had expressly answered the question in the affirmative.⁴⁹ The Court quoted from Hugessen J.’s second decision with respect to this matter:

...there is and never has been any doubt that the result of the assignment of Shionogi’s patents to Lilly was to increase the latter’s monopoly power. Where formerly it held four process patents useful in the production of cefaclor, it now held eight and no one else held any. In a word, it had a monopoly of the known production processes.⁵⁰

Evans J.A. further noted that Hugessen J. specifically stated that there was an agreement between Eli Lilly

CANADIAN COMPETITION RECORD

and Shionogi which “had the effect of lessening competition”⁵¹ As affidavits filed by Apotex Inc. “provided significant evidence of a lessening of competition in the market for bulk cefaclor” and as Hugessen J. had not made “a palpable and overriding error”, the Court held that it would not disturb the finding that the assignment from Shionogi to Eli Lilly lessened competition and that the question of whether the lessening was undue would be for trial.⁵²

Were Apotex Inc.’s Counterclaims Statute-Barred?

The Court noted that Apotex Inc.’s counterclaims against Eli Lilly and Shionogi were subject to the limitation period set out under subsection 36(4) of the *Competition Act*.⁵³ Eli Lilly and Shionogi argued that the statutory limitation period had expired before Apotex Inc. brought its counterclaims against them, as the assignment of the patents from the latter to the former was the “conduct” in question and had taken place in 1995 (six and seven years, respectively, before Apotex Inc. brought its counterclaims against Eli Lilly and Shionogi). Evans J.A. dismissed this argument, noting “that it assumes that, for the purpose of subsection 36(4), the conspiracy is the assignment, considered in the abstract as a single act.”⁵⁴ He questioned whether, as Apotex Inc. argued, the conspiracy “continued as long as the assignment had a competition-lessening effect.”⁵⁵

Shionogi argued that the last of the patents which it assigned to Eli Lilly had expired in April 2000 – over two years before Apotex Inc. brought its claim against Shionogi – and, consequently, any alleged anti-competitive effects must have ended at that time.⁵⁶ Evans J.A. did not find this argument compelling as it was possible that following expiry of the patents, the assignment could have had the effect of lessening competition. The Court declined to grant summary judgment on this basis.

Did Apotex Inc. Sustain any Damage as a Result of the Conspiracy?

Eli Lilly and Shionogi further argued that Apotex Inc.’s claims could not succeed under section 36 of the *Competition Act*, as “there was no evidence that the assignment [of the patents] had delayed Apotex’ entry into the cefaclor market.”⁵⁷ Consequently, they maintained that Apotex Inc. had suffered no loss or damage – a prerequisite for a successful claim under section 36. Apotex Inc. argued, however, that any damages which it may be required to pay to Eli Lilly as a result of the latter’s infringement action would constitute loss or damage for the purpose of section 36 of the *Competition Act*. The Court adopted Hugessen J.’s conclusion on this point:

[w]hile that appears to me to be a rather strange proposition in law, it is not clear that it cannot succeed and if Apotex were otherwise successful on its section 36 claim, I would not be prepared to dismiss it on that basis at the summary judgment stage.⁵⁸

Conclusion

The Federal Court of Appeal’s decision in *Apotex* provides that, in certain circumstances, the assignment of a patent under subsection 50(1) of the *Patent Act* can constitute an agreement or arrangement to lessen competition unduly, contrary to subsection 45(1) of the *Competition Act*. The decision also provides further certainty in endorsing the general approach taken in the IPEGs. While the decision resolves (in the words of the Court) “an important question of law arising at the intersection of patent law and competition law”⁵⁹, there are still other questions involving the intersection of these two areas of law which have yet to be resolved. Most notably, it will be interesting to observe how the decision will be interpreted in other contexts.

CANADIAN COMPETITION RECORD

Notes

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¹ 2005 FCA 361 [*Apotex*].

² R.S.C. 1985, c. P-4.

³ Competition Bureau, online: <http://strategis.ic.gc.ca/pics/ct/ipege.pdf> (date accessed: February 28, 2006) [IPEGs].

⁴ A summary of the background leading up to the decision can be found in *Apotex*, *supra* note 1 at para. 7.

⁵ *Eli Lilly and Co. v. Apotex Inc.*, [2003] F.C.J. No. 1488 (T.D.).

⁶ *Molnlycke AB v. Kimberly-Clark of Canada Ltd.* (1991), 36 C.P.R. (3d) 493 [*Molnlycke*].

⁷ *Ibid.* [emphasis added].

⁸ *Supra* note 5 at para. 15.

⁹ *Eli Lilly and Co. v. Apotex Inc.*, [2004] F.C.J. No. 1049 (C.A.) at para. 13.

¹⁰ *Ibid.* at para. 14.

¹¹ *Supra* note 6.

¹² *Supra* note 9 at para. 15 [emphasis added].

¹³ At least one commentator has suggested that such conduct could raise concerns in the United States under the *Sherman Act*: “[b]y acquiring a related patent, the monopolist might prevent present or future competition challenging its monopoly. The clearest case would be the acquisition of an equivalent patent covering the only known economic alternative to the monopolist’s product or process” (Herbert Hovenkamp et al., *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* (New York: Aspen Publishers, 2004) at 14-17).

¹⁴ *Supra* note 9 at para. 17.

¹⁵ *Ibid.* at para. 22.

¹⁶ *Eli Lilly and Co. v. Apotex Inc.*, [2004] F.C.J. No. 1753 (T.D.) at para. 9.

¹⁷ *Ibid.* [emphasis added].

¹⁸ *Supra* note 12.

¹⁹ *Supra* note 16 at para. 15.

²⁰ *Ibid.* at para. 22.

²¹ *Ibid.* at para. 21 [emphasis added].

²² *Apotex*, *supra* note 1 (Memorandum of Fact and Law of the Intervener, the Commissioner of Competition, at para. 1).

²³ *Ibid.* at para. 7.

²⁴ *Apotex*, *supra* note 1 (Affidavit of Gwilym Allen at para. 23).

²⁵ *Ibid.*

²⁶ *Ibid.* at para. 19.

²⁷ *Ibid.*

²⁸ *Apotex*, *supra* note 1 at para. 15. See also *supra* note 9.

²⁹ *Apotex*, *supra* note 1 at para. 16.

³⁰ *Ibid.*

³¹ *Ibid.*

³² *Ibid.* at para. 17.

³³ *Ibid.* at para. 18.

³⁴ *Ibid.* at para. 19.

³⁵ *Ibid.* at para. 16.

³⁶ *Ibid.* at para. 21.

³⁷ The harmonious interaction between the exercise of patent rights and the provisions of the *Sherman Act* was considered by the United States Supreme Court in the context of a cross-licensing arrangement in *United States v. Line Materials Co. et al.*, 333 U.S. 297 (1948). In holding that the exercise of patent rights is subject to the provisions of the *Sherman Act*, the Court stated that it is “well settled that the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly. By aggregating patents in one control, the holder of the patents cannot escape the prohibitions of the Sherman Act.”

³⁸ *Apotex*, *supra* note 1 at para. 22.

³⁹ *Ibid.* at para. 23.

⁴⁰ This point, however, was raised by the Commissioner in the Memorandum of Fact and Law that she filed with the Court: *supra* note 22 at para. 5 et seq.

⁴¹ *Apotex*, *supra* note 1 at para. 26.

⁴² *Ibid.* at paras. 26 and 27.

⁴³ [1992] 2 S.C.R. 606.

⁴⁴ *Apotex*, *supra* note 1 at para. 32.

⁴⁵ *Ibid.*

⁴⁶ *Ibid.* at para. 33.

⁴⁷ *Ibid.* at para. 34. See also *supra* note 3 at 7.

⁴⁸ *Apotex*, *supra* note 1 at para. 37.

⁴⁹ *Ibid.* at para. 38.

⁵⁰ *Ibid.* See also *supra* note 16 at para. 14.

⁵¹ *Apotex*, *supra* note 1 at para. 38. See also *supra* note 16 at para. 22.

⁵² *Apotex*, *supra* note 1 at paras. 43 and 39.

⁵³ *Ibid.* at paras. 47 and 48. Subsection 36(4) of the *Competition Act* provides, in part, that no claim for loss or damage may be brought “after two years from... a day on which the [illegal] conduct was engaged in”

⁵⁴ *Apotex*, *supra* note 1 at para. 52.

⁵⁵ *Ibid.* [emphasis added].

⁵⁶ *Ibid.* at para. 53.

⁵⁷ *Ibid.* at para. 58.

⁵⁸ *Ibid.* at para. 59. See also *supra* note 16 at para. 24.

⁵⁹ *Apotex*, *supra* note 1 at para. 2.

CANADIAN COMPETITION RECORD

APOTEX v. LILLY: SUBSIDIARY ISSUES

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In the Fall 2004 issue of the *Record*¹ we offered comments on the first three rounds of the *Apotex v. Lilly* battle.² We there set out the background and detail of the dispute, which, in its essential features, involved an allegation that the assignment of one set of process patents to a firm which held the only other commercially viable set of process patents for the production of the antibiotic cefaclor, could properly be challenged under the *Competition Act*.

In our earlier comment we argued that the Federal Court's view of the insulation of patent assignments from *Competition Act* challenge was misguided, and turned both on an erroneous view of the intention of Parliament in enacting the patent laws, and also a confusion between a patent "monopoly" and the phenomenon of monopoly as an economic/competition law concept. We were pleased, therefore, that in its November 2005 decision the Federal Court of Appeal seems, subject to the potential intervention of the Supreme Court of Canada, to have resolved these issues in a way consistent with our views.³

At its heart, the issue in play in these motions and appeals was whether the assignment of a patent can be an anti-competitive conspiracy under the *Competition Act*. We espoused the view that intellectual property should be treated like other property for most antitrust purposes, including this purpose. The Court of Appeal agreed.

We should, therefore, be content to declare victory and retire from the field. However, the Federal Court of Appeal in its most recent decision addressed two subsidiary points of some interest, and failed to address one point which we think merits comment. We are,

therefore, unable to let this interesting case go, just yet.

The point the Federal Court of Appeal failed to address is whether an assignment of patents, although not insulated from *Competition Act* challenge, is appropriately addressed under section 45 (the conspiracy provision) of the *Competition Act*, or more appropriately addressed under section 92 (the merger provision). We raised this issue in our earlier comment, but the Court did not take the bait.

A second point, even assuming that an assignment of patents may constitute an unlawful conspiracy pursuant to the *Competition Act*, is whether Apotex – a firm which desired to make a "generic" version of the drug in issue – was harmed by the conduct (the assignment, resulting in a single firm controlling all the relevant process patents), or harmed in a manner which the *Competition Act* should recognize. That is, while there may have been harm, at least in theory, to drug purchasers at large, which might be recognized under the *Competition Act*, it may not be harm, or antitrust harm, to Apotex.

The third subsidiary issue we wish to explore here is the question of whether Apotex brought its claims for breach of section 45 of the *Competition Act* (which were advanced by way of counterclaim in a patent infringement action brought against it by Lilly) within the statutory limitation period provided for in section 36 of the *Competition Act*. We had not addressed this issue in our previous article, and so we will start with offering comment on that point here.

Limitation Issue

Section 36 of the *Competition Act* contains a somewhat peculiar limitation period. It provides:

No action may be brought...in the case of an action based on conduct

CANADIAN COMPETITION RECORD

that is contrary to any provision of Part VI [the criminal provisions], after two years from

- (i) a day on which the conduct was engaged in, or
- (ii) the day on which any criminal proceedings relating thereto were finally disposed of,

whichever is the later.

Thus, in order to avoid being dismissed by reason of this limitation provision, the general rule is that the conduct challenged must have been undertaken, or at least some aspect of the conduct must have been engaged in, within two years of the commencement of the proceeding. However, a claim based on conduct that would be statute barred can nonetheless proceed and succeed if the Government subsequently brings a criminal proceeding. No criminal proceedings have been brought in respect of the facts which gave rise to the *Apotex v. Lilly* case.

In the *Apotex v. Lilly* case, the facts were that Apotex issued its counterclaim (in Lilly's patent infringement action against it) against Lilly, based on section 45 of the *Competition Act*, in March 2001 (and against the assignor, Shionogi, in November 2002). The assignment of the Shionogi patents to Lilly – that is, the alleged conspiratorial act – occurred in 1995. Therefore, that act occurred six or seven years before the cause of action was asserted. The assignment was registered with the Commissioner of Patents in 1995 and provided to counsel for Apotex in 1999, although Apotex had knowledge of the assignment as early as 1997

In each case those events were more than two years from the time when Apotex commenced its counterclaim against Shionogi. In addition, the last to

expire of the process patents which Shionogi assigned to Lilly did so in April 2000 – that is, two years and seven months before Apotex sued Shionogi.

The arguments of both Lilly, and even more clearly on the facts, Shionogi, were therefore that since the assignment – the alleged-of conspiratorial act – occurred more than two years before the claim was launched, Apotex knew of the assignment more than two years before the claim was launched, the patents that were assigned in fact expired more than two years before the claim was launched (in the case of the claim against Shionogi at least) and, finally, since there was no prosecution by the Government so as to revive any cause of action, the effect of section 36(4) of the *Competition Act* was to bar Apotex's claims.

The Court did not accept this argument. It found, firstly, that to consider merely the assignment of the patents to be the conspiracy was incorrect. Rather, the assignment, the Court stated, must be seen as part of the enhancement of Lilly's market power. In the words of the Court of Appeal:

... Apotex's case is that the assignment must be seen in its context: its enhancement of Lilly's market power, that is, Lilly's additional ability to act independently of the market by virtue of its ownership of the patents for all known, commercially-viable processes for manufacturing cefaclor. On this view, the conspiracy continued as long as the assignment had competition-lessening effect. Because of the evidentiary questions to be resolved, this is not the kind of issue on which it would be appropriate to grant summary judgement.⁴

That is, it seems to us what the Court of Appeal must have been saying is that if the assignment was a conspiracy contrary to the *Competition Act*, it might

CANADIAN COMPETITION RECORD

have had continuing effect beyond the actual event of the assignment. That is, it might have continued to have market effects during, at minimum, the continuing life of the patent so assigned.

We agree that the assignment would have had some continuing effect, insofar as the patents had economic consequences. That said, however, the wording of section 36 prohibits claims based on conduct that is contrary to any of the provisions of Part IV “after two years from a day on which the *conduct was engaged in*” That is, the limitation provision speaks specifically of conduct, not effects. Unless conspiracy can be alleged in respect of the conduct of enjoying and enforcing patent rights once assigned – inherently unilateral activity – there was no conduct after the assignment which is subject to challenge. Perhaps there were economic effects – but that is not the language of section 36(4).

There is no clear law on the effect of the section 36(4) limitation period in respect of continuing or lingering effects of a Canadian conspiracy. That is why this decision of the Court of Appeal may well be important in cases involving much more traditional “conspiracies”, and why we think it is appropriate to note that the Court of Appeal’s interpretation appears to be at odds with a plain reading of the words of the provision.

Another point of note is that the Court of Appeal also rejected the argument that the claim was outside the limitation period because the patents which were assigned expired more than two years before the cause of action was asserted, so they could not, Shionogi argued, have constituted conduct engaged in within the limitation period. We would have thought that, even if continuing to enjoy the benefits of the patent protection which was allegedly inappropriately obtained through assignment constituted “conduct” which was “engaged

in”, the expiry of the patent would be, at the outside, the last day on which such conduct could have been engaged in. The Court of Appeal rejected this argument, on the basis that this was only relevant:

...if it is not arguable that, after that date, there could have been no competition-lessening effects as a result of the assignment.

However, the expiry of the Shionogi patents will not necessarily mark the start of the limitation. On the assumption that the discoverability principle applies to claims under section 36, if Apotex did not discover, and could not reasonably have been expected to discover, details of the 1975 and 1995 agreements between Lilly and Shionogi more than two years before it issued its counterclaim, the counterclaim was not time-barred. Apotex says it did not discover important details about the agreements until November 2001.⁵

As to the reference to “competition lessening effects”, we have noted already that “effect” is not the language of section 36(4) of the *Competition Act*, “conduct” is.

Insofar as there is a debate in the evidence about when the plaintiff did discover, or should have discovered, the assignment, or “important details” of the assignment – whatever that means – then in principle we do not take issue with the decision. We do, however, fail to understand what more Apotex needed to discover, but that the assignment of the patents covering the relevant processes had been made, since all the actors would be presumed to understand the legal effects of a patent, and Apotex more than most would certainly be aware of them, and of the existing Lilly patent.

CANADIAN COMPETITION RECORD

That said, insofar as the decision only stands for the proposition that since this was a factual dispute about whether Apotex should, could, or did discover aspects of the alleged conspiracy within two years of launching its claim, the claim should not be dismissed on summary judgment if there is any doubt about such facts, we do not take issue. Insofar, however, as the decision suggests that the two year limitation period be extended not merely until the plaintiff discovered or should have discovered the alleged conspiracy – i.e. the assignment – but through the life of the patent, and then for a time beyond the expiry of the patent, we believe that such interpretation is at odds with the language of section 36(4). We hope that when the court has an opportunity to consider this case on the merits it will reject such an interpretation.

Finally, Apotex argued that Lilly's pursuit of the infringement action – that is, the original action in which Apotex counterclaimed for conspiracy under the *Competition Act* – was a continuing competition-lessening effect, which therefore extended the time in which an action could be brought. The Court of Appeal indicated that it would not be prepared to decide the correctness of that issue on a summary motion. We hope that after an appropriate trial the court will be prepared to conclude that the legitimate pursuit of a patent infringement action (as distinguished, perhaps, from a bad faith attempt to enforce patents known to be invalid, or obtained by fraud on the patent office, or some similar situation) cannot properly constitute an unlawful conspiracy. Again, it is important to recall that enforcing the patent by way of an infringement action is unilateral conduct. There is no conspiracy, as there is only one actor.

No Damage to Apotex

While it is possible that there could be a *Competition Act* challenge resulting from an assignment of patents, in our original article we raised the question as to

whether a third party which wished to manufacture a generic version of the drug in question could be injured. That is, members of the public might have to pay more if only one manufacturer rather than two owned process patents for the production of the drug, but a third party wishing to manufacture the drug would be precluded from infringing the patents, whether those patents were owned by one firm or two firms. Therefore, we argued that whether or not there was injury to the public or to the process of competition, there was no injury to Apotex. Whether Apotex was precluded from infringing patents owned exclusively by Lilly, or whether it was precluded from infringing patents owned by Lilly and Shionogi, its conduct was precluded by valid patents, whether or not the alleged conspiratorial assignment occurred.

By contrast, Apotex argued that the amount that it might be required to pay Lilly by way of damages as a result of Lilly's infringement action against it constituted loss or damage for the purpose of section 36(1). Apotex's argument, as we understand it, was that the amount due to Lilly in the infringement action, if any, would be higher once the patents were all assigned to Lilly than damages if all of the process patents had not been owned by Lilly. Presumably this is because if there were two competing suppliers of the drug, utilizing two competing process technologies, the cost of the drug would be lower than if there was only one company which controlled all the relevant processes, therefore profits earned by each of the two companies would be lower, and therefore the damages for infringement would be lower.

There is some logic to this argument, at least in theory⁶, but it seems to require that loss or damage which is recognized under section 36 of the *Competition Act* could be an award of damages, or profits, made under the *Patent Act*. It strikes us that court-awarded damages under the *Patent Act* are simply beyond

CANADIAN COMPETITION RECORD

the scope of section 36 damages. More importantly, however, we think that the argument misses a bigger issue. The fundamental point is that if indeed Apotex were infringing a patent or patents owned by Lilly, (whether originally Lilly's patents or patents assigned by Shionogi), Lilly would not only be entitled to damages (or Apotex's profit) for infringement, it would be entitled to an injunction to prevent the infringement at all. If the patents had not been assigned, either Lilly or Shionogi would have been entitled to the same injunction.

When looked at that way, in our view, there can be little doubt that while the public at large may, at least in theory, have suffered some antitrust injury by Shionogi's assignment of its process patents to Lilly, Apotex suffered no damage – at least no damage which ought to be recognized in law as antitrust injury⁷ – by such assignment. It was in law precluded from infringing the patents, whoever owned them.

We note the Court of Appeal quoted, with approval, the motions judge's decision:

While that [the claim that damages due to Lilly for patent infringement could constitute damage to Apotex under section 36 of the *Competition Act*] appears to me to be a rather strange proposition of law, it is not clear that it cannot succeed and if Apotex were otherwise successful on its section 36 claim, I would not be prepared to dismiss it on that basis at the summary judgement stage.⁸

We hope that, once the court has an opportunity to consider this matter on the merits, it will conclude that this is a rather strange proposition of law, and will reject it. We submit that the court should find that while there may, in theory, be a claim under the *Competition Act* with respect to patent assignments, an infringer of the

assigned patents is not a person who has suffered any reasonable antitrust injury.

Is a Patent Assignment a Conspiracy or a Merger?

A third question, which neither the Federal Court or the Federal Court of Appeal appears to have asked, but which we ask, is whether, assuming a patent assignment can be characterized as an action challengeable under the *Competition Act*, it is properly challengeable under the conspiracy provisions? Section 45 of the *Competition Act* provides, amongst other things, that everyone who conspires, combines, agrees or arranges with another person, to, amongst other things, prevent or lessen, unduly, competition in the production, manufacture, purchase, barter, sale, storage, rental, transportation or supply of a product, or to otherwise restrain or injure competition unduly, is guilty of an indictable offence.

Clearly a patent assignment is an agreement; and just as clearly, as we argued in our original article⁹, and as the Federal Court of Appeal found, assignment by the holder of one set of process patents for manufacturing a product to the holder of the patents for the only other process to do so may well lessen competition. Thus, on the face of the words of section 45, a patent assignment can fall within the ambit of section 45. But, is it the sort of thing which should be considered a conspiracy? Was it within the intention of Parliament, when it created the conspiracy provisions of the *Competition Act*, that it capture this sort of conduct? To take another example, the transfer of a factory for the production of widgets to the owner of the only other factory which can produce widgets would also, and in the same way, fall within section 45. Yet in that latter case of the sale of a factory we would find it extraordinary to regard that transaction as a conspiracy. One would typically regard it as a merger, as defined under section 91 of the *Competition Act*. That is:

CANADIAN COMPETITION RECORD

The acquisition or establishment, direct or indirect, by one or more persons, whether by purchase or lease of shares or assets, by amalgamation or by combination or otherwise, of control over or a significant interest in the whole or a part of a business of a competitor, supplier, customer, or other person.

As a merger it can be challenged under section 92 of the Act in cases where it is likely to prevent or lessen competition substantially. A patent assignment, like the transfer of a factory, is in our view reviewable and potentially challengeable as a merger. The Bureau's own *Intellectual Property Enforcement Guidelines*¹⁰ are clear on this point. The Bureau applies the general provisions of the *Competition Act* when intellectual property rights form the basis of arrangements between independent entities, in the form of a transfer, and when the alleged competitive harm comes from such an arrangement and not just from the mere exercise of the intellectual property right and nothing else.¹¹

In a number of cases the Competition Bureau has found that patent transfers – at least as part of larger transactions – are reviewable as mergers, and they have been the subject of remedial action to cure the problems associated with a merger.¹²

The Competition Bureau's draft *Information Bulletin on Merger Remedies*¹³ also notes that "quasi-structural" resolution to a merger problem may include a compulsory license of patents.

The fact that conduct can fall within both the conspiracy and merger provisions is trite, and expressly recognized in the *Competition Act*, in that both section 45.1 and section 98 prohibit simultaneous proceedings against a person under sections 45 and 92 on the basis of the same facts.

So, technically there is no prohibition on regarding a patent assignment as both a merger and a conspiracy – but as a matter of policy how should it properly be examined? What does it most resemble: a legitimate commercial transaction or a clandestine price fixing agreement? Are transactions of this sort generally regarded as proper, legitimate and lawful, or improper, illegitimate and unlawful? Are they secretive, or publicly registered and notified? Do they transfer productive assets between parties, or merely coordinate parties' conduct to restrict output?

In each of these cases, it is submitted, the answer is clear. Patent assignments resemble, in most if not all commercial respects, traditional asset transfers. They are not at all like clandestine, smoke-filled room, price fixing conspiracies. The Competition Bureau's *Strategic Alliances Bulletin* notes that:¹⁴

Alliances that involve the future acquisition of control will be reviewed under the civil merger provisions rather than the criminal conspiracy provisions of the "Act" unless there is a basis for believing that the acquisition of control is a sham.

Patents are assets, and an assignment involves a transfer of control.

One of Canada's leading antitrust scholars, Michael Trebilcock, has proposed a new definition of conspiracy which, at its heart, would recognize that conspiracies are clandestine and that any agreement which is made public should not be challenged as an unlawful conspiracy.¹⁵ There is no doubt that a key element of any true improper conspiracy is that it is undertaken and maintained in secrecy – not registered with the patent office as a normal matter of course for a transfer.

Assuming that Shionogi's assignment of patents to Lilly is properly regarded as a merger and not a

CANADIAN COMPETITION RECORD

conspiracy. Apotex again has no power to challenge mergers, and of course the Commissioner did not, at least in this case, challenge the transaction. We are of the view that the Commissioner can, and indeed in the correct cases should, challenge patent assignments as anticompetitive mergers. For the reasons articulated above, however, we are also of the view that patent assignments should not be regarded, by the courts or the Commissioner, as conspiracies, and the courts should be hostile to any attempts to so characterize them.

Conclusion

As noted at the outset, the *Apotex v. Lilly* case has provided a useful forum in which to explore the interface of competition and intellectual property law. We are pleased that it has concluded that patent assignments do not enjoy insulation from *Competition Act* review.

That said, we also believe, as articulated above, that patent assignments should properly be regarded as mergers under the *Competition Act*, rather than as unlawful conspiracies, and that potential competitors wishing to engage in activity that infringes the patents should not be seen to have suffered damages by virtue of patent assignments. Finally, we believe the case provides some interesting commentary on the limitation period set out in section 36(4) of the *Competition Act*. We are hopeful that as the case progresses these issues may be explored in more detail.

Notes

¹ James Musgrove & Dan Edmondstone, "Lilly v. Apotex – Skirmishes Along the IP/Competition Law Frontier" (2004) 22:1 Can. Comp. Rec. 60.

² (2003) 28 C.P.R. (4th) 37 (F.C.T.D.); (2004) 32 C.P.R. (4th) 195 (F.C.A.); (2004) 35 C.P.R. (4th) 155 (F.C.T.D.).

³ *Eli Lilly and Co. v. Apotex Inc.*, [2005] F.C.J. No. 1818 (F.C.A.). The decision is discussed in the article by Bhattacharjee and Sullivan in this issue of the *Record*.

⁴ *Ibid.* at para. 52.

⁵ *Ibid.* at paras. 54-55.

⁶ On the facts of the case it appears that Shionogi, while it assigned its patents, received a license back, so it is arguable that there continued to be two possible competitors with commercially viable manufacturing processes. As well, as we understand the operation of the Patented Medicines Regulations, a price differential for the product was unlikely, whether there were one or two sellers. Even without these facts, however, in our view the Apotex claim to having suffered damages should not be upheld, for the reasons noted below.

⁷ First introduced by the United States Supreme Court in the case of *Brunswick Corp. v. Pueblo Bowl-O-Mat*, antitrust injury is a requirement that an applicant seeking relief show that it (1) suffers injury or threatened injury that is both (2) actually caused by the defendant's conduct and (3) of the kind that antitrust laws were designed to prevent. Taken together, these requirements ask whether the injury of which the applicant complains or the damages it has actually proved connect closely enough with the purposes of antitrust laws. See P. Areeda & L. Kaplow, *Antitrust Analysis: Problems, Text, Cases* (Boston: Little, Brown and Company, 1988) at 96-97. See also *Brunswick Corp. v. Pueblo Bowl-O-Mat*, 429 U.S. 477 at 489 (1977) and *Atlantic Richfield Co. v. USA Petroleum Co.*, 495 U.S. 328 at 353 (1990).

⁸ *Supra* note 3 at para. 59.

⁹ *Supra* note 1.

¹⁰ Ottawa, Competition Bureau, 2000.

¹¹ *Ibid.* at para. 4.2.1.

¹² *Canada (Commissioner of Competition) v. Bayer AG*, CT-2002-003, 18 July 2002 (Comp. Trib.) (consent order required Bayer AG to divest some patents and licenses); *Canada (Commissioner of Competition) v. Pfizer Inc.*, Competition Tribunal-2003-002, 11 April 2003 (Comp. Trib.) (consent agreement required divestiture of patents, *inter alia*).

¹³ Ottawa, Competition Bureau, 2005.

¹⁴ Minister of Supply and Services Canada, 1995.

¹⁵ P. Warner & M. Trebilcock, "Rethinking Price-Fixing Law" (1993) 38 McGill L.J. 679.

THE FEDERAL COURT OF APPEAL ORDERS A REDETERMINATION IN *CANADA PIPE*

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On June 23, 2006, the Federal Court of Appeal ("FCA") released its first decision on the abuse of dominant position and exclusive dealing provisions of the *Competition Act*. In *Canada (Commissioner of Competition) v. Canada Pipe Company Ltd.*¹, the FCA

CANADIAN COMPETITION RECORD

held that the Competition Tribunal applied the wrong legal tests in determining that Canada Pipe Company Ltd. (“Canada Pipe”) had not engaged in abuse of dominant position or exclusive dealing. It remains to be seen whether the adoption of a different test will lead the Tribunal to a different conclusion upon redetermination which has been ordered by the FCA.

The Competition Tribunal’s Decision

In the proceedings before the Tribunal², the Commissioner of Competition alleged that a loyalty rebate program offered by a division of Canada Pipe to its distributors constituted an anti-competitive act by a dominant firm which substantially lessened competition. The Stocking Distributor Program (“SDP”) rebate program provided that distributors would qualify for rebates and thereby preferential treatment if they exclusively stocked Canada Pipe cast iron drain, waste and vent (“DWV”) pipe, fittings and couplings. The Competition Tribunal held that each of DWV cast iron pipes, fittings and couplings constituted separate product markets, and that Canada Pipe had sufficient market power to exercise market control in all three product markets in each of six geographic markets in Canada. Despite its finding of dominance, the Tribunal held that the rebate program did not constitute a practice of anti-competitive acts and did not have the requisite negative effect on competition to constitute abuse of dominance.

The SDP rebates and discounts did not change according to the volume of purchases but rather rewarded the exclusive stocking of Canada Pipe cast iron products. Provided the distributor was loyal to Canada Pipe cast iron products, it would receive quarterly and annual rebates as well as significantly lower prices for items purchased through the application of a multiplier. Distributors were free to leave the program at the end of each year, without losing their rebates for that year. The

Tribunal heard economic and fact evidence on the costs involved for a distributor to switch from Canada Pipe cast iron products to an alternate or additional source of supply. The Tribunal found that a distributor who decided to switch from Canada Pipe to another supplier would not suffer any significant cost, especially if the decision was made at the beginning of the year, before the rebates began to accumulate. In addition, there was expert evidence that during the program’s existence, competition in the relevant markets had actually increased, and new entrants could distribute their products in a variety of alternative channels.

In holding that the SDP did not constitute a practice of anti-competitive acts, the Tribunal reviewed the practices held to be anti-competitive in the *NutraSweet*³, *Nielsen*⁴, *Laidlaw*⁵ and *Tele-Direct*⁶ cases and distinguished the punitive nature of the conduct there from the effects on a distributor who chose to switch from the SDP:

The Tribunal concludes, on the issue of switching costs, that although the SDP is an attractive program for a distributor, it does not prevent the distributor from considering other options, or from purchasing elsewhere if it is more advantageous to do so. Distributors remain with [Canada Pipe] for a variety of reasons, and notably because it is a reliable supplier and, in the case of large distributors, because the size of the market does not warrant searching for another supplier. The SDP is a factor in the decision, but both the economic and factual evidence on switching costs fail to establish that its purpose is predatory, exclusionary or disciplinary. It offers an attractive bargain to distributors, but it does not prevent other competitors from offering a better bargain, nor does it prevent

CANADIAN COMPETITION RECORD

distributors from switching to other suppliers. The switching costs were not demonstrated in economic terms to be significant. The Tribunal heard evidence of distributors staying with the program for reasons unrelated to the SDP and of distributors leaving the program without incurring switching costs.⁷

In determining that the SDP did not constitute a practice of anti-competitive acts, the Tribunal focussed on the effects of the SDP, rather than its purpose:

The most striking argument against the alleged anti-competitive effect of the SDP is the fact that it has not prevented entry nor competition in certain regions. The SDP has not prevented an increase in imports, nor has it prevented the emergence, for the first time in thirty years, of a new manufacturer of cast iron DWV products. For a practice to be found anti-competitive, it must have a negative effect on competition. As was stated in *Tele-Direct*, there has to be a link between the practice and its alleged anti-competitive effect.⁸

In addition, the Tribunal held that the SDP did not substantially lessen competition in any relevant market. In analyzing the effects of the SDP, the Tribunal pointed to the emergence of a new entrant and competing import products and held that there was no negative effect on competition. It was also on this basis that the Tribunal held that there was not the requisite substantial lessening of competition required under the exclusive dealing provision in section 77 of the Act.

The Commissioner appealed the Tribunal's finding that the SDP did not constitute an anti-competitive act and the finding that there was no substantial prevention or

lessening of competition under either section 79 (abuse of dominant position) or section 77 (exclusive dealing). Canada Pipe cross-appealed the Tribunal's findings on market definition and market power.

The FCA's Reasons

The FCA concluded that the Tribunal applied the wrong approach to determining whether the SDP constituted a practice of anti-competitive acts and whether there was a resulting substantial lessening of competition.

Anti-competitive Effects – paragraph 79(1)(c)

The FCA held that the Tribunal erred in its analytical approach with respect to whether the SDP has had or is likely to have the effect of preventing or lessening competition substantially. The FCA adopted a comparative and relative analysis which assesses the effect of the impugned practice (i.e. the alleged anti-competitive act) with reference to the past and present actual effects and likely future effects. “[I]t is not the absolute level of competition in a market which must be substantial, but rather the preventing or lessening of competition that results from the impugned practice must be substantial.”⁹ [I]t is thus the level of competitiveness in the presence of the impugned practice that must be compared to the level of competitiveness in the absence of the impugned practice to determine whether the effect of the impugned practice is substantial. The FCA noted that this approach is consistent with the Tribunal's approach in past cases, most notably *Laidlaw*¹⁰ and *Nielsen*.¹¹

The FCA accepted that a “but for” analysis as advocated by the Commissioner in her submissions and as set out in the Competition Bureau's *Enforcement Guidelines on the Abuse of Dominance Provisions*¹² is one acceptable approach within a comparative and relative assessment: would the relevant markets, in the past, present or future, be substantially more

CANADIAN COMPETITION RECORD

competitive but for the impugned practice of anti-competitive acts? However, the FCA explicitly left open the possibility that the Tribunal may choose to consider other appropriate tests within the comparative and relative assessment as well.

In the Appeal Decision, the FCA held that the Tribunal's analysis of anti-competitive effects incorrectly made an absolute evaluation of the state of the market. The Tribunal's analysis emphasized the existence of a new entrant in the market and competition from other imported products, rather than expressly considering whether the SDP was responsible for a substantial increase in the difficulty of gaining entry into the relevant markets and thereby a corresponding substantial lessening of competition:

The fact that entry has been observed in the presence of the SDP, and that barriers to entry are therefore not total, does not by itself address the question of whether, in the absence of the SDP, there would be substantially more competition in the relevant markets, in the past, present or future.¹³

The FCA's approach to the determination of whether there has been a substantial lessening of competition in the relevant market as a result of the alleged practice of anti-competitive acts is significant. Strictly construed, the relative and comparative approach could lead to a finding of abuse by a dominant firm even where competition in a market remains, in absolute economic terms, healthy, if the effect of the impugned practice is, in relative terms, substantial.

Practice of Anti-competitive Acts

The FCA accepted the approach first espoused by the Tribunal in *NutraSweet* with respect to determining whether conduct constitutes an anti-competitive act. An anti-competitive act is identified by its purpose

an intended predatory, exclusionary or disciplinary effect on a competitor. The focus of the inquiry under paragraph 79(1)(b) of the Act is the intended effect on a competitor, not competition generally. In determining whether conduct is an anti-competitive act "...a link need not be proven between the impugned practice and a decrease in competition."¹⁴

The FCA found that the Tribunal mistakenly focused on the effects of the conduct, rather than the purpose of the conduct alleged to be anti-competitive. The FCA reiterated previous Tribunal statements that proof of the intended negative effect on competitors can be established directly through evidence of subjective intent, or indirectly by reference to the reasonably foreseeable consequences of the acts themselves and the circumstances surrounding their commission, or both. Subjective intent is particularly relevant where there is proof of a valid business justification for the conduct in question.

The FCA also found that the Tribunal applied the wrong approach in finding a valid business justification for Canada Pipe's rebate program. The FCA held that in appropriate circumstances, proof of a valid business justification can overcome the deemed intention arising from the actual or foreseeable effects of the conduct, by showing that such anti-competitive effects are not in fact the overriding purpose of the conduct in question within the analysis in paragraph 79(1)(b). The FCA ruled that a valid business justification has no independent role in a section 79 analysis as an absolute defence, rather it can only be used to neutralize other evidence of an anti-competitive purpose. In order to do so, a valid business justification must provide a credible efficiency or pro-competitive explanation for the alleged anti-competitive act, unrelated to any anti-competitive purpose. Improved consumer welfare, on its own, is not sufficient to establish a valid business justification. The Tribunal's reasons did not establish

CANADIAN COMPETITION RECORD

the requisite efficiency-related link between the rebate program and Canada Pipe. Consequently, there was no legitimate business justification, unrelated to an anti-competitive purpose, for Canada Pipe to engage in allegedly anti-competitive conduct.

The FCA's test may diverge from the evolution of the role of intent in abuse of dominance cases in the Tribunal, which has evolved from consideration of objective evidence of an intended negative effect on a competitor that is predatory, exclusionary or disciplinary as a "necessary ingredient" (*NutraSweet*), to an analysis that involves a weighing of several factors, including any legitimate business justification and anti-competitive effects, in order to establish the overriding purpose of the acts alleged to be anti-competitive (*Tele-Direct*). It does correspond, however, with the plain meaning of section 79.

The FCA's test also appears to signal a divergence between Canada and the United States and a potential divergence with the European Union with respect to the treatment of intent in abuse of dominance cases. In the United States, proof of intent to harm a competitor, or to intend ill effects on a competitor, is not a central factor in determining whether a dominant firm has engaged in anti-competitive conduct. The determination of whether conduct of a dominant firm is anti-competitive is based on the effects on competition in a market.¹⁵ Similarly, although in past cases Article 82 of the EC Treaty has been applied with reliance on evidence of anti-competitive purpose and without significant reliance on economic evidence of actual anti-competitive effects, the current Commissioner of the European Competition Commission has signalled a shift towards a more effects-based regime.¹⁶

Exclusive Dealing

The FCA examined the provisions of sections 77 and 79 and noted that both provisions contain similar

requirements. The FCA noted that they both require an initial determination that the firm in question occupies a position of dominance. In this regard, the FCA equated the words "...major supplier of a product in a market" in section 77 with "...one or more persons substantially or completely control ...a class or species of business" in section 79.¹⁷ In addition, both provisions incorporate the same fundamental test of substantial lessening of competition. However, the FCA distinguished the scope of section 79 from that of section 77 based on the inclusion of three time frames in section 79 ("has had, is having or is likely to have") versus the inclusion of only two time frames in section 77 ("is or is likely to"), although the FCA declined to speculate whether this difference would lead to substantively different results.

Due to the similarity in the test for anti-competitive effects under sections 77 and 79 (both require a substantial prevention or lessening of competition), the FCA held that the Tribunal also erred in its analysis under section 77. As a result, the Tribunal's conclusion that the SDP did not have the requisite exclusionary effect was also set aside and sent back to the Tribunal for redetermination.

Canada Pipe's Cross-Appeal on Market Definition and Market Power

The FCA dismissed Canada Pipe's cross-appeal on market definition.¹⁸ Canada Pipe argued that if the Tribunal had followed the proper analytical approach, it would have had to define the applicable product market to include competing DWV products made from a variety of different materials, including plastic, copper, stainless steel, asbestos cement and cast iron. If such products had been included, Canada Pipe argued that its market share would not have been more than 10% and therefore a finding of market power by the Tribunal was unreasonable.

CANADIAN COMPETITION RECORD

The FCA concluded that the Tribunal's finding of market power in multiple geographic and product markets was reasonable, and dismissed Canada Pipe's cross-appeal.¹⁹

Conclusion

While the FCA concluded that the Tribunal had applied the wrong approach to sections 77 and 79, it did not substitute its own findings. The FCA ordered a redetermination by the Tribunal using the legal test as stated by the FCA. It will be interesting to see if the application of the FCA's tests leads to a different result on redetermination. The FCA's approach to anti-competitive acts focuses on the purpose rather than the effects of the impugned practice. While this approach may be at odds with the effects-based approaches of other jurisdictions, it is consistent with the plain meaning of section 79.

Notes

¹ 2006 FCA 233 [*Canada Pipe – Appeal Decision*], related reasons 2006 FCA 236 [*Canada Pipe – Cross-Appeal Decision*].

² *Canada (Commissioner of Competition) v. Canada Pipe* [2005] C.C.T.D. No. 3 (Comp. Trib.) [*Canada Pipe – Tribunal Decision*]. See Vol. 22, No. 2 of the *Record* for commentary on the *Tribunal Decision*.

³ *Canada (Director of Investigation and Research) v. NutraSweet* (1990), 32 C.P.R. (3d) 1 (Comp. Trib.) [*NutraSweet*].

⁴ *Canada (Director of Investigation and Research) v. D & B Companies of Canada* (1995), 64 C.P.R. (3d) 216 (Comp. Trib.) [*Nielsen*].

⁵ *Canada (Director of Investigation and Research) v. Laidlaw Waste Systems* (1992), 40 C.P.R. (3d) 289 (Comp. Trib.) [*Laidlaw*].

⁶ *Canada (Director of Investigation and Research) v. Tele-Direct* (1997), 73 C.P.R. (3d) 1 (Comp. Trib.) [*Tele-Direct*].

⁷ *Canada Pipe – Tribunal Decision*, *supra* note 2 at para. 237.

⁸ *Ibid.* at para. 261.

⁹ *Canada Pipe – Appeal Decision*, *supra* note 1 at para. 36.

¹⁰ *Laidlaw*, *supra* note 5 at 344-346.

¹¹ *Nielsen*, *supra* note 4 at 267.

¹² Competition Bureau, July 2001, available online: www.competitionbureau.gc.ca.

¹³ *Canada Pipe – Appeal Decision*, *supra* note 1 at para. 53.

¹⁴ *Ibid.* at para. 77.

¹⁵ See, for example, *United States v. Microsoft* 253 F3d 34 (2001) (D.C.Circuit).

¹⁶ "Preliminary Thoughts on Policy Review of Article 82" (Speech presented by Commissioner Neelie Kroes to the Fordham Corporate Law Institute, September 23, 2005. Available at europa.eu.int).

¹⁷ *Canada Pipe – Appeal Decision*, *supra* note 1 at para. 21.

¹⁸ *Canada Pipe – Cross-Appeal Decision*, *supra* note 1.

¹⁹ *Ibid.*

CANADIAN COMPETITION RECORD

INFORMATION NOTICES AND NEWS RELEASES ISSUED BY THE COMPETITION BUREAU DURING THE PERIOD OCTOBER 1, 2005 TO AUGUST 31, 2006

The following Information Notices and News Releases are available on the Bureau's website at <http://strategies.ic.gc.ca/SSG/ct02003e.html>

October 17, 2005

INFORMATION: Competition Bureau Revises Responses to Frequently Asked Questions on Immunity Program

October 19, 2005

INFORMATION: Competition Bureau Seeks Comments on Draft Merger Remedy Bulletin

November 1, 2005

INFORMATION: Competition Bureau Seeks Public Comment on its Regulated Conduct Bulletin

November 10, 2005

NEWS RELEASE: Competition Bureau Challenges Proposed Grain Handling Joint Venture

November 23, 2005

NEWS RELEASE: Labatt Pleads Guilty and Pays \$250,000 Fine Following a Competition Bureau Investigation

November 28, 2005

INFORMATION: Check the Price! You May Get More Than You Bargained For!

December 8, 2005

NEWS RELEASE: Nippon Carbon Pleads Guilty to Participating in International Graphite Electrodes Cartel

December 12, 2005

NEWS RELEASE: Competition Bureau Investigation Leads to Charges Against Business Directory Telemarketers

December 13, 2005

NEWS RELEASE: Bureau Resolves Competition Concerns Over Quebecor/Sogides Merger

December 19, 2005

INFORMATION: Bureau Welcomes Professor Tim Brennan as New T. D. MacDonald Chair

December 20, 2005

NEWS RELEASE: Competition Bureau Joins U.S. Law Enforcement in Derailing Bogus Fuel Saving Scam

January 9, 2006

NEWS RELEASE: Competition Bureau Investigation Leads to Record Fine in Domestic Conspiracy

CANADIAN COMPETITION RECORD

February 7, 2006

INFORMATION: Competition Bureau Consults on its Immunity Program

February 22, 2006

NEWS RELEASE: Competition Bureau Shuts Down Internet-Based Job Scams

February 23, 2006

NEWS RELEASE: Competition Bureau Challenges Effectiveness of Fuel Saving Device

February 27, 2006

INFORMATION: Fabutan Agrees to Stop Promoting Unproven Health Benefits of Indoor Tanning

February 27, 2006

INFORMATION: Law Enforcement Authorities Come Together to Fight Fraud

March 1, 2006

NEWS RELEASE: March Declared "Fraud Prevention Month" in Canada and Around the World

March 1, 2006

NEWS RELEASE: Bureau Resolves Competition Concerns Over Fine Paper Merger

March 3, 2006

INFORMATION: Competition Bureau Participates in Worldwide Blitz on Hidden Traps Online

March 7, 2006

NEWS RELEASE: Telemarketer Faces Additional Charges Under the Competition Act

March 16, 2006

NEWS RELEASE: Fraud Prevention Shred-It Community Shred

March 21, 2006

INFORMATION: Competition Bureau Submits Comments in Commercial Radio Policy Review

March 30, 2006

NEWS RELEASE: Competition Bureau Concludes Gasoline Pricing Examinations

March 30, 2006

NEWS RELEASE: Competition Bureau Investigation Leads to Deceptive Telemarketing Charges Against Individuals and Office Supplies Companies

May 4, 2006

INFORMATION: Competition Bureau Signs Cooperation Arrangement with the Korean Fair Trade Commission

May 9, 2006

INFORMATION: World Competition Agencies Release New Report on Telecommunications Sector

CANADIAN COMPETITION RECORD

May 11, 2006

INFORMATION: International Remedies Resolve Canadian Issues in Boston Scientific, Guidant Merger

May 12, 2006

NEWS RELEASE: Competition Bureau Announces Start of Trustee Sale Process for Port Terminal in Vancouver

May 25, 2006

NEWS RELEASE: Competition Bureau Announces Charges Against Toronto-Based Deceptive Telemarketers

May 26, 2006

NEWS RELEASE: Ten-Year Business Directory Scam Results in Deceptive Telemarketing Charges

June 2, 2006

NEWS RELEASE: Statement by Sheridan Scott, Commissioner of Competition – June 2, 2006

June 14, 2006

NEWS RELEASE: Competition Bureau Investigation Leads to Refunds in Misleading Mail-Outs

June 15, 2006

NEWS RELEASE: Albertans Charged for Scamming American Businesses

June 15, 2006

INFORMATION: Competition Bureau Supports Real Estate Council of Alberta Decision to End Restrictions on Cash Rebates and Referral Fees

June 16, 2006

INFORMATION: Need to Pay to Claim a Prize? It Could be a Scam!

June 23, 2006

INFORMATION: Competition Bureau Fine-Tunes BBM-Nielsen Merger

June 30, 2006

INFORMATION: Competition Bureau Invites Feedback to Update its Bulletin on Corporate Compliance Programs

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NEWS RELEASE: Grafton-Fraser Pays \$1.2 Million to Settle Misleading Advertising Case with Competition Bureau

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NEWS RELEASE: Competition Bureau Obtains Prohibition Order Against Sotheby's and Sotheby's (Canada) Inc.
