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STUDY ON THE ANTI-COMPETITIVE ENFORCEMENT OF INTELLECTUAL PROPERTY (IP) RIGHTS: SHAM LITIGATION

prepared by the Institute for Applied Economic Research (IPEA), Brasilia

1. The Annex to this document contains a Study on the Anti-Competitive Enforcement of Intellectual Property (IP) Rights: Sham Litigation Report prepared under the project on Intellectual Property and Competition Policy (CDIP/4/4/REV). This Study has been prepared by the Institute for Applied Economic Research (IPEA).

2. *The CDIP is invited to take note of the information contained in the Annex to this document.*

[Annex follows]

STUDY ON THE ANTI-COMPETITIVE ENFORCEMENT OF
INTELLECTUAL PROPERTY (IP) RIGHTS: SHAM LITIGATION

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EXECUTIVE SUMMARY

1. In the context of its Intellectual Property and Competition Policy Project, the World Intellectual Property Organization (WIPO) has signed a Cooperation Agreement with the Institute for Applied Economic Research (IPEA), a public foundation of the Brazilian Republic Presidency, aimed at the elaboration of a study on sham litigation.
2. The objective of this study was to trace a worldwide frame of the current state of the anticompetitive use of the judicial process to enforce intellectual property rights, also known as Sham Litigation. Sham litigation has been object of controversy, as it connects the exercise of allegedly legitimate rights to the idea of abuse of its uses, meaning (in economic terms) a strategic use with the objective of harming or excluding a rival from the market. A possible tentative definition for sham litigation on a strictly economic perspective is predatory or fraudulent litigation with anticompetitive effect, i.e., the improper use of the courts and other government adjudicative or granting processes against rivals to achieve anticompetitive ends. The Study suggests that the anticompetitive use of judicial actions to unduly protect intellectual property might be considered one type of non-price predation strategies. Hence, the economic tools developed to identify this kind of practice can be useful here, too.
3. Tension between Intellectual Property Rights and Competition Law is not a singular case. In fact, both have a lot in common, as their systems of law and policies are aimed at promoting innovation and economic growth. Nonetheless, there are potential conflicts associated to the means used by each system to promote these goals. But it is exactly because it is usual in Economics to deal with trade-offs and conflicts of goals, that the convergence of Law and Economics can be very productive in this area of research and public policy.
4. During the investigation, every effort was made to analyze the following aspects, all of them involving, in some sense, strategic movements from an incumbent firm:
 - (a) actions between competitors with the aim of covering collusive practices;
 - (b) frivolous actions initiated by dominant firms with the aim of foreclosing potential competitors; and
 - (c) frivolous actions moved against or through governmental agencies with the aim of taking time and keeping, artificially, property rights in course.
5. Starting from the concept of predatory behavior developed by the new trends in industrial organization literature, the Study suggests that it is feasible to develop an analogical rationale to deal with the controversial matter of sham litigation, as it appears in the classic case law as well as in recent judicial and administrative cases.
6. Traditionally, the predatory problem has been identified through the observation of whether the dominant firm has incurred losses in the short run in a particular market forcing the exit (or not allowing the entrance) of a rival firm, expecting that its abnormal profits could be obtained in future markets. The development of the Game Theory deepened the understanding of predatory behavior. It demonstrated that in the presence of asymmetric information (about market conditions, costs, a particular "taste" for predation or simple strategy of other firms), or imperfect flow of information in the financial markets, predation is theoretically possible, even in the absence of such entry barriers that traditionally were thought to be a necessary condition for such behavior. As a result of the Industrial Organization's recent developments, the understanding of predatory pricing has evolved from the ideas of losses incurred by the firm that adopted those practices or of profit recovery in the future to damage to the consumer and/or to

economic efficiency. The Study suggests that this perspective must be taken into account for an accurate treatment of sham litigation, as well.

7. In sham litigation, EU and US doctrines are singularly close. The tests developed under Noerr-Pennington and ITT Promedia cases are very similar. Under Noerr-Pennington the first question to be answered is whether, according to a objective standard (a average player would so act), the firm initiating the legal action reasonably could be held to believe it had rights to protect, which is more or less the same as the test proposed by the Commission in ITT Promedia. Here, only objective factors are taken into consideration. They relate to the relevant impediments that the firm initiating the proceeding reasonably knew at the time the lawsuit was initiated, and which would prevent it from succeeding. Second, both tests propose that if one can find that there was no merit to the case the court will have to decide whether the lawsuit was conceived in a plan whose goal was to eliminate competition, the last inquiry being an inquiry into the subjective intent of the dominant undertaking.

8. Another similar treatment is found in the case law dealing with use of Government processes for anticompetitive purposes: the utilization by a player of an unwarranted multiplicity of Government remedies, where the unreasonable behavior should be sought not in one single petition, but in the reiteration of such process. When dealing with a series of lawsuits, the question is not whether any one of them has merit--some may turn out to, just as a matter of chance--but whether they are initiated pursuant to a policy of starting legal proceedings without regard to the merits and for the purpose of injuring a market rival. The inquiry in such cases is prospective: were the legal filings made, not out of a genuine interest in redressing grievances, but as part of a pattern or practice of successive filings undertaken essentially for purposes of harassment? Therefore, a second but related set of criteria is required whenever the possible misuse of Government processes for anticompetitive purposes occurs by proliferating petitions even though a number of them may be found rightful, but the multiplicity itself cannot be shown as reasonable under an objective standard.

9. In order to ground the Study on reliable data, a representative number of jurisdictions have been solicited information. The request for information recited the following filters:

“The administrative or judicial procedures concerning any of the rights covered by Article 1.1 of TRIPs, brought to the attention of Intellectual Property authorities or antitrust agencies, where at least one of the following aspects is conspicuously present:

- (a) procedures where the final favorable prospects for plaintiff (or requiring party) is evidently improbable, but the initiation or continuation of the procedure by itself is liable to have anticompetitive effects; or
- (b) procedures multiplied on the same or closely related causes of action where such reiteration of actions or requests (even though each one action or request by itself would be procedurally reasonable) also is liable to have anticompetitive effects; or
- (c) other actions, initiatives of requests where the benefit to plaintiff or requesting party could result from the initiation or continuation of the procedure itself rather than the final result of the exercise, and such initiation or continuance by itself is liable to have anticompetitive effects; or
- (d) any actions, initiatives of requests, which under domestic law is classifiable as abuse of right or abuse of process, and such abuse is liable to have anticompetitive effects.”

10. As can be noted, such research grid would cover issues in excess of the ITT Promedia or the PREI Tests.

11. Such filter (a) does not limit itself to the initiation of the procedure: the continuation of a process that had shown to be evidently improbable is also covered; (b) exceeds the simple PREI standard (but follows POSCO) by covering a multiplicity of claims, even though any one of them could be held as rightfully initiated or continued, when such proliferation of petitions by itself may be evidently unneeded to attain the petitioner's rights; (c) stresses that the issue at stake is the use of the governmental process - as opposed to the outcome of that process - that is the source of an anticompetitive effect; (d) looks for a player's behavior that under the pertinent law is deemed to be an abuse of a substantive right or a procedural abuse, and also is liable to have an anticompetitive effect.

12. The grid did not mention any subjective assessment of intention of anticompetitive effects nor required that a specific anticompetitive effect had actually occurred. The same grid was utilized to induce the autonomous research, that is to say, the pursuance of facts and law beyond the information provided following the request direct to the various foreign agencies. As it was utilized as an uniform filter for the study, and officially informed as such to the various consulted administrations, this study shall conform to its boundaries, except where otherwise indicated.

13. The Study analyzes relevant information submitted in the responses from the European Commission, Chile, the Russian Federation, the U.S., Mexico, Spain, Republic of Korea, Italy, Turkey, and Brazil.

14. The study demonstrates that the abuse of petition to affirm intellectual property rights in an anticompetitive manner is a very sensitive issue. The PREI/POSCO/PROMEDIA set of tests is the most common standard to evaluate such cases. Even in jurisdictions where no mention is made to these standards, some complex filtering is carried out. But, as stated in the US Report, "this standard is difficult to meet, and very few cases have met the stringent test". The economic perspective can be helpful as it stresses the effect on competition, therefore, on consumer welfare and economic efficiency of conducts adopted by firms with market power.

INTRODUCTION

In the context of its Intellectual Property and Competition Policy Program, the World Intellectual Property Organization (WIPO) has signed a Cooperation Agreement with the Institute for Applied Economic Research, a public foundation of the Brazilian Republic Presidency intending to perform initiatives focused on the interface between intellectual property and competition.

The objective of the study is to trace a worldwide frame of the current state of the anticompetitive use of judicial actions in defense of intellectual property, also known as Sham Litigation, which connects the exercise of allegedly legitimate rights to the idea of abuse on its uses, meaning (in economic terms) a strategic use with the objective of harming or excluding a rival from the market. A possible tentative definition for sham litigation on a strict economic perspective is a predatory or fraudulent litigation with anticompetitive effect, i.e., the improper use of the courts and other government adjudicative or granting processes against rivals to achieve anticompetitive ends. (Klein, 1989). We suggest that the anticompetitive use of judicial actions to unduly protect intellectual property might be considered one type of non-price predation strategies. Hence, the economic tools developed to identify this kind of practice can be useful here, too.

Tension between Intellectual Property Rights and Competition Law, that is the object of our research, is not a singular case. In fact, both have a lot in common, as their systems of law and policies are aimed at promoting innovation and economic growth. Nonetheless, there are potential conflicts associated to the means used by each system to promote these goals. But it is exactly because it is usual in economics to deal with trade-offs, to deal with conflicts of goals, that the convergence of law and economics can be very productive in this area of research and public policy.

During our investigation, every effort was made to analyze the following aspects, all of them involving, in some sense, strategic movements from an incumbent firm:

- (a) actions between competitors with the aim of covering collusive practices;
- (b) frivolous actions initiated by dominant firms with the aim of foreclosing potential competitors; and
- (c) frivolous actions moved against or through governmental agencies with the aim of taking time and artificially keeping property rights in course.

A comparative study was prepared with the collaboration of the entities – competition authorities and intellectual property registration authorities – that answered the questionnaires at some point between December 2010 and July 2011, which was sent by IPEA in December 2010.

The following countries were selected by WIPO and IPEA to the elaboration of the comparative study: South Africa, Germany, Saudi Arabia, Argentina, Australia, Brazil, Canada, Chile, China, South Korean, Egypt, Spain, The USA, France, India, Italy, Japan, Mexico, Russia, Turkey, The United Kindon, Peru and also the European Union.

BRIEF REMARKS ABOUT THE THEORY PREDATORY CONDUCT AND ITS APPLICATION TO SHAM LITIGATION

Traditionally, the predatory problem has been identified through the observation whether the dominant firm has incurred losses in the short run in a particular market forcing the exit (or not allowing the entrance) of a rival firm, expecting that its abnormal profits could be obtained in the future markets. The more specific test to gauge the reduction in competitive and non-competitive pricing was introduced by Areeda and Turner (1975). According to the authors, prices below cost should be considered definitely illegal. Considering that it is rare to find hard evidence of detailed production costs, the authors suggest the use of the average cost as the benchmark for the test.

It has been 20 years since Areeda and Turner proposed how to address the predatory pricing issue, the test raised controversy for years and the debate was particularly enriched with the use of concepts of the Theory of Games and Strategic behavior in oligopoly markets. These works are described in Janusz Ordoover and Garth Saloner (1990). The central question in these models is the asymmetry of information between the agents in the market. The dominant firm is better informed than its competitors in models where the predator induces market exit of the smaller rivals.

The modern literature in industrial organization about predatory behavior presents three alternative types of models:

- (a) There are game-theoretical analyses based on the idea of “deep pocket”. In this line, the most recent contributions show how predatory behavior could occur in a balanced way if information is imperfect and the financial resources of the dominant firm are substantially stronger than any present or future potential competitor;
- (b) There are a second set of articles showing how in the presence of imperfect information, an incumbent firm could establish a reputation of toughness and discourage potential new competitors from entering the market to go head on with the stronger incumbent firm; and
- (c) Finally, a third set of works shows that, when the information is not symmetric about costs and demand, a predator can use a lower price to let a competitor know that it might be better under the present conditions of demand and cost to exit the market than to face the stronger dominant firm.

The development of Game Theory deepened the understanding of predatory behavior. It demonstrated that in the presence of asymmetric information (about market conditions, costs, a particular “taste” for predation or simple strategy of other firms), or imperfect flow of information in the financial markets, predation is theoretically possible, even in the absence of such entry barriers that traditionally were thought to be a necessary condition for such behavior.

Once identified the predatory behavior and anticompetitive conducts adopted by the dominant firm, it has to be established its abusive nature. In order to accomplish this, one should compare the advantages and negatives derived from them, as presented by Glais and Laurent (1983):

About the market dominated by the firm in question, the competition is already fragile, even though all the extra barriers cannot be accepted by the regulating bodies responsible for the good performance of the market. The negative consequences to the market of the poisonous as well as reprehensible behavior of this firm could be considerable mainly because the restrictive practices, as they reduce even more an already restricted competition, are more

damaging because the competitors and partners of the dominating firm cannot fight back. (op. cit., p. 353)

As a result of the Industrial Organization's recent developments, the understanding of predatory pricing has evolved from the ideas of losses incurred by the firm that adopted those practices. A modern reading of the practice of predatory pricing, built at University of California at Berkeley, is offered through Edlin and Farrell (2004), to whom: "Predation occurs when a firm offers consumers favorable deals, usually in the short run, that get rid of the competition and thereby harm consumers in the long run" (p. 502).

According to the authors and in particular, as pointed out by Edlin (2001), there is no reason to reduce predatory cases to situations where one can verify pricing below cost, if prices above cost can also hurt the consumer, by limiting the competition².

The definition of predation centered in the conventional thesis of sacrificed profits was offered by Bork, during the trial *Neumann v. Reinforced Earth Co.* (786 F 2nd 424,427, 1986):

Predation involves aggression against business rivals through the use of business practices that would not be considered profit maximizing except for the expectations that 1) actual rivals will be driven from the market, or ... 2) rivals will be chastened sufficiently to abandon competitive behavior the predator finds threatening to its realization of monopoly profits (apud Edlin e Farrell, p. 510).

Professors Farrell and Edlin suggest a change of focus on predatory behavior, from profit recovery in the future to damage to the consumer and/or economic efficiency. This perspective must be taken into account for an accurate treatment of sham litigation, as well.

Starting from the concept of predatory conduct described in this section, we suggest that it is feasible to develop an analogical rationale to deal with the controversial matter of sham litigation, as it appears in the classic case law as in the judicial and administrative cases we have had access recently.

FIRST QUESTIONS

A Belgian utility (Belgacom) had the exclusive right to publish the listing of its subscribers as part of its telephone concession. Once this right was excluded in 1994 by a supervening law, a company (ITT Promedia) requested access to the database to publish a specialized,

² The point here is that the sacrifice of profit in the short run is not always present in predatory pricing. A low-cost monopolist can hurt competition (not only the competitors) using strategically its advantages to exclude competitors with little or no effort, as Edlin (2001) explains. Sacrifice has been defined by Bork (1978, p. 145) as an "investment in monopoly profit". This voluntary sacrifice, having the damage to competition as motivation, could also be associated to other legitimate reasons. Today's production can generate lower costs in the future in a learning by doing industry or, in a straight forward form, "sacrifice" in a product could be immediately compensated by raising the profits in a complementary product. This way, the profit sacrifice in the short run is neither necessary nor sufficient to create damage and could be distant from both cases.

To monopolization, the sacrifice of profits is not necessary if the dominant firm detains substantial cost advantages (adding the tax and financial advantages). Edlin (op.cit.) shows that sometimes an efficient firm uses its advantages to offer good deals in stable markets, something that is good for consumers and economic efficiency, but occasionally an efficient firm can do just the opposite, charge high prices or offer services and or products of low quality while it faces little or no competition and offer the opposite only when the competition appears.

From a low-cost monopolistic point of view, to offer great deals after the arrival of a new competitor in order to hurt and even provoke the exit of the newcomer does not necessarily imply sacrifice. One should change focus from "sacrifice plus financial recovery" to "exclusion with great damage to the consumer and or efficiency".

commercial edition of the same listing. Although the parties had an old contract on the same issue, now Belgacom refused Promedia the access requested³.

ITT then went to a Belgian court to claim the access sought and denied; eventually, the case was settled⁴. Belgacom, however, disregarding the settlement, initiated a new action in court, arguing a number of rights it alleged to remain in force from the prior contract; such interests referred to various items of data, commercial know-how and intellectual property rights⁵. The court found against Belgacom, stating that the rights alleged by plaintiff contravened the 1994 law. ITT had risen as defense in last action that Belgacom's suit was vexatious and therefore illegal, but such claim was refused by the court.

In pursuance of the same argument, ITT filed a case before the Commission of the European Communities, at the time acting as the administrative antitrust agency within the European environment According to ITT's claim, Belgacom had abused a dominant position, contrary to Article 86 of the Treaty, by initiating that suit before the Belgian courts, when it should be classified as a vexatious litigation⁶.

The Commission understood that Belgacom had not abused its dominant position by so raising in court the intellectual property claims. To ascertain such result, it proposed a two-thronged test (ITT Promedia test), which shall be very much detailed below.

ITT resorted to the European Judicial system against the Commission holding, filing before the European Court of First Instance (now General Court) a request of review of the Commission's

³ See Goyder, D.G., *EC Competition Law*, Oxford, 4th Ed., 2003, p. 322 and Ola Rickardsson, Patent misuse and 'sham' – Development of new principles under EU competition law, Master thesis presented to the Faculty of Law, Lund University, 2010. Visited 12/12/2010, found at <http://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1678737&fileId=1728683>

⁴ The parallel case before the Competition authority is thus described by James Packard Love: "Upon a complaint by ITT Promedia, the Belgian directory-publishing subsidiary of the US ITT World Directories company, the Commission investigated into Belgacom's prices for access to subscriber data for the publication of telephone directories. The complainant alleged that the prices charged by the Belgian incumbent telecommunications operator were excessive and discriminatory in the sense of Article 86 EC-Treaty. The Commission carried out an assessment of the prices charged, with the support of an expert auditing firm, and insisted in fully implementing the cost-orientation principle. After the Commission had sent out a formal statement of objections at the end of 1995, Belgacom finally agreed, in a settlement with the Commission, to a substantial reduction (by more than 90%) of these prices by dropping any variable component in relation to the turnover or profit of directory publishers. Following the complainant withdrawing its complaint, this procedure was terminated by the Commission in April 1997". Found at <http://www.cptech.org/blogs/cl4copyright/2006/07/itt-promediabegacom-excessive-pricing.html>, visited 2/1/2011.

⁵ Although this case was indicated by the Official response of the European Commission, in its letter of 24/3/2011, as related to the Intellectual Property area, the IP elements of the case are rather peripheral. Steven Anderman and Hedvig Schmidt, *EU Competition Law and Intellectual Property Rights -The Regulation of Innovation* Second Edition, 2011 does not even list the case as pertaining to its scope.

⁶ In complaint No IV/35.268, the applicant also asserted that Belgacom had abused a dominant position, contrary to Article 86 of the Treaty, by: (i) communicating to the applicant's existing or potential customers false, misleading and disparaging statements concerning the applicant; (ii) refusing to supply to the applicant the subscriber data needed for the production of directories on terms which were fair, reasonable and non-discriminatory; (iii) imposing excessive and/or discriminatory prices for the sale of the subscriber data in question; and (iv) requiring the applicant to surrender to it its industrial and commercial know-how in accordance with contractual commitments binding the two parties.

finding. The following notes refer to the judgment of this later Court⁷, which was not appealed and remains as the final ruling on the issue.

The General Court essentially upheld the analysis of the Commission; but doing so, it refrained from directly confronting its analysis with the body of EC Competition Law⁸. According to the reported case, 55 the Commission states that, in order to be able to determine the cases in which such legal proceedings are an abuse, it laid down two cumulative criteria in the contested decision: it is necessary that the action cannot reasonably be considered as an attempt to establish the rights of the undertaking concerned and can therefore only serve to harass the opposite party and it is conceived in the framework of a plan whose goal is to eliminate competition (hereinafter 'the two cumulative criteria').

According to the Commission, under the first of the two criteria the action must, on an objective view, be manifestly unfounded. The second criterion requires that the aim of the action must be to eliminate competition. Both criteria must be fulfilled in order to establish an abuse. The fact that unmeritorious litigation is instituted does not in itself constitute an infringement of Article 86 of the Treaty unless it has an anti-competitive object. Equally, litigation which may reasonably be regarded as an attempt to assert rights vis-à-vis competitors is not abusive, irrespective of the fact that it may be part of a plan to eliminate competition.

The General Court then stated its own convergent analysis of the "vexatious litigation" issue:

According to the first of the two cumulative criteria set out by the Commission in the contested decision, legal proceedings can be characterized as an abuse, within the meaning of Article 86 of the Treaty, only if they cannot reasonably be considered to be an attempt to assert the rights of the undertaking concerned and can therefore only serve to harass the opposing party. It is therefore the situation existing when the action in question is brought which must be taken into account in order to determine whether that criterion is satisfied.

Furthermore, when applying that criterion, it is not a question of determining whether the rights which the undertaking concerned was asserting when it brought its action actually existed or whether that action was well founded, but rather of determining whether such an action was intended to assert what that undertaking could, at that moment, reasonably consider to be its rights. According to the second part of that criterion, as worded, it is satisfied solely when the action did not have that aim, that being the sole case in which it may be assumed that such action could only serve to harass the opposing party.

As the facts of the case under review did not satisfy the first test, the Court felt unnecessary to discuss the second test proposed by the Commission.

⁷ Case T-111/96, ITT Promedia NV v Commission of the European Communities. Judgment of the Court of First Instance (Fourth Chamber, extended composition) of 17 July 1998. European Court reports 1998, Page II-02937, visited 12/12/2010, found at http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!CELEXnumdoc&lg=en&numdoc=61996A0111

⁸ Rickardsson, p. 23: "The applicants challenged the Commission's application of these criteria but failed to challenge the compatibility of such criteria with the competition rules. The result was that the General Court refrained from addressing the issue of compatibility directly, instead it confirmed the Commission's application of the criteria, giving an indirect approval of the proposed test."

A COMPLEX EQUATION

In the ITT Promedia cases, both the Commission and the General Court had to deal with a difficult conflict of two legal principles.

On one hand, in most jurisdictions, including in EC Law, there is a Constitutional right of access to justice⁹; as a matter of law, Belgacom was entitled to bring its case before the Belgian court, irrespective of its dominant position. As a matter of fact, the specific cases where litigation in court could be deemed to be an abuse of dominant position are statistically rare¹⁰.

On the other hand, the duty of Government to ensure a competitive environment has also a Constitutional or otherwise eminent legal basis¹¹. Considering that the two legal precepts are of an equally fundamental nature, some conciliatory steps should be taken to enforce them simultaneously.

The test formulated by the Commission and accepted by the Court, therefore, tries to assert the two conflicting constitutional interest in a quite constrained fashion. In first place, it excludes from the scope of review of the Competition Law all instances where the recourse to the courts by plaintiff is asserted on a generally accepted or reasonable manner¹². Thus, a possible violation of the Competition laws would occur when the effect of the exercise would be to harass the competitor without reasonably pursuing the right in action.

Except for the cases where a reasonable assertion of rights was clearly absent, the fundamental access to courts shall prevail, and no Competition law consequence could be imposed.

However, even a harassing effect over a competitor may not be of such a nature as to eliminate competition. The second prong of the ITT Promedia test addresses this requirement: in order to be refused under EC Competition Law, plaintiff's utilization of the court system, even having the effect of harassing the opposing party, must be "conceived in the framework of a plan whose goal is to eliminate competition".

Therefore, the first prong of the test displays an objective standard: plaintiff's legal position at the inception of the action should be evaluated as whether it reasonably could consider claim in action as to be its rights¹³. There should be no inquiry as to the subjective conditions of the

⁹ Rickardsson, p. 23: "Access to justice is a fundamental right common to most member states and enshrined in articles 6 and 13 of the ECHR, which is also part of the general principles of EU law. See also article 47 Charter of Fundamental Rights. See also cases Case C-432/05 Unibet [2007] ECR I-2271, paragraph 37, and Joined Cases C-402/05 P and C-415/05 P Kadi and Al Barakaat International Foundation v Council and Commission [2008] ECR I-0000, paragraph 335"

¹⁰ Rickardsson, id. "It is therefore an obvious problem to characterize legal proceedings as abusive using traditional EU competition law criteria since it can only be in very limited circumstances that litigation amounts to an abuse."

¹¹ The Article 86 of the Treaty may be dealt for the purposes of this study as comparable to a constitutional norm, in which it creates a duty the member states to assure a competitive environment, free from the encroachment from public or private actors.

¹² This analysis should be entertained both as to the purposes of the litigations and the efficiency of the litigation in connection with its purposes. See Grundfest, Joseph A. and Huang, Peter H., Real Options and the Economic Analysis of Litigation: A Preliminary Inquiry (May 1996). Working Paper No. 131, John M. Olin Program in Law and Economics, Stanford Law School. Available at SSRN: <http://ssrn.com/abstract=10081>

¹³ Rickardsson, p. 29: "The action must therefore be objectively and manifestly unfounded at the time when the action was brought. It is thus immaterial whether the rights which the undertaking concerned were asserting at the time when the action was brought actually existed [para. 72-73]. It is rather an inquiry into what that undertaking reasonably could consider to be its rights at the time when it initiated the proceeding".

plaintiff, as is just necessary to determine whether a person at that moment, canvassing the corresponding factual and legal material, would reasonably conclude that the rights claimed were actually his.

The second prong, however, by requiring the demonstration of “a framework of a plan”, that is to say, a deliberate and purposeful set of actions, the goal of which is eliminate competition, enters necessarily in a subjective level¹⁴.

It is to be noted that the European case law only employed those two cumulative tests once; after the decision by the General Court of the ITT Promedia case, no further vexatious litigation plus IP issue was considered within the EU Competition system.

A SHAM ISSUE

The same Constitutional tension between the right to petition to the Government (including the right to seek redress before the courts) and the application of antitrust rules was witnessed by the development of a similar doctrine under U.S. Laws. Current legal analysis discerns three – and not only two – conflicting interests whenever the right to petition is deemed to carry an anticompetitive burden:

These tenets are:

- (a) The right of citizens to petition the government for redress of grievances;
- (b) The ability of the government to protect the integrity of its processes which provide the structural framework permitting a democratic form of governance; and
- (c) The need for competition in the marketplace in order to drive a capitalistic economy.¹⁵

Therefore, in this three-cornered analysis, it is also considered the Governmental interest to act on an effective manner, in pursuance of its Constitutional purposes.

On a series of cases decided by the U.S. Supreme Court¹⁶, a doctrine was developed in connection with this three-cornered balance of interests, whereby it was affirmed that no antitrust objection should be directed against the exercise of the right to petition.

The first two cases decided in the 60's express the Noerr-Pennington Doctrine. According to such doctrine, antitrust laws are not to be used as devices to prevent individuals from expressing their grievances to their elected officials with the hope of influencing the passage of certain legislation. The antitrust laws are designed to promote competition in the marketplace. If an individual or corporate person petitions their officials and, as a result of their petition, laws are passed that put their competitive entities out of business or negatively affect their business, the antitrust laws cannot be used to prevent such petitioning. This type of petitioning is a constitutional right.

¹⁴ Rickardsson, p. 46: “if one can find that there was no merit to the case the court will have to decide whether the lawsuit was conceived in a plan whose goal was to eliminate competition, the last inquiry being an inquiry into the subjective intent of the dominant undertaking”.

¹⁵ J.B. Perrine, Defining the “Sham Litigation” Exception to the Noerr-Pennington Antitrust Immunity Doctrine: An Analysis of the Professional Real Estate Investors v. Columbia Pictures Industries Decision, 46 ALA. L. REV. 815 (1995).

¹⁶ Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc, 365 U.S. 127 (1961); United Mine Workers v. Pennington, 381 U.S. 657 (1965); California Transport Co. v. Trucking Unlimited, 404 U.S. 508 (1972); and Professional Real Estate Investors v. Columbia Pictures Industries, Inc, 508 U.S. 49 (1993).

The Supreme Court noted, on the other hand, that the Noerr immunity should be withheld, in those cases where the exercise of the right of petition was so unfounded and deprived of merits ("sham") as to defeat the Constitutional assurance¹⁷. Eventually the case law elaborated a set of tests for determining which those unfounded and meritless petitions were¹⁸. Following such tests, the Noerr exemption from antitrust screening would be denied whenever a petition met two cumulative requirements¹⁹:

- (a) in those cases where no reasonable litigant could realistically expect success on the merits; and
- (b) Whether the baseless suit conceals "an attempt to interfere directly" with a competitor's business relationships.

(This set of standards of analysis is to be described herein as the PREI Test; at page 19 the U.S. report precise its import and applicability to the context of this study)

The first requirement (as shown in the European case) is to be employed as an objective standard. There would not be any insight into the subjective motives of the petitioner, but an application of the centuries-old standard of the bonus paterfamilias: Here, the version of such abstract standard would be "the reasonable litigant". Would a reasonable litigant initiate and pursue such action in court to seek redress for its own grievances?

¹⁷ "that there may be instances where the alleged conspiracy "is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified" (365 U.S., at 144). In other relevant wording, the Court stated: First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under Noerr, and an antitrust claim premised on the sham exception must fail. PRE, 113 S.Ct at 1928, 26 USPQ at 1646 (footnote omitted). The second prong, to be reached "only if challenged litigation is objectively meritless," *id.*, is "whether the baseless lawsuit conceals an attempt to interfere directly with the business relationships of a competitor through the use of the governmental process -- as opposed to the outcome of that process -- as an anticompetitive weapon." *Id.*, 113 S.Ct. at 1928, 26 USPQ2d at 1646. On the one hand, the Supreme Court has cautioned that "when the antitrust defendant has lost the underlying litigation, a court must resist the understandable temptation to engage in post hoc reasoning by concluding that an ultimately unsuccessful action must have been unreasonable or without foundation." *Id.* On the other hand, a preliminary success on the merits does not necessarily preclude a court from concluding that litigation was baseless. See *Boulware*, 960 F.2d at 788-89.

¹⁸ An important case was *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972). "California Motor played a significant role in the development of both the Noerr doctrine and the sham exception. It more firmly established the constitutional basis for the doctrine, extended the doctrine to the judicial context, and actually applied the sham litigation exception for the first time". 46 Ala. L. Rev. 815, 824

¹⁹ "Litigation cannot be deprived of immunity as a sham unless it is objectively baseless. This Court's decisions establish that the legality of objectively reasonable petitioning "directed toward obtaining governmental [508 U.S. 49, 50] action" is "not at all affected by any anticompetitive purpose [the actor] may have had." *Id.*, at 140. Thus, neither Noerr immunity nor its sham exception turns on subjective intent alone. See, e.g., *Allied Tube Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 503. Rather, to be a "sham," litigation must meet a two-part definition. First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation. Under this second part of the definition, a court should focus on whether the baseless suit conceals "an attempt to interfere directly" with a competitor's business relationships, Noerr, *supra*, at 144, through the "use [of] the governmental process - as opposed to the outcome of that process - as an anticompetitive weapon," *Columbia v. Omni Outdoor Advertising, Inc.*, 499 U.S. 365, 380. This two-tiered process requires a plaintiff to disprove the challenged lawsuit's legal viability before the court will entertain evidence of the suit's economic viability. Pp. 55-61." PREI, INC. v. COLUMBIA PICTURES, 508 U.S. 49 (1993) 508 U.S. 49, visited 2/8/2010, found at <http://caselaw.lp.findlaw.com/scripts/getcase.pl?navby=search&court=US&case=/us/508/49.html>.

Again, the second test presupposes an inquiry on the intent of the petitioner by filing and pursuing the legally baseless suit.

In the ITT case the General Court also stressed the same essential tension: in principle the bringing of an action [before a court], which is the expression of the fundamental right of access to a judge, cannot be characterized as an abuse" unless "an undertaking in a dominant position brings an action (i) which cannot reasonably be considered as an attempt to establish its rights and can therefore only serve to harass the opposite party, and (ii) which is conceived in the framework of a plan whose goal is to eliminate competition.²⁰

THE USA AND THE EU: A VEXATORIOUS PROXIMITY

In this specific issue, it seems that the EU and the U.S. doctrine are singularly close. As notes Rikardsson²¹,

Under Noerr-Pennington and ITT Promedia the proposed tests are very similar. Under Noerr-Pennington the first question to be answered is whether, objectively speaking, the firm initiating the legal action reasonably could believe it had rights to protect, which is more or less the same as the test proposed by the Commission in ITT Promedia. Here, only objective factors are taken into consideration, and it is what the firm initiating the proceeding reasonably could believe at the time the lawsuit was initiated that is relevant, later events having no bearing on that finding. Second, both tests propose that if one can find that there was no merit to the case the court will have to decide whether the lawsuit was conceived in a plan whose goal was to eliminate competition, the last inquiry being an inquiry into the subjective intent of the dominant undertaking.

This convergent posture is particularly interesting as, in the recent EU case of AstraZeneca, which deals with a related, but distinct set of legal issues, the U.S. trend diverges significantly from its European counterpart. This other issue shall be dealt with in a specific section below.

An Unneeded Multiplicity

Another germane issue is also found in the case law dealing with use of Government processes for anticompetitive purposes: the utilization by a player of a multiplicity of Government remedies, where the unreasonable behavior should be sought not in any single petition, but in the reiteration of such process. In the USS POSCO case of 1994²², a U.S. Circuit Court found that²³:

²⁰ Commission's Decision of 21 May 1996, ITT Promedia, Case 35268, point 11

²¹ Op. Cit. p. 46.

²² Uss-Posco Industries Be & K V. Contra Costa County Building & Construction Trades Council, 31 F.3d 800, 146 L.R.R.M. (BNA) 2961, 128 Lab.Cas. P 11,147,1994-1 Trade Cases P 70,647

²³ "Professional Real Estate Investors provides a strict two-step analysis to assess whether a single action constitutes Sham petitioning. This inquiry is essentially retrospective: If the suit turns out to have objective merit, the plaintiff can't proceed to inquire into subjective purposes, and the action is perforce not a Sham". See --- U.S. at ---- & n. 5, 113 S.Ct. at 1928 & n. 5.

California Motor Transport deals with the case where the defendant is accused of bringing a whole series of legal proceedings. Litigation is invariably costly, distracting and time-consuming; having to defend a whole series of such proceedings can inflict a crushing burden on a business. California Motor Transport thus recognized that the filing of a whole series of lawsuits and other legal actions without regard to the merits has far more serious implications than filing a single action, and can serve as a very effective restraint on trade. When dealing with a series of lawsuits, the question is not whether any one of them has merit--some may turn out to, just as a matter of chance--but whether they are brought pursuant to a policy of starting legal proceedings without regard to the merits and for the purpose of

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When dealing with a series of lawsuits, the question is not whether any one of them has merit--some may turn out to, just as a matter of chance--but whether they are brought pursuant to a policy of starting legal proceedings without regard to the merits and for the purpose of injuring a market rival. The inquiry in such cases is prospective: Were the legal filings made, not out of a genuine interest in redressing grievances, but as part of a pattern or practice of successive filings undertaken essentially for purposes of harassment?

Therefore, a second but related set of criteria is required whenever the possible misuse of Government processes for anticompetitive purposes occurs by proliferating petitions even though a number of them may be found rightful, but the multiplicity itself cannot be shown as reasonable under an objective standard.

As it will be seen in this study, the most conspicuous result of the proliferation of IP suits targeting the same or related purposes, in which an anticompetitive result is anticipated, is that in many cases the requirement of a subjective intent tends to be attenuated.

AN INITIAL DEFINITION

The U.S. PRE case, as mentioned before, synthesizes the vexatious/sham litigation issue in a very useful manner by referring to a prior decision of the United States Supreme Court the "use [of] the governmental process - as opposed to the outcome of that process - as an anticompetitive weapon"²⁴

As examples of such misuse of a Governmental process, the U.S. case law offers:

- (a) Frivolous objections to the license application of a competitor, with no expectation of achieving denial of the license but simply in order to impose expense and delay.²⁵
- (b) A "sham" situation involves a plaintiff or petitioner whose activities are "not genuinely aimed at procuring favorable government action" at all,²⁶
- (c) But there would be no sham in a case where the petitioner "genuinely seeks to achieve his governmental result, but does so through improper means"²⁷.

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injuring a market rival. The inquiry in such cases is prospective: Were the legal filings made, not out of a genuine interest in redressing grievances, but as part of a pattern or practice of successive filings undertaken essentially for purposes of harassment? The allegations in BE & K's complaint track the language of California Motor Transport and, if proven, would be sufficient to overcome the unions' Noerr-Pennington defense. The record, as developed to date, however, forecloses any possibility that BE & K could substantiate its claim. As noted, the fact that a small number in the series of lawsuits turn out not to be frivolous will not be fatal to a claim under California Motor Transport; even a broken clock is right twice a day. Here, however, fifteen of the twenty-nine lawsuits alleged by BE & K as part of the pattern of filings "without regard to the merits" have proven successful. The fact that more than half of all the actions as to which we know the results turn out to have merit cannot be reconciled with the charge that the unions were filing lawsuits and other actions willy-nilly without regard to success. Given that the plaintiff has the burden in litigation, a batting average exceeding .500 cannot support BE & K's theory. BE & K therefore cannot sustain its burden of showing that the unions' conduct falls within the Sham exception to the Noerr- Pennington doctrine".

²⁴ Columbia v. Omni Outdoor Advertising, Inc., 499 U.S. 365, 80

²⁵ California Motor Transport Co. v. Trucking Unlimited, 404 U.S. 508 (1972).

²⁶ Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492, 500 , n. 4 (1988),

²⁷ Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492, 500 , n. 4 (1988), at 508, n. 10 (quoting Sessions Tank Liners, Inc. v. Joor Mfg., Inc., 827 F.2d 458, 465, n. 5 (CA9 1987)). [499 U.S. 365, 381]

The two-pronged test common to the U.S. and EU system strive to balance this refusal of a misuse of the Government processes with the Constitutional requirement of access to redress. The rather exacting set of tests stems mainly, but not only, from the deference due to this general constitutional principle.

THE SINGULAR ISSUE OF IP ABUSE OF COMPETITION

As noticed, at least under the US stem of sham litigation, the anticompetitive use of the right to petition (held as an exception to the general Constitutional empowerment) started as a non-IP issue.

As IP exclusive rights derive their bite exactly from a legally allowed protection from competitive forces, it is necessary a second, and sometimes more difficult, step to deal with this sum of problems: (a) deal with a Constitutionally assured right to redress, (b) consider that the law assures to the holder of a patent a conditioned but unequivocal right to exclude competitors.

In 2005, Denis Barbosa wrote²⁸:

In a competitive environment, the holding of IP assets assures exclusive use of certain immaterial assets, in a way that only its owners may explore the market. The crucial issue is whether there is an antagonism between competition law and such exclusive rights upon technical, expression and trade image creations²⁹. According to a rather recent trend in US case law and literature, harmony, not antagonism, would preside such relation³⁰. (...)

The intersection between competition law and IP occurs in two ways: either the exclusive rights upon creations and corporate dresses are the effective cause of the damage to competition, or are mere accessories, even though relevant, of one effective or potentially damageable practice. In misuse situations there are possible means of repression in IP and antitrust law³¹, while trademarks misuse is only subject to reprehension in accordance to the antitrust law when there is clear market domination³². The second hypothesis is not subject to our analysis. Regarding cases in which the IP law is the cause of a tort or potential tort to competition, the authors indicate the presence of an accepted rule according to which the regular use of an exclusive right does not presume an illegal restriction to competition, but also does exclude the possibility of anti-competition effects³³.

²⁸ BORGES BARBOSA, Denis, A criação de um ambiente competitivo no campo da propriedade intelectual – o caso sul americano, <http://www.iprsonline.org/unctadictsd/docs/Barbosa%20FINAL%20formatado.pdf>

²⁹ Alan J. Weinschel, Antitrust Pitfalls in Licensing, in *In PLI Intellectual Property Antitrust*, 2001.

³⁰ *Blonder-Tongue Labs, Inc. v. University of Ill. Found.*, 402 U.S. 313, 343 (1971) (a patent may be viewed "as a monopoly which, although sanctioned by law, has the economic consequences attending other monopolies"); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229-30 (1963); *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 816 (1945). *Graham v. John Deere Co.*, 383 U.S. 1, 7 (1966): "It was a monopoly on tea that sparked the Revolution and Jefferson [the first Commissioner of Patents] certainly did not favor an equivalent form of monopoly under the new government."

³¹ Brazilian Competition Authority Consultation n° 31/99, 03/31/1999, by Ministério de Saúde.

³² Brazilian Competition Authority Concentration Act n° 47/95, 08/20/1997, Laboratórios Silva Araújo S.A. and Merrell Lepetit Farmacêutica e Industrial Ltda.

³³ Guillermo Cabanellas de las Cuevas, *Derecho de Patentes*, vol. II, p. 469. Weinschel, op. Cit., p. 771 et ss "Sin embargo, las patentes - como cualquier otro bien - pueden servir como instrumento para la realización de conductas anticompetitivas ilícitas. Las patentes pueden ser utilizadas para crear efectos anticompetitivos que van más allá del inherente al ius prohibendi perteneciente legítimamente al patentado: Así, por ejemplo, la obtención de una patente conduce a un monopolio legal sobre un invento, y el ejercicio de ese derecho exclusivo será lícito, por estar justificado por el Derecho de patentes. Pero si se acumulan todas las patentes necesarias para operar en

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(...) considering the Competition Law, is not immediately assumed that the simple unilateral action of the owner of the patent, copyright, industrial drawing, trademark or plant variety, within the limits of the legal exclusivity, would be in breach of competition law. However, an unilateral action beyond the legal limits, whenever such an excess may be deemed contrary to the purposes of the intellectual property system, may be held illicit.

It will be also found illegal such use of the exclusivity – especially when it actually represents some market power – to obtain advantages in regard to other markets distinct from the one for which the exclusivity is functional. This may occur, for example, through tie-in sales, discriminating prices or other acts contrary to competition³⁴.

What this text did not remark (but somewhat reflects) is the rather deferential attitude towards the pro-competitive nature of IP rights that pervade some Competition Law literature and practice³⁵:

On a closer inspection, the logic of competition law reveals a predisposition to accommodations to the exercise of IPRs. (...) the very design of the general competition rules leaves room for the “normal” exercise of IPRs and focuses on the cases where their exercise happens to coincide with extreme forms of commercial conduct.

There are objective reasons to that reaction, as in principle there is actual convergence between the two bodies of law³⁶; furthermore, IP law incorporates some internal controls against excesses and misuse, and the role of Competition Law is felt to be a “second tier”, thus complementary, regulation³⁷.

This study does not propose to draw an extensive analysis of the relation between Intellectual Property rights and Competition Law. Therefore, the role of this short section is to bring to attention that the theme of abuse of the right of petition for anticompetitive purposes (which is by itself a thorny problem of Constitutional tension) is especially tortuous when we examine the field of Intellectual Property.

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cierto sector, se crea un efecto económico en dicho sector que es ajeno al Derecho de patentes y que debe ser juzgado a la luz del Derecho de la Competencia. Deberá así determinarse de qué manera se llegó a esa acumulación de patentes -por esfuerzo creativo propio, o mediante cesiones, etc., qué uso se ha hecho de tal acumulación -otorgando licencias, o por el contrario utilizando las patentes para crear presiones adicionales tendientes a la desaparición de posibles competidores-, y, en general, de qué forma se configuran los extremos característicos de las infracciones al Derecho de la Competencia”

³⁴ “ (...) the act is prohibited because it is viewed as an attempt to ‘lever’ the IP reinforced market power in the ‘primary’ market into exclusionary conduct in the secondary market.” ANDERMAN, Steven, The competition law/IP ‘interface’: an introductory note, visited 3/3/2011, found at <http://ebooks.cambridge.org/chapter.jsf?Bid=CBO9780511495205&cid=CBO9780511495205A007>.

³⁵ ANDERMAN, Steven and EZRACHI, Ariel, Intellectual Property and Competition Law, Oxford, 2011.

³⁶ "There is a considerable overlap in the goals of the two systems of law because both are aimed at promoting innovation and economic growth. Yet there are also potential conflicts owing to the means used by each system to promote those goals. IP laws generally offer a right of exclusive use and exploitation to provide a reward to the innovator, to provide an incentive to other innovators and to bring into the public domain innovative information that might otherwise remain trade secrets. Competition authorities regulate near monopolies, mergers and commercial agreements with the aim of maintaining effective competition in markets. This regulation occasionally results in limits being placed on the free exercise of the exclusive rights granted by IP laws." Anderman, interface....

³⁷ “Nevertheless, as we have seen, modern competition policy, does act in reserve to prevent the excesses of private property owners in order to maintain effective competition on, and access to, markets, operating as a ‘second tier’ of regulation of intellectual property rights.” ANDERMAN, Interface, cit.

THE PRESENT RESEARCH

This study responds to a request of legal and economic analysis of anticompetitive use of IP litigation submitted by the World Intellectual Property Organization:

The objective of the study is to scrutinize whether and how, in a number of jurisdictions, the holders of intellectual property have enforced their titles with an exclusively anti-competitive objective as well as whether national or regional courts have developed criteria that help distinguish abusively anti-competitive IP enforcement from lawful IP enforcement.

The stated purposes of such study are the following:

This project aims to assess how, in certain jurisdictions, the holders of intellectual property rights have used their titles with anti-competitive objectives.

It will be analyzed:

- (a) cases between competitors in order to cover up illegal collusion;
- (b) frivolous lawsuits initiated by dominant firms in order to exclude potential competitors; and
- (c) frivolous lawsuits filed against government agencies in order to gain time and artificially maintaining the intellectual property rights in force.

It can be assumed therefore that this scope corresponds roughly to the definition of the vexatious/sham litigation issue as defined tentatively before:

- (a) Item 1 would also conform to the offered definition once the mentioned “cases between competitors” corresponds to a Government process, judicial or otherwise, where the collusion is obscured by such utilization of the Government redress.
- (b) Item 2 also conforms to the offered definition once the notion of “frivolous” corresponds to the requirement that a refusal of petition would only occur if such petition cannot reasonably be considered to be an attempt to assert the petitioner’s rights.
- (c) Item 3 just provides an example of misuse of Government process, also compatible with the offered definition.

However, the scope of the present research only covers those cases where the alleged rights comprise Intellectual Property rights. It excludes therefore all other cases of misuse of Governmental processes involving other alleged rights not included in the Intellectual Property field.

The study covers several jurisdictions, beyond the EU and U.S. legal systems mentioned above. Direct inquiry to the relevant Government agencies and autonomous research should be entertained to provide a broader perspective on the phenomenon reflected by the vexatious/sham litigation series of cases referred before.

AN INITIAL RESEARCH GRID

The request for information from the various foreign authorities recited the following filters to clarify what such agencies were supposed to inform:

The administrative or judicial procedures concerning any of the rights covered by Article 1.1 of TRIPs, brought to the attention of Intellectual Property authorities or antitrust agencies, where at least one of the following aspects is conspicuously present:

- (a) procedures where the final favorable prospects for plaintiff (or requiring party) is evidently improbable, but the initiation or continuation of the procedure by itself is liable to have anticompetitive effects; or
- (b) procedures multiplied on the same or closely related causes of action where such reiteration of actions or requests (even though each one action or request by itself would be procedurally reasonable) also is liable to have anticompetitive effects; or
- (c) other actions, initiatives of requests where the benefit to plaintiff or requesting party could result from the initiation or continuation of the procedure itself rather than the final result of the exercise, and such initiation or continuance by itself is liable to have anticompetitive effects; or
- (d) any actions, initiatives of requests, which under domestic law is classifiable as abuse of right or abuse of process, and such abuse is liable to have anticompetitive effects.

As can be noted, such research grid would cover issues in excess of the ITT Promedia or the PREI Tests.

Such filter (a) does not limit itself to the initiation of the procedure: the continuation of a process that had shown to be evidently improbable is also covered; (b) exceeds the simple PREI standard (but follows POSCO) by covering a multiplicity of claims, even though any one of them could be held as rightfully initiated or continued, when such proliferation of petitions by itself may be evidently unneeded to attain the petitioner's rights; (c) stresses that the issue at stake is the use of the governmental process - as opposed to the outcome of that process – that is the source of an anticompetitive effect; (d) looks for a player's behavior that under the pertinent law is deemed to be an abuse of a substantive right or a procedural abuse, and also is liable to have an anticompetitive effect.

The grid did not mention any subjective assessment of intention of anticompetitive effects nor required that a specific anticompetitive effect had actually occurred.

The same grid was utilized to induce the autonomous research, that is to say, the pursuance of facts and law beyond the information provided following the request direct to the various foreign agencies. As it was utilized as an uniform filter for the study, and officially informed as such to the various consulted administrations, this study shall conform to its boundaries, except where otherwise indicated.

Requests were sent to selected Government agencies in South Africa, Argentina, Brazil, Canada, Chile, China, South Korea, Egypt, Spain, USA, France, India, Italy, Japan, Mexico, Russia, Turkey, the European Union and the United Kingdom.

THE RESPONSE OF THE VARIOUS AGENCIES

A small but significant number of answers were received in pursuance of the study. The European Commission stated that under the EU law, one case only (the mentioned ITT Promedia Case) would satisfy the grid³⁸. The Public Health Institute of Chile and the Russian Patent and Trademark agency (Rospatent) refrained from mentioning any case that could satisfy the inquiry as submitted.

Some of the responses would not seem to fit the research grid. For methodological purposes, however, they are noted below, as they would correspond at least to some notional apprehension of the issue by the Governmental agencies consulted. Starting by the U.S. response, we shall list the other contributions to no specific order.

The U.S. Report

The U.S. Government answer to this inquiry was jointly answered by the authorities on competition and intellectual property registration. By its encompassing and important nature, it would be quoted in full below:

Introduction

The U.S. response to the IPEA questionnaire describes the U.S. antitrust law “sham litigation” doctrine and identifies the very limited instances in which it applies. Although sham litigation claims often are made as part of intellectual property rights (“IPR”) enforcement litigation in the United States, no such claim has yet been successfully litigated to conclusion in U.S. courts.

In the United States, private parties generally have the right to petition federal, state, and local governments for action. Petitioning activity includes filing a lawsuit. In Part I, we describe the “Noerr-Pennington” exemption from antitrust liability for activities that constitute petitioning the government, sometimes referred to as immunity from antitrust liability. In Part II, we explain the sham litigation exception to the Noerr doctrine as applied to IPRs. And, in Part III, we discuss some other exceptions to Noerr antitrust immunity.

The Noerr-Pennington Exemption from Antitrust Liability U.S. antitrust law promotes consumer welfare by proscribing certain concerted or unilateral private conduct that impedes competition. One important judicially created exemption to antitrust law, developed in a series of U.S. Supreme Court cases, is known as the Noerr-Pennington doctrine, in which the Court recognized private parties’ right to petition for government action, even where such action limits or supplants competition.

The Noerr-Pennington doctrine derives its name from two cases decided by the Supreme Court in the 1960s, *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*³⁹ (“Noerr”) and *United Mine Workers of America v. Pennington*⁴⁰ (“Pennington”). The Noerr matter involved petitioning for legislative action, while in Pennington, the Court extended Noerr

³⁸ The AstraZeneca case, even though decided on July 2010, was not mentioned by the EC answer, probably as it does not conform to the proposed grid.

³⁹ [Footnote from the original document] *E.R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961).

⁴⁰ [Footnote from the original document] *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965).

protection beyond the legislative arena to prohibit antitrust challenge of attempts to influence the executive branch. The Noerr-Pennington doctrine is broad and frequently invoked, and not limited to contexts that involve IPRs.⁴¹

The Court's reasoning in Noerr was that, in a representative democracy, people have a right to make their wishes known to their representatives⁴² and, moreover, that the Sherman Act does not prohibit efforts to influence the passage and enforcement of laws.⁴³ Filing a lawsuit is protected petitioning that is presumptively entitled to Noerr-Pennington immunity from liability under the antitrust laws.⁴⁴

The Sham Litigation Exception to Noerr-Pennington Exemption from Antitrust Liability

In 1979, a U.S. federal appeals court first explained when a patent infringement lawsuit may be the basis of antitrust liability in *Handgards, Inc. v. Ethicon, Inc.*⁴⁵ The court recognized that "[p]atentees must be permitted to test the validity of their patents in court through actions against alleged infringers."⁴⁶ By contrast, infringement actions brought in bad faith, such as enforcing a patent known to be invalid, may violate the antitrust laws.⁴⁷ Balancing these interests, the court held that a patentee's infringement suit is presumptively in good faith and that this

Presumption could only be rebutted with clear and convincing evidence that the patentee acted in bad faith.⁴⁸ The court remanded the case for consideration under this standard.

Earlier, in delineating the boundaries of the Noerr doctrine, the U.S. Supreme Court had held that to the extent people's actions are "a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor," there would be no exemption and the application of the Sherman Act would be justified.⁴⁹ The Court had further explained that, although Noerr's protection extends to administrative and judicial proceedings, petitioners could not benefit from Noerr-Pennington immunity if the proceedings they instituted were meritless and effectively barred their competitors "from access to the agencies and courts."⁵⁰ In addition, the Court held that Noerr immunity applies when a restraint on competition is "the intended consequence of public action," but not when a restraint is used as a means used to extract favorable legislation.⁵¹

⁴¹ [Footnote from the original document] For more on the doctrine, see FED. TRADE COMM'N, ENFORCEMENT PERSPECTIVES ON THE NOERR-PENNINGTON DOCTRINE (2006), available at <http://www.ftc.gov/reports/P013518enfperspectNoerr-Penningtondoctrine.pdf> [hereinafter FTC NOERR REPORT].

⁴² [Footnote from the original document] Noerr, 365 U.S. at 137. The Court's reasoning relied on the First Amendment to the U.S. Constitution, which guarantees, among other things, freedom of speech and of assembly, as well as the right "to petition the Government for a redress of grievances." U.S. CONST. amend. I.

⁴³ [Footnote from the original document] *Id.* at 138 ("[T]he Sherman Act does not apply . . . at least insofar as those activities comprised mere solicitation of governmental action with respect to the passage and enforcement of laws").

⁴⁴ [Footnote from the original document] *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 510 (1972).

⁴⁵ [Footnote from the original document] *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979).

⁴⁶ [Footnote from the original document] *Id.* at 993.

⁴⁷ [Footnote from the original document] *Id.*

⁴⁸ [Footnote from the original document] *Id.* at 996.

⁴⁹ [Footnote from the original document] *E.R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 144 (1961).

⁵⁰ [Footnote from the original document] *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 510-13 (1972).

⁵¹ [Footnote from the original document] *FTC v. Superior Court Trial Lawyers Ass'n*, 493 U.S. 411, 425 (1990).

Then, in 1993, the Court held that antitrust claims based on alleged sham litigation (in this case, enforcement of copyright claims) must meet an exacting two-part standard—even more rigorous than the bad faith test established in *Handgards*—in order to overcome the Noerr-Pennington antitrust exemption. In *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.* (“PREI”),⁵² the Court held that the lawsuit first “must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits.”⁵³ Second, if the lawsuit is objectively baseless, a court must also “examine the litigant’s subjective motivation” to determine whether the ‘lawsuit conceals an attempt to interfere directly with the business relationships of a competitor’ . . . through the ‘use [of] the governmental process—as opposed to the outcome of that process—as an anticompetitive weapon.’⁵⁴ On the merits, the Court held that the major motion picture producers’ copyright infringement suit against PREI was not sham litigation because it was not objectively baseless. The Court explained that “reasonable copyright owner in Columbia’s position could have believed that it had some chance of winning an infringement suit against PREI[.] . . . Columbia’s copyright action was arguably ‘warranted by existing law’ or at the very least was based on an objectively ‘good faith argument for the extension, modification, or reversal of existing law.’”⁵⁵

Subsequent U.S. case law demonstrates that the two-part PREI test is difficult to meet. Courts “have generally rejected claims of anticompetitive sham litigation.”⁵⁶

Some sham litigation claimants have survived motions to dismiss⁵⁷ or motions for summary judgment⁵⁸ predicated on the PREI test.⁵⁹ In one case, for example, purchasers and competitors brought antitrust actions alleging that drug companies impeded market entry of the generic version of a brand name drug through patent infringement actions that the antitrust

⁵² *Prof'l Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 60-61 (1993). Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively, PREI) operated a resort hotel. Having installed videodisc players in the hotel rooms and assembled a library of motion picture titles, PREI rented videodiscs to guests for in-room viewing. PREI also sought to develop a market for the sale of videodisc players to other hotels wishing to offer in-room viewing of prerecorded material. Columbia Pictures Industries, Inc., and seven other major motion picture studios (collectively, Columbia) held copyrights to the motion pictures recorded on the videodiscs that PREI purchased. They also licensed the transmission of copyrighted motion pictures to hotel rooms through a wired cable system. Columbia sued PREI alleging that PREI’s rental of videodiscs for viewing in hotel rooms infringed the motion picture companies’ copyrights. PREI counterclaimed, alleging, inter alia, that the copyright infringement action was a mere sham that cloaked underlying acts of monopolization and conspiracy to restrain trade.

⁵³ [Footnote from the original document] *Id.* at 60.

⁵⁴ [Footnote from the original document] *Id.* at 60-61 (quoting *E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 144 (1961) and *City of Columbia v. Omni Outdoor Advertising, Inc.*, 499 U.S. 365, 380 (1991)).

⁵⁵ [Footnote from the original document] *Id.* at 65 (quoting Fed. Rule Civ. Proc. 11). Rule 11 aims to deter meritless litigation by providing courts with discretion to sanction attorneys or parties who knowingly file documents making frivolous arguments, or that have an improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation. See Fed. Rule Civ. Proc. 11(b) (c). Rule 11 sanctions are imposed sparingly because they can have significant impact beyond the individual case. *Hartmax Corp. v. Abboud*, 326 F.3d 862, 867 (7th Cir. 2003).

⁵⁶ [Footnote from the original document] 1 HERBERT HOVENKAMP ET AL., *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* § 11.3b4 (2d ed. 2010).

⁵⁷ [Footnote from the original document] When granted by a court, a motion to dismiss a complaint ends a lawsuit at the pleading stage before the court undertakes a trial on the merits. 5B CHARLES ALAN WRIGHT & ARTHUR R. MILLER, *FEDERAL PRACTICE AND PROCEDURE* § 1349 (3d ed. 2004); see Fed. R. Civ. Proc. 12(b).

⁵⁸ [Footnote from the original document] A court may grant a motion for summary judgment, substantively resolving a claim in a case, only if there is no genuine issue of material fact and if the law as applied to the undisputed facts results in a judgment for the moving party. See Fed. R. Civ. Proc. 56.

⁵⁹ [Footnote from the original document] See, e.g., *Rochester Drug Co-op., Inc. v. Braintree Labs.*, 712 F. Supp. 2d 308, 320 (D. Del. 2010) (denying motion to dismiss); *Somanetics Corp. v. CAS Med. Sys., Inc.*, 2010 WL 2178836 (E.D. Mich. 2010) (same); *In re Relafen Antitrust Litigation*, 346 F. Supp. 2d 349, 359-64 (D. Mass. 2004) (denying summary judgment).

claimants alleged were sham litigation. Based on the plaintiffs' evidence, the court found genuine issues of fact as to whether drug companies' suits against competitors were objectively baseless, denying defendants' motion for summary judgment.⁶⁰ This case, and others in which sham litigation claims were allowed to go forward, settled before trial. There are no litigated decisions in the U.S. courts holding that an IP plaintiff has engaged in sham litigation.

It is important to note that "[a] finding that a lawsuit is a sham merely means that Noerr-Pennington immunity does not apply to that lawsuit. An antitrust plaintiff must still show all the substantive elements of an antitrust violation."⁶¹ Therefore, establishing that a lawsuit is a sham is merely the first step for an antitrust claimant.

Potential Limits on Application of the PREI Test Certain scenarios not considered by the Supreme Court, which could be distinguishable from the PREI ruling, have been discussed by lower courts, including: (i) communications that merely seek administrative response rather than the further exercise of governmental discretion or judgment; (ii) misrepresentations; and (iii) repetitive petitioning.

Communications with the Government Must Seek the Exercise of Government Discretion to Qualify for the Noerr Exemption from Antitrust Liability

In *In re Buspirone Patent Litigation*,⁶² the Southern District of New York considered whether submitting a patent for inclusion on the FDA's list of approved drug products was shielded by the Noerr-Pennington doctrine. The court held that a pharmaceutical patent owner was not entitled to Noerr immunity for such a listing act because the FDA plays a passive role in the listing process and does not exercise discretion concerning the listing of patents.⁶³ This decision suggests that only communications that call for the substantive analysis of the claim may be considered petitioning within the meaning of the Noerr-Pennington doctrine.⁶⁴

Misrepresentation

The Supreme Court has recognized the possibility of an exception to the Noerr doctrine where the petitioning party misleads the government in its petitioning efforts,⁶⁵ but has never ruled

⁶⁰ [Footnote from the original document] *Teva Pharmaceuticals USA, Inc. v. Abbott Labs.*, 580 F. Supp. 2d 345, 365 (D. Del. 2008).

⁶¹ [Footnote from the original document] *HOVENKAMP ET AL.*, supra note 18, at § 11.3b1.

⁶² [Footnote from the original document] *In re Buspirone Patent Litigation*, 185 F. Supp. 2d 363 (S.D.N.Y. 2002).

⁶³ [Footnote from the original document] *Id.* at 369 ("[I]n deciding whether a particular type of conduct is petitioning activity for Noerr-Pennington purposes, it is critical to distinguish between activities in which the government acts or renders a decision only after an independent review of the merits of a petition and activities in which the government acts in a merely ministerial or non-discretionary capacity in direct reliance on the representations made by private parties.").

⁶⁴ [Footnote from the original document] See also *Litton Sys., Inc. v. American Tel. and Tel. Co.*, 700 F.2d 785, 807 (2d. Cir. 1983) (holding that filings that merely seek a response, cannot constitute "petitioning" within the meaning of the Noerr-Pennington doctrine, since the term "petitioning" must involve a bona fide exercise of governmental discretion – "AT&T cannot cloak its actions in Noerr-Pennington immunity simply because it is required, as a regulated monopoly, to disclose publicly its rates and operating procedures. The fact that the FCC might ultimately set aside a tariff filing does not transform AT&T's independent decisions as to how it will conduct its business into a 'request' for governmental action or an 'expression' of political opinion"); *FTC NOERR REPORT*, supra note 3, at 18.

⁶⁵ [Footnote from the original document] *Prof'l Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 61 n.6 (1993) ("In surveying the 'forms of illegal and reprehensible practice which may corrupt the administrative or judicial processes and which may result in antitrust violations,' we have noted that 'unethical conduct in the setting of the adjudicatory process often results in sanctions' and that '[m]isrepresentations, condoned in the political arena, are not immunized when used in the adjudicatory process.' . . . We need not decide here whether and, if so, to what extent Noerr permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations" (citations

[Footnote continued on next page]

directly on this point. However, there is strong support in the lower courts for a misrepresentation exception to Noerr when the petitioning occurs outside the political arena.⁶⁶ Although none of these court cases involved IP rights, the FTC found in an administrative action that such misrepresentation may arise where a company acquires monopoly power illegally, by defrauding a regulatory standard-setting board about the existence of its intellectual property rights.⁶⁷

Repetitive Petitioning

The proper test for the Noerr sham litigation exception where the claim is that the IP holder engaged in a pattern of filings without regard to the merits in order to inflict collateral harm on a marketplace rival is an open issue. Some courts have held that in the context of such claims, it is not necessary that each filing meet the objective blamelessness part of the PREI test.⁶⁸ Various cases, however, have held that the mere filing of more than one lawsuit is not a sham unless each suit satisfies both parts of the PREI test.⁶⁹

Conclusion

The U.S. Noerr-Pennington doctrine provides antitrust immunity for persons petitioning for government action. The doctrine's immunity does not extend to sham litigation. Where intellectual property rights are at issue, the PREI decision, discussed above, provides clear guidance on how to determine whether an IP infringement suit constitutes sham litigation. The PREI test is a strict one, requiring that the IP litigation be both "objectively baseless" and subjectively without merit, concealing "an attempt to interfere directly with a competitor's business through the use [of] the governmental process" in order to qualify as sham. This standard is difficult to meet, and very few cases have met the stringent test for this exception.

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omitted) (quoting *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 512-13 (1972)).

⁶⁶ [Footnote from the original document] See FTC NOERR REPORT, *supra* note 3, at 22-28 (suggesting an analytical framework for identifying when conduct should fall under the misrepresentation exception).

⁶⁷ [Footnote from the original document] E.g., In the Matter of Union Oil Co. of Cal., FTC Dkt. No. 9305, slip op. at 17-23 (FTC Opinion July 7, 2004), available at <http://www.ftc.gov/os/adipro/d9305/040706commissionopinion.pdf>; Press Release, FTC Charges Unocal with Anticompetitive Conduct Related to Reformulated Gasoline (Mar. 4, 2003), available at <http://www.ftc.gov/opa/2003/03/unocal.shtm>. If a patent applicant violates its duty of candor to the U.S. Patent and Trademark Office ("PTO") by obtaining its patent through fraud on the PTO and then attempts to enforce the patent in an infringement lawsuit, the alleged infringer or another plaintiff may claim that the patentee has violated Section 2 of the Sherman Act, provided the antitrust claimant can also prove the traditional elements of an antitrust claim. *Walker Process Equip. Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965). The Supreme Court's *Walker Process* opinion does not mention the Noerr doctrine and the Court has not yet explained whether there is any relationship between them. See *Prof'l Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 61, n.6 ("We need not decide here whether and, if so, to what extent Noerr permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations.") According to the U.S. Court of Appeals for the Federal Circuit, PREI and *Walker Process* provide alternative legal grounds on which a patentee may be stripped of its immunity from the antitrust laws. *Nobelpharma AB v. Implant Innovations*, 141 F.3d 1059, 1071 (Fed. Cir. 1998) (noting that both legal theories may be applied to the same conduct).

⁶⁸ [Footnote from the original document] E.g., *USS-POSCO Indus. v. Contra Costa Cnty. Bldg. & Constr. Trade Council*, 31 F.3d 800, 810-11 (9th Cir. 1994); *Primetime 24 Joint Venture v. Nat'l Broad. Co.*, 219 F.3d 92, 101 (2d Cir. 2000); see also FTC NOERR REPORT, *supra* note 3, at 32, 34.

⁶⁹ [Footnote from the original document] E.g., *Amarel v. Connell*, 102 F.3d 1494, 1519-20 (9th Cir. 1996).

The Mexican Report

The Mexican agency responding to the inquiry (COFEPRIS), even not confirming to the proposed grid, listed a series of procedures related to IP rights, which in its interpretation would regard anticompetitive purposes.

Suits directed to extend the term of pharmaceutical patents.

According to such agency, even though the Mexican law limited the duration of some patents granted under a transitory provision to the remaining term of the foreign patent, a number of patent holders started court actions to extend the Mexican patents to a further term of protection accorded to the related foreign patent.

This foreign extension was due, for instance, to a Special Protection Certificate, a legal device to compensate patent holders for the delay imposed by the administrative review of the sanitary licenses needed to commercialize the pharmaceutical products. In some cases, the court has issued preliminary orders to maintain the patent in force until the merits of the case is judged, and therefore the generic alternatives were delayed. In specific cases, the preliminary orders were confirmed by the final judgment.

The Mexican authority did not inform whether anticompetitive claims were raised in those cases. It would however be noted that the first prong of the Promedia test would not be possibly satisfied in the mentioned cases, considering that the right sought in court was duly recognized⁷⁰.

Linkage cases

A number of court actions were filed against COFEPRI, alleging that by granting licenses for commercialization to beneficiaries that are not the patent holders of the licensed products; the agency would be violating such patents⁷¹.

Non active elements included in the listings

The same agency also gives notice of a series of writs of mandamus against it, where court orders were issued to include in the Official Listing of Patents in Force as published in the Official Gazette, even though the included patents were not active product inventions, but combination or formula ones. COFEPRIS mentions that the criterion of inclusion in the official listing was accepted by the Mexican Supreme Court, but the orders would contravene such understanding. Finally the agency also reports that the innovating pharmaceutical companies have requested the change of some regulatory legislation in order to ensure a broader linkage between patents and sanitary licenses. All those episodes are classified by the agency as "monopolist practices" or "excessive exercise" of Intellectual Property rights⁷².

It is worth noting that these cases of extensions of Mexican patents when courts have issued preliminary orders to maintain the patent in force until the merit of the case was judged,

⁷⁰ It deserves to be noted that exactly the same issue was considered under a bad faith litigation standard in the Sanofi Aventis case decided by the Rio de Janeiro Federal Appeal Court, as shall be seen below.

⁷¹ Here also a series of like cases were filed in Brazil; as their final judgment has not occurred, first prong of PREI Test would defeat classifying them as vexatious.

⁷² The actions for extending the term of patents and those filed against the health regulators, at the very same patterns, were also noticeable in the Brazilian jurisdictions.

therefore delaying the entrance in the market of generic drugs, are very similar to Brazilian cases, currently in investigation, and another, already decided, as will be seen below⁷³.

As similarly as we saw happening in Brazil through our autonomous research there are a number of court actions filed against the health regulator alleging that by granting licenses for commercialization to beneficiaries that are not the patent holders of the licensed products, the agency would be violating such patents.

The Spanish Report

The Spanish National Commission on Competition indicated that a number of cases would, to its understanding, corresponds to the grid⁷⁴.

Resolución TDC de 15 de abril de 1994. Expediente 335/93 Trip y Chevignon

Trip Distribution SA maintained a private contract in Spain for the exclusive distribution of Chevignon products while Cepy SA as a wholesaler distributed products from this same brand purchased legally outside of Spain. In view of parallel imports of garments displaying the trademark licensed to Trip, the company filed several complaints before the criminal court, against Cepy SA, Jumbo SA and La Sultana SA.

Because the items distributed by the defendants were not false, the complaint in which the defendants Trip accused of selling fake clothes was dismissed by the Court of Instruction No. 28 Madrid (decided September 9, 1991). The lawsuit filed against Jumbo was dismissed by the Court of Instruction No. 41 in Madrid by decision of Auto November 15, 1991 for the same reason.

On the other hand, Cepy reported Trip and Charles Chevignon SARL to the Court of Defense of Competition (TDC). The grounds argued for such report were (a) a vertical agreement restricting competition contrary to art. 1 of Law

16/1989, (b) alleging abuse of dominant position and unfair conduct contrary to Article 7 of the Act (in relation to Article 9 of the Unfair Competition Act), and (c) arguing that the complaints filed by Trip against Cepy and their clients had caused a loss of image and economic loss, which has led to the closure of its textile division.

In its resolution, the TDC said that there had been no violation of Articles 1, 6 and 7 of the former LDC or Article 85.1 the Treaty of Rome. The Court noted that in the absence of an exclusive distribution clause in Trip contract, which prohibit the parallel importation or exportation, TDC could not appreciate any breach of Article 1 LDC, or 85.1 TEC. Regarding the argument of abuse of dominant position, TDC considered that (a) Trip was not holding a dominant position in the market of jeans and (b) a trademark is not a market.

Regarding Article 7 LDC, TDC said that "the abusive use by Trip of mechanisms to prevent the sale by Cepy Chevignon products could constitute acts of unfair competition, although they lack sufficient substance to affect the public interest protected by the LDC, given the low volume of trade recorded in the docket and therefore must also reject this violation".

⁷³ We make reference to Sanofi Aventis case, decided by Rio de Janeiro Federal Appeal Court, dismissed under a bad faith litigation standard.

⁷⁴ An autonomous report by the Intellectual Property Agency (under the Ministry of Culture) indicates that it has no notice of any case that could be included within the grid. It has however listed a series of significant cases involving copyright interests and institutions that would fall within a general inquiry of the relations between Intellectual Property Rights and Competition Law but are outside the scope of the present study.

Resolución TDC de 16 de julio de 1998. Expediente R 315/98 Wellcome.

In this case, the TDC resolution dismissed an appeal by Combino Pharm SL against a decision of the SDC (Defense of Competition Agency) of 2 April 1998, which decreed the suspension of the case 1501/97, initiated following the complaint filed by Combino Pharm SL against Wellcome Pharm for alleged practices contrary to Article 7 LDC. The allegations of the dismissed complaint were denigratory practices and inducement to breach of contract.

The Service held that the statements about Combino Pharm, object of the complaint, were true: it was a company incorporated in 1995 with a capital of ten million pesetas, which was only allowed to sell two pharmaceutical products. These products were not generic drugs, but copies. Even if such statements were unfair, the SDC considered that there were not of a significant import as to violate Article 7 LDC.

In 1996 Wellcome sued a supplier of Combine Pharm (Finaf SA-92) for making a pharmaceutical product by means of a process protected under a Wellcome patent. When Final suspended the manufacture of such drugs, it was initiated an arbitration proceeding by Combine Pharm for breach of contract, and at the same time Wellcome sued Combine Pharm. Investigating Court No. 6 in Barcelona dismissed on June 18, 1997 the complaint against Combine Pharm Wellcome, finding that the manufacturing process of these products was in the public domain.

The TDC said that:

art. 7 LDC provides that the Tribunal is empowered to take cognizance of acts of unfair competition that, by distorting competition to an appreciable extent, in whole or in part of the domestic market, come to affect the public interest".

"It is the doctrine of this Court that art. 7 LDC is not intended to stifle any disloyalty or protecting directly the interests of injured competitors, what is provided by Law 3 / 1991 of January 10, Unfair Competition. The LDC is a rule of public law that pursues a public interest; that is, unfair conduct should not distort the competitive functioning of the market. Given that fair competition is a normal requirement of functioning market, the Competition Act explicitly requires that the distortion of competition is sensitive and which, by its own dimension, causes the involvement of the public interest. Therefore, the unfairness which considers art. 7 LDC is a qualified disloyalty. "

Therefore, in the FJ 7 concluded that "In this case, even assuming that there had been a disloyal behavior is not appropriate the application of art. 7 LDC as there are not satisfied the requirements of the Legal Background 2. Therefore, if the complainant believes unlawfully prejudiced their rights must resort in defense of their interests to the ordinary courts competent for the application of the Unfair Competition Act."

Resolución TDC de 19 de enero de 2000. Expediente R 373/99 Fertiabol

In this case Abonomar SL challenged before the TDC a SDC decision of May 17, 1999, which had dismissed its complaint against SL Fertiabol on account of an infringement of Articles 1 and 7 LDC.

Abonomar had argued before SDC that Fertiabol had unjustly filed a suit before the Court of First Instance No. 1 from La Coruña, for infringement of patent right, knowing that the pills manufactured by it were not equal to the ones Abonomar elaborated. Fertiabol won the patent infringement lawsuit filed against it by Abonomar (Judgment of 16 October 1997 JPI 1 of La Coruña) and Abonomar was unable to appeal the Judgment by poor presentation of the notice

of appeal. However, Abonomar argued that the court judgment was not in accordance with the law, as the Spanish Patent and Trademark Office had granted to it, months later, a patent for on a fertilizer tablets product.

On the other hand, Fertiabol exerted pressure on various wholesalers, as evidenced by the letters in which it claimed to be the exclusive licensee of fertilizer tablets patented by the National Institute of Agrarian Research (INIA). This statement was allegedly not true, since such agency itself acknowledged in a letter dated April 5, 1994, that such license was not exclusive.

The TDC found that the conduct complained about was not contrary to Article 7 LDC because it was not proven any falsehood and Fertiabol won the demand for patent infringement filed against it by Abonomar (Judgment of 16 October 1997 JPI # 1 de La Coruña). Therefore, TDC concluded that the act complained lacked the essential requirement of being disloyal," as it cannot be regarded as unfair whoever acts to protect his legitimate rights."

Judicial cases

In regard to judicial judgments, the CNC states that it has only direct knowledge of the judgments in which courts apply the art. 1 and 2 of the Competition Act or the art. 101 and 102 of the TFEU, in accordance with the provisions of Code of Civil Procedure. Among the decisions submitted in recent years it has not identified any notified case that would be classifiable as sham litigation relating to intellectual property.

On the other hand, the NCC does not receive notification of the rulings concerning the application of the Unfair Competition Act or the rules of intellectual property in the civil courts.

However, it has located a civil suit for damages in which the applicants (Induimar, Depogas SL 1997, SL) claimed damages from the Spanish Oil Company, SA (CEPSA) on account of a court claim that CEPSA had litigated against them regarding the legality of the deposits that the defendants manufactured and marketed. Such legal proceedings lasted ten years until the Supreme Court ended the dispute with a ruling rejecting the claims of CEPSA.

Both the Court of First Instance No. 1 Valladolid (Judgment of 11 March 2010) and the Provincial Court of Valladolid (Section 3, by decision of September,7, 2010), dismissed the lawsuit filed by Induimar, SL and Depogas 1997, SL against CEPSA on grounds of expiry of term of filing suit. Both courts considered that the conduct caused the damage stemmed not from the contractual relationship between plaintiffs and CEPSA but was an issue of tort (Aquilian liability), so it is subject to an expiry period of one year (Article 1968.2 of the Code Civil) from the date of the Supreme Court ruling that settled the question. Because the deadline had passed the decisions declared expired the right to sue.

In regard to the issue of unjust enrichment that CEPSA would have experienced at the expense of the plaintiffs to make deposits under the characteristics of utility models that the applicants intended to market and sell, the two sentences considered that the applicants were not entitled to hold no ownership of such a model utility nor had been assigned any rights under it. Only the owner of the utility model may be exercised to defend those rights through actions under the Patent Act (art. 63) and the Unfair Competition Act (art. 18.6).

Conclusion of the Spanish cases

The doctrine maintained by the TDC in these cases stems from its interpretation of the alleged infringement (distortion of competition through unfair acts). According to the TDC, unless the two cumulative conditions of Article 7 (the act of unfair competition seriously distort competition within the market and that serious distortion affecting the public interest) are met, the TDC should not act, irrespective of the extent in which the act might be unfair. The jurisdiction in such cases belongs to a civil court under the Unfair Competition Act, and such court should resolve the matter. The TDC would only be competent to sanction acts of unfair competition that distorts the competitive market conditions and also affects the public interest, while the civil jurisdiction in a proceeding between the parties shall be in charge of the unfair anti-competitive acts that do not have the relevant designated Article 7 of the LDC.

In all cases detected in copyright or industrial property rights, TDC closed the case on the grounds that - while the acts may be unfair -, they affected only the parties, since they were not significant enough to distort the market in question. This doctrine has been applied consistently by the TDC in multiple resolutions for different markets (TDC resolution of April 16, 1993, A Textbook 47/93

Valladolid TDC resolution of February 17, 1993, A 40/92, Booksellers Valencia TDC resolution of October 7, 1993, R 61/93 Driving from Valencia, among others).

In the last of the aforementioned resolutions (File 373/99 R Fertiabol FD # 3) summarizes the doctrine of TDC in this respect Article 7 LDC:

The requirements to produce a breach of art. 7 of the Law of Competition, as mentions the SDC in its decision, collecting the case law settled in this Court are:

- (a) The existence of a behavior can be categorized as unfair competition, for which we must resort to the law 3 / 91, Unfair Competition;
- (b) The conduct must affect the public interest, i.e., free market competition; and
- (c) The impairment must be significant enough to cause a serious disturbance in the mechanisms that regulate the functioning of the market.

While the new Competition Act (Law 15/2007 of 3 July Competition) has changed the wording of the infringement (Article 3), in recent years the Spanish competition authorities did not examine new cases of "sham litigation" in intellectual or industrial property issues.

In regard to judgments, the CNC does not receive notification of the rulings concerning the application of the Unfair Competition Act or the rules of intellectual property in the civil courts and only has direct knowledge of the sentences in which courts apply the art. 1 and 2 of the Competition Act or the art. 101 and 102 of TFU. Among the statements submitted in recent years, it has not identified any that apply to cases of sham litigation relating to intellectual property.

We could say that TDC approach is quite similar to the one followed by the Brazilian Authority, CADE. According to this approach, cases are dismissed as far as there is no clear effect over the relevant market caused by the practices denounced.

The Korean Report

The report was submitted by the Korean Fair Trade Commission.

The Commission states that in Korea, matters related to abuses of intellectual property rights (IPR abuse) is mainly regulated by the Monopoly Regulation and Fair Trade Act (MRFTA), Korea's general competition law. IPR abuse that substantially lessens competition with undue exercise of rights is controlled by the Korea Fair Trade Commission (KFTC), the competition authority of Korea. Among various types of IPR abuse reported so far, this report was focused exclusively on the issue of sham litigation as mentioned in the questionnaire.

The "Guidelines for Review of the Abuse of Market Dominant Positions specify the following act as one of the types of abuse of market dominance:

"The unlawful use of judicial or administrative process such as a patent infringement suit or a patent invalidation trial to hamper business operation of other companies."

And the "Guidelines on Exercise of Intellectual Property" Rights set forth the purpose of regulating abuse of a patent infringement suit as follows;

"Legal procedures such as patent infringement suits are an important means to protect rights of patentees. However, patent infringement suits require considerable time and costs and require the parties to the suit to bear the costs directly, while affecting the reputation of the relevant entrepreneur in the relevant market, thus greatly impeding its business activities. Therefore, the acts of abusing legal and administrative procedures like patent infringement suits which are feared to impede fair trade in the relevant market can be determined to be outside the bounds of 'just exercise of patent rights.'"

The following is an explanation of the guidelines on major considerations that should be taken into account when assessing whether a suit brought by a patentee constitutes sham litigation.

"In particular, an act of filing a suit for patent infringement although a patentee knows that it does not build a case of patent (or that the relevant patent is invalid), or although it is objectively obvious in social common sense that it does not build a case of patent infringement is likely to be determined as abuse of patent suits. However, if a patentee's expectation regarding the suit is accepted as reasonable and justifiable, a suit filed by a patentee for patent infringement is not presumed later to be abuse of patent infringement suits merely on the ground that the patentee lost the suit."

Requirements to establish a case of Sham Litigation

In exceptional cases, the use of a patent infringement suit constitutes antitrust violation. When determining whether a patent suit is in violation of the competition law, the following factors are considered:

- (a) Market power of a company: Market power of a company is a basic factor for assessing illegality of a patent suit. When the person who brings the litigation has dominant position in the relevant market or has superior bargaining position over the defendant of the litigation, the litigation could be deemed to be in violation of the competition law;
- (b) Subjective intent of patent infringement litigation: Subjective intent - whether litigation aims for the protection of patent rights or for the use of litigation process itself to hamper competitors' business is examined carefully. Particularly, if a patentee brings

litigation even if he/she knows that the possibility of winning the litigation is slim because the patent is invalid, for example, the filing of the lawsuit is highly likely to be considered an abusive act. Moreover, if the litigation is brought not as a separate patent suit, but as part of a series of anticompetitive attempts targeting the defendant of the litigation, intention of the litigation can be deemed unlawful;

(c) Objective possibility of success: Objective possibility to win is an important consideration when determining a patent suit constitutes antitrust violation, since subjective intent is in many cases difficult to prove. If the litigation is objectively baseless to the extent that no reasonable litigant could expect success on the merits, the filing of the lawsuit is highly likely to be deemed a patent litigation abuse. But the mere fact that the patentee lost at a trial does not necessarily mean that the litigation is objectively baseless;

(d) Effect of patent infringement suit: Even if litigation is brought with unlawful intention, if the lawsuit is not considered to result in anticompetitive effect, it does not constitute antitrust violation. Patent infringement litigation is considered to be in violation of antitrust law only when it has anticompetitive effect such as competitors exiting the market due to business difficulties caused by the litigation. Moreover, there should be a reasonable cause/effect relation between the litigation and anticompetitive effect.

Sham Litigation Cases

In 2006, the KFTC received a complaint regarding sham litigation. But at the time, as a lawsuit regarding the case was pending in the court, the KFTC had difficulty proving accuracy of factual evidence regarding the litigation. So, the KFTC decided to drop the case to avoid a situation where a decision by the competition authority on litigation abuse contradicts the court's decision on patent infringement.

After the patentee who instituted the litigation lost, the Commission reconsidered the case, but decided not to launch the case officially, because 1) even if the patentee lost the suit, the litigation was not deemed to be objectively baseless and 2) despite the litigation, the competitor of the patentee did not suffer significant anticompetitive effect and successfully entered the relevant market.

The KFTC does not have much experience of handling cases regarding abuse of patent litigation, because conditions on assessing illegality are even stricter for litigation abuse. The KFTC views that a competition authority should be mindful of overly aggressive law enforcement in an alleged litigation abuse case in that a patentee should be able to enjoy the full rights to seek court proceedings enshrined in the constitution.

The Korean authority was very careful in its comment sent to IPEA. It was shown a particular deference in relation to the patent system – as if IP system were hierarchically superior to competition law – and a fear to contradict a court decision, a distress that the authority tries to avoid.

The Italian Report

The Italian Competition Authority sent two proceedings in the pharmaceutical sector which may involve behaviors falling under the notion of “sham litigation”.

A 364 Merck-Active ingredients

In this case the Italian Competition Authority assessed the abusive nature of unjustified refusals to grant licenses requested by chemical-pharmaceutical firms for the manufacture of two active ingredients - both covered by a Supplementary Protection Certificate (SPC) to be sold in other European countries, in which Merck was no longer enjoying intellectual property rights.

This case may fall under Point a) since Merck joined the conciliation procedure provided for by Italian Law No. 112/2002, with no intention to collaborate and with the purpose of delaying the access to the market to new potential competitors.

A 431 Pfizer Pharmaceutical patent protection

In these ongoing proceedings the Italian Competition Authority is evaluating Pfizer's conduct in attempting to prolong its patent protection in Italy for the active ingredient latanoprost in order to block market access for a new generic drug, by employing artful strategies.

Pfizer is alleged to have artfully requested and obtained a patent-coverage extension by first requesting a divisional patent and then requesting a complementary protection certificate (hereinafter CPC) to extend patent protection until 2011. The CPC, however, was based on a divisional patent that was recently declared invalid by the same European Patent Office in Munich.

The proceeding - which takes place in the wake of Pharmaceuticals Sector Inquiry concluded by the European Commission in 2009 - is setting out to determine whether Pfizer's behavior reflects an intentional effort to obstruct market access for a new generic drug, thus representing an abuse of Pfizer's dominant position in the market for products for treating visual glaucoma.

This case may fall under Point a) since Pfizer adopted behaviors, including legal actions, that are alleged to have created an atmosphere of legal uncertainty about the possibility of marketing the new generic drug, acting intentionally to exacerbate market entry costs (in terms of planning and production) for the producers of generics.

The proceeding is scheduled to be concluded on 15th October 2011.

It is important to mention that, as in Brazil, Mexico and some cases settled by agreement in USA, in Italy we have known about ongoing proceeding in an attempt to prolong a patent protection (of Pfizer) and a refuse to grant licenses to two active ingredients.

The Turkish Report

There is a case⁷⁵ mentioned in the article of Prof. Dr. I. Yilmaz Aslan, titled "Use of the industrial designs rights, relations between unfair competition and antitrust law: views on a decision of court published in Ankara Bar Association Intellectual Property and Competition Law Journal (FMR) (year: 1, issue: 1 number: 1) that has a characteristic similar to the above-mentioned cases.

The case was dealt with by Istanbul 3rd Commercial Court, (the decision of the court dated 27.12.1996, numbered 95/1561/E-96/1297/K). The decision of the Istanbul 3rd Commercial Court was appealed.

⁷⁵ As we will see, a case that is very similar to Anfafe case in Brazil.

11th Civil Chamber of the Supreme Court upheld the decision of Istanbul 3d Commercial Court by the judgment numbered 1997/2514/E., 1997/4904 K., The case can be summarized like in the following:

The plaintiff firm producing car brought an action against a firm producing and selling parts of bonnet fitting the cars produced by him (the plaintiff) by requesting to cease production and selling of the defendant.

The plaintiff requested from the court:

- (a) Prohibition of production the parts of bonnet which are identical with the goods produced by the plaintiff under the plaintiffs registered trademark "Renault";
- (b) Prohibition of using the trademark and the names belonging to type and model of Renault like "Toros, Renault 12, Renault 21 etc" and the signs like "R12, R9, R21" in the lists of products, documents, and advertisements.
- (c) The plaintiff has registered "Renault" as trademark however has not registered the designs of parts of bonnet. The defendant claims that:
- (d) He produces the parts of bonnet with its own trademark "Boztekin " not with the plaintiff's trademark.
- (e) The parts of bonnet produced by the defendant are similar to the original ones because of technical necessity.
- (f) There are the defendant's own trademarks on the products produced by the defendant.
- (g) Trademark and the names of type of Renault are used by the defendant in order to indicate that the parts produced by the defendant fit for which cars. However the trademark of the defendant is used on the products with bigger letters. Therefore there is no likelihood of confusion.
- (h) Any sign or expression which is reminiscent of Renault or model names of it is not used in the defendant's trademark.

The Court of first instance (Istanbul 3rd Commercial Court accepted requests of the plaintiff. 11 the Civil Chamber of the Supreme Court upheld the decision of the court of first instance.

The defendant has complained the plaintiff to Turkish Competition Authority. Turkish Competition Authority has rejected the complaint of the defendant on the ground that there was a court decision on the issue and Turkish Competition Authority has to obey the court decision.

THE DATA COLLECTED THROUGH AUTONOMOUS RESEARCH

Further to the official responses from the indicated jurisdictions, a number of cases corresponding to the grid were found by the staff researchers. This section shall review such data.

Argentina

The leading precedent found in Argentina, which would fit to the grid, is the Monsanto Roundup Ready case. Here, the local antitrust authority found that Monsanto had filed several actions, including in the Netherlands, Spain and Denmark, to prevent trade in soybean meal and other products relying on its Roundup Ready patent.

In 2006, following a presentation by the Ministry of Agriculture, Livestock, Fisheries and Food, the CNDC initiated an investigation into the biotechnology company Monsanto for alleged abuse of dominant position in a matter related with patents. The denunciation indicated a number of lawsuits and court injunctions obtained in European countries at the request of Monsanto on the occasion of some shipments of soybean meal and other products derived from genetically modified soybean (Roundup Ready soybeans or soybean RR ") exported from Argentina⁷⁶.

With such legal suits, which were filed against importers of products, Monsanto sought recognition of an intellectual right on RR soybeans in those jurisdictions where it had a patent, as it had been unable to obtain such patent in Argentina. The intention of the company through these legal proceedings was to collect royalties in Argentina on exports of byproducts of RR soybeans.

At an early stage of the procedure carried out by the CNDC and following an appeal by the company, the issue came to the attention of the Federal Court of Appeals in Civil and Commercial⁷⁷, which issued ruling holding that the elements so far gathered in the case there was no basis for believing that the alleged actions violated Article 1 of Law 25,156, but without ruling out that this might occur with the advancing investigation⁷⁸.

The most curious aspect of this judicial proceeding is that Monsanto referred specifically to the Noerr doctrine, alleging that it would be applicable to the case, denying any sham purpose⁷⁹.

⁷⁶ Propiedad intelectual y medicamentos: El caso de la República Argentina. Serie de Estudios ISALUD N° 9 – 2009 Secretaría de Ciencia y Técnica visited on Jul. 12, 2010, available at <http://www.isalud.org/hm/pdf/SE9-De-la-Puente-et-al.pdf>.

⁷⁷ Cámara Nacional de Apelaciones en lo Civil y Comercial Federal, Sala Civil y Comercial III, sentencia del 30 de septiembre de 2008 en causa N° 13.676/07 "Monsanto Company s/Apel. Resol. Comisión Nacional de Defensa de la Competencia" y causa N° 638/08 "Monsanto Argentina SAIC s/Apel. Resol. Comisión Nacional de Defensa de la Competencia". Available at <http://www.derecho-comercial.com/Jurisprudencia/monsa-01.pdf>, visited 07/12/2010.

⁷⁸ "Monsanto Company realizó ciertos actos que, por si mismos o formando parte de una estrategia más amplia, podrían constituir un abuso de posición dominante en ciertos mercados de semilla de soja en los términos de la ley 25.156" y que "la Resolución de fecha 30 de octubre de 2006 describe, si agotar, toda una serie de actos y acciones que, en conjunto constituyen una estrategia llevada a cabo por el grupo Monsanto, en cabeza de distintas controladas, entre las cuales, surge de la prueba oficiada por la SAGPyA que ha participado Monsanto Argentina con la finalidad de lograr el cobro de regalías por supuestos derechos de propiedad sobre el gen RR" (ver fs. 143, últ. párr., y 145, primer párr., del expte. 13.676/07; fs. 81, seg. párr., y 82, tercer párr., del expte. 638/08)" Revista Electrónica del Derecho Comercial www.derecho-comercial.com visited 07/12/2010. See: <http://www.derecho-comercial.com/Jurisprudencia/monsa-01.pdf>

⁷⁹ "2.2. Con relación a la excepción de falta de acción sostuvo que la conducta investigada por la CNDC, consistente en el inicio de acciones judiciales por Monsanto ante tribunales extranjeros para demostrar la infracción a sus derechos de propiedad intelectual, no puede considerarse anticompetitiva en los términos de la ley 25.156, desde que importa el razonable y legítimo ejercicio del derecho de peticionar ante las autoridades judiciales, el cual tiene jerarquía constitucional superior y otorga inmunidad plena frente a la eventual responsabilidad derivada de la legislación en materia de competencia.-En tal sentido, citó la doctrina "Noerr-Pennington" desarrollada por la Corte Suprema de los Estados Unidos a través de las sentencias dictadas en los casos "Eastern Railroad Presidents Conference v. Noerr Motor Freight Inc." (1961), "United Mine Workers v. Pennington" (1965) y "California Motor Transport Co v. Trucking Unlimited" (1972), según la cual las personas físicas o jurídicas con un interés comercial pueden dirigirse a cualquiera de los tres poderes del Estado para conseguir la adopción de determinadas decisiones, sin que tales peticiones puedan dar lugar a la imposición de sanciones previstas en la legislación de competencia,

[Footnote continued on next page]

Monsanto also indicated the application of what it alleged to be the same doctrine in the EU jurisdiction and in Argentina⁸⁰
The Chamber's ruling was appealed by the Ministry of Economy and Production before the Supreme Court of the Nation through special federal appeal.

Australia and New Zealand

Australian authorities have particularly raised the issue of possible abuse of process as a means of anticompetitive use of IP rights⁸¹:
The public interest. At times, large issues of legal policy may be involved. There is the development of the specialized law. There may be issues that go to the interface between industrial property law and trade practices law [Part 1V and Part V of the Trade Practices Act 1974 (Cth)]. There may be attempts to abuse the litigation process to secure delay or to brow-beat a smaller adversary. In such cases society is very reliant upon the judge, and upon court rules and practice, to represent its interests.

Some authors note that sham litigation or abuse of process could supply a sufficient ground for repulsing anticompetitive behavior in such jurisdictions⁸²:

While only a few trade practices actions alleging misuse of court processes in Australia or in New Zealand have been reported to date, such claims could escalate as international and domestic marketplaces become increasingly competitive, lending advantage to any tactic to slow or stop competitors, including anti-competitive use of processes. However, there are obstacles to obtaining redress. The underdeveloped nature of this law in Australia increases the risk of considerable litigation costs; a deterrent to smaller businesses seeking 'a fair go' to compete, or compensation, particularly if they have already had to defend aggressive actions. Scott assesses that: "Alleging a breach is likely to result in applications to strike out and a dominant firm will likely appeal any adverse decisions. Thus a small firm will incur the litigation

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debido a la primacía del derecho de recurrir ante los tribunales tutelado en la Primera Enmienda, incluso por sobre las políticas públicas con rango constitucional, como las establecidas en la "Sherman Act".- Asimismo, invocó que los tribunales de los EE.UU aplican esa doctrina en juicios sobre derechos de propiedad industrial, en el entendimiento de que la Constitución expresamente permite monopolios exclusivos bajo la modalidad de patentes y la promoción de pleitos, aún cuando de los mismos resultase una decisión anticompetitiva ("Andrx Pharmaceuticals Inc v. Elan Corporation PLC"), y que si bien existe una excepción a esa inmunidad ("sham petitioning": peticiones carentes de todo fundamento o impostoras), desarrollada por la Corte Suprema en el caso "Professional Real Estate Investors Inc. v. Columbia Pictures" (1993), su aplicación es restrictiva, debiéndose probar que el juicio carece objetivamente de fundamentos y que ha sido promovido con la "motivación subjetiva" de interferir directamente en las relaciones comerciales de un competidor".-:" http://www.iadc.com.ar/images/Fallo_monsanto.pdf , visited 10/12/2010.

⁸⁰ 480 del 22 de noviembre de 2004) y por la Cámara Nacional de Apelaciones en lo Penal Económico ("Laporta Norberto c. Empresa Telefónica de Argentina SA", Sala A, del 4 de julio de 1997), y que tiene sustento normativo en la Constitución Nacional, en los Tratados Internacionales y en los Códigos Civil (art. 1071) y Penal (art. 34, inc. 4).-," id.

⁸¹ Industrial Property Advisory Committee - practice and procedures for enforcement of industrial property rights in Australia 1992, , visited 11/30/2010, found at <http://www.acip.gov.au/library/Practice%20and%20procedures%20for%20enforcement%20of%20industrial%20property%20rights%20in%20Australia%20-%201993.pdf>.

⁸² [from the original] 1991) ATPR 41-116. Cadbury commenced an action seeking relief for alleged breaches of TPA ss52 and 53. Kenman was distributing chocolates apparently packaged to be similar to Cadbury's distinctive goods. An interlocutory injunction to stop Kenman had been refused as the judge felt confusion was unlikely. Kenman denied the claims and filed the s46 cross-claim against Cadbury built on this refusal.

costs it is seeking to avoid. The strategy is likely to give a dominant firm the reputation as a hard competitor. ... A firm does not even have to succeed to achieve a deterring reputation."

Indicating a case on alleged abuse of trademarks:

In *Cadbury Schweppes PL v Kenman Developments PL (1991)*⁸³ 136, Kenman countered with a s46 cross-claim seeking a declaration (plus damages) that Cadbury, by persisting with its action after being refused an interlocutory injunction, was mis-using its market power to block Kenman's efforts to compete. Cadbury countered that the cross claim was without basis, disclosed no reasonable cause of action, was frivolous or vexatious, had a tendency to prejudice, embarrass or delay the proceedings, and so constituted an abuse of the process of the Court and should be struck out. Justice Olney found no improper motive in Cadbury's conduct, and pointed out that commencement and continuation of proceedings by a corporation with substantial market power against a competitor does not automatically amount to taking advantage of market power. However, Olney J allowed that: "... there may be circumstances in which the unreasonable pursuit of a claimed legal right against a less powerful competitor by a corporation with substantial market power could amount to taking advantage of that power."

The pertinent holding of this case so states:

I do not understand it to be said on behalf of Kenman Foods that the commencement and continuation of proceedings by a corporation with substantial market power against a competitor necessarily amounts to taking advantage of market power. The real complaint against Cadbury is the allegation that it has an improper motive in commencing and continuing with the proceedings which it (Kenman Foods) believes to be untenable, unreasonable and doomed to failure. The only basis upon which such a motive could be found is by inference from the facts, and the only relevant facts are the facts of the proceedings having been commenced and persisted with. There is nothing in the material on which Kenman Foods seek to rely that justifies such an assessment of the proceedings. Certainly, the fact that Jenkinson J did not grant the interlocutory relief sought does not lead to such a conclusion. And that appears to be the only basis pleaded in the cross-claim.

There may well be circumstances in which the unreasonable pursuit of a claimed legal right against a less powerful competitor by a corporation with substantial market power could amount to taking advantage of that power but that case is not this case.⁸⁴

Welsman notes further:

The 'ultimate purpose' of a copyright action was questioned in a TPA s46 defense/cross-claim in *Warman International Limited v Envirotech Australia Pty Ltd (1986)*⁸⁵. The respondents argued that the Warman action was an attempt to eliminate or substantially damage a competitor, Envirotech. Wilcox J acknowledged that Warman had 'a substantial degree of power' in the relevant market, but saw "an important limitation to the operation of s46 imposed by the words 'take advantage of that power'". Wilcox J assessed that Warman was taking advantage of legal rights relating to documents, which would be the same rights regardless of

⁸³ [From the original] 1991) ATPR 41-116. Cadbury commenced an action seeking relief for alleged breaches of TPA ss52 and 53. Kenman was distributing chocolates apparently packaged to be similar to Cadbury's distinctive goods. An interlocutory injunction to stop Kenman had been refused as the judge felt confusion was unlikely. Kenman denied the claims and filed the s46 cross-claim against Cadbury built on this refusal.

⁸⁴ Federal Court of Australia, *Re Cadbury Schweppes Pty Ltd v Kenman Developments Pty Ltd; Heraklis Kenos; Spiro Mandylas and Kenman Foods Pty Ltd* [1991] FCA 106; (1991) 13 Atp 41-116 (28 March 1991).

⁸⁵ In this case, the plaintiff tried to exert his copyright power on which was judged to be a 'method or principle of construction'. See http://www.timdavis.com.au/Papers/Works_of_Artistic_Craftmanship.pdf, visited on Jan. 21, 2011;

level of power in the market. "To exercise in good faith an extraneous legal right, though the effect may be to lessen, or even eliminate, competition, is to take advantage of that right, not of market power."

In the spirit of Noerr thinking, in a democratic society, some might contend that the right to 'go to court' on any issue, is sacrosanct. This is not entirely so, as established in the law of 'abuse of process'. In some circumstances, exercise of a 'legal right' has been assessed as reasonable commercial conduct, however, since Queensland Wire⁸⁶ there can be no generalization that the exercise of a 'legal right', whether obtained via statute (e.g. right to object prior to a planning decision, or copyright protection) or the common law (say, a contract) cannot constitute a 'use' of market power⁸⁷.

A Full Federal Court cited Dawson J in Australasian Performing Right Association Ltd v Ceridale Pty Ltd (1991)⁸⁸, in qualifying Warman and confirming that existence of a contract, or other right, behind the conduct, does not automatically exempt the conduct from being found in breach of s46. So, exercise of the right to take legal proceedings could amount to mis-use of market power, and this will be a matter for evidence in each case.

Elaborating further on non-IP cases, the same author proceeds:

New Zealand judges have perhaps evinced a greater "willingness to explore the issue" of sham litigation (...) Barker J endorsed this principle. "Single instances may support a claim of anti-competitive conduct, but a combination of small matters - each of itself incapable of being held anti-competitive - may in some cases justify a similar claim".

France

There was no straight example found in this jurisdiction where IP rights and abuse of process or other vexatious litigation issue had been raised⁸⁹. However, in non-IP areas, a series of cases brought under the national competition authority has applied a standard comparable to the US stream of cases.

As elsewhere, the main issue is the tension between the constitutional rights to have access to the courts, in attrition with an anticompetitive behavior⁹⁰

⁸⁶ [from the original] Queensland Wire, n 10 at 202 per Dawson J, distinguishing Warman and some other cases.

⁸⁷ The case is Queensland Wire Industries v BHP(1989) 167 CLR 177 and is resumed at <http://www.australiancompetitionlaw.org/cases/qldwire.html>, visited on Jan. 21, 2011.

⁸⁸ [from the original] ATPR 41-074 at 52,129. The trial judge had agreed with Ceridale's claim that APRA's denial of a license was a misuse of market power. The Full Court, agreed that exercise of a legal right was not immune from s46, and agreed that there was market power, but found no anti- competitive purpose in APFR's conduct. see: <http://www.austlii.edu.au/au/journals/AUConstrLawNlr/1995/41.pdf>.

⁸⁹ In 02-D-68 de 14/11/2002, an IP case, the theme was raised but not recognized as directive, on account of lack of damageing effect : "qu'en l'espèce, il n'est pas établi ni que les actions en contrefaçon intentées par Gazinox étaient manifestement dénuées de tout fondement ni que ces actions auraient été conçues dans le cadre d'un plan ayant pour but d'éliminer la concurrence ; qu'ainsi, il n'est pas démontré que Gazinox aurait abusé de son droit d'ester en justice; Considérant, par ailleurs, que les tentatives de pressions relevées, quand bien même seraient-elles établies, n'ont pas abouti et n'ont produit aucun effet ; que, dans ces circonstances, un tel comportement ne peut constituer une pratique abusive au sens de l'article L. 420-2 du code de commerce;".

⁹⁰ Décision no 99-D-77 du 7 décembre 1999, le Conseil de la concurrence a considéré que : « L'accès au juge est un droit fondamental et le fait pour une entreprise qui occuperait une position dominante d'intenter une action en justice ne saurait être qualifié de pratique anticoncurrentielle que dans des circonstances tout à fait exceptionnelles, lorsque l'action ne vise manifestement pas à faire valoir ce que l'entreprise peut légitimement considérer comme

The criteria utilized in such cases were:

(...) Unless a dominant company instituted legal action that could not reasonably be considered as to enforce its rights and can therefore only serve to harass the opponent, and designed as part of a plan intended to eliminate competition"⁹¹.

South Africa

The research failed to find any vexatious litigation case related to IP matters. However, there is a national legislation providing for crushing vexatious litigation on general grounds⁹², that is to say, not circumscribed to anticompetitive issues. However, that law would supposedly also be utilized for preventing such cases from occurring even in competition-related circumstances.

The High Court has particularly screened the legislation including in regard to its Constitutional aspects⁹³, stating that would come within the scope of the statute "*frivolous, improper, and instituted without sufficient ground, to serve solely as an annoyance to the defendant*".

Canada

In a number of IP cases the issue of vexatious litigation was raised. In such cases, the US standard was usually indicated as pertinent. However, the research failed to find any specific cases to fulfill the standards offered above.

In *Harris v. GlaxoSmithKline Inc.*, 2010 ONSC 2326 (CanLII), it was alleged that vexatious litigation was being entertained to delay the entry of a generic in the market; the trial court

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étant son droit et qu'elle est conçue dans le cadre d'un plan ayant pour but d'éliminer, par ce harcèlement, la concurrence. » Décision n°03-D-59 de 09/12/2003. Found at www.minefi.gouv.fr/fonds.../dgccrf/.../04.../sommaire.htm, visited 15/12/2010.

⁹¹ Conseil de la Concurrence, Décision n°02-D-76 de 19/12/2002, among the parties Tubiflex, PB Tub, Dipra XGazinox, Boa AG e GDF: "(...) sauf si une entreprise en position dominante intente des actions en justice qui ne peuvent pas être raisonnablement considérées comme visant à faire valoir ses droits et ne peuvent dès lors servir qu'à harceler l'opposant, et qui sont conçues dans le cadre d'un plan ayant pour but d'éliminer la concurrence". Other cases : Décision n°02-D-68 de 14/11/2002, where there was required that the claim was patently without any grounds (« manifestement dénuées de tout fondement », see www.autoritedelaconcurrence.fr/pdf/avis/02d68.pdf accessed 15/12/2010). Décision n°03-D-59 de 9/12/2003. The anticompetitive intent is elemental: (...) sauf si une entreprise en position dominante intente des actions en justice qui ne peuvent pas être raisonnablement considérées comme visant à faire valoir ses droits et ne peuvent dès lors servir qu'à harceler l'opposant, et qui sont conçues dans le cadre d'un plan ayant pour but d'éliminer la concurrence » Décision n°02-D-76 de 19/12/2002. In this case, the French court cites the ITT Promedia decision. Other decisions stating the similar legal grounds are no 99-D-77 7/12 1999, no 00-D-24, 10/5/2000 and 02-D-35 13/6/2002 ; it was reported that the Cour de cassation, the highest French court, in a Commercial Law decision no 1675 of 9/10/2001, emphasized that under an abuse of right doctrine of French Law the intention to cause damage is essential.

⁹² Section 2(1)b of the Vexatious Proceedings Act 1956, found at http://www.vexatiouslitigant.org/vex_lit_south_africa.html, visited 11/2/2011.

⁹³ *Caso Absa Bank Limited X Dumisa Mbusi Dlamini* No: 41460/07. "The Act does so by allowing a court to screen a "person (who) has persistently and without any reasonable ground instituted legal proceedings in any Court or inferior court". The purpose of this screening mechanism is, in the words of Mokgoro J in the *Beinash* matter (supra), to protect, firstly, the interests of the victims of the vexatious litigant who have repeatedly been subjected to the costs, harassment and embarrassment of unmeritorious litigation, and, secondly, to protect the public interest that the functioning of the courts and the administration of justice proceed unimpeded by the clog of groundless proceedings".

refused the allegation by applying criteria that substantially were the PRE standards⁹⁴. Other denial of admissibility of a similar allegation was noted in *Industries Lumio (Canada) Inc. c. Dusablon*⁹⁵, a case related to industrial design concerning swimming pools.

Even though vexatiousness was not found in the facts, a test for such was offered in *Robinson c. Films Cinar Inc.*⁹⁶, a copyright case, on strictly procedural and not on competitive grounds: an abuse of procedure would be "a defense of an inexistent right by the proliferation of frivolous and dilatory procedures, or by a proliferation of appeals to be incurring unnecessary costs to the opponent".

The competition authority has dealt with an alleged sham litigation issue in Canada (*Director of Investigation and Research v. Laidlaw Waste Systems* (1992), 40 C.P.R. (3d) 289 (Comp.Trib.), a pharmaceutical case⁹⁷.

The case of *Eli Lilly and Co. v. Apotex (F.C.)*, 2004 FC 1445, [2005] 2 F.C.R. 225⁹⁸ has received extensive comment as a litigation case where anticompetitive issues were at stake, but it was not to be held as a vexatious litigation as defined above⁹⁹.

⁹⁴ "Justice Padova's judgment was to approve a settlement of the claims as fair and reasonable. In the course of making that determination, he considered the Plaintiffs' risks of establishing liability. Justice Padova's comments reveal that the sham litigation claim in the United States' class action was as dubious as is the claim in the case at bar. He stated at p. 14 of his judgment: In order to prevail on their claim that GSK's patent infringement suits constituted sham litigation, Plaintiffs would have to demonstrate that GSK's actions were both "objectively baseless" and "an attempt to interfere directly with the business relationships of a competitor." Co-Lead Counsel recognizes that they face significant hurdles in demonstrating that GSK's actions were "objectively baseless." Indeed, Judge Posner, who ruled in *SmithKline Beecham Corp v. Apotex Corp.* 247 F.Supp. 10111 (N.D.III.2003), that Apotex did not infringe on the '723 Patent stated in *Asahi Glass Co. v. Pentech Pharm. Inc.* 289 F.Supp.2d 986 (N.D.III.2003) (Posner, J.), that "[w]hether or not Pentech infringed patent 723 or other patents held by Glaxo, including patents on anhydrous forms of the paroxetine molecule, is uncertain, but there is nothing to suggest that the claim of infringement was frivolous." *Id.* At 992. I, therefore, conclude that Ms. Harris' allegations of sham litigation are ridiculous and not capable of proof, and this provides another reason for concluding that it is plain and obvious that her claims of abuse of process, conspiracy, and waiver of tort are not viable in law." *Mizera. Adam. Ontario: un particulier accuse sans succès GSK d'avoir retardé l'entrée de génériques par le processus des NOC.* Found at <http://cestepatent.wordpress.com/2010/05/09/ontario-un-particulier-accuse-sans-succes-gsk-davoir-retarde-lentree-de-generiques-par-le-processus-des-noc/> and <http://www.canlii.org/en/on/onsc/doc/2010/2010onsc2326/2010onsc2326.pdf>, visited 23/11/2010.

⁹⁵ <http://www.lumi-o.com/pdf/jugement.pdf> visited 24/11/2010.

⁹⁶ <http://www.canlii.org/fr/qc/qccs/doc/2009/2009qccs3793/2009qccs3793.html> visited 24/11/2010. «la preuve d'un véritable abus de procédure pouvant consister, par exemple, en la défense d'un droit inexistant, en la multiplication de procédures dilatoires et futiles, ou encore en une prolifération de recours visant à faire encourir des frais inutiles à l'adversaire». En tant que tel, le caractère évident ou injustifiable de la violation ne devrait peut-être pas constituer un motif justifiant en soi l'octroi de tels dépens : c'est plutôt par l'octroi de dommages punitifs qu'une telle conduite serait sanctionnée. Le tribunal pourra cependant prendre en compte le caractère abusif de l'institution et du maintien de procédures alléguant contrefaçon ou l'attitude générale d'un défendeur pour augmenter le montant des dépens.»

⁹⁷ According to <http://www.stikeman.com/cps/rde/xchg/se-en/hs.xsl/4393.htm>, visited 03/10/2010.

⁹⁸ <http://reports.fja.gc.ca/eng/2004/2004fc1445/2004fc1445.html>, visited 24/11/2010.

⁹⁹ Carlos Correa, *Intellectual Property and Competition Law*, found at http://www.iprsonline.org/resources/docs/corea_Oct07.pdf, visited 24/11/2010. "The Competition Bureau intervened in an Appeal Court case involving three pharmaceutical companies, Eli-Lilly, Shionogi and Apotex, around the question of whether the assignment of a patent can constitute an agreement or arrangement to lessen competition unduly, contrary to section 45 of the Competition Act. In accordance with Sheridan Scott, Canadian Commissioner of Competition: "This is a critical question which brought into play the relationship between the Competition Act's authority vis-à-vis the Patent Act. A lower court judge had, in effect, held that a simple assignment of a patent in whatever circumstances would not run afoul of the Competition Act because the assignment of patents is expressly authorized by section 50 of the Patent Act and Parliament must be taken to have understood that patents confer market power. If this interpretation had stood, the capacity of the Competition Act to deal with cases involving intellectual property, for example, where a company buys up all the competing intellectual property thereby creating a true monopoly, would have been seriously compromised, and the effects may have carried over to other forms of

Chile

The issue of this study has been raised before the competition agency and discussed in the literature¹⁰⁰.

In the case Imatinib¹⁰¹, the Chilean Competition Authority decided an alleged abuse of judicial and administrative procedures by Novartis in regard of the mentioned pharmaceutical. The majority vote found that the industry was adequately exercising its patent rights even though a subsequent technical study demonstrated that no infringement had in fact occurred.

Most cases filed in court regarding Imatinib were dismissed, and in consequence of such exercises, it was alleged that the competing firm suffered a delay of 14 months to enter the market. A dissident vote in the Authority decision found undue utilization of court and administrative means with anticompetitive purposes¹⁰².

According to the literature¹⁰³, in a 1993 case, a vexatious use of preliminary orders in a patent issue caused considered competitive damage to the Chilean economy.

A non-IP case indicated the Chilean legal theories acceptable in dealing with misuse of the right to petition for anticompetitive purposes. In the case Punta Lobos¹⁰⁴, the Authority dealt with a series of administrative and judicial cases deemed to delay the entry of competitors in the market of salt. The issue was the exercise of Constitutional rights to access of judicial or

[Footnote continued from previous page]

property and related laws" (Scott, 2006).: On appeal, the Federal Court of Appeal found that the right to assign a patent recognised by the Patent Act: "does not immunize an agreement to assign a patent from 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" (Scott, 2006).". A similar situation was found in LEGO Canada and Kirkbi AG contra Mega Bloks Inc. of Montreal Vide: <http://scc.lexum.umontreal.ca/en/2005/2005scc65/2005scc65.pdf>. Visited 24/11/2010

¹⁰⁰ See (1) patents: Zaliasniksch, Gabriel industria farmaceutica. ¿pasan el test del flúor? protección de la propiedad industrial y acceso a los medicamentos: una vision critica. Found at http://www.aei.org/doclib/20060905_gabrielzaliasnik.pdf visited 19/11/10. (2) author rights: Manríquez, José Pablo Monsalve, Informe, found at <http://www.tdlc.cl/DocumentosMultiples/Informe%20en%20Derecho%20Monsalve.pdf>.

¹⁰¹ Laboratorios Recalcine S.A. vs. Laboratorio Novartis Chile S.A, Tribunal De Defensa De La Libre Competencia Chileno, Sentencia N° 46/2006 Found at [http://mailweb.fne.gob.cl/db/tabla.nsf/f34cb3b7c2bb5deb8425733e005faa18/b893fbc1de8f09388425723d005a0b3d/\\$FILE/Sentencia%2046-2006.pdf](http://mailweb.fne.gob.cl/db/tabla.nsf/f34cb3b7c2bb5deb8425733e005faa18/b893fbc1de8f09388425723d005a0b3d/$FILE/Sentencia%2046-2006.pdf) visited 19/11/10.

¹⁰² "Tercero. Que la gran mayoría de estas acciones -no obstante haberse otorgado en su oportunidad medidas precautorias a favor de Novartis- fueron rechazadas o se encuentran actualmente sobreesididas, tanto por los Tribunales de Justicia como por el Instituto de Salud Pública, el Departamento de Propiedad Intelectual y la Contraloría General de la República; Cuarto. Que estas conductas tuvieron como resultado inmediato, según se establece en autos, el retardo en a lo menos catorce meses del registro del producto ZEITE de Recalcine, que, finalmente, fue autorizado por el Instituto de Salud Pública el 24 de junio de 2005; Quinto. Que, a juicio de este disidente, del mérito del proceso se deduce que las acciones de Novartis tuvieron por objeto entorpecer la libre competencia al intentar crear una barrera a la entrada con el objeto de mantener una posición dominante en el mercado respecto de los medicamentos basados en el principioactivo imatinib mesilato."

¹⁰³ Carlos Correa, Intellectual Property and Competition Law: "For instance, in Chile in 1993, a local company was sued for infringement of a patent on a certain process (relating to fluconazole) which was not actually used in the country (the product was imported from countries where no patent protection on processes and/or products existed). The Chilean law permitted the titleholder to request and obtain a judicial ban on the activities of the alleged infringer until the case was finally decided. This allowed the patent holder to block the commercialisation of products by local companies for several years, during which the price of the corresponding medicine increased significantly. Later on the case was dismissed, but nobody reimbursed patients for the higher prices paid or lack of access to the medicine. There are many examples of abusive requests of interlocutory injunctions in Latin America." Found at http://www.iprsonline.org/resources/docs/corea_Oct07.pdf, visited 24/11/2010.

¹⁰⁴ Sentencia N° 47/2006, 5/12/2006, visited 2/6/2011, found at http://www.tdlc.cl/DocumentosMultiples/Sentencia_47_2006.pdf.

administrative redress; the Authority indicated that these rights were not free from a competitive limitation¹⁰⁵.

The index that there was present an anticompetitive purpose was the cumulating of distinct procedures where the interests were contradictory¹⁰⁶. Considering the series of procedures thus entertained, the Authority found an illegal action to be punished¹⁰⁷

The Hemisferio Izquierdo case

In the case¹⁰⁸ Hemisferio Izquierdo the issue under consideration was an alleged trademark abuse. The defendant tried to register a generic expression that corresponded to the current designation of a specific field of business (recruitment of executive-level personnel), but the Chilean PTO refused the request.

The defendant however, within 14 years of such refusal, tried to exert trademark powers on the same trademark, registered to neighboring classes, through judicial and administrative procedures. The Competition Authority found that by utilizing a generic expression as an exclusive right, the plaintiff's behavior amounted to a tentative exercise of denial of market¹⁰⁹. This is an interesting issue not raised in any other case researched.

¹⁰⁵ "Octogésimo quinto: Que los derechos de acción y petición por discrecional que pueda ser su ejercicio. no comprenden la facultad de su titular de infringir la libre competencia. Un adecuado entendimiento de los derechos subjetivos considera como límite natural a su ejercicio el respeto a los derechos de otras personas y al orden público que resguarda el interés general. El D.L. N° 211 es precisamente una de las fronteras que el ordenamiento jurídico reconoce al ejercicio de los derechos, de manera que la conducta que lo infringe no puede ser considerada .al mismo tiempo. un derecho y una infracción; Octogésimo sexto: Que, por lo tanto, las acciones y peticiones .en principio legítimas. pueden ser constitutivas de infracciones que a este Tribunal le corresponda inhibir y sancionar, cuando tengan por inequívoca finalidad impedir, restringir o entorpecer la libre competencia;"

¹⁰⁶ "Nonagésimo: Que, adicionalmente, en el conjunto de acciones interpuestas, SPL mantuvo simultáneamente intereses contradictorios ante distintos tribunales, evidenciando con ello su real objetivo de emplear los respectivos procedimientos como una herramienta anticompetitiva. Así, si bien la segunda de sus acciones judiciales estaba destinada a adquirir Puerto Patache y las concesiones marítimas asociadas a él, las otras dos parecen contradictorias respecto de ese interés;" It is to be noted that in some Brazilian sham/vexatious litigation cases the same test of contradictory purposes by plaintiff was used.

¹⁰⁷ "Nonagésimo quinto: Que, en consecuencia, a juicio de este Tribunal resulta inequívoco que, mediante el conjunto de acciones mencionadas, SPL perseguía impedir que este puerto fuera habilitado por otro interesado en embarcar sal, manteniendo así, en forma artificial, su posición dominante en el mercado, e infringiendo abiertamente lo preceptuado en el artículo 3° del D.L. N° 211; Nonagésimo sexto: Que, por lo tanto, y teniendo en consideración los efectos de esa infracción, este Tribunal acogerá las peticiones de la Fiscalía Nacional Económica y sancionará a SPL por haber infringido el artículo 3° del D.L. N° 211, al haber creado una barrera estratégica a la entrada de nuevos competidores, manteniendo artificialmente su posición dominante en el mercado, al ejercer un conjunto de peticiones y acciones con la inequívoca finalidad de impedir, restringir o entorpecer la libre competencia en el mercado doméstico de la sal;"

¹⁰⁸ Sentencia N° 50/2007, 31/1/2007, visited 2/6/2011, found at [http://mailweb.fne.gob.cl/db/tabla.nsf/f34cb3b7c2bb5deb8425733e005faa18/9eb549a1b350e353842572760064dbe5/\\$FILE/Sentencia-50-2007.pdf](http://mailweb.fne.gob.cl/db/tabla.nsf/f34cb3b7c2bb5deb8425733e005faa18/9eb549a1b350e353842572760064dbe5/$FILE/Sentencia-50-2007.pdf).

¹⁰⁹ "Undécimo: Que además, y siguiendo el criterio establecido anteriormente por los órganos de defensa de la competencia, la conducta consistente en atribuirse exclusividad en el uso de términos o expresiones genéricas que describen un mercado, precisamente para identificar éste, constituye una infracción a la libre competencia, pues ello obstaculiza la comercialización de los bienes o servicios de que se trate. Lo anterior, por cuanto los términos o expresiones genéricas constituyen bienes cuyo uso y goce pertenece a todas las personas que deseen emplearlas para describir el producto o servicio a que se refieren. En consecuencia, el demandado no puede atribuirse exclusividad en el uso del término genérico Executive Search para referirse al mercado de los servicios de búsqueda y selección de ejecutivos que esa expresión caracteriza, de manera que las empresas que prestan esos servicios son libres de emplearla para describir éstos.; Duodécimo: Que en todo caso, por lo antes dicho, este Tribunal no puede sino concluir que esta primera conducta del demandado, consistente en intentar inscribir como marca comercial la expresión Executive Search, a sabiendas del carácter genérico de la misma para referirse a los servicios de búsqueda y selección de ejecutivos, y precisamente para identificar éstos, no ha podido tener otra

However, as to the use of judicial procedures to exert such anticompetitive purpose, the Authority did not find that the only possible intent would be anticompetitive¹¹⁰; therefore, even though issuing an order by which the defendant was prohibited from using its trademark power to prevent the access to the market by competitors, no specific punishment on account of vexatious litigation was found.

Peru

The Peruvian competition authority (Indecopi) has dealt recently with one case where a vexatious/sham litigation issue was raised, even though extraneous to the IP Field, in which it reviewed its case law on the matter¹¹¹.

The decision indicated that not only the PRE standard (applicable to an isolated misuse of procedure) but also the accumulation of various individual merit less cases should be considered. Indecopi referred to the Constitutional aspects of the matter, examined Chilean and Brazilian precedents and ended by holding the defendant guilty of abuse of judicial procedures for noncompetitive purposes¹¹².

In a very significant aspect of the decision, the Authority discarded the argument that the intervention on competition grounds on sham cases should wait for the termination of the judicial procedure, as such delay could render the intervention innocuous¹¹³. Other important issue decided was the need of a statutory provision against the competitive effect of vexatious

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finalidad que la de alcanzar una posición dominante, por la vía de impedir que sus potenciales competidores usaran el nombre genérico con que se conoce y define internacionalmente el mercado relevante de autos.”

¹¹⁰ “Decimonoveno: Que, las conductas singularizadas en el considerando precedente corresponden al ejercicio de acciones judiciales que son, en principio legítimas, sin que se encuentre acreditado que éstas hayan tenido por exclusiva finalidad impedir, restringir o entorpecer la libre competencia, desviando la finalidad de los respectivos procedimientos para emplearlos como un arma anticompetitiva; Vigésimo: Que, por lo tanto, para este Tribunal no resulta evidente que el único propósito del demandado al ejercer esas acciones legales haya sido impedir que Hemisferio Izquierdo use la expresión .Executive Search., existiendo la posibilidad de que haya obrado con el convencimiento de estar resguardando, además, un derecho de exclusividad sobre el término en cuestión para amparar los servicios de búsqueda y selección de ejecutivos, de manera que no concurrirían todos los presupuestos que este Tribunal exige para dar por establecida una conducta de abuso de derecho contraria a la libre competencia;”

¹¹¹ Caso: Expediente 009-2008/CLC, decided 03/05/2010 - 026-2010/CLC-INDECOPI - Asociación de Operadores de Ferrocarriles del Perú contra Ferrocarril Transandino S.A., Perú Rail S.A., Peruval Corp. S.A. (en adelante, Peruval) y Peruvian Trains & Railways.”

¹¹² “274. En consecuencia, esta Comisión concluye que las acciones legales interpuestas por Fetrans, Perurail, Peruval y PTR, consideradas en su conjunto, no configuran un ejercicio válido de los derechos de acción y petición, sino que reflejan una estrategia de abuso de procesos legales, con el objeto de restringir, desincentivar o dilatar el ingreso de competidores al mercado de transporte ferroviario de pasajeros en el FSO, por lo que corresponde declarar fundada la denuncia por abuso de posición de dominio, en la modalidad de abuso de procesos legales, conducta prohibida y tipificada en el artículo 1 y el literal f) del artículo 10.2 del Decreto Legislativo 1034, y ordenar a las denunciadas, en calidad de medida correctiva, el cese del abuso de posición de dominio a través de una estrategia de abuso de procesos legales”

¹¹³ “Finalmente, condicionar la actuación de la autoridad de competencia a la culminación de los procesos legales objeto de análisis restaría la eficacia de su pronunciamiento, que podría resultar tardío, al haberse permitido la efectividad de una estrategia anticompetitiva de abuso de procesos legales que se mantendría vigente durante todo el tiempo de duración de los procesos. Ello resulta más grave en un contexto como el peruano, donde la larga duración de los procesos y los problemas de institucionalidad que afrontan las instancias judiciales pueden hacer más atractiva para un agente económico la implementación de una estrategia de litigación predatoria”.

procedures¹¹⁴. The decision mentions foreign cases where vexations litigation was found to be illegal despite inexistence of such specific statutory ground.

The literature indicates¹¹⁵ that the theme of abuse of procedure for noncompetitive purposes is rather developed in Peruvian law, considering the number of cases decided¹¹⁶.

As to the peculiarities of the Peruvian treatment of the issue, the authors have felt that it could be draw from the Lebar case the need for verification of a predatory intent, but that was not necessary that the company have dominant market position, being this only one factor that could determine greatly the chances of success of the practice and the severity of its effects. It is also remarked that, despite Indecopi's understanding that no specific statutory enablement was necessary, there would be such grounds in the domestic legislation (Decreto Legislativo N° 1034)¹¹⁷.

THE BRAZILIAN CASE: A SPECIAL RESEARCH

In the study of the Brazilian case, a special strategy was utilized. In first place, there was a broader base to consider the IP/vexatious litigation theme. In a number of cases the issue was raised and in a specific circumstance it was indicated as the grounds of the decision. The research then perused over all pertinent cases.

On the other hand, instead of utilizing only the recognized vexations litigation cases acknowledged by the Competition Authority, it was done a thorough search of the judicial cases (at the Federal and State levels) where the theme abuse of procedure linked to IP was raised.

¹¹⁴ "En efecto, las autoridades extranjeras de defensa de la competencia han investigado y sancionado la práctica del ejercicio abusivo de acciones legales, pese a que no estaba expresamente prevista en sus respectivas leyes de defensa de la competencia. Éste es el caso de las decisiones adoptadas por la Comisión Europea, la FTC y diversas cortes judiciales de Estados Unidos y el Tribunal de Defensa de la Libre Competencia de Chile, entre otras autoridades" The cases cited are: (a) Promedia (nota a pie de página 55), y también Decisión de la Comisión Europea del 15 de junio de 2005. Asunto COMP/A.37507/F3 - Astra Zeneca. (b) Noerr, Pennington, Walker Process, California Motor, Allied Tube, STCLA, PRE y USSPosco, (c) Sentencia del Tribunal de Defensa de la Libre Competencia N° 47/06 del 5 de diciembre de 2006 (Compañía Minera Cordillera S.A. c. Sociedad Sal Punta Lobos S.A.; y Sentencia del Tribunal de Defensa de la Libre Competencia N° 50/07 del 31 de enero de 2007 (Hemisferio Izquierdo Consultores Limitada c. José Esteban Soler).

¹¹⁵ Rodríguez García, Gustavo M., Más sabe el diablo por viejo que por diablo. El tratamiento legal del abuso de procesos judiciales y procedimientos administrativos" Actualidad Jurídica, Gaceta Jurídica.197 (2010): 319-321. Found at http://works.bepress.com/gustavo_rodriguez_garcia/29, visited feb. 2011, 2011. BULLARD and FALLA, Alejandro, "El abogado del diablo": el abuso de procesos legales o gubernamentales como práctica anticompetitiva", Boletim latino-americano de concorrência 21, p. 104. Found at http://ec.europa.eu/competition/publications/blc/boletin_21_2.pdf. visited feb., 2011.

¹¹⁶ Resolución N° 057-96-INDECOPI/CLC del 8 de abril de 1995, LEBAR S.A. contra Asesoría Comercial S.A. y la Asociación de Grifos y Estaciones de Servicios del Perú - AGESP. Resolución No. 131-2003/TDC-INDECOPI, Maersk Perú S.A. contra Asociación Peruana de Prácticos Marítimos. Resolución N° 037-2005-INDECOPI/CLC de 04/07/2005 (Asociación Peruana de Operadores Portuarios contra Pilot Station S.A.; Resolución N° 0407-2007/TDC-INDECOPI de 22/03/2007.

¹¹⁷ Available at <http://www.indecopi.gob.pe/repositorioaps/0/2/par/leyesclic/dl1034.pdf>

Competition Authority: Non IP Cases

Since 2000, the Competition Authority¹¹⁸ has been receiving allegations of vexatious litigation for anticompetitive purposes. The number of cases where this issue is alleged has been growing.

The Tacographs case

The Tacographs case, decided 18/8/2011¹¹⁹, is the leading precedent¹²⁰. A series of judicial and administrative procedures concerning a local manufacturer was held by the instructing authority as to be prima facies anticompetitive. Respondent, a multinational corporation, had 85% of the market for analogical equipment.

The competitor filing the claim before the Authority entered the market with a digital version of the product. Even after losing a writ of mandamus and a civil action on procedural basis, the Respondent continued to try to oppose the new entrant by a series of other procedures¹²¹.

In any case, when administering the PREI Test¹²², the instructing lower authority (SDE) had manifested its conclusion that

¹¹⁸ The Brazilian Competition System comprises two instructing authorities (SDE, from the Justice Ministry, and SEAE, from the Finance Ministry) and one judging authority (CADE).

¹¹⁹ CADE Process 08012.004484/2005-51. For literature on the case, see TEREPIINS, S., Sham litigation – uma exceção à doutrina Noerr Pennington e a experiência recente vivida pelo CADE, in Revista do Ibrac, vol. XV, nº 1, 2008, p.77 and TAVARES, Filipe Mascarenhas, Sham litigation: abuso do direito de ação. Atos de má-fé e sua vantagem indevida found at <http://jus.uol.com.br/revista/texto/18730/sham-litigation-abuso-do-direito-de-acao/2>, visited Feb, 2011. A separate issue of cartelization was also considered; BOUCINHAS FILHO, Jorge Cavalcanti and BARBAS, Leandro Moreira Valente, Sham Litigation - O Ajuizamento de Ações de Forma Abusiva e o Direito Concorrencial, Revista Magister de Direito Empresarial, Concorrencial e do Consumidor nº 32 - Abr/Maio de 2010. See also MORAIS, Rafael Pinho de, Defesa da concorrência e litigância predatória, <http://4mail.com.br/Artigo/ViewFenacon/003915000000000>, visited 8/12/2011.

¹²⁰ Other cases were appreciated by the instructing authority (SDE): Averiguação Preliminar nº 08012.005610/2008-81; Processo Administrativo nº 08000.024581/1994-77; Averiguação Preliminar nº 08012.005335/2002-67 e; Averiguação Preliminar nº 08012.006076/2003-72 (Baterias Moura).

¹²¹ The Summary of the decision of the instructing authority mentions a number of practices that are recognizable as vexatious/sham litigation, and indicated as such: “práticas tendentes à monopolização ilícita do mercado nacional de tacógrafos, principalmente o exercício abusivo de direito de ação (sham litigations) e o convite à formação de um cartel. A Representante alega que a Siemens estaria se utilizando de um suposto conflito normativo para propor ações judiciais e, assim, levantar barreiras artificiais à entrada e permanência da concorrente no mercado. (...) A Representada estaria abusando de posição dominante, com o objetivo de impedir a comercialização do tacógrafo eletrônico da Representante de três formas: a) Utilização de influência política no Congresso Nacional para obter a revogação das Portarias do Departamento Nacional de Trânsito - DENATRAN, que haviam homologado os tacógrafos modelo SV2001 e SVT-3000, ambos produzidos pela Representante; b) Utilização do conflito normativo existente entre o Conselho Nacional de Trânsito - CONTRAN, e o Instituto Nacional de Metrologia, Normalização e Qualidade Industrial - INMETRO, para propor ações no Judiciário requerendo, com pedido liminar, a suspensão das Portarias do DENATRAN que haviam homologado os tacógrafos eletrônicos produzidos pela Representante. c) Utilização de sua posição dominante para propor convite a cartelizar para que a Representante retirasse do mercado e direcionasse a venda de seu produto para outros mercados. Segundo a Representante, o comportamento da Representada importaria infrações à ordem econômica previstas nos incisos I, II, III e IV do art. 20 da Lei 8.884/94, c/c o disposto no art. 21, inciso V.”

¹²² In an prior case, Averiguação Preliminar # 08012.002673/2007-51, related to use of industrial design rights to prevent manufacturers of automobile reposition pieces to enter the market, SDE has evaluated the prospect of the various actions filed by the design owners (“the actions were legitimate and had a fair chance of success”) utilizing therefore the PREI Test. This case will be further mentioned below.

Nevertheless, a preliminary victory on the merits does not necessarily preclude the [Competition] authority to conclude that it is without foundation¹²³.

SDE also noted that the Respondent has sold its products without homologation from the relevant Federal authorities, what would indicate a conflict of interest that appointed to an anticompetitive purpose of the writ of mandamus and the other suit¹²⁴ that questioned the action of the competitor. Some votes cast by the judging body dismissed this fact as grounds for the application of what would be comparable to the objective prong of the PREI Test¹²⁵.

CADE did find Respondent guilty not of vexatious litigation, but of cartelizing behavior. The important precedent on the issue under study was the confluence in the various votes that there was no Constitutional barrier to find a conduct as being anticompetitive just because it is enveloped within the exercise of a right to redress. An extended analysis of the civil procedure¹²⁶ and administrative procedure¹²⁷ aspects of the case noted that in both codes there are provisions whereby the abuse of procedure is refused; the analysis also noted that the Supreme Court has indicated that the right to redress is not an unmitigated principle¹²⁸.

There was also a majority understating that once a firm has attained dominance in the relevant market, his elephantine behavior would render its exercise of the right to redress in face of competitors particularly sensible. But according to the leading vote, in the case there was no clear purpose of damaging the competitor, by filing the administrative and judicial procedures.

Even when not citing directly the PREI Test, the objective standard was used by some judges, by testing the judicial procedures under a filter of "no reasonable grounds to be found".

Even though Tacographs case is not directly related to IP, it is the leading precedent in sham litigation treatment in Brazil. Note that a series of judicial and administrative procedures concerning a local manufacturer was held by SDE as anticompetitive. Siemens had 85% of

¹²³ SDE Parecer PA ns 08012.004484/2005-51, pp. 43-44. In a prior case where abuse of procedure was raised, the judging authority mentioned (08012.005335/2002/67, voting Luis Fernando Schuartz): "it is within CADE's province to say when the exercise of the right to redress is only a means to carry on a purpose to exclude competitor, or just a consequence of the exercise of the right to petition by someone, whose purpose is to protect some other right of which he deems to be the holder" Some commentators understand that a final decision by the Judiciary would preclude such action: for instance, TAVARES, cit. noted that by proposing this test in the Tachograph case, SDE would be setting aside its prior version of the PREI Test, designed at the Automakers case, and adopting a less exacting one: "...it is observed that the SDE in the case of the automakers, utilized the current North American PREI Test and, based on objective analysis of the feasibility of proposed actions by the automakers decided to opine on the closure of the process. In the second case here, SDE, stressing that even a successful action may be baseless, distances himself from that test, in that it excludes the first hypothesis, which states that the subjective analysis prong can only be reached after overcoming the objective prong. That is, in the case of tachographs, diverging the U.S. earlier guidance adopted, SDE innovates, arguing it can move on to the analysis of subjective intent to cause injury to competition, even if the proposed action with this fund will be victorious on the merit and successful."

¹²⁴ MS 2002.34.00.009410-3, 21Th Federal Trial Court of the Federal District. Docket 2004.34.00.019865-9 at the 3th. Federal Trial Court of the Federal District.

¹²⁵ In a prior case where the issue of vexatious litigation was raised, the inconsistent behavior was indicated as relevant: 0812.005610/200-81, voting Paulo Furquim de Azevedo; "even though there is ineludible right to petition assured to the represented party, its indiscriminate usage and upon inconsistent grounds, as it is reflected in some segments of the briefs, may configure an abuse of right and offense to the economic order, if it results clear that its primary purpose is to obstruct the competition".

¹²⁶ Civil Code Art. 187; Civil Procedure Code, Art. 16 to 18

¹²⁷ Law 9.784/99, art. 4.

¹²⁸ HC 93250, Rel. Ellen Gracie.

market share for the analogical equipment. The competitor filing the claim before the antitrust authority entered the market with a digital version of the product. Even after losing judicial actions, the Respondent continued opposing the new entrant by a series of other procedures.

Some commissioners at CADE refused to use the expression “sham litigation”, as characterizing a specific analysis idiomatic to the US Law, indicating that a separate ground could be found directly in the domestic Antitrust Law:

Art 21, V, Law 8.8884:

“create difficulties for the establishment, operation or development of a competitor company or supplier, purchaser or financier of goods or services.”

As mentioned, CADE eventually condemned the respondent for cartel behavior, not for sham litigation.

Other cases where there was allegation of *sham* not related to Industrial Property ¹²⁹.

¹²⁹ i) Administrative Process nr. 08012.007189/2008-08 Representative: Bann Química Ltda Represented: Dystar Textilfarben GmbH e Dystar Indústria e Comércio de Produtos Químicos Ltda Abstract: Administrative proceeding to investigate alleged predatory pricing in the sector of indigo blue, a dye applied to fabrics, especially denim, denim used in parts. According to the Representation, DyStar, company based in Germany, would be at prices below their cost of the product in exports to Brazil. The behavior was allied to the dumping, which was reviewed and verified by the Department of Foreign Trade, Ministry of Development, Industry and Foreign Trade. In addition, the research also focuses on the denunciation of the practice of sham litigation represented in court that he would be demanding in several countries, the right to use patent protects technology that supposedly already known in the market, which would be damaging the commercialization of product manufactured by Bann Chemistry in Brazil and worldwide. Current status (checked out the site SDE) Technical Note approved Pg. 78. Seção 1. Diário Oficial da União (DOU) de 08/10/2009 (<http://www.jusbrasil.com.br/diarios/900468/dou-secao-1-08-10-2009-pg-78>); (ii) Administrative Process nr. 08012.005610/2000-81; Representative: Viação Oliveira Torres Ltda.; Represented: Empresa Valadarense de Transportes Coletivos Ltda. Abstract: Administrative proceeding to the detriment of the Company Valadarense Collective Transport Ltda. in order to investigate possible harmful effects of the economic order resulting from any improper exercise of the right to petition by the Represented (sham litigation). The representative claimed that the Company Valadarense Collective Transport Ltda. was used for both judicial and administrative expedients by the DER / MG (sectoral regulatory body at the time) in order to prevent the Traffic Oliveira Torres acted within the urban perimeter of the city of Governador Valadares / MG. SDE understand the analysis since the regulation of municipal public transport passengers in Governador Valadares and intercity public transport service for passengers in the State of Minas Gerais is the responsibility of municipal and state authorities, including under express constitutional command, so that there is a substitution for the regulation of competition, and there are active and ongoing oversight of compliance with the obligations imposed. In relation to the alleged sham litigation, EDS understood that the claims had represented the basement, and was even welcomed by the Government and had not thus intended to cause the anticompetitive effects described in the art. 20 of Law No. 8884/94. For these reasons, the Administrative Procedure was filed in September 2009, using craft to CADE; (iii) Proceedings nr.08012.0045752/2007-15 Represented: Amitech Brasil Tubos Ltda. Representative: Saint Gobain Canalização Ltda. Abstract: It is initiated administrative proceedings to investigate alleged anticompetitive conduct in the market for pipes and fittings of diameter for the transport of fluids (water and sewage) pressurized. It was found, in short, to Saint Gobain would be acting in the sense of (a) disclose negative information from the companies sanitation in order to prevent them from acquiring the tubes offered by companies producing tubes reinforced polyester Glass - GRP, and (b) misuse the judiciary and throughout the bidding process for the bidding contest in which GRP pipes are accepted in competition with those of ductile iron ("sham litigation"). Ongoing: Representante apresentou recurso contra decisão que indeferiu medida preventiva (Nº do Processo: 08700.003484/2009-18). (iv) Preliminary Investigation nr.08012.005335/2002-67 Representative: Editora Nova Atenas Ltda. e Ponto da Arte Editora Ltda. Represented: Publicações Ediouro S / A claim that Ediouro had sent notifications, press cancel and distribution agreement signed agreements harm competition. Market Publications hobbies. Educational Services. Determined to constitute the Administrative Process in order to ascertain whether the Ediouro adopted or not - in the period referred to research carried out within the Investigations now examined - practices aimed at excluding competitors from the relevant market that integrates with a view to their domination. Case Developments awaiting the establishment of the Administrative Procedure.

Alcoa Alumínio S.A.

Claim of sham litigation related to industrial design rights with respect to the aluminum profiles for doors and windows. The Represented was filed lawsuits based on industrial designs without anything new, accusing their competitors of piracy without basis in law. Understanding that there were no violations, because there was substantive examination of DIs by the INPI and determined filing.

Dry Color Especialidades Químicas Ltda.

Established to investigate allegations of *sham litigation* practices and predatory pricing in the market for national pigments for thermoplastics. Representative alleged use of the judiciary alleging suspicion of theft of trade secrets. SDE recommended the filing in July/2009 and CADE archived in January/2010 for considering it a case that can not affect the market and considering that in spite of justice prevail the absence of such theft, there were judges who understood that there was evidence of such thefts, that is, the cause would not be *sham*, because the claim was not entirely absurd. Lawsuit filed.

Genzyme do Brasil Ltda. e Genzyme Corporation

Preliminary inquiry established to investigate any complaint about the abusive exercise of the right to petition before judicial and administrative bodies seeking artificially to ensure exclusivity in the marketing of sevelamer hydrochloride, indicated for the treatment of hyperphosphatemia (incident in patients with chronic renal failure requiring hemodialysis), making it difficult to entry similar versions produced by the Representatives.

Cristália Produtos Químicos e Farmacêuticos Ltda.

Preliminary inquiry established to investigate (i) any complaint against the abusive exercise of the right to petition the courts to prevent the supposed Crystal Sevocris market the anesthetic, sevoflurane-based, which competes with Abbott's product with the same active ingredient, (ii) Abbott's strategy of denigrating the image of the product of your competitor with ANVISA to limit competition in the market on the basis of the anesthetic sevoflurane, and (iii) predation Abbott's market based antiretroviral ritonavir.

Competition Authority: The IP Cases

Among the many filings before the Authority alleging vexatious litigation in IP fields,¹³⁰ the first important docket was the Automakers case.

¹³⁰ Other than those analyzed here, (a) Proc. 08012.005727/2006-50, where allegations abuse of registration of industrial designs before the INPI and public announcements of violations by competitors were dismissed. "Preliminary Investigation. Automatic Appeal on Preliminary Investigation. Alleged practice of: i) sham litigation, through filings of registration of industrial design at the PTO, devoid of novelty, in the segment of the aluminum profiles for doors and windows; ii) deceitfulness by announcements to the market, where the accused represented its competitors as engaging in the practice of piracy in regard to profiles which had not even been registered, and refusal to sell, all in accordance with art. 2, II, c / c art. 21, IV and XIII of Law 8.884/94. Violations not configured. Examination of the merits of designs effected by the PTO. Announcements defends the right of profile lines of trademarks belonging to the respondent party. Charges of refusal to sell not founded. Vote for archiving." (b) In the Ediouro case (Averiguação Preliminar nº 08012.005335/2002-6) the use of cease and desist letters and court actions alleging copyright and unfair competition violations was raised as abusive; the Judging Authority resent the issue for

[Footnote continued on next page]

Anfape case

From 2000 on, some corporations manufacturing automobile products started to file for protection of the industrial designs covering the visual portion of their products. Some court actions were filed on the basis of such registrations which caused reactions from the manufacturers of reposition parts not theretofore submitted to such kind of exclusion. Eventually, such competitors through their trade association resorted to representing the automakers to the Authority.¹³¹

SDE's decision

SDE, as the instructing Authority found that no violation was to be pointed out in the case; even though an abusive acquisition of IP rights is generally had as anticompetitive device to be examined by the competition authorities,¹³² in this circumstance no such abuse was even alleged.

The lower decision found that IP rights not necessarily create market power and even in those cases where this occur, and higher prices to consumer is verified, a pro-competitive stream may be identified in terms of dynamic competition and incentive to investment; at the case under analysis, the use of court actions to exert IP rights was not found to be contrary to competition rules, considering inter alia, that the suits have been successful in court.

Some commentators noted that by requesting here that the procedure to be anticompetitive should be utterly baseless, SDE would be proposing a self-defeating mechanism, which would nullify the efficiency of objective branch of the two- pronged test provided under the precedent

[Footnote continued from previous page]

further examination by SDE in April 18, 2007, no action is reported since then. (c) 0812.011615/2008-08, filed Dec. 5, 2008 by Cristalia, a Brazilian Pharmaceutical Manufacturer, against Abbott Laboratories Inc. and its Brazilian subsidiary, alleging predatory behavior through court procedures and administrative procedures in Brazil and other Latin American countries; no decision issued to date. (d) Case 0812.007147/2009-40, where it was alleged to occur sham litigation in a series of suits related to patents; this procedure where a close PREI Test was employed (but utilizing the "masking" formula), is under confidential treatment and therefore cannot be fully reported. (e) Vargas Marcas e Participações Ltda represented against Nielly do Brasil Industrial Ltda. on the basis of undue use of trademark rights; this case is in its initial phase. (f) Pro Genericos, an association representing some of Brazilian pharmaceutical manufacturers, have represented against AstraZeneca on the grounds that it have been litigating to prevent the Anvisa, the Drug regulatory agency, from issuing licenses to marketing drugs even before the expiry of the patent, whereas was issuance was not prevented by law. Other procedures where vexatious/sham litigation issues were raised: AP 08012.005610/2000-81, AP 08012.005335/2002-67, AP 08012.004393/2005-16, AP 08012.002673/2007-51, AP 08012.011508/2007-91, AP 08012.013624/2007-44, Ap 08012.007189/2008-08, 08012.0045752/2007-15 AP 08012.007147/2009-40.

¹³¹ Averiguação Preliminar N° do Processo: 08012.002673/2007-51. Parties: Associação Nacional dos Fabricantes de Auto Peças – ANFAPE x Fiat Automóveis S.A., Ford Motor Company Brasil Ltda, Volkswagen do Brasil Industria de Veículos Automotores Ltda.

¹³² In a 1997 case, the Judging Authority decided that though the fraudulent acquisition of a trademark is not by itself anticompetitive, the exercise of the resulting rights in such a way as to obtain a market share by excluding competitors may be so. Averiguação Preliminar nº 08000.022244/94-36, de 6 de agosto de 1997, Representante: Bodygard Benton Importadora, Exportadora, Representações Ltda., Representada: Benton Plastics Inc. e outras. In DOU de 19 de agosto de 1997, Seção I, pág. 17900. Summary: PATENTS AND TRADEMARKS - FRAUDULENT ACQUISITION OF PATENT OR TRADEMARK - Lack of Jurisdiction by CADE. Obtaining or attempting to obtain trademark or patent by fraudulent means is not in itself a violation of the competition. (...) "The exercise of rights in marks obtained by fraud and in order to amass market share excluding other competitors is that it can become competitive in order to offense." Abstract: Termination of contractual exclusivity of sale in Brazil. Lack of economic infraction..

of the US Supreme Court. It was felt that by acknowledging such stringent standard the judging authority had established a difficult precedent.¹³³

SDE remarked furthermore that the possible change in the IP laws to adjust the national legislation to foreign standards that prevent the reposition market from the effects of industrial designs would be the responsibility of the Legislative Power.

CADE's decision

The finding by SDE that no vexatious litigation has occurred was subjected to an automatic appeal to CADE; the opinion of the Federal Prosecutor's office attached to CADE was in favor of the representing party for a number of grounds.

The decision of CADE¹³⁴, even though refusing the argument of vexatious/sham litigation, indicated that both the acquisition of IP rights by registration and its exercise could be subject to examination under competition rules. Such rights could be substantively assessed as to its actual balance of benefits and anticompetitive effects in the material circumstances of the cases.

Considering the Constitutional provision that subject the Industrial Property rights to the social interest and the purposes of economic and technological development¹³⁵, the decision failed to find such objectives fulfilled in the exercise of industrial design rights in the reposition market. Considering the balance of rights and obligations, the decision identified a disproportion between the exclusion rights and the competition and consumer interests, and recognized a possible violation of the antitrust law.

The decision refused the thesis that no refusal of exercise could be imposed to the industrial design in the lack of compulsory license under the relevant treaties; if an abuse were to be found, the Authority could prevent the automakers from exercising exclusionary rights in the reposition market. There is no antitrust immunity for industrial designs and albeit the PTO is not empowered to examine such issues, the Authority is. The case was sent again to the instructing authority to examine the possible abuse of dominant position.

Although dismissing the sham/vexatious litigation argument, the decision seems to inaugurate a trend whereby, even considering the potential pro-competitive effects of IP, the analysis should not be shy of assessing the efficiency of its exercise in the facts of the specific case.

This case is of singular importance as it deepened the discussion on the interface between Intellectual Property and Competition Policy.

Rafael Morais (2011) commenting the leading vote observes that, preliminarily, the Commissioner dismissed the importance of discussing the legitimacy of Anfape as a litigant, since "the fact brought to the attention of the Administration, it can and should act in office, if necessary, the process leading up to its outcome, independent of existing or not active legitimacy of the Representative." (item 13). The right to be protected by diffuse BCPS must take precedence over any discussion of the competence of the private entity to represent.

¹³³ Tavares, cit.: "It held that [the allegation of] sham litigation must be interpreted with care, otherwise it would create an environment of insecurity, in which any dismissal of lawsuit by the judiciary would cause the possibility of claiming abuse of antitrust law. Thus, the parameter that must be pursued to examine whether the practice is one of sham litigation is the recognition that the judicial review sought not only fully and completely lacking in fundamentals, but there is also an activity that predominantly aims to deceive the court to reach the hidden purpose of harming the competition."

¹³⁴ Leading vote of Carlos Emmanuel Joppert Ragazzo, of 12/15/2010.

¹³⁵ Constitution, Art. 5th, XXIX.

Following Morais analysis: “ the vote explains about the broad access to the participation of interested parties, provided that there is a healthy "practical utility aimed at obtaining new evidence," without generating any obligation for the Administration with respect to such third parties (such as duty to subpoena procedural acts, for example). Here we see healthy concern about costs and benefits in consideration of constitutional principles.

“The first crucial point appears in item 35 of the vote, which states that there are two possibilities of anticompetitive conduct associated with IP, on a "fraud and abuse in the procedure for registration of industrial property right" and another on the "abuse of the holder in the exercise obtained the right for him. " There appears clear disagreement with the SDE, which said only BCPS intervention fit the first type.

“In the item 39 it is avoided an unnecessary controversy in this case, by claiming to treat the second set of pipes "no necessary relation to the validity or invalidity of the registration of procedural law." Item 41 of the vote adds that "abuse of dominance by one firm holds a patent or other intellectual property rights" may be effected "by other means outside the scope of agreements." That means, anticompetitive uses of IP are not limited to abuse and fraud in the records or issues that require analysis of the validity of the rights in question, or agreements or collusion - the type agreements with reverse payments.

The abuse of rights takes shape when exercise goes beyond the socio-economic purpose that justifies its existence (item 45). Represented by the exercise of their rights (valid) FIAPs set this against the abuse (Item 52), which is "exclusionary unilateral conduct" or "abuse of dominant position to limit, or create difficulties, prevent the performance of competitors in this market, to the detriment of the competitive environment" (item 54).

Morais notes that “the vote of the Commissioner in the case stood in line with international jurisprudence and literature on the importance of the underlying purpose of the rule establishing IP rights: "The essential basis for measuring improper, therefore, are the economic and social purposes bolster the prediction that right. "(item 58).”

The Shop Tour case

Shop Tour is a producer of TV programs pushing consumer products to viewers. Initially broadcasting late in the night, eventually it obtained a UHF channel in São Paulo.

In a series of court actions where copyright exclusivity was alleged over any TV sales format, Shop Tour obtained preliminary orders to prevent competitors from exploiting its market niche. However, in most cases final adjudication was adverse, as the alleged copyright grounds were not convincing to the trial or appellate courts. After nine successive losses¹³⁶, a member of the Federal lower chamber represented to the Authority arguing abuse of right to petition with anticompetitive purposes.

SDE's decision

The instructing authority indicated as the pertinent criteria to assess the illicit content of the acts the following: that irrespectively of intent it should have as purpose or is liable to produce any effect that is a violation to the Brazilian Antitrust laws. But it excluded violation in this specific case as the represented party only had used the judicial means at its disposal, and in some lower instances the result was not adverse.

Furthermore, Shop Tour's clients were not contractually prevented from hiring other purveyors of the same service. The Prosecutor offices followed such understanding of the Authority.

¹³⁶ Other possible vexatious litigation cases were listed by the Authority but disregarded in the decision.

CADE's decision

The judging authority, however, took other direction. After stating that the right of petition is solidly ingrained in the Brazilian Constitution, Commissioner Ragazzo cites the Noerr doctrine and both the PREI Test and the Posco standards for multiple petitions; the Schein case on negotiated relinquishment of rights by defendants; and the AstraZeneca European case.

As to the Brazilian precedents, the precedent mentioning "inconsistent" behavior as grounds for determining abuse of right to petition was cited¹³⁷, as well as the Baterias Moura case¹³⁸ where it was stated that an abuse of petition case could appear at the presence of a series of evidence, namely, (a) the plausibility of the grounds offered; (b) the truthfulness of the information offered (c) the adequacy and reasonableness of the means utilized and (d) the probability of success of the petition. Both instances where the abuse of petition was nominated as "sham litigation"¹³⁹ and where the expression was expressly rejected were mentioned.

As an initial finding of law, the decision states that using or not the "sham litigation" model, it would seem clear that the right to petition was not immune to antitrust concerns, and that the reasonableness of the grounds offered to exercise the petition was a central aspect of the issue, whenever alleging an Intellectual Property right.

The analysis therefore concentrated on the copyright basis of the case; the respondent in all cases indicated a copyright registration as the fundament of its title. Under domestic law, however, registration is not mandatory and remains unexamined. The utilization of this empty title to base the range of suits was thus held as abusive. The vote also indicates a series of provisions of the copyright law that, according to the Commissioner, would be directly violated by the abusive exercise of the petition. A number of court precedents deciding on the inexistence of copyright protection for TV formats were likewise mentioned, to stress that the grounds were "fragile"¹⁴⁰.

In a rather sudden leap, the vote takes from the fragility of the grounds a sign of bad faith. Some judicial precedents on civil procedure abuses were offered as basis; especially a decision of the Superior Court of Justice¹⁴¹ where it was stated that it is a bad faith litigant whoever petition against literal text of law in order to renew an already judged suit many times. Therefore, by repeating the same petition and hiding from the courts the series of prior adverse judgments, the respondent would have violated the art. 17 of the Code of Civil Procedure, which covers the abuse of procedure.

The vote then differentiates the facts at stake from what occurs with patents and plant varieties, where the exclusivity granted correspond to some social benefit. In the case under analysis, there would be no such bargain and the basic Constitutional balance was therefore frustrated with clear efficiency damages. The alleged exclusivity was not asserted on any expressive form, but on the general idea of utilizing TV programs to sell products. Upon such rogue

¹³⁷ Averiguação Preliminar nº 08012.005610/2008-81.

¹³⁸ Averiguação Preliminar nº 08012.006076/2003-72. The leading vote also mentions as direct precedents Proc. 08012.005727/2006-50 and the Tacographs case (Process 08012.004484/2005-51).

¹³⁹ Quoting the vote of Commissioner Mattos in the Tacographs case: "abuse of right is not enough to characterize sham litigation".

¹⁴⁰ It is necessary to note that in a non-stare decisis system as in Brazil, such decisions are not binding, only indicating a trend of the case law; factually, this trend was neither uniform nor determinant.

¹⁴¹ In the Brazilian system, this court is in charge of unifying the application of Federal law, on a non-constitutional level.

grounds and by causing steep transaction costs through preliminary orders there was an anticompetitive effect.

Under the current law (vote p. 1863) this effect may be held illicit: (a) irrespective of intent, when there is an objective risk of violating any of the provisions of art. 20 of the Antitrust Law; or (b) whenever intent of causing such effects is demonstrated. In such case, bad faith was evident from the vast number of litigations filed against relevant players.

Even after dispensing with the objective risk standard by concluding that intent was clearly present, the vote goes on by indicating that not only risk but effective violation occurred. And this happened after a series of what the vote considered (in English) “objective baseless claims”. The vote ends by citing the Tacographs case:

What is legally unacceptable, and herein lays the distinctive sign of judicial predation, is that the Plaintiff’s efforts are directed not to win the competitor on merits of the case, but to defeat him or harm him in the arena of business by collateral damage stemming from the existence of the process.¹⁴²

An analysis of Shop Tour

As the first clear cut sham/vexatious litigation case dealing with IP rights in Brazil, this case deserves special attention. As in a number of prior cases, the instructing authority failed to see any illicit behavior in the succession of repeated suits alleging IP rights, even though in all relevant cases the final judgment was adverse to respondent.

CADE however, by utilizing the Civil Procedure standard of bad faith litigation, especially by reiterating filings, and identifying in the facts of the case both a purpose and an anticompetitive effect of the use of preliminary orders¹⁴³, found unacceptable such behavior. In these circumstances, the PRE and Posco tests were mentioned, among other domestic precedent, just to indicate the adequacy of its procedure as generally acceptable Competition Law device.

On the other hand, the case cannot be extricated from the Automakers decision (decided within three days of Shop Tour), where a rather revolutionary change of trend towards IP rights is apparent. Even though an analysis of efficiency was noticeable in prior consolidation cases¹⁴⁴, no such focus (or at least, with such deep inquiry on the specifics of the exercise of Intellectual property exclusives) had happened before in the Authority case law dealing with unilateral behavior.

Rafael Morais (op. cit.) analyses this case as follows:

“As concerns the conduct of sham litigation itself, the object of the administrative process at stake, the vote made it clear that there is no antitrust immunity to the right of petition. This goes thus hand in hand with the international trend – which was also embodied in the caputs of

¹⁴² Commissioner Chinaglia “O que é juridicamente inaceitável, e aqui reside o sinal distintivo da predação judicial, é que os esforços do autor da ação estejam voltados não para vencer o concorrente no mérito do feito, mas para derrotá-lo ou prejudicá-lo na arena dos negócios por meio dos danos colaterais advindos da própria existência do processo”.

¹⁴³ It must be noted that in the Brazilian environment, the frequency of such preliminary orders is by no means a direct effect of the TRIPs provision requiring such procedural mechanism in IP cases. Like orders and granted all over the board, and in an extremely easy manner.

¹⁴⁴ For instance, in the Colgate/Kolynos case, leading vote of Commissioner Lucia Helena Salgado.

Articles 20 and 21 of L. 8884/94 – to worry less about the name of the conduct or terminology used for framing it and more with its effects on the competitive environment."

"Note also the interesting passage below, where the characterization of an anti-competitive behavior seems to require repeated or iterated practice. Despite the numerous injunctions and even final first instance decisions on the merits in favor of the Represented firm¹⁴⁵ – which motivated the recommendations for not pursuing the antitrust investigation – the vote chose another path. It also emphasized the concealment or omission of judicial precedents contrary to the claim of the party - which seems quite questionable from a legal standpoint, despite the mention to provisions regarding bad faith litigation in the Code of Civil Procedure (CPC) and the case law cited in the vote. The illegality of the conduct becomes stronger after the vote mentions the judicial decision of Minister Ruy Rosado in 1997, a final one in April 1997, and opposite to the claims of Box 3, which did not hinder the abundance of subsequent actions.

The vote is still emphatic in not questioning the understanding raised in courts on the specific matters involved in the administrative process - preferring the argument around the error (of the judiciary) induced through bad faith (of the represented firm). It is as if the courts had decided correctly given the information provided to them.

It is therefore a first case of conviction for predatory or fraudulent litigation (sham litigation) through an antitrust administrative procedure in Brazil, representing an important precedent for future cases - particularly those currently being investigated by SDE in the pharmaceutical industry. It was necessary in this Shop Tour case to survey the history of all lawsuits with the same cause of action in order to characterize the misuse of the right to petition. It constitutes therefore an interesting precedent for the methodology of analysis in future cases of anticompetitive litigation as it was necessary to raise the relevant lawsuits and their results in order to characterize and bring to conviction the practice of using the judiciary in an anticompetitive manner. The remaining open question is whether the judiciary itself will agree with the characterization of the (anticompetitive) abuse of the right to petition, in case of judicial review of the administrative decision. At the same time, this was a first case in which CADE makes a point as concerns the quality of the intellectual property right claimed by questioning its scope according to precepts of Intellectual Property Law itself. It is noteworthy that such an attitude was not so problematic in this case thanks to the merely declaratory nature of copyright. Since there is no examination by INPI (the Brazilian PTO) for the IP in question, there was no argument concerning conflict of jurisdiction, nor can there be a claim for judicial review on these grounds."

Summarizing this case, considering its importance, Shop Tour is a TV channel specialized in pushing products to viewers and alleged in a series of court actions copyright exclusivity over any TV sales format, obtaining preliminary orders to prevent competitors from exploiting its market niche. However, in most cases, final adjudication was adverse. After nine successive losses, a member of the Federal lower chamber represented to the Competition Authority arguing abuse of right to petition with anticompetitive purposes. SDE's instruction rejected the argument of sham litigation but indicated that both the acquisition of IP rights by registration and its exercise could be subject to examination under competition rules; Considering the Constitutional provision that subject the Industrial Property rights to the social interest and the purposes of economic and technological development, CADE's decision failed to find such objectives fulfilled, identifying a disproportion between the exclusion rights and the competition and consumer interests, and recognized a clear violation of the antitrust law.

Definitely, it was the first clear cut sham litigation case dealing in IP rights in Brazil. However, in face of the stringent patterns of sham litigation doctrine, Cade utilized the Civil Procedure standard of bad faith litigation, especially by reiterating filings, and identified in the facts both a

¹⁴⁵ Box 3, the firm running the sales program Shop Tour and holding copyrights on it.

purpose and an anticompetitive effect of the use of preliminary orders. CADE thus found unacceptable such behavior.

Packaging case

In this ongoing administrative process, established to investigate evidence of cartel formation (division of customers and pricing) between companies in the flexible packaging market, especially in the gravure printing segment, with the alleged involvement of associations representing the sector (ABIEF and ABRAFLEX).

A Commitment Termination of Practice was proposed, without acknowledgment of guilt with thirteen of the thirty-two represented. It was rejected for lack of compliance with requirements including the amount of fines and it would not solve the issue before the other. There was not enough recognition of the practice and guilt because it aimed hinder prosecutions¹⁴⁶.

Other verified cases in the national jurisprudence

Credichecke case

This is an appeal against a sentence of first instance that condemned the Bank of Brazil for trademark infringement related to the brand Credichecke, owned by Credichecke Banking Services, which acts against the economic order and hoarding intellectual property.

Rapporteur informs that Bank of Brazil used abusive and unduly Credichecke company's brand. As noted in the judgment, Credichecke has even presented the product and formally invite the Bank of Brazil to join the new company's business with the same name.

It happens that the Bank of Brazil after learning the product and being aware of its brand, presented similar product for their customers and called it Credichecke. There was also a meeting with Credichecke to introduce the new product, called "Credichecke." The Rapporteur informs to be aware of the violation, not prevent the use of brand and trade marks with the same name of INPI. The Magistrate called such bank conduct "spiteful".

It also informs that, in the action filed by Credichecke, the Bank of Brazil has acted malicious and in violation of the principle of speedy procedures, procrastinating the actual process. The Rapporteur argued the process that should have no more than two volumes already had six, due to procrastinating bank acts.

The Magistrate found that the attitude of the Bank of Brazil violated the economic order, in accordance with Article 23 of Law 8884/94 and that the bank should pay for damage caused to

¹⁴⁶ (Process no. 08700.005281/2007-53 Eduardo Suplicy x ABIEF – Associação Brasileira de Embalagens Flexíveis; ABRAFLEX – Associação Brasileira dos Fabricantes de Embalagens Laminadas; Inapel Embalagens Flexíveis Ltda.; Itap Bemis Ltda. (answering for himself and for Alcoa Alumínio S.A. – divisão de embalagens); Converplast Embalagens Ltda.; Celocorte Embalagens Ltda.; Embalagens Flexíveis Diadema Ltda.; Peeqflex Embalagens Ltda. (Current name of Empax Embalagens Ltda.); Santa Rosa Embalagens Flexíveis Ltda.; Shellmar Embalagem Moderna Ltda.; Industria Comercio Plasticos Zaraplast Ltda.; Alcan Embalagens do Brasil; Canguru Embalagens S.A.; Tecnoval Laminados Plásticos Ltda.; Bafema S/A Indústria e Comércio; Rodrigo Amado Alvarez; Alberto Carlos da Silva Carvalheiro; Victório Murer; João Abatepietro; Sérgio Hamilton Angelucci; Márcio Viviane; Nicolau Baladi; Sérgio Haberkfeld; Synésio Batista da Costa; Eduardo Belleza; Marco Antonio Ferraroli dos Santos; Adão Parra; Helio Robles de Oliveira; Walter Schalka; Ronaldo Cappa Otero Mello; Nelson Fazenda; Roberto Tubel.) There was verification of evidence against 32 individuals and companies and conducted search and seizure.

the company Credichecke an amount equivalent to 5% of the gross revenues in its last financial year, adding an amount the value of the conviction of first instance.

In the remaining aspects, the Judge understands that the sentence of the first degree should be held to condemn the Bank of Brazil for trademark infringement and acts against the economic order.

Monsanto case

It is an action proposed by the COOPERATIVA TRITÍCOLA MISTA CAMPO NOVO LTDA. – COTRICAMPO in face of the MONSANTO DO BRASIL LTDA and MONSANTO TECHNOLOGY LLC. Plead the author that the market domination perpetrated by the defendant be recognized and declared as abuse, condemning it in loss and damages, and be declared unenforceable the collection for production and marketing of soybeans by the author and his associates.

The author claims that the defendant was charged along with the price of a bag of coffee value as compensation for an inappropriate use of the seed of the defendant. According to the author such action would set abuse and anti-competitive practice, since the defendant has market dominance of seeds.

The defendant argues that the process stating that only charges the price in extra bags of seed on the indemnity basis; why not find another way to collect royalties due the use of their seeds, their object of patent ownership. And what if he went to court to activate each offender would be thousands of shares. Argue that made several meetings with agencies and unions representing the category and got no satisfactory answer to resolve the issue.

Once cleaned up the process, as well as overcome the preliminaries, the federal judge of the 16th Civil Chamber considered that:

- (a) It remained in the record proved that the patents were owned by defendant;
- (b) Producers, including the plaintiff, used the patents in an unauthorized manner and without paying anything for it;
- (c) The defendant should receive royalties from producers by using their patented seeds;
- (d) The defendant, however, could not charge such arbitrary value. Those values would be abusive. That would require that impartial bodies or producers with defendant arbitrate such value after careful study.
- (e) The author was not all wrong in his claim, once the Magistrate recognized that he should not pay the amounts charged arbitrarily.

The case was judged according to the above conclusions:

That is why I conclude that both maker and stern have partly right: the defendants because of payment for the use of soybean developed, including the participation of the author, who is also interested in the production chain, and the author is right because doesn't agree with the amount established by the defendants.

The solution that I have as a good solution to the dispute, is in part to accommodate the request of the author, not to declare the illegality of the collection system but to be defined and established the fair value, through the competent settlement through arbitration observed the maximum limit already recognized by the defendants as sufficient and appropriate. The time limit for the incidence of any lower value determined in relation to the author is the date of service of this defendant Monsanto made.

In conclusion, ruling out the preliminaries, I partially uphold the appeal to uphold the feat, considering that the amount owed to defendants per bag of soybeans is determined on the settlement by arbitration award, away from the fine established before.

Having fallen the two parties, I condemn both the payment of legal fees and payment of attorneys' fees from opposing parties, the amount already specified in the award, \$ 10,000.00, updated since the date of the decision by the IGP-M."

A note on the requirement of a subjective intent in Brazilian Competition Law

Borges Barbosa, in 1982¹⁴⁷, so anticipated the issue:

Subjective Element

It is a matter of minor significance for the analysis of contracts "know how", but useful for configuring the abuse of economic power, the notion of the subjective¹⁴⁸ element of the offense punishable by Law 4.137/62. Schieber, after considering the possibility of classifying such an element as "intent", abandons the strict criminal law glossary concept, by saying:

"Antitrust law does not address moral acts, as is said about crime, the anti-judicial nature of which which is recognized by every member of the community".

The author's reasoning is based on an assumption, issuing from the wording of art. 148 of the 1946 Constitution, that a conscious will directed to the abusive effect was indispensable. Schieber expressed his view that it would be better to target social benefits, that no such requirement were to be required, and that violation should result from simple willingness, as in the case of misdemeanors.

As Schieber, Alberto Venancio Junior¹⁴⁹ understood that the specific intent was inessential element of some of the forms provided in the Law 4.137/62:

"In several of these enumerations the Act imposes the existence of specific intent (*dolus*), ie, the purpose of achieving a certain result or special purposes as determined in the acts defined by law. Thus, there would be abuse of economic power only the act, setting, or agreement between companies, when intended to dominate markets or eliminate competition, to provoke monopolistic conditions or to exercise improper speculation in order to promote the temporary rise in prices."

The first of the cases submitted to CADE was decided with special care to define the existence or not of intent. The vote of the Rapporteur mentions "animus, intended to aggravate the difficulties of the CNA" and also "the purposes mentioned, that substantiate the abuse of economic power." Analyzing the relations between the then president of the state enterprise, the victim of abuse, and alleged offenders, the process comes to worrying about the "warmth" that

¹⁴⁷ Barbosa, D.B., Know How and Economic Power, a LL.M Thesis found (in Portuguese) at <http://www.denisbarbosa.addr.com/arquivos/200/concorrenca/disserta.doc>.

¹⁴⁸ SCHIBER, Benjamin, Abusos do Poder Econômico, Ed. Revista dos Tribunais,

¹⁴⁹ VENANCIO FILHO, Alberto, A intervenção do Estado no domínio econômico (1968)

existed between them, and examine whether there was "any action to undermine the CNA." Also in 1971, the Director of Gratuliano Brito examined whether a company accused of abuse was created with the sole purpose of fighting and creating problems for another. However, it should be noted that with the Constitutional amendment No. 1 of 1969, the Constitutional requirement that Schieber referred to no longer exists. Indeed, the current wording does not contain the prior legalistic approach, that under the previous Constitution, provided for responding to an abuse of economic power when it has as its *purpose* obtain control over markets, achieve the elimination of competition or attain an arbitrary increase of profits. It should be understood, therefore, that, except for cases in which the Law 4.137/62 expressly provides otherwise, is not objectionable interpret the provisions of the control of economic power to the exclusion of the intentional subjective requirement¹⁵⁰.

As demonstrated in the Shop Tour case, analysis of intent is not actually irrelevant to Competition Law cases. It seems to be clear that, in order to stop an anticompetitive behavior, by means of any form of interdiction, no demonstration of intent is required. By examining essentially the efficiency of the behavior in face of the wellbeing of the society, what the law requires is an objective choice, and voids a noncompetitive one.

However, art. 27 of Antitrust Law bring out the nature of intent as the instrument to measure of punishment by administrative means¹⁵¹; the Antitrust Criminal Law¹⁵² requires not only general intent, but specific criminal intent (*dolus malus*) for classifying an anticompetitive act as a felony. Furthermore, as indicated in the Shop Tour vote, the presence of bad faith would preclude the need to demonstrate the risk or effectiveness of anticompetitive result¹⁵³.

Therefore, even though under Brazilian Competition Law the second (subjective) prong of the PRE/Promedia test would seem to be difficult to fit, intent is not irrelevant. By evaluating the first prong of those tests from the perspective of Civil Procedure abuse of petition, the decision of the Shop Tour case (and, in a slightly lesser grade, Tacographs) brought in an "intent" qualification, not as a purpose to violate the competition laws, but - in the first prong of the test - as the will to violate the Civil Procedure requirement of good faith. In economic terms, it was identified the objective of creating difficulties to a rival, which means, we suggest that the convicted conduct in this case in Brazil was a type of predatory conduct. This should be a path

¹⁵⁰ This 1982 analysis of the 1961 Law was eventually confirmed by FRANCESCHINI, José Inácio Gonzaga. *Ensaio Reunidos*. Ed. Singular, São Paulo, p. 125. However, the 1988 Constitution reinstated a wording "with a purpose to ..." at its art. 174 § 4, what led to a Constitutional claim (ADIN 1094), not yet judged by the Supreme Court, that argues that the "irrespective of intent" clause of the Antitrust Law in force to be unenforceable. Some authors, however, find the "no intent required" clause grounded in other Constitutional provisions: "É curioso como se pode ter o questionamento da constitucionalidade, ou inconstitucionalidade, da Lei nº 8.884/94, no aspecto da responsabilidade sem a investigação da culpa, quando se lê o artigo constitucional 173, § 4º. A Constituição determina a intencionalidade, dolo, do ato ou da omissão, ao usar a expressão "que vise a". (...) A legislação antitruste brasileira corrente - Lei na 8.884/94 - ao deixar de lado a exigência do dolo, mas sim prever a desnecessidade de investigação até da culpa, não se alicerçou apenas no artigo constitucional 173, § 4º. Não. Fundou-se, antes, na regra ampla do artigo constitucional 174, caput, pela qual, é possível, estabelecerem-se normas de direito administrativo, sustentadas nos princípios gerais da ordem econômica constitucional, inclusive, não se discute, em um princípio de repressão do abuso anticoncorrencial, extraído do artigo constitucional 173, § 4º." CARVALHO, Gilberto de Abreu Sodré. *Responsabilidade Civil Concorrencial*. Introdução ao Direito Concorrencial Privado. Rio de Janeiro: Ed. Lumen Juris, 2002. P. 23-36.

¹⁵¹ Article 27. The penalties provided for in this Law shall apply with due regard for: (...) II - the violator's good faith.

¹⁵² Law 8.517.

¹⁵³ See Santos, Marcel Medon. *A regra-matriz de incidência antitruste para condutas anticoncorrenciais*. Rev. direito GV [online]. 2008, vol.4, n.1 [cited 2011-06-11], pp. 65-95 . Available from: <http://www.scielo.br/scielo.php?script=sci_arttext&pid=S1808-24322008000100005&lng=en&nrm=iso>. ISSN 1808-2432. doi: 10.1590/S1808-24322008000100005.

to take in order to deal with several filled cases, worldwide, all of them dismissed because of the stringent pattern of PRE/Promedia test.

As we will see below, in the current case law, there is actually a requirement of specific subjective intent in a singular action filed with anticompetitive purpose, as a means to overcome the Constitutional protection to the universal right of petition. By assimilating the Civil Procedure rules within the competition reasoning, Shop Tour has followed such case law.

However, as we are dealing here with a multiplicity of cases with the same purpose (even though filed against distinct defendants) it would be arguable that no demonstration of bad faith would be required under the Civil Procedure standards.

The abuse of procedure in Brazilian Law

The Brazilian Code of Civil Procedure holds liable the party who claims before a Court in bad faith:

Article 16. It is liable for losses and damages whoever claims in bad faith as a plaintiff, defendant or third party intervener.¹⁵⁴

The literature does not require economic damage to the other party to recognize this liability; the protected interest is basically the functioning of the judicial machinery¹⁵⁵; the case law, however, requires the demonstration of damage to the other party¹⁵⁶.

The literature also mentions that the qualification of bad faith in this context is that it would not require necessarily a demonstration of subjective intent. The notion also covers the objective good faith that is a conformation of the parties to the standard of "acting as acts a straight man: with honesty, loyalty, honesty"¹⁵⁷. This objective standard includes (a) the duty of loyalty, avoiding unfair behavior; and (b) a duty of adequacy of behavior to the judicial environment.

Therefore, even though some authors - and the majority of case law - do require a subjective intent for demonstrating this procedural violation¹⁵⁸, this is not a uniform view.

According to a leading case, for characterizing this procedure behavior as being illicit it would be necessary not only specific subjective intent, but also that such intent would be perfectly identifiable by a naked eye, in order to preserve the Constitutional protection of the right to petition¹⁵⁹.

In a number of cases, the bad faith may be acknowledged¹⁶⁰: when a party (a) raises claim or defense against express text of law or uncontroversial fact; (b) changes the true facts; (c) use

¹⁵⁴ Art. 16. Responde por perdas e danos aquele que pleitear de má-fé como autor, réu ou interveniente.

¹⁵⁵ ANDRADE, Valentino Aparecido. Litigância de má-fé. São Paulo: Dialética, 2004, p. 147; Buzaid, Alfredo. Estudos e Pareceres de Direito Processual Civil. São Paulo: Revista dos Tribunais, 2002, p. 38.

¹⁵⁶ STJ, as in RJSTJ 135/187, 146/136.

¹⁵⁷ Martins Costa, Judith. A boa-fé no direito privado. São Paulo: Revista dos Tribunais, 1999. p. 411

¹⁵⁸ For instance, Nery Junior, Nelson E Nery, Rosa Maria Andrade. Código de Processo Civil Comentado. São Paulo: Editora Revista dos Tribunais, 8ª Ed., 2004, p. 4. STJ has required demonstration reckless and malicious intent in Resp. 418.342, 3rd. Chamber, decided 29/10/2002.

¹⁵⁹ In the Resp. 906.269, decided 29/10/2007, STJ 3rd. Chamber stressed that not only intent but specific *dolus malus* would be required, to defeat the Constitutional status of the right to petition.

¹⁶⁰ Art. 17. Reputa-se litigante de má-fé aquele que: I – deduzir pretensão ou defesa contra texto expresso de lei ou fato incontroverso; II – alterar a verdade dos fatos; III – usar do processo para conseguir objetivo ilegal; IV – opuser resistência injustificada ao andamento do processo; V – proceder de modo temerário em qualquer

[Footnote continued on next page]

the process to get illegal purposes; (d) opposes unjustified resistance to the handling of the case; (e) acts recklessly in any incident or act of the process; (f) causes incidents manifestly unfounded; (g) appeals with the clear intention of procrastinating. There is case law to the sense that those cases are exhaustive¹⁶¹.

The case law, however, understands that the reiteration of cases with the same purpose, especially when claim preliminary remedies is denotative of bad faith¹⁶²

The most relevant item is (c), to use the process to reach an illegal purpose. As the literature says, "is the purpose to go to court in order to harm the opposing party"¹⁶³. Here is a unilateral purpose, as when there is collusion other provision would apply¹⁶⁴. This illegal purpose is not just acting against the law, but it

regards the intention of harming those who someone is litigating against, causing losses through the process, as for instance a decline in creditworthiness, impacting its credit, causing shame, etc.¹⁶⁵

Therefore, it could be understood that a sham/vexatious litigation could be found under Brazilian Civil Procedure Law (satisfied the subjective and damage requirements) whenever the use of the right of procedure was directed to cause anticompetitive harm.

The practice of abuse of judicial procedure in IP cases

Taking into account that the Civil Procedure standards of bad faith were taken into consideration not only in Shop Tour but, in obiter dicta, also in various other vexatious/sham litigation cases judged by the Authority, it seemed interesting to check how frequent those standards were applied to IP cases appreciated within the Judicial system, but not brought to the attention of the Competition Authority.¹⁶⁶

For such purpose, an extensive research was entertained in the State Courts of São Paulo, Rio de Janeiro, Minas Gerais and Rio Grande do Sul, where most IP cases are dealt with, the Federal Regional Courts, the Superior Court of Justice and the Supreme Court. All cases where the decision indicated both IP matter and abuse of judicial procedure were examined.

[Footnote continued from previous page]

incidente ou ato do processo; VI – provocar incidentes manifestamente infundados; VII – interpuser recurso com intuito manifestamente protelatório;

¹⁶¹ Superior Tribunal de Justiça, 1st. Chamber, REsp n. 250781/SP, decided 23/05/2000, DJU 19/06/2000, p. 1

¹⁶² STJ, REsp 108.973, 4th C., decided 29/10/97; Resp 799.998, decided 7/8/07; Resp. 705.201, decided 4/5/06.

¹⁶³ FADEL, Sérgio Sahione. Código de processo civil comentado – arts. 1 a 199. Rio de Janeiro: José Konfino, 1974, p. 74. BARBOSA MOREIRA, José Carlos. Temas de direito processual. 1ª série, 2ª edição, São Paulo: Saraiva, 1987.

¹⁶⁴ Art. 129. See Nery Junior, Nelson E Nery, Rosa Maria Andrade. Código de Processo Civil Comentado. São Paulo: Editora Revista dos Tribunais, 8ª Ed., 2004, p. 4.

¹⁶⁵ BARBI, Celso Agrícola. Comentários ao Código de Processo Civil. Vol. 1, Tomo I, Rio de Janeiro: Forense, 1998, p 1.

¹⁶⁶ In a specific case, a State Court imposed to a party a fine provided under the Competition Law for an anticompetitive behavior related to the undue use of a trademark. According the court, the fact that the fined party was the largest Brazilian Bank imposed it a peculiar duty to refrain from infringing an IP right, therefore the violation of such enhanced duty would amount to an antitrust violation. Apparently, the rationale of the decision was that the size of the defendant would render it disproportionately protected on a lengthy trial as happened in the case. His thesis would be some reverse application of the vexatious litigation rationale. TJRJ Ac 2580/2000, decided Ap. 11, 2000, Banco do Brasil S.A. 8Th Civil Chamber found the unauthorized use of the trademark of a third part by the biggest Brazilian Bank as violative of the art. 23 of the Antitrust Law. The fine imposed was 5% of the gross income of the Bank. The Superior Court of Justice reviewed the case in RESP n. 333105, 4th. Chamber, decided 05/09/2005, quashing the State Court decision on the grounds that the Bank was not using the trademark in the same market as it was registered and therefore not infringing.

The number of those cases reaches over a hundred, but in few of them the market share or dominant position of the party guilty of bad faith abuse of procedure would justify a prima facies sham/vexatious litigation imputation.¹⁶⁷

In some cases abuse of procedure was found in cases where the plaintiff did not obtain protection of his IPR at the PTO or other registrant, but alleged exclusive rights;¹⁶⁸ in a number of cases, bad faith was found in the allegation of exclusivity beyond the boundaries of the statutory right¹⁶⁹ or contrary to a license granted.¹⁷⁰

The Copyright Collecting Agency Cases

The most visible set of cases of series of procedural bad faith litigation were judged against the Brazilian Central Collecting Society (ECAD),¹⁷¹ which holds by law exclusive rights of collecting some copyright values. ECAD was repeatedly held in abuse of procedure, as well of abuse of its (substantive) monopoly rights by discriminating customers.¹⁷² The same entity is respondent

¹⁶⁷ Even though those cases are quite frequent, only were accounted for in this study such cases where the party accused of malfeasance would appear to this author, on the basis of its empirical acquaintance with the Brazilian market, to have some scintilla of significant market share or dominance.

¹⁶⁸ In the TJSP case 9159651-08.2006.8.26.0000, decided 13/09/2006, plaintiff was punished for alleging exclusivity even after being rejected by PTO. No abuse of competition declared by court.

¹⁶⁹ TJRJ 15th Civil Chamber, Ac 2009.001.52062, Abuse of Rights (trademark, copyright, etc.) by the Brazilian Olympic Committee. "Invocation of the Treaty of Nairobi, Legislative Decree No. 21 of 06.04.1984, which provides protection to the Olympic rings. Impertinence. Reckless suit. Plaintiff's intention to induce the judge to misinterpretation. Use of part of that treaty, in which best served to ballast the claim, without making it clear that the reference to the object protected by the treaty refers to legal interests extraneous to the case. Wanton or at least naive behavior." This case is noticeable on account of the alleged exclusivity of Olympic symbols in all segments of market.

¹⁷⁰ STJ/Resp 278595, 3rd. Chamber, (Trademark Verbatim), decided 04/06/2001. Even though eventually the market changed as to computer diskettes, it seemed reasonable to suppose that at the moment of the litigation, the Verbatim trademark hold enough importance in the market to deserve note.

¹⁷¹ In TJRJ, Ac 2006.001.48858, 15th. Civil Chamber decided against to the Brazilian Collecting Society (ECAD) a bad faith abuse of procedure argument, as to the reiterated filing of violation suits against the same defendant, on the same grounds, even after losing at the Superior Court of Justice: "The owners of intellectual works are entitled to rights opposable erga omnes creating for all citizens a legal duty to respect it. They are also limited by this right, by preventing that its legitimate exercise eventually become what would be truly an abuse". In the AC 2006.001.68101 the 11th Chamber of the same State Court held ECAD in bad faith for abuse of procedure for like reasons. In Ag Ac 0019569-22.1999.8.19.0000 (1999.002.04474) – Decided 15/06/1999, the 9th Civil Chamber of the same Court found that the delay by ECAD in carrying out a decision by the court was a bad faith abuse of procedure. Also, TJRJ AC 2006.001.179650, 18th. Civil Chamber, decided 18/07/2006. TJRJ ECAD X Rádio Imprensa e MG Bar e Restaurante Dançante, Ac 0015695-50.2004.8.19.0001 (2007.001.60160). Decided 22/11/2007 - 15th CC; TJRJ AC 0028930-84.2004.8.19.0001 (2006.001.68101), Decided 20/06/2007 - 11th CC; TJRJ AC 0141846-66.2001.8.19.0001 (2003.001.00013); Decided, 15/04/2003 16th. TJRJ Ac 0055757-69.2003.8.19.0001 (2008.001.65609) - Decided, 23/09/2009 - 10th CC; TJRJ Ac 0015699-87.2004.8.19.0001 (2006.001.48858) - Decided 14/12/2006, 15th CC. Rescisory Suit ECAD v Rádio Nacional, no. 0013401-23.2007.8.19.0000 (2007.006.00153), decided: 21/07/2008 Court en Banc. Also at the São Paulo State Court ECAD was found in bad faith abuse of procedure: 9141487-34.2002.8.26.0000 *Apelação / Direito Autoral* Relator(a): Fábio Quadros Comarca: Cachoeira Paulista Órgão julgador: 4ª Câmara de Direito Privado Data do julgamento: 21/01/2010 Data de registro: 09/02/2010 Outros números: 0273660.4/3-00,994.02.041023-2. In the following São Paulo cases, ECDA's bad faith litigation was found, but fine was not applied on account of unfair behavior also of the other party.9148404-40.2000.8.26.0000 *Apelação / Direito Autoral* Relator (a): Fábio Quadros Comarca: Praia Grande Órgão julgador: 4ª Câmara de Direito Privado Data do julgamento: 21/01/2010 Data de registro: 08/02/2010 0041444-82.2001.8.26.0000 *Apelação / Direito Autoral* Relator(a): Fábio Quadros Comarca: Taubaté Órgão julgador: 4ª Câmara de Direito Privado Data do julgamento: 21/01/2010. Data de registro: 08/02/2010

¹⁷² TJRJ AC 0088312-71.2005.8.19.0001 (2006.001.69991) Decided 18/04/2007 – 11th Civil Chamber, Rede Globo v. ECAD; "The value of the work when of their video broadcasts should not vary with the network contracto, with discrimination in relation to their economic capacity. It is important to recognize that the pricing calculated on a percentage of gross revenues from each station contractor constitutes an abuse of rights, which gives it the sole

in a cartelization inquiry commenced by the inquiring Authority on May 2011, after a lengthy prior inquiry¹⁷³. As the plaintiff in those cases is a monopolist, it would seem adequate to hold those cases as sham/vexatious litigation.

The Sanofi Aventis patent extension case

In a relevant Federal case,¹⁷⁴ the plaintiff was a patent holder that at the very last day of the term of its patent filed an action for extending such term. Although the possibility of any extension of term of patents was a much disputed issue, with the majority of decisions of the same court against it, the pertinent theme was not the grounds alleged but the choice of time when the right of petition was exercised, and a preliminary order to extend requested.

On account of such timing, the possibility of bad faith was raised.¹⁷⁵ The leading vote rejected the argument, as no clear bad faith was proven, and any competitive effect (which was not deemed proven) would be indirect and intermediated by a business decision from competitors.¹⁷⁶ A dissident vote affirmed the trial court finding of bad faith, remarking that abuse stems from the use of legal means to achieve illegal ends, and no possible benefit could

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paragraph of art. 98 of Law No 9610/98 in full any breach of the principles of equality, good faith and the economic balance of the contract, gives rise to the interference of the state, so that the exercise of jurisdiction, the courts declare such a rule of the Statute of ECAD as an abuse of right." Ementário: 13/2008 - N. 9 - 10/04/2008 REV. DIREITO DO T.J.E.R.J., vol 71, pag 180 Precedente Citado : STJ AgRg nos EDcl no REsp586270/MG, Rel. Min. Nancy Andrighi, julgado em18/11/2004.. It is to be noted that Entry 127 of the Stable Case Law Repository of this Court ("For configuration of abuse of rights is not necessary to prove the intent") may be an important contribution for the building of a non-intent abuse of petition doctrine.

¹⁷³ SDE Procedure n.º 08012.003745/2010-83, technical Note of June, 15, 2010: "166. Based on the foregoing, due to the existence of strong evidence of violation of economic order consisting of setting the values for the joint public performance rights of musical works and phonograms and creating barriers to entry to prevent / hinder the formation of new associations, recommended the establishment of administrative proceedings to the detriment of Central Office of Collection and Distribution, the Brazilian Union of Composers, Brazilian Society of Management and Protection of Intellectual Rights, Brazilian Association of Music and Arts Association of Musicians, Arrangers and Stewards, the Brazilian Society of Authors Writers and Composers of Music and Independent Society of Composers Authors and Music to be investigated conduct punishable as a framework in art. 20, I- IV, c / c art. 21, I, II, IV, V and XXIV, both of Law No. 8.884/94

¹⁷⁴ Tribunal Regional Federal of the 2th Region – 2th Chamber specialized in IP, Appeal nº 200851018171597. Appeal by Sanofi Aventis. Appeal against: PTO. Decided 31/10/2010

¹⁷⁵ The trial Court stressed that in this case, it is not, as alleged by the plaintiff an action for nullifying the patent, but an action in which the party seeks to amend the term of the patent. Regarding the allegation of bad faith, the trial court noted that one can question the invalidity of a patent until the end of his term, which is inconsistent with the case, considering that the plaintiff had its patent granted in 11 / 05/1999 with the deadline until 02/12/2008, but only the last day of term appeal to the judiciary to change this date. Accordingly, the trial held that by filing the present action on the last day of validity of the patent, the plaintiff had, in fact, extended the term of its monopoly by one year, as it is unlikely that any other company would launch the same product on the market, under the threat of unduly infringe the patent of the author.

¹⁷⁶ Regarding the allegation of bad faith, the leading vote held that the litigant should be penalized only when proven that he abused from its right to petition, considering that the Judiciary can not forget the constitutional guarantees, including full access to the judiciary, failing to inhibit the parties to fight for what they think is legal. According with the leading vote, no bad faith was to be found in the facts. The vote stated that the recognition of bad-faith intent from a party presupposes *dolus malus*, ie a malicious and reckless conduct intentionally, in breach of the duty to act with loyalty. The vote found that in this case the "benefit" supposedly achieved by the plaintiff never existed. Moreover, the vote noted that the possibility that other companies have been inhibited from launching the same product on the market would reflect merely indirect effect, arising from a business option of the competitors, and felt unable to take such behavior as an effect of the bad faith of plaintiff. Furthermore, the vote found no evidence in the record that other companies were left damaged by the exercise of the right of action by either appellant.

result to plaintiff from its delay but to discourage competitors to enter the market, what would be possible irrespective of the result of the case in its merits.¹⁷⁷

THE SECOND STREAM OF CASES: THE ANTICOMPETITIVE EXERCISE OF IP RIGHTS ILLICITLY ACQUIRED

A different breed of legal reasoning occurred in the US legal system in connection in with a series of cases where an IP Right, obtained by fraud or otherwise by illegal means, is exercised on a competitive environment (the “Walker Process” doctrine).¹⁷⁸

This rationale identifies an anticompetitive behavior not in the use of procedure to attain the plaintiff’s results, but in the enforcement of a tainted substantive right, including through a right of petition.¹⁷⁹ Here, the constraints of a Constitutional right of petition is not so apparent, but even so, to defeat the presumption of validity of the IP Right, a steep set of requirements is imposed on the party alleging such misconduct.¹⁸⁰

The US doctrine treats this approach as a clear “second tier” resource of dealing with illicitly acquired IP Rights, as the internal measures of the IP system are the primary responsible for quashing this illegal behavior.¹⁸¹

¹⁷⁷ Other case where bad faith was raised in quite similar circumstances was AC 200551015243870, by Tribunal Regional Federal of the 2th Region – 1st Chamber specialized in IP. The Appeal was by Sanofi Synthelabo, against Nature’s Plus and PTO. Abuse was noted as to the preliminary order sought to maintain the patent in force during a request of extension, irrespective of the very controversial nature of the legal grounds for extension.

¹⁷⁸ Walker Process Equipment, Inc. v. Food Machinery and Chem. Corp, 382 U.S. 172 (1965).

¹⁷⁹ "Antitrust law's Walker Process doctrine permits a patent infringement defendant to show that an improperly maintained infringement action constitutes unlawful monopolization or an unlawful attempt to monopolize. The infringement defendant must show both that the lawsuit is improper, which establishes the conduct portion of the violation and generally satisfies tort law requirements, and also that the structural prerequisites for the monopolization offense are present. The doctrine also applies to non-patent infringement actions and has been applied by the Supreme Court to copyright infringement actions. Walker Process itself somewhat loosely derives from the Supreme Court's Noerr-Pennington line of cases holding that while the right to file a lawsuit is grounded in First Amendment concerns, the right does not extend to "baseless" litigation. The doctrine has not been particularly effective, however, mainly because patent boundaries are so poorly defined that it is often impossible to say that an infringement suit was baseless.", Hovenkamp, Herbert J., The Walker Process Doctrine: Infringement Lawsuits as Antitrust Violations (September 01, 2008). U Iowa Legal Studies Research Paper No. 08-36. Available at SSRN: <http://ssrn.com/abstract=1259877>. "Through Walker Process claims, antitrust law condemns monopolization by means of the fraudulent procurement and enforcement of invalid patents. Walker Process litigation can serve a critical role in a competitive economy by bringing down illegal monopolies that reduce output below efficient levels." Leslie, Christopher R., The Role of Consumers in Walker Process Litigation. Southwestern Journal of Law and Trade in the Americas, Vol. 13, 2007; Chicago-Kent Intellectual Property, Science & Technology Research Paper No. 09-011. Available at SSRN: <http://ssrn.com/abstract=1070242>. See also Brown, Suzanne K., Omission Possible: Nobelpharma v. Implant Innovations Makes Material Omissions in Patent Applications a Possible Source of Liability for Antitrust Counterclaims. Journal of Corporation Law, Vol. 25, No. 1, December 1999. Available at SSRN: <http://ssrn.com/abstract=198248>;

¹⁸⁰ "In particular, recent decisions of the Federal Circuit have required (1) clear and convincing proof of the “fraud on the Patent Office”; (2) proof of all the elements of common law fraud; (3) proof of a threshold quantum of enforcement of the offending patent; and/or (4) direct, affirmative evidence of the fraud.” Daniel, B.D., Walker Process Proof: The Proper Prescription (Draft) (January 5, 2010). Rutgers Law Journal, Forthcoming; Lawyers, Drugs & Money Symposium, Lawyers, Drugs & Money: A Prescription for Antitrust Enforcement in the Pharmaceutical Industry. Available at SSRN: <http://ssrn.com/abstract=1531854>

¹⁸¹ Rikardsson, p. 37: “US antitrust law is not directly aimed at handling situations where an undertaking has made misrepresentations to the patent office or filed a lawsuit against a competitor. These situations are usually solved by applying the relevant legal framework such as the patent law framework in situations involving patents. The subjective intent of harming competition by resorting to fraud on governmental institutions or harassing an opponent in court knowing that there is no merits to the claims can however activate the antitrust laws. If a defendant

This problem was also felt on a different perspective within the EU system, as indicated in a 2011 case (the AstraZeneca 2011 case). It could be argued that this standpoint derives from the peculiar construction of abuse of rights in the EU Competition system.¹⁸² There is a very outstanding split of approach in the treatment of anticompetitive acts between the US and EU systems.¹⁸³

As notes Rikardsson,¹⁸⁴

In 1999, the Commission received a complaint from two generic companies alleging that AZ was abusing its dominant position in several national markets within the EEA by preventing generic firms to bring their equivalent generic products based on omeprazole to the market. AZ was said to be involved with two types of abuses, both relating to AZ's business strategy within two separate regulatory frameworks. The first, which is relevant for this thesis, consisted of AZ's alleged deceptive conduct and fraud on several national patent offices to gain SPCs for its patents relating to the product Losec, i.e. abusing the patent law framework to delay generic entry.

In this case, evidence of bad faith resulted from internal documents by AstraZeneca, and therefore

The Commission works under the assumption that every decision a dominant firm takes that affects competition in a presumably negative manner is illegal according to article 102 TFEU, given that the firm has the intention to restrict competition.

In AstraZeneca [T-321/05], the Court held:

"In the present case, the Court observes that the submission to the public authorities of misleading information liable to lead them into error and therefore to make possible the grant of an exclusive right to which the undertaking is not entitled... constitutes a practice falling outside the scope of competition on the merits which may be particularly restrictive of competition. Such conduct is not in keeping with the special responsibility of an undertaking in a dominant

[Footnote continued from previous page]

in an infringement action can prove fraud it can invoke an antitrust counterclaim and thus sue the harassing undertaking for treble damages."

¹⁸² Anderman, Steven e Schmidt, Hedving. *EU Competition Law And Intellectual Property Rights, The Regulation Of Innovation*. New York. Oxford university press. 2011. P. 75. 6.1 the expansion of the concept of abuse under article 102 from exploitative to exclusionary conduct. Although Article 102 may appear to be primarily concerned with exploitative abuses, the Court of Justice has interpreted it to apply to conduct causing damage to the competitive structure of markets already weakened by the presence of a dominant firm. In other works, it has been interpreted to protect competitors as well as consumers and customers. In *Michelin I*, in one of the clearest statements of this wider approach as a general rule for Article 102, the CJEU reaffirmed that: "Article (102) covers practices which are likely to affect the structure of a market where, as a direct result of the presence of the undertaking in question, competition is weakened and which through recourse to methods different from those governing normal competition in products or services based on traders' performance, has the effect of hindering the maintenance or development of the level of competition still existing in the market. (Case 322/81 *Michelin I* at para 70.)

¹⁸³ Rikardsson, p. 38. "Under Article 102 TFEU any abuse of market power by a dominant undertaking is considered illegal, while in the US, section 2 of the Sherman act prohibits the monopolization, or the attempt to monopolize, a market. This linguistic difference indicates that EU competition law is occupied with the regulation of the behavior of dominant firms rather than the actual effect of that behavior, while US antitrust law is more occupied with the exclusionary effects of the actual behavior. If the behavior is not exclusionary, it is not violating the Sherman act in the US, while that same behavior very well can constitute an abuse of dominance in the EU since the EU courts do not demand proof of actual effect, the probability of harm to the competitive structure of the market is enough."

¹⁸⁴ Op. Cit. p. 22

position not to impair, by conduct falling outside the scope of competition on the merits, genuine undistorted competition in the common market..." [Par. 355]

Even though there is a basic common issue in the Walker Process Doctrine and the AstraZeneca case, here the US and EU treatment of such anticompetitive behavior are by no means as close as in the sham/vexatious litigation issue.

Essentially, the distinct approach derives from the EU Judicial case law according to which a dominant player is prevented to act in a manner that would be irrelevant from non-dominant player¹⁸⁵; therefore, no subjective intent would be requisite, as there is no need to demonstrate an effective exercise of the illicitly acquired IP Right on an actual anticompetitive context.

These somewhat conflicting approaches reflect especially in the issue of illicitly acquired IP Right:

Let us consider the cumulative criteria for establishing a Walker Process claim. First, there need to be a false representation or omission of facts, second, there needs to be intent to deceive the patent office, third, the patent office must have relied on the false facts, fourth, the patent would not have issued without the misrepresentation or omission, and lastly, the patentee must have enforced or threatened to enforce the patent against the potential antitrust plaintiff. According to the General Court, the finding of an abuse of dominance only need to prove that the facts that has been represented to the patent office is materially false, and that the patent office therefore is likely to issue a patent or SPC that otherwise would not have issued if not for the misrepresentation, intent to deceive on behalf of the dominant undertaking being irrelevant. The perhaps most important prerequisite to successfully plead a Walker Process claim in the US, the prerequisite of intent, is therefore nonexistent in EU law even though the General Court admits that it can be of relevance when looking to the abuse as a whole. The General Court also observes that the enforcement, or the threat to enforce, a patent or SPC is not a prerequisite to finding an abuse of dominant position, the mere acquisition of such a right clearly has anticompetitive effects since patents and SPCs are presumed to be valid.

THE STATUS OF ILLICIT ACQUIREMENT OF IP RIGHTS IN THIS STUDY

Even though the AstraZeneca/Walker Process stream of reasoning is clearly relevant to the analysis of the competitive effects of IP Rights (among other issues, as unreasonable denial to license, abuse of scope of rights, use of IP Rights as adjuvant of other anticompetitive acts extraneous to the IP field, use of IP rights to obtain economic power in markets distinct of the scope of the right, and obviously abuse of right of petition) it was not a main focus of the present study.

As a continuing exercise, it would seem to be advisable to extend this inquiry on a deeper perspective. It is to be noted that - as demonstrated in the case law analyzed - in many circumstances the two themes are not easily extricated.

¹⁸⁵ Rikardsson, p. "The General Court first establishes, in line with the Hoffmann La-Roche and Michelin I reasoning, that dominant undertakings have a special responsibility as to their behaviour in the market place and are therefore deprived of resorting to certain conduct that would otherwise be impossible to object if the undertaking would not be dominant". Here it can be found an echo in the "elephantine behavior" standard mentioned by the Brazilian Authority in the Tacographs case.

CONCLUSION

This study demonstrates that the abuse of the Constitutional Right to petition to affirm Intellectual Property rights on an anticompetitive manner is a very sensitive issue. In a number of jurisdictions, some significant body of law is developed to regulate such dysfunctional use of legal means, essentially through judicial elaboration. The peculiar situation of the Brazilian Court system, as analyzed on a closer attention, seems to demonstrate that not all cases are brought to the attention of the Competition Authorities.

The PREI/POSCO/Promedia set of tests seems to be the most common standard to which the evaluation of such cases is subjected. Even in jurisdictions where no specific mention of such precedents are frequent, some complex filtering is carried out, considering both the dysfunctional use of the right of petition summed to a evident harm to the competition environment. Thus, the two-pronged approach seems to be prevalent. But, as stated in the US Report, “this standard is difficult to meet, and very few cases have met the stringent test”.

As a general remark, the tension between the Constitutional right to redress has a paramount consideration. The internal mechanisms of the IP system (including the alleged pro-competitive effects of such exclusive power to exclude competitors) have also deserved special deference, in such a way that Competition Law is mostly employed as a second tier regulatory instrument.

In most jurisdictions, the application of a sham/vexatious litigation argument is contingent to a series of specially damaging levels of behavior. Demonstration of intent and in many cases a malicious or reckless intent, is very much frequent, even in those systems where a purely objective standard is prevalent¹⁸⁶. It could be argued that the double vectors of Constitutional empowerment and the peculiar status of IP rights as an exclusive power (thus legally accepted “monopolies”) to enhance dynamic competition, forces out such much steeper criterion on the courts and regulators.

On the other hand, the need to deny the use of IP rights for anticompetitive purposes, especially through the abusive employment of the much cherished right to petition seems to be so spread in the present international environment that the issue is, beyond any doubt, an essential factor in Intellectual Property theory and practice.

The economic perspective can be of some help as far as it stresses the effects of conducts adopted by firms with market power on competition and, therefore, on consumer welfare and economic efficiency. A modern reading of predatory practices¹⁸⁷ suggests a change of focus on the analysis of predatory behavior from profit recovery in the future to damage to the consumer and/or economic efficiency. This perspective must be taken into account for an accurate treatment of sham litigation, as well.

Other path is already being taken, as Brazilian case law shows and, in a certain way Astra-Zeneca case: avoiding the stringent test imposed by EU and US doctrines and investigating and convicting cases for anticompetitive practices.

At least in one case in Brazil (the *Shop Tour* case), the objective of creating difficulties to a rival was identified, which means that the convicted conduct was seen as a type of predatory conduct.

¹⁸⁶ Rikardsson, p. “...the ITT Promedia case was delivered by the General Court and never reviewed by the Court of Justice. If we consider the AstraZeneca case and the General Courts emphasis on only objective factors when identifying the abuse, it is unclear what legal status ITT Promedia actually has.”

¹⁸⁷ Edlin and Farrell, op. cit.

Here the Competition Law requirements of assuring social welfare through efficient handling of the economic activity, and the purposes of the Intellectual Property Law to stimulate creation and innovation are clearly entangled; no future development of this field of law may possibly ignore the theme of this study.

The present research has shown the need for deepening the international debate around the identification criteria of anticompetitive use of intellectual property.

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Annex 1 - The Letter Sent to the Agencies and to IP Registrations

This research has as purpose to seek information on administrative or judicial procedures concerning any intellectual property rights brought to the attention of governmental authorities, where at least one of the following aspects is conspicuously present:

- (a) procedures where the final favorable prospects for plaintiff (or complainant) are evidently improbable, but the initiation or continuation of the procedures by itself is liable to have anticompetitive effects; or
 - (b) procedures multiplied on the same or closely related causes of action where such reiteration of actions or requests (even though each one action or request by itself would be procedurally reasonable) is also liable to have anticompetitive effects; or
 - (c) other actions, initiatives or requests where the benefit to plaintiff or requesting party could result from the initiation or continuation of the procedure itself rather than the final result of the exercise, and such initiation or continuance by itself is liable to have anticompetitive effects; or
 - (d) any actions, initiatives or requests, which under domestic law are deemed as abuses of right and/or abuses of process, and such abuses are liable to have anticompetitive effects; or
 - (e) procedures of any description between private parties, conducted before judicial or administrative authorities, the purpose or result of which would be to color as legitimate an anticompetitive behavior or otherwise illegal.
1. Has any case come to this entities' knowledge that has a characteristic similar to the above mentioned cases?
 2. Are there additional information on the subject matter that you deem appropriate?
 3. Where can we obtain additional information on the subject matter and cases above mentioned?

[End of Appendix and of document]