SUPPLY AGREEMENTS BETWEEN TWO PHARMACEUTICAL COMPANIES: LATEST DEVELOPMENTS

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Last July the Supreme Court of Canada, in *Eli Lilly and Co.* v. *Apotex Inc.* and *Apotex Inc.* v. *Merck Frosst Canada Inc.* (1998), 80 C.P.R. (3d) 321 and 368, ruled that a «supply agreement» between two competing pharmaceutical companies, Novopharm Ltd. and Apotex Inc., did not constitute in itself a sublicensing agreement and hence did not invalidate the compulsory licence held by Novopharm Ltd. This licence stipulated that Novopharm could neither transfer it to a third party nor grant a sublicence.

The supply agreement in question, which had never actually been implemented, had been concluded in November 1992 in anticipation of future modifications to the *Patent Act* which were to abolish the system of compulsory licences for patents on medications. The main purpose of the agreement was to provide an arrangement between Novopharm and Apotex whereby whenever one held a compulsory licence that the other did not, the licensee would have to procure the licensed medication and supply it to the other company.

Notably, the supply agreement also provided that the parties intended to share their rights, that the licensee would use its licence pursuant to the other company's instructions and for the latter's benefit, and that the licensee would cooperate fully with the unlicensed party in order to permit the latter to make use of the licence as if it were the licensee.

However, this agreement also stipulated that the licensee would observe all the conditions of its licence. Hence, although some clauses of this agreement may have lead one to believe that the parties intended to mutually grant each other sublicences, Mr. Justice Iacobucci of the Supreme Court concluded that each clause should be interpreted in relation to the rest of the agreement which clearly revealed the intention of the parties not to create a sublicence. Further,

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Mr. Justice Iacobucci noted that nowhere in the agreement was it stipulated that the unlicensed party is «entitled to the independent use of any compulsory licence» for its own benefit. The unlicensed party has «no right to obtain these medicines independently « and it is abundantly clear that the licensee «is still the only party actually entitled to act pursuant to the licence.» Therefore, the judge wrote that: "The arrangement entered into by Apotex and Novopharm is not a sublicence. Regardless of the level of control that might be exercised by Apotex over arranging and facilitating the acquisition of licensed materials for its own benefit, no actual acquisition is itself possible without the involvement of Novopharm. The agreement does not grant Apotex the right to do independently of Novopharm anything which only Novopharm is licensed to do, nor does it purport or disclose any contractual intent to do so".

However, the court cautions that not all agreements similar to the one in question will necessarily protect the parties from all allegations of having created a sublicence. In this particular case, the supply agreement had never actually been implemented as such by the parties. According to Mr. Justice Iacobucci, it would not «be impossible to implement the agreement in such a manner as to create a sublicence.»

For example, if the licensee, in the execution of the agreement, were to allow the unlicensed party to contract directly with a third party supplier of a medication under compulsory licence, or if the third party supplier were none other that the unlicensed company itself, then in all likelihood, the courts would rule that the implementation of such an agreement effectively created a sublicence, which would then nullify the compulsory licence held by one of the co-contractors.