THE IMPACT OF COMPETITION LAW IN THE MEDIATION OF PATENT DISPUTES

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Patent disputes lend themselves well to alternative dispute resolution (ADR) methods, particularly mediation.[1] Mediation provides a timely and cost-effective opportunity for parties to explore and adopt creative solutions for technically complex issues. When mediating such disputes, however, parties must be mindful of the reach of competition laws, otherwise they may unwittingly agree to engage in unlawful, anti-competitive behaviour.

1. The Objectives of Patent Law

Patent laws in Canada are designed to facilitate and incentivize innovation. To that end, patent owners are granted a 20-year monopoly to exclude others in exchange for disclosure of their inventions. The monetary recovery from such a monopoly is meant to enable the patentee of a valuable invention to return a handsome profit, thus incentivizing research, development, and commercialization of new products and services.[2] Justice Binnie of the Supreme Court of Canada described these objectives as follows:

> '[T]he bargain'…lies at the heart of patent protection. A patent is a statutory monopoly which is given in exchange for a full and complete disclosure by the patentee of his or her invention. The disclosure is the essence of the bargain between the patentee, who obtained at the time a… monopoly on exploiting the invention, and the public, which obtains open access to all of the information necessary to practise the invention. Accordingly, at least one of the policy objectives underlying the statutory remedies available to a patent owner is to make disclosure more attractive, and thus hasten the availability of useful knowledge in the public sphere in the public interest.[3]

The objectives of U.S. patent laws are no different. Article I, section 8, clause 8 of the U.S. Constitution declares that Congress has the authority to "promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

2. The Objectives of Competition Law

Canada's *Competition Act*,[4] enacted in 1889, is the oldest antitrust statute in the western world, predating the *Sherman Act* in the United States.[5] The purpose of the *Competition Act* is outlined in section 1.1 of the statute:

> The purpose of this Act is to maintain and encourage competition in Canada in order to promote the efficiency and adaptability of the Canadian economy, in order to expand opportunities for Canadian participation in world markets while at the same time recognizing the role of foreign competition in Canada, in order to ensure that small and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy and in order to provide consumers with competitive prices and product choices.

Similarly, the goal of U.S. competition policy is to protect consumer welfare by encouraging fair competition. United States antitrust law is formed by federal and state government laws, principally the *Sherman Act*,[6] the *Clayton Act*,[7] and the *Federal Trade Commission Act*.[8]

The *Sherman Act* provides the basis for most U.S. antitrust legislation.[9] In *Northern Pacific Railway Co. v. United States*, 356 U.S. 1, 4 (1958), the Supreme Court stated: "The *Sherman Act* was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade." The U.S. Congress later enacted the *Clayton Act* (to ban exclusive dealing agreements, tying agreements, interlocking directorates, and mergers achieved by purchasing stock) and the *Federal Trade Commission Act* (to establish and give power to the Federal Trade Commission to investigate deceptive trade practices).[10]

3. Tension between Patent Law and Competition Law

Patent protection incentivizes innovation which can, in turn, fuel competition.[11] However, the objectives of competition

law may sometimes clash with the exclusive rights of patent holders. Lord Neuberger, Chief Judge of the Supreme Court in England, characterized this tension in the following way:

> In any modern democratic and capitalist society, there is a need for the law both to grant and protect IP rights and to ensure that there is maximum competitiveness. Both IP rights and competition law have the same ultimate justification, namely the improvement of life, in the one case by encouraging inventiveness and creativity in relation to goods and services, and in the other case by encouraging high standards and low prices for goods and services.
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> However, according IP rights is obviously in tension with promoting competition, as IP rights involve the grant and enforcement of monopolies, whereas competition involves the prevention and breaking up of monopolies. The perception as to where the correct balance lies will depend objectively on the prevailing economic and political circumstances, and, subjectively on the perceiver's economic and political opinions. As Sir Robin Jacob's 2008 Burrell lecture demonstrated, the view as to the correct balance over the past century has varied from country to country and decade to decade.[12]

The conflict between patent law and competition law occurs largely when patents are used tactically to exclude competitors.[13] Consequently, it is important for all those doing business in Canada and in the United States, to consider competition issues when exploiting patents and especially when settling patent disputes in mediation.

4. Purpose of Mediation

The purpose of mediation is to create a business solution to a problem, by obliging disputing parties to focus on the broader business context rather than just their specific dispute.[14] Indeed, mediation provides an opportunity for each party to make inquiries of the other and participate in discussions which more often than not lead to settlement.[15]

5. When is Mediation Appropriate for a Patent Dispute?

Mediation is appropriate for many patent cases, particularly those of a highly technical nature or where the parties wish to maintain some sort of business relationship in the future. Not all patent cases, however, are suitable for mediation. Such cases often involve a patentee who wants an injunction, an alleged infringer who is not prepared to take a license, or fierce competitors who are reluctant to release their financial information. If, however, a case is mainly about money, then mediation is often more appropriate. Furthermore, if the parties own portfolios of patents and are prepared to cross license, then mediation is helpful in negotiating a deal.[16]

A particularly attractive feature of mediation is the comparatively low cost. The costs of patent litigation in Canada and the United States are notoriously high. Key contributors to these costs are pre-trial discovery and the lag between filing suit and reaching a resolution.[17] Mediation is a way for parties to avoid the staggering prices of litigation. Moreover, since many patent disputes are multi-jurisdictional, mediation is fitting because it structures the disputes into a single process, thereby reducing legal fees and costs.

Mediation is confidential, meaning that information obtained during the process cannot be used by either party if the dispute is not resolved.[18] This is especially important where proprietary information must be revealed in discovery to determine infringement, and where financial information is necessary to determine a reasonable royalty or lost profits damages.[19]

6. The Choice of a Mediator

Mediators who are patent specialists are particularly helpful in resolving such disputes. The parties need not spend a significant amount of time and money teaching the relevant science or technology. Moreover, a mediator experienced in patent law, and perhaps even the specific technology involved, can help to fashion creative solutions to disputes, such as special licensing arrangements or joint ventures. A mediator who specializes in patents will also be more adept in helping the parties define the key issue to resolve the dispute.[20]

7. Activities Contrary to Competition Laws

In Canada, anti-competitive conduct falls into different classes, such as criminal anti-competitive behaviour, civil reviewable practices, mergers, and marketing practices. Examples of anti-competitive offences include: conspiracies; price maintenance; and abuse of dominant position. Section 78(1) of the *Competition Act* lists more examples of anti-competitive behaviour. Section 45 of the *Competition Act* relates to conspiracy. Patent agreements could attract section 45 application. Section 90.1 of the Competition Act addresses agreements among competitors that are not within the scrutiny of s. 45, but that would lead to a lessening of competition in the marketplace.[21]

The Competition Bureau, headed by the Commissioner of Competition, is responsible for the enforcement of the *Competition Act*, by investigating complaints and deciding whether to refer matters to the Competition Tribunal for prosecution.[22] Such complaints could come from competitors of the parties to a mediation agreement of a patent dispute. Parties in mediation therefore need to be aware of the consequences of any agreement they are considering. It should be noted, however, that the mere enforcement of a patent does not contravene the *Competition Act*.[23] The *Competition Act* may apply, however, if there is evidence of "something

more" than the mere exercise of a patent right.[24] According to the Competition Bureau, "something more" occurs when patent rights form the basis of anti-competitive arrangements between independent entities.[25]

Similarly, in the United States, patent holders are allowed to enforce their exclusive rights, but they risk contravening competition laws when they leverage their patent rights to obtain unlawful competitive advantages or unlawfully restrain trade.[26]

8. Conclusion

While mediation is often an effective solution for patent disputes, it is important for mediating parties to be mindful of any agreements or terms that violate competition laws. Parties should examine hypothetical consequences in the marketplace to determine who might be adversely affected by the terms of a mediation agreement, and whether someone could have legitimate objections to the anti-competitive terms of a mediation agreement. Other factors to consider are how dominant the mediating parties are in the marketplace, and what the nature of their relationship is going forward. These factors will guide mediating parties in their consideration of whether the terms of a mediation agreement provide "something more" than mere remedies for patent infringement. ■

[1] Gregory A. Piasetzki, "Alternative Dispute Resolution Process" in Ronald E. Dimock, ed, Intellectual Property Disputes: Resolutions & Remedies Volume 3 (Toronto: Carswell) at 13-1.

[2] Jay P. Kesan & Gwendolyn G. Ball, "How Are Patent Cases Resolved?" (2006) 84 Washington University Law Review 237 at 239.

[3] *Cadbury Schweppes Inc. v. FBI Foods Ltd.* [1999] 1 SCR 142 at para 46, 167 DLR (4th) 577.

[4] *Competition Act*, RSC 1985, c C-34.

[5] Yves Bériault & Oliver Borgers, "Overview of Canadian antitrust law" (2004) Antitrust Review of the Americas 76 at 76.

[6] *Sherman Act*, 15 USC §§1-7.

[7] *Clayton Act*, 15 U.S.C. §12–27, 29 U.S.C. §52–53.

[8] *Federal Trade Commission Act*, 15 U.S.C §§ 41-58.

[9] Ioannis Lianos & Rochelle C. Dreyfuss, New Challenges in the Intersection of Intellectual Property Rights with Competition Law: A View from Europe and the United States, online: Centre for Law, Economics and Society CLES <http://www.ucl.ac.uk/cles/research-paper-series/research-papers/cles-4-2013> at 32.

[10] Ioannis Lianos & Rochelle C. Dreyfuss, *New Challenges in the Intersection of Intellectual Property Rights with Competition Law: A View from Europe and the United States,* online: Centre for Law, Economics and Society CLES <http://www.ucl.ac.uk/cles/research-paper-series/research-papers/cles-4-2013> at 32.

[11] Anthony F. Baldanza & Charles Todd, "Intellectual Property Rights and Competition Laws: Friends or Foes?" (2006), online: Fasken Martineau <http://www.fasken.com/> at page 3.

[12] Lord Neuberger, "Lord Neuberger gives the Burrell Lecture for the Competition Law Association: Intellectual Property in the UK and Europe" (Speech delivered at the Burrell Lecture, 1 April 2014), online: <http://www.supremecourt.uk/docs/speech-140401.pdf>.

[13] Ioannis Lianos & Rochelle C. Dreyfuss, *New Challenges in the Intersection of Intellectual Property Rights with Competition Law: A View from Europe and the United States,* online: Centre for Law, Economics and Society CLES <http://www.ucl.ac.uk/cles/research-paper-series/research-papers/cles-4-2013> at 38.

[14] International Institute for Conflict Prevention and Resolution, Inc., "Report of the CPR Patent Mediation Task Force: Effective Practices Protocol" (2012) online: <http://www.cpradr.org/Home.aspx> at 10.

[15] Charles Kent, "The Case for Mediation of Intellectual Property Disputes" (2011) 27 Canadian Intellectual Property Review 139 at 3.

[16] Jeffrey Dean, "Should you mediate your patent dispute?" (8 July 2011) online: Inside Counsel <http://www.insidecounsel.com/>.

[17] Bronwyn H. Hall et al., "Prospects for Improving U.S. Patent Quality via Post-grant Opposition" (2003) National Bureau of Economic Research, Working Paper No. 9731, available at <http://papers.nber.org/papers/W9731.pdf> at 8.

[18] Charles Kent, "The Case for Mediation of Intellectual Property Disputes" (2011) 27 Canadian Intellectual Property Review 139 at 6.

[19] International Institute for Conflict Prevention and Resolution, Inc., "Report of the CPR Patent Mediation Task Force: Effective Practices Protocol" (2012) online: <http://www.cpradr.org/Home.aspx> at 5.

[20] Gregory A. Piasetzki, "Alternative Dispute Resolution Process" in Ronald E. Dimock, ed, Intellectual Property Disputes: Resolutions & Remedies Volume 3 (Toronto: Carswell) at 13-14.

[21] Donald B. Houston & Jeanne L. Pratt, "Competition Law" in Ronald E. Dimock, ed, Intellectual Property Disputes: Resolutions & Remedies Volume 2 (Toronto: Carswell) at 6-37.

[22] Donald B. Houston & Jeanne L. Pratt, "Competition Law" in Ronald E. Dimock, ed, Intellectual Property Disputes: Resolutions & Remedies Volume 2 (Toronto: Carswell) at 6-4.

[23] *Eli Lilly and Co. v. Apotex Inc.*, 2005 FCA 361 at para 34.

[24] *Eli Lilly and Co. v. Apotex Inc.*, 2005 FCA 361 at para 16.

[25] Colin Ingram & Andrea Kroetch, *Competition Bureau releases draft update of Intellectual Property Enforcement Guidelines* (9 April 2014), online: Smart & Biggar Fetherstonhaugh <http://www.smart-biggar.ca/en/index_new.cfm>.

[26] Shylah R. Alfonso et al, *US: IP and Antitrust* (2014) online: Global Competition Review <http://globalcompetitionreview.com/>.