Submission on

Second Draft of Competition Bureau's *Intellectual Property Enforcement Guidelines*

NATIONAL COMPETITION LAW AND
INTELLECTUAL PROPERTY LAW SECTIONS
CANADIAN BAR ASSOCIATION

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PREFACE

The Canadian Bar Association is a national association representing over 36,000 jurists, including lawyers, notaries, law teachers and students across Canada. The Association's primary objectives include improvement in the law and in the administration of justice.

This submission was prepared by the National Competition Law and Intellectual Property Law Sections of the Canadian Bar Association, with assistance from the Legislation and Law Reform Directorate at the National Office. The submission has been reviewed by the Legislation and Law Reform Committee and approved by the Executive Officers as a public statement by the National Competition Law and Intellectual Property Law Sections of the Canadian Bar Association.

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I. INTRODUCTION

The National Competition Law and Intellectual Property Law Sections of the Canadian Bar Association (the Sections) welcome the opportunity to comment on the second draft of the Competition Bureau's (the Bureau) *Intellectual Property Enforcement Guidelines* (Draft Guidelines) released on April 18, 2000.

The Sections previously commented on the Bureau's first draft released in June 1999 in a submission dated August 1999. While the Sections are of the view that the Draft Guidelines represent an improvement over the June 1999 draft, there are still a number of significant issues which raise considerable uncertainty about the Bureau's understanding of how intellectual property (IP) rights and competition law interact. In this respect, the Sections reiterate their comments in the August 1999 submission, particularly concerning the following:

- general comments on the Bureau's consultation procedure and the use of guidelines;
- general comments on the Draft Guidelines' substance;
- potential use of section 32 of the *Competition Act* (the *Act*);
- IP as a distinct form of property;
- promotion or protection of competition; and
- innovation, research and development.

This submission is largely restricted to new matters and expansion of points made in our previous submission.

II. PENDING AMENDMENTS TO THE *COMPETITION ACT*

Currently, the Competition Bureau is engaged in a national, multi-sectoral consultation with stakeholders on possible significant amendments to the *Act* proposed by four private members' Bills. The Public Policy Forum is leading consultations on the Bureau's behalf and is preparing a report on discussions and written submissions received from interested stakeholders. It expects to provide its report to the Commissioner of Competition by September 30, 2000. If there is broad public support, the Minister of Industry will consider introducing legislation which meets the spirit of the proposed amendments. We understand that a government Bill could be introduced in the late fall of 2000.

As some of the proposals involve significant amendments to relevant portions of the *Act*, the Bureau should not implement a final version of these Guidelines until the outcome of the above process is clear. In particular, Bill C-472 proposes significant amendments to the conspiracy provisions in section 45 and the abuse of dominance provisions in section 79. Sections 45 and 79 are central to the analysis set out in the Draft Guidelines. If these sections are amended as proposed in this Bill, the analysis in the Draft Guidelines would have to be significantly altered.[1]

[1] In addition, on May 18, 2000, the Bureau released its draft *Abuse of Dominance Guidelines* for public comment and consultation. The deadline for comments from interested parties and stakeholders is August 31, 2000, which is considerably later than the June 16, 2000 deadline for the Draft Guidelines. The Sections will not have an adequate opportunity to assess the impact of the draft *Abuse of Dominance Guidelines* on the Draft Guidelines before June 16, 2000. This is an additional reason for deferring the implementation of the Draft Guidelines.

Guidelines, once issued, tend to be infrequently amended.[2] It would not be useful to the business community or its advisors for the Bureau to issue a final set of Guidelines which might be out of date within a short period of time. Moreover, the publication of Guidelines on these issues is not an urgent matter. There is therefore little utility from an enforcement perspective in issuing guidelines until the outcome of the Public Policy Forum initiative is clear.

We also believe that the Bureau should not issue a final set of Guidelines until it has considered the significant issues raised in this submission.

We trust that the Bureau will provide further opportunity to comment upon any future version of the Draft Guidelines which is revised to reflect any amendments to the *Act*.

Aspects of the Draft Guidelines which would require revision in light of Bill C-472 include the following:

Paragraph 14: The offence of conspiracy in section 45 would become the offence of "collusion." Contrary to the assertion in footnote 3 of the Draft Guidelines, proof of market power would not be required – apart from establishing that the participants collectively account for or control at least 25% of the relevant market for the product affected by the agreement or arrangement.

Paragraph 16: Bill C-472 proposes significant changes to the remedies that may be imposed by the Competition Tribunal. Private parties, with leave of the Tribunal, would

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2 The *Merger Enforcement Guidelines* (MEGs) were published in 1991, the *Predatory Pricing Enforcement Guidelines* were published in 1992 and the *Price Discrimination Enforcement Guidelines* (PDEGs) were published in 1992. None of these has been amended. In the case of the MEGs, subsequent caselaw and enforcement statements have so diverged from the MEGs that they are no longer an accurate reflection of current enforcement policy.

be able to apply directly to the Tribunal for a remedial order in respect of refusal to deal, exclusive dealing, tied selling and market restriction. The Commissioner would be able to make temporary orders prohibiting persons from doing anything that could, in the Commissioner's opinion, constitute an anti-competitive act. The Commissioner could also make orders requiring the person to take steps the Commissioner considers necessary to prevent injury to competition or harm to another person. Without commenting on their merits, these proposals would significantly change the enforcement landscape. At the very least, business persons need to understand the circumstances in which their otherwise lawful conduct involving IP might be subject to the Commissioner's temporary orders.

Paragraph 24: The new offence of collusion would require a different analytical framework than is set out here. Aside from assessing whether the participants fit within the 25% safe harbour threshold, concentration and entry conditions in the relevant markets would be generally irrelevant. It would also be irrelevant that the transaction or conduct would not unduly or substantially lessen or prevent competition in the relevant markets. For example, if the parties to a licensing agreement are competitors and have more than 25% market share, any lessening or limiting of competition, no matter how minor, would be a criminal offence (unless they notified the Commissioner of their proposed agreement).

Example 2: Example 2 concerning price fixing would have to be amended to take into account the proposed collusion offence and the implications of the notification procedure set out in the proposed section 79.2. Under that proposal, participants to a proposed agreement or arrangement may apply to the Commissioner for a clearance certificate which would exempt them from proceedings under section 45 or 79.1.[3]

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[3] Section 79.1 is the proposed abuse of dominance provision in Bill C-472 which would encompass horizontal agreements among competitors which have the effect of preventing or lessening competition substantially.

Example 3.3: Currently, the Draft Guidelines suggest this situation would be examined under section 45 as a conspiracy case against the gear system suppliers or under section 79 as a joint abuse of dominance case against the gear system suppliers and, possibly, ADVENTURE. As indicated above, proposed revisions to sections 45 and 79 require revisiting the analysis in this example.

Example 6: This situation would require revision in light of the proposed amendments to section 45.

Example 8: Proposed revisions to section 79 require revisiting the analysis in this example.

III. APPLICATION TO TRADE-MARK RIGHTS

Paragraph 11 indicates that the Draft Guidelines encompass a wide variety of IP, including trade-mark rights. However, the Draft Guidelines focus on situations involving patents, know-how, and copyrights, leaving unclear the Bureau's approach to conduct involving trade-marks. The other forms of IP, which are clearly dealt with in the Draft Guidelines, involve exclusivity arising from the government grant of a right (patents and copyrights) or from the actions of a private company (know-how). By contrast, the rights to exclude arising under trade-mark law originate from the goodwill attached to the mark which is distinctive in the marketplace. A different analysis should therefore take place for conduct involving trade-marks.

In the United States, trade-marks are treated differently for purposes of competition policy. This is reflected in the *Antitrust Guidelines for the Licensing of Intellectual*

Property (the U.S.Guidelines),[4] which specifically state in footnote 2 that they do not deal with trade-mark issues.

The Draft Guidelines are written with other forms of intellectual property in mind. For example, paragraph 3 states that "IP laws provide incentives for innovation and technological diffusion by establishing enforceable property rights for the creators of new and useful products, technologies and works of expression." This description does not encompass trade-mark or passing-off rights. Paragraph 26 discusses situations in which the Bureau does not consider the attainment of market power to be in contravention of the *Competition Act* but does not specifically list superior branding or advertising. Finally, the application of the two-step analysis under section 32 to trade-marks is problematic. In the first step (paragraph 41), we question whether a trade-mark can ever be an essential input or resource for firms participating in the relevant market (i.e., can it prevent other firms from entering the relevant market). In the second step (paragraph 42), we question whether trade-marks would ever adversely alter the incentives to invest in research and development in the economy. We doubt that these are the correct tests in the trade-marks context.

The Draft Guidelines are also unclear about how the Bureau would address various trade-mark related competition issues. Is it a contravention of the *Act* to licence a trade-mark to a competitor? Is it a contravention of the *Act* to take advantage of patent rights to build a strong and long-lasting trade-mark? Can a trade-mark holder terminate its trade-mark licence if it is an "essential input" for a third party's business (as per paragraph 37)? How should this be reconciled with the statutory requirement that a trade-mark owner must control the use of its trade-mark and the quality of the goods or services to which it is attached? How would trade-mark rights be dealt with in Example 8?

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4 *Antitrust Guidelines for the Licensing of Intellectual Property*, U.S. Department of Justice and the Federal Trade Commission (April 6, 1995).

The Sections therefore suggest that the Bureau include a statement similar to that of the U.S. Guidelines. We suggest the following: "Although the same general competition law principles apply to trade-marks as to other forms of IP, the Guidelines are generally concerned with technology transfer and innovation-related issues and not the source- and quality-differentiation issues that arise in respect of trade-marks."

IV. COMPETITION LAW/IP LAW INTERFACE – DEFERENCE TO IP RIGHTS

As explained in paragraph 23, the Sections agree that the competition and IP laws are complementary in that each have the same ultimate objective of promoting an efficient economy. However, the two sets of laws achieve this objective through different means. Thus, while they may have complementary objectives in a broad sense, the means to achieve these objectives may conflict. It would be helpful, therefore, for the Bureau to explicitly acknowledge that it will defer to the rights of IP owners where there is doubt as to the proper balance between competition and IP laws. Such a principle would be appropriate given the focus of IP laws on promoting longer term, dynamic efficiencies and given the Bureau's relative lack of expertise in IP matters.

V. ANTI-COMPETITIVE EFFECTS THRESHOLD FOR LICENSING AND SAFE HARBOUR PROVISION

The Sections are pleased that in paragraph 27 the Bureau has re-affirmed that it regards licensing as pro-competitive in the vast majority of cases. However, the Bureau states that it will consider licensing agreements involving IP to be anti-competitive if "**they reduce competition to a level below that which would have existed in the absence of the licence**" (emphasis in original). The Bureau should modify this paragraph to ensure that licensing agreements involving IP will only raise concerns under the *Act* if they prevent or lessen competition "substantially" or "unduly".

In order to provide general guidance to IP lawyers and their clients, we also recommend that the Bureau set out a competition "safety zone" or "safe harbour". Safety zones or harbours provide numeric presumptions for determining whether a particular arrangement will be challenged. For example, where the *Act* requires proof of a prevention or undue/substantial lessening of competition, the Guidelines should explicitly state that the Commissioner would probably not challenge the arrangement if the licensor and its licensees collectively account for less than 35% of the relevant market covered by the licence. This approach is used in the MEGs.

As noted in the U.S. Guidelines, a "safety zone" is useful because it provides certainty, encourages innovation and enhances competition. The U.S. Guidelines[5] and European block exemptions[6] provide explicit guidance on the types of licensing agreements or overall market shares which are not likely to give rise to antitrust concerns. Providing a safe harbour would also more closely align Canada's IP enforcement policy with its major trading partners, whose firms are the sources of much of its IP.

VI. THE GENERAL PROVISIONS OF THE *COMPETITION ACT* AND MERE EXERCISE OF AN IP RIGHT

The second version of the Draft Guidelines substantially improve upon the first version in identifying conduct that constitutes the "mere exercise of an IP right" . Most importantly, the Bureau acknowledges that "**the unilateral exercise of the IP right to exclude does not violate the general provisions of the *Competition Act* no matter to what degree competition is affected**" (paragraph 30, emphasis in original). Unfortunately, as discussed below in paragraph 37, the Bureau goes on to carve out two questionable exceptions to this rule.

5 See section 4.3.

6 Commission Regulation (EC) No. 240/96 of 31 January 1996 (technology transfer agreements) and Commission Regulation (EEC) No. 418/85 of 19 December 1984 (research and development agreements).

The Sections appreciate that it is difficult to articulate general principles to guide the business community in determining when the general provisions of the *Act* will apply to conduct involving IP. However, we believe the analysis in section 4.2.1 should be revised to more clearly articulate the general principles, as they underpin the whole analysis in the Draft Guidelines.

Paragraph 29: The definition of "mere exercise of an IP right" should be broadened to explicitly recognize the right to licence, cross-licence or otherwise transfer IP.[7] Our concern is that the Bureau may be limiting the definition of "mere exercise of an IP right" to "the owner's right to unilaterally exclude others from using the IP … (typically, refusal to licence)". This paragraph unduly emphasizes the refusal to licence. The language in paragraph 29 also should reflect the Bureau's views on the pro-competitive aspects of licensing which are enunciated in paragraph 27.

Paragraph 31: This paragraph almost establishes a presumption that arrangements between independent entities concerning IP do not constitute the "mere exercise of the IP right" and therefore should be subject to the general provisions of the *Act*. As suggested above in the context of paragraph 29, the "mere exercise of the IP right" should be defined specifically to include not just refusal to licence, but also arrangements between independent entities, whether in the form of transfers, licensing arrangements or agreements to use or enforce IP rights. Consequently, in determining whether the general provisions of the *Act* would apply, the Bureau should not rely on the distinction between a unilateral refusal to licence as set out in paragraph 29 and an arrangement between independent entities as set out in paragraph 31. The Guidelines require a more considered analysis which, at a minimum, should acknowledge that anti-competitive harm is not necessarily inherent in an arrangement between independent entities. In paragraph 31, the Bureau should clarify that arrangements between independent entities will only be subject to

7 See section 2.3 of the U.S. Guidelines.

challenge in the particular circumstances set out in the general provisions of the *Act*. If the Bureau intends to stress the horizontal effects of an arrangement in determining whether it is anti-competitive (see paragraphs 59-62), then this paragraph should be amplified using the discussion which appears in paragraphs 59-62.

Paragraph 37: The Bureau states that the acquisition of a controlling interest in a collection of IP rights followed by a refusal to licence goes beyond the mere exercise of an IP right. If the Bureau is going to treat such conduct as anti-competitive, it should do so on the basis of the acquisition alone. The Bureau has already properly acknowledged in paragraph 30 that the IP owner may unilaterally exercise its right to exclude regardless of the degree to which competition is affected. At the same time, the Bureau should make it clear that the acquisition of a controlling interest in IP rights would trigger enforcement action only if it confers market power on the purchaser.

The Bureau states that termination of an IP licence by a licensor who has led licensees to believe that they would have an ongoing licence goes beyond the mere exercise of an IP right. The Sections believe that this principle is flawed and does not reflect Canadian law. If the licensees have been injured by the conduct of the licensor, it is because (i) the licensor has acted contrary to the licence agreements, or (ii) the licensees have failed to negotiate sufficient protections in their agreements concerning their continued rights to the licensor's IP. In either case, the issue raised by the Bureau concerns the parties' respective rights under the law of contracts. The Bureau should not suggest that it would interfere in the bargaining process between licensors and licensees, as this would offend the principle of freedom of contract which underlies contract law.

VII. SECTION 32 OF THE *COMPETITION ACT*

A. Use of Section 32 Generally

The Sections are pleased that the Bureau expects to use section 32 of the *Act* only in rare circumstances. As a matter of principle, we believe that the Bureau should not resort to section 32 even in the rare circumstances set out in section 4.2.2. The requirements for the Bureau to take action under section 32, set out in paragraphs 41 and 42, arguably could be met by any holder of strong IP rights that are an essential input preventing other firms from entering the relevant market.[8] Yet, this is precisely the nature of legal protection which IP rights are designed to confer. As we do not anticipate repeal of section 32 or complete disregard of it in the Bureau's enforcement policy, the Sections would prefer that more context be provided concerning its application.

In order to put the IP community more at ease, it would be useful at the outset for the Bureau to set out the legislative background to section 32. Similar background is provided, for example, in the preface and section 1.4 of the PDEGs. The Bureau should indicate that section 32 pre-dates the reviewable practice provisions and is the product of an era when competition law did not fully appreciate the pro-competitive aspects of IP rights. The Bureau should state that it believes the more modern reviewable practice provisions are adequate to deal with the anti-competitive effects of virtually all arrangements involving IP. It should acknowledge that the Attorney General is required to prove that the impugned use of the IP prevents or lessens competition "unduly", which will be interpreted in the same manner as "unduly" is interpreted pursuant to the caselaw under section 45 of the *Act*. Finally, the Bureau should acknowledge that there have been no decided cases under section 32 and that there have been only two recorded settlements.

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8 Recent U.S. caselaw indicates that IP rights which protect an innovator in more than one market may be lawful. "[A]bsent exceptional circumstances, a patent may confer the right to exclude competition altogether in more than one antitrust market". See *In re: Independent Service Organizations Antitrust Litigation*, 17 February 2000, Docket No. 99-1323. (U.S. Court of Appeals, Federal Circuit).

B. Threshold for Enforcement under Section 32

The Sections continue to have concerns about the Bureau's criteria to invoke section 32.

According to the Draft Guidelines, the Bureau will follow a two-step process to determine whether enforcement action under section 32 is necessary. Step 1 focuses on whether a refusal has had a substantial adverse effect on competition "in a relevant market that is different or larger than the subject matter of the IP." The Bureau then states that Step 1 is satisfied only if each of the following factors is present:

> i) the holder of the IP is dominant in the relevant market, **and**
> ii) the IP is an essential input or resource for firms participating in the relevant market – that is, the presence of the IP prevents other firms from entering the relevant market.

Step 1 is vague and confusing – in particular, the phrase "a relevant market that is different or larger than the subject matter of the IP". The Bureau uses the phrase "relevant market" in different ways in the course of explaining Step 1. In (i), relevant market appears to refer to the market in which the IP owner operates. In (ii), relevant market seems to refer to the relevant market in which downstream users of the IP operate.

Step 2 addresses whether the use of section 32 in a particular case would "adversely alter the incentives to invest in research and development in the economy." Use of section 32 will not result in such consequences if one of the following factors is present:

> iii) the cost to the innovator to create the IP was insignificant, **or**
> iv) the refusal to licence the IP is stifling further innovation.

In our view, factor (iii) remains problematic owing to the difficulties in evaluating the "cost" attributable to any given IP. For example, while an IP owner may have directly expended relatively few resources in developing a particular piece of IP, the IP may have benefited indirectly from research and development expenditures made by the IP owner as part of a broader research program. Similarly, the nature of innovation often requires entities to fund a large number of research projects in the expectation that only a small proportion of projects will yield a commercially valuable result. As such, the Sections believe that the cost to the innovator to create IP should not be included as a criterion for the use of section 32. Factor (iii) creates unprincipled differences in the treatment of industries where research and development is inherently costly (e.g., where research in the field requires investment in expensive experimental machinery) and industries where research and development is inherently less costly (e.g., requiring little more than time to think).

As to whether the refusal to licence the IP is stifling further innovation, the Sections would like to see the Bureau's discussion of this criterion expanded. Criterion (iv) sets out an important principle insofar as it seems to mandate a balancing of the IP owner's rights and the rights of others having activities in the innovation process. However, the Bureau provides no guidance on its application.

C. Extensive Treatment of Section 32

As noted previously, the Sections are pleased that the Bureau has reiterated its belief that it will rely on section 32 of the *Act* only in rare circumstances. At the same time, the Sections note that section 32 figures more prominently in the Draft Guidelines than one might expect given the Bureau's expectation that section 32 will apply only in rare circumstances.

While the Sections strongly support the Bureau's efforts to clearly set out the circumstances where section 32 will apply, the Bureau should be careful to structure its discussion of section 32 so that it does not form a disproportionate part of the Draft Guidelines. Of particular importance in this regard is the treatment of section 32 in the examples contained in Part 7 of the Draft Guidelines. At present, section 32 is dealt with in four of the twelve examples (7.1, 7.2, 8 and 9). The Sections recommend that the Bureau cite section 32 in one example, at most. For this reason and the reasons set out below, the Sections do not believe Examples 7.1, 7.2 and 8 are appropriate for the use, or even consideration, of section 32.

Finally, the Draft Guidelines are still unclear on the circumstances in which section 32 alone will apply. A number of the examples suggest both the general provisions of the *Act* and section 32 will apply. This is confusing and does not provide sufficient guidance. For instance, Example 7.1 indicates the Bureau would review the situation under both sections 79 and 32, even though the refusal to licence in this example could be seen as a unilateral exercise of the IP right which should only be subject to review under section 32.

D. Remedies

In paragraph 39, the Bureau states it will only recommend to the Attorney General that an application be made to the Federal Court under section 32 when, "in the Bureau's view, no appropriate remedy is available under the relevant IP statute." However, the remedial interaction between section 32 and IP statutes is not elaborated upon. For example, section 32 of the *Competition Act* does not provide for compulsory licensing of trade-marks. Article 21 of the *Agreement on Trade-Related Aspects of Intellectual Property Rights* forbids signatory countries (including Canada) from requiring the compulsory licensing of a trade-mark.[9] The Sections also suggest that the Bureau clarify the remedial interaction of section 32 with the *Patent Act*. Section 65 of the *Patent Act* provides:

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9 See, e.g., *Agreement on Trade-Related Aspects of Intellectual Property Rights* (April 15, 1994); *Marrakech Agreement Establishing the World Trade Organization*, Annex 1C, [Legal Instruments – Results of the Uruguay Round Vol. 31] (1994) 33 I.L.M. 81 (the TRIPs Agreement). Section 32(3) of the *Competition Act* prevents the Federal Court from making an order at variance with any IP treaty. The Bureau should bear this in mind in enunciating its policy concerning section 32.

65 (1) Abuse of Rights under Patents - The Attorney General of Canada or any person interested may, at any time after the expiration of three years from the date of the grant of a patent, apply to the Commissioner [of Patents] alleging in the case of that patent that there has been an abuse of the exclusive rights thereunder and asking for relief under this *Act*.

(2) What Amounts to Abuse - The exclusive rights under a patent shall be deemed to have been abused in any of the following circumstances:

(a) [Repealed]

(b) [Repealed]

(c) if the demand for the patented article in Canada is not being met to an adequate extent and on reasonable terms;

(d) if, by reason of the refusal of the patentee to grant a licence or licences on reasonable terms, the trade or industry of Canada or the trade of any person or class of persons trading in Canada, or the establishment of any new trade or industry in Canada, is prejudiced, and it is in the public interest that a licence or licences should be granted;

(e) if any trade or industry in Canada, or any person or class or persons engaged therein, is unfairly prejudiced by the conditions attached by the patentee, whether before or after the passing of this *Act*, to the purchase, hire, licence or use of the patented article or to the using or working of the patented process; or

(f) if it is shown that the existence of the patent, being a patent for an invention relating to a process involving the use of materials not protected by the patent or for an invention relating to a substance produced by such a process, has been utilized by the patentee so as unfairly to prejudice in Canada the manufacture, use or sale of any materials.

(3) [Repealed]

(4) [Repealed]

(5) Definition of “Patented Article” - For the purposes of this section, the expression “patented article” includes articles made by a patented process.

Paragraph 39 seems to suggest that the Bureau should not make a section 32 reference to the Attorney General if the impugned conduct falls into a category in section 65 of the *Patent Act*. Section 65 suggests that the Bureau may be foreclosed from bringing a section 32 application in regards to patents in many circumstances. What is the Bureau's view of the interaction of these provisions?

VIII. INNOVATION MARKETS

The Sections are pleased that the Bureau "does not generally define markets based on research and development or innovation efforts alone" (paragraph 52). On its face, this suggests that the Bureau rejects the concept of innovation markets used by antitrust authorities in the United States.[10] However, other paragraphs of the Draft Guidelines conflict with this advice. In paragraph 49, the Bureau advises that it "is likely to define the relevant market based on one of the following: the intangible knowledge or know-how that constitutes the IP…". At paragraph 62, it states that "[i]n addition, a transaction or conduct that reduces innovation activity could be anti-competitive if it prevents future competition in a prospective product or process market." These conflicting statements, combined with the inclusion of the qualifier "generally" in paragraph 52, give rise to uncertainty as to the Bureau's position on this issue. The Bureau should eliminate such uncertainty by amending these paragraphs to clarify that it "does not define markets based on research and development activity or innovation markets alone," but rather "concentrates on price or output effects."

IX. HYPOTHETICAL EXAMPLES

Example 2: The Draft Guidelines should indicate why section 61 does not apply (or, if it does, why the Bureau would not seek to rely upon it).

10 See U.S. Guidelines, section 3.2.3.

Example 3.1: The Draft Guidelines should state that the Bureau is not likely to examine the conduct under section 79, for the reasons given. The Sections agree with the Bureau's analysis in this example. However, the Bureau should relate this example more explicitly to its discussion in paragraphs 61 and 62. There, it states that "[a] transaction or conduct must create horizontal effects for the Bureau to conclude that it is anti-competitive." In this case, SHIFT and ADVENTURE are not competitors. Their relationship is purely vertical and therefore there is no competition issue between them. As such, the issue becomes whether the licence would confer market power on ADVENTURE in its business of selling mountain bikes.

Example 3.2: Under sections 2.4 and 4.6.1 of the MEGs, the Bureau considers entry within a two-year horizon as sufficiently timely to defeat an anti-competitive price increase. This example states that alternative technologies are likely to be in production in 18 months' time. This would appear to be sufficiently timely, under the MEGs. The draft *Abuse of Dominance Guidelines* also establish a two-year time horizon for assessing the potential to provide effective competition (see paragraph 61 of those Guidelines).

Example 6: The Bureau states that where two parties have blocking patents, they are not horizontal competitors. In this example, only one party has a blocking patent, and the Bureau therefore concludes that the validity of ABC's patent claim against ZENIX is irrelevant. The Bureau's reasoning seems inconsistent. If ABC's patent claim is valid, ZENIX legally cannot compete with ABC unless it obtains a licence from ABC in respect of the blocking patent. If one firm's patents prevent the other from competing without engaging in patent infringement, the other firm is not a legal competitor in the market (if it is using the same technology). Thus, the second sentence of the example should be amended to apply to a single firm which possesses a patent preventing others from using its technology to compete in the same market. This example also requires further elaboration on market definition and market power (under the current version of section 45). Even though the products of ABC and ZENIX are "revolutionary", the firms may still compete in a market including other machines. Initially they might have a 0% combined share.

Example 7.1: The Bureau's position, as noted above, is that conduct going beyond the mere exercise of an IP right includes termination of an IP licence by a licensor who has led licensees to believe that they would have an ongoing licence. The Sections do not agree with this characterization. As Example 7.1 addresses just such a situation, the Sections recommend that it be removed from the Draft Guidelines.[11] Furthermore, the statement that the Bureau might examine the conduct under section 32 of the *Act* is extremely problematic given the nature of the game console business, in which the pace of innovation is rapid. The Bureau's suggestion is particularly troubling and puzzling given that EXCITEMENT's system "virtually disappeared from the market" as a result of its earlier adoption of a closed standard. One would expect that MEGARUSH could easily meet the same fate as new competing, open standard products hit the market.

Example 7.2: The Bureau states that it would examine the conduct in this example under section 32 of the *Act*. As with Example 7.1, the Sections do not believe that this example is appropriate for the use of section 32. We agree with the ultimate conclusion that the Bureau would not likely bring an application under section 32. However, for the reasons noted above, the mere suggestion that it would consider Section 32 in this context is troubling.

Example 8: Anti-competitive acts listed in section 78 generally require some purposive conduct directed towards existing competitors. The analysis here may depend upon when DISCO was formed and when DATCO developed its technology. If DATCO developed its technology after DISCO was formed and if DISCO was not formed to target DATCO

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11 A remedy could exist to protect competition under sections 52 or 74.01 of the *Act*. This would be on the basis that the MEGARUSH had "stated publicly" that it would continue its open licensing policy and that it had done so "in an effort to win prospective customers".

(i.e., no competition existed or was anticipated at the time), then DATCO's difficulties would seem to be a result of the competitive process rather than a problem that should be addressed under section 79. In this case, the defence in section 79(4) (superior competitive performance) may justify DISCO's behaviour.

Although the Bureau states that it would examine the conduct described in this example under sections 92, 79 and/or 32 of the *Act*, the discussion deals only with section 79. We recommend that the Bureau add a discussion of section 92's application to the facts set out in the example (rather than merely referencing the MEGs). It should remove the reference to section 32 altogether.

The Draft Guidelines suggest a second remedy that ROCKCO and POPCO be required to licence their works for release in alternative formats. This raises troubling trade-mark and passing-off questions, may not be feasible under Canadian law and may violate Canada's obligations under the TRIPs Agreement. This suggested remedy should be omitted.

Example 9: The Sections reiterate their comments of August 1999 concerning this example, which was Example 11 in the first version of the Draft Guidelines. If this example is used, it needs to be clarified. The phrase "unintended and unwarranted" in the second-last paragraph of the analysis should be removed. Likely, the ABACUS programmers fully "intended" their command hierarchy to be useful and attract users, particularly at the time it was implemented. Intention at the nascent innovation stage should not be a relevant factor.

The example states:

> If the relevant market is determined to be ABACUS-compatible spreadsheets then, given the facts in this case, the Bureau would likely conclude that the relevant market was larger than the subject-matter of ABACUS' IP – the words and layout of its menu command hierarchy, ABACUS is dominant in the relevant market, and the IP is an essential input for firms competing in the relevant market.

If ABACUS-compatible spreadsheets means spreadsheets that can be shared between different spreadsheets and ABACUS spreadsheets, the menu command structure has nothing to do with whether competitors can enter the market. If, on the other hand, ABACUS-compatible spreadsheets are defined as those that use the same menu hierarchy, it is difficult to see how the relevant market is larger than the subject-matter of ABACUS' IP. If, as a third alternative, ABACUS-compatible spreadsheets need to use the menu hierarchy because the ability to share spreadsheets is inextricably linked with the menu hierarchy, then it is again difficult to see how the relevant market is larger than the subject-matter of the IP.

X. OTHER COMMENTS

Paragraph 5: We would add "seek to" between "would" and "restrain" to acknowledge that the Bureau has no legal authority to restrain conduct under the *Act*.

Paragraph 12: We would add a reference to subsection 79(4) of the *Act* which provides that superior competitive performance is a consideration in determining whether a practice has an anti-competitive effect in a market. In the second sentence, "Creating" should be replaced with "acquiring" to acknowledge that, as noted at the end of paragraph 12, the mere creation of market power is not contrary to the *Act* if it is done by way of a superior product, process, business practice etc.

Paragraph 14: Regrettably, the Draft Guidelines provide no guidance concerning the potential application of the price maintenance provisions in section 61 of the *Act*. Unlike most other sections of the *Act*, section 61 specifically covers persons who have "exclusive rights and privileges conferred by patent, trade-mark, copyright, registered industrial design or registered integrated circuit topography." Section 61 has also been utilized by the Bureau as an alternative to section 45.

It is highly unlikely that the price discrimination provisions would apply in an IP context, as section 50(1)(a) applies only to sales of articles. Section 2.3.1 of the PDEGs states that the requirement of a "sale" in section 50(1)(a) limits the application of the price discrimination provision to a sale as opposed to other forms of supply such as, among others, licensing. There may also be some question whether IP is an "article" as defined in the *Act*. Because licensing is typically the most common form of dealing in IP rights, it would seem that price discrimination in respect of IP is very unlikely to occur.

Paragraph 16, note 5: The references to the Information Bulletin on Program of Compliance appear to be dated. The proper reference is now Director of Investigation and Research, Program of Compliance, Information Bulletin No. 3 (Revised), March 1993.

Paragraph 16, note 7: The IP aspect of the *Nielsen* case should be identified for the reader. Also, reference and a brief statement about the IP aspects of the *NutraSweet* case would be helpful here.

Paragraph 18: After the phrase "ordering licensing of the IP right," add "(except in the case of trade-marks)" to acknowledge the fact that section 32 does not provide for the compulsory licensing of trade-marks. Also, at the end of paragraph 18, add the following: "In practice, the Attorney General likely would seek a remedial order under the *Competition Act* only on the recommendation of the Bureau."

Paragraph 26: A reference to subsection 79(4) of the *Act* should be added.

Paragraph 49: The discussion of definition of relevant market here should make it clear that the relevant market is not defined solely with reference to the factors listed, but in accordance with the hypothetical monopolist test or the appropriate variations set out in paragraphs 47 and 48.

Paragraph 53: The Bureau should add a sentence similar to that which appears in section 2.2 of the U.S. Guidelines. This would provide that the Bureau will not presume that IP necessarily confers market power upon its owner and that there will often be sufficient actual or potential close substitutes to prevent the exercise of market power.

Paragraph 56: In the first line, the Bureau refers to conduct of "a firm or group of firms." This is the first reference in the Draft Guidelines to group conduct and the concept of joint dominance. The Bureau may wish to add some explanation in this regard. At a minimum, it should clarify the language to refer to "a firm (or a group of firms acting together)."

XI. CONCLUSION

The Sections appreciate the opportunity to comment on this second draft of the Guidelines and trust that the commentary above is useful. We welcome continued dialogues with the Bureau on these important issues.