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Sweet Justice for IP Rights Holder: Agreement not in Restraint of Trade

The intersection of intellectual property law and competition law is an area that gains greater significance with each passing year. Much of the focus in this area recently has been on the appropriate scope of action to take by regulators. For example, in Canada, the Intellectual Property Enforcement Guidelines promulgated by the Competition Bureau in 2016 have attracted significant attention.

Also important, but attracting less attention, is the application of common law doctrines against contracts in restraint of trade to agreements that are based on the enforcement of intellectual property rights. However, that issue arose for the Ontario Court of Appeal in its recent decision of *Mars Canada v Bemco Cash & Carry Inc.*

That case involved a dispute between Mars Canada and a group of companies owned and controlled by Aizic Ebert. Mars Canada is the Canadian subsidiary of the well-known American manufacturer of chocolate products under a number of Canadian trademarks, including Mars, M&Ms, Milky Way, and Snickers.

Ebert and his company sold Mars products in the grey market. That is, Ebert and his company bought products in the United States, imported them to Canada, and sold them at a price that was lower than being sold by Mars Canada. As the Ontario Court of Appeal noted, it was unsettled law as to whether Mars Canada could prevent this activity through enforcement of its Canadian trademark.

In 2006, Mars Canada brought an action against Ebert and his companies in Federal Court to stop them from importing Mars products from the United States and selling them in Canada. Mars Canada and Ebert ultimately reached a settlement. Pursuant to that settlement, Ebert's companies agreed not to import and sell Mars products in Canada without Mars Canada's consent.

Subsequently, in 2010, Mars Canada discovered that products intended for sale outside of Canada were once again being imported and sold in Canada, this time through a different

company working together with Ebert's companies.

Mars Canada brought proceedings to enforce its prior settlement agreement. Ebert's companies defended on a number of grounds, including that the settlement agreement they had entered into was void as being unlawful restraints of trade.

At common law, agreements that create restraints of trade are presumptively invalid. Courts have assessed the validity of agreements alleged to be restraints of trade by answering the following four questions.

- Is the agreement in question in restraint of trade?
- Does the restraint of trade fall into a category of limited exceptions? If not, it is *pima facie* void.
- Can the restraint of trade be justified as reasonable in the interests of the parties?
- Can the restraint of trade be justified as reasonable with reference to the interests of the public?

This approach is intended to try to navigate the line between those agreements in restraint of trade that are anti-competitive versus those that have some broader utility associated with them.

In this case, the motions judge assumed that the agreements were in restraint of trade and did not fall within one of the recognized exceptions. However, he nonetheless found that the agreements were reasonable in the interest of the parties and of the public. The motions judge concluded that the agreements were made to settle litigation, and this was a purpose supported by public policy. The motions judge also noted that Mars Canada had an "obvious interest" in protecting its trademarks. As a result, the motions judge held that the settlement agreements were valid, and that Ebert and his companies had breached the settlement agreements.

Ebert and his companies appealed the motions judge's decision to the Court of Appeal. The Court of Appeal dismissed that appeal.

In rejecting Ebert's argument that the agreements were in restraint of trade, the Court held that Mars Canada had "legitimate interests tied to its trademark rights". The Court of Appeal further held that the settlement agreement was both in the interests of the parties and public as a whole. In respect of the parties, the settlement of the litigation was itself a reasonable outcome for the parties. With respect to the public interest more broadly, the Court noted that settlement

agreements prevented confusion between Mars Canada's trademarked products and Ebert's grey market products.

In the result, the Court of Appeal dismissed the appeal.

The Court's decision confirms that the protection and enforcement of valid intellectual property rights will generally be a legitimate reason for entering into a contract in restraint of trade. Given that each of the *Patent Act*, *Trade-marks Act* and *Copyright Act* contain presumptions in favor of registered rights holders, this is a valuable element of those registrations that may often be overlooked.

This approach also stands in marked contrast to other contracts in restraint of trade, such as non-competition and non-solicitation provisions in employment contracts, which must be justified more rigorously. Unlike those situations, intellectual property rights holders can enter into agreements to resolve disputes relating to those rights with the comfort that such agreements are unlikely to be rendered unenforceable as in restraint of trade.