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Update of Intellectual Property Enforcement Guidelines

**NATIONAL COMPETITION LAW SECTION
CANADIAN BAR ASSOCIATION**

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PREFACE

The Canadian Bar Association is a national association representing 37,500 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 Section 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 as a public statement of the National Competition Law Section of the Canadian Bar Association.

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Update of Intellectual Property Enforcement Guidelines

I. INTRODUCTION

The CBA Section appreciates the opportunity to comment on the Competition Bureau's draft update (the Update) of the Bureau's *Intellectual Property Enforcement Guidelines* (the IPEGs). The CBA Section commends the Bureau on its commitment to increased transparency and appreciates the timely update of the IPEGs, particularly in light of developments in the areas of intellectual property (IP) and competition law and policy since the IPEGs were issued in 2000, and the increasing prevalence of these issues in Canada and elsewhere.

The Update is intended to serve primarily as a technical update of the IPEGs that reflects, among other things, statutory amendments since 2000, and we understand that a second, more substantive round of revisions to the IPEGs is likely to follow. In our view, a further update of the IPEGs would be important, and it is critical that consultative input be sought, given that the revisions contemplated in the Update do not address several important issues that have arisen concerning the IP/competition law interface since 2000 (including reverse payment settlements, life cycle management strategies, patent assertion entities, and standard essential patents). The CBA Section strongly encourages the Bureau to conduct a second round of consultation on those important issues and to include a discussion and provide guidance on each of these in the second, more substantive update to the IPEGs.

In light of the Bureau's limited objectives for this phase of revisions to the IPEGs, the CBA Section's comments are limited to the few substantive issues arising from the Update and some drafting suggestions. While the CBA Section does offer some general suggestions on the balance that should be struck by the Bureau between IP laws and competition laws going forward, we look forward to providing more detailed commentary on specific topics or issues when the Bureau undertakes a more substantive revision to the IPEGs.

II. SUBSTANTIVE COMMENTS ON THE UPDATE

A. “Non-Use” as a “Mere Exercise”

The Update retains the distinction relied on in the IPEGs between the “mere exercise” of an IP right and something more than the mere exercise of an IP right. Under this framework, the mere exercise of an IP right does not raise concerns under the general provisions of the *Competition Act* (the Act). However, the Update removes the reference to the “non-use” of intellectual property from the scope of conduct that constitutes the “mere exercise” of an IP right (see section 4.2.1).

The CBA Section is concerned about the removal of the reference to “non-use” from this portion of the IPEGs for a number of reasons.

1. As a general rule, the right not to use IP is clearly inherent to the ownership of an IP right itself (except for explicit exceptions contained in relevant IP statutes, such as section 65 of the *Patent Act* or section 45 of the *Trade-marks Act*). The suggested removal of “non-use” from the scope of the mere exercise of an IP right is therefore at odds with a key principle on which the IPEGs are based, namely, that “the approach elaborated in this document is based on the premise that the Act generally applies to conduct involving IP as it applies to conduct involving other forms of property.” This departure from the Bureau’s previous stance does not properly recognize the balance that must be upheld between competition law and IP laws and is contrary to the Bureau’s stated position that it recognizes the importance of “providing incentives for owners to invest in creating and developing IP and encouraging the efficient use and dissemination of the property within the marketplace”.
2. It is difficult to envision a scenario in which the mere “non-use” of an IP right could result in anticompetitive conduct captured by the general provisions of the Act. If the Bureau believes that there are such scenarios, it should identify them in the Update. As the Update is drafted, no specific examples are provided. To the extent that additional conduct engaged in by an IP owner in conjunction with the “non-use” of an IP right raises issues, the course of conduct would not constitute the “mere exercise of an IP right” in any event.
3. Given the limited objectives of the Update, it is not clear why the Bureau has chosen to include this particular substantive revision at this time. Removal of the phrase “non-use” could have implications for other substantive issues (e.g., the Bureau’s views on patent assertion entities) that may be addressed in a subsequent phase of the IPEGs consultations.

As such, it would seem more appropriate for removal of the phrase “non-use” from section 4.2.1 of the IPEGs to be discussed in that context, with the benefit of consideration of the substantive issues to which it may relate.

B. Reviewing Acquisitions of IP Rights

Section 4.2.1 of the Update discusses the manner in which the Bureau will review the acquisition of IP rights. The Update cites the example of a firm that acquires market power by “systematically purchasing” a collection of IP rights then refuses to license the rights, which the Update states could be reviewed under sections 92 (provided that the acquisitions met the definition of a merger in section 91), 90.1 or 79 of the Act.

While it is true, as the Update notes, that any competitive harm would have been unlikely without the acquisitions, it does not follow that the acquisitions themselves necessarily constitute part of any anti-competitive acts that could be reviewed under the Act. Assuming the acquisitions (by assignment or license) meets the definition of a “merger” in section 91, the appropriate provision for the review of such acquisitions would seem to be limited to section 92 of the Act.¹ If the acquisitions constituted part of some broader arrangement between competitors, such as a joint venture arrangement, that broader arrangement could be reviewed under section 90.1 of the Act.

As for section 79, the Update seems to suggest that any anticompetitive conduct that follows the acquisitions could be reviewed as a potential abuse of dominance on the basis that, without the acquisitions, the conduct (and hence any harm flowing from it) could not have occurred. To fall within the potential scope of section 79, however, the alleged conduct would have to include the acquisitions and not merely follow them. Absent additional facts, it is not clear how the requirement of an anti-competitive act in subsection 79(1)(b) would be satisfied by an acquisition of IP rights.

In the CBA Section’s view, if in any particular case there were a competition concern about the acquisition of IP rights, it would (absent unusual circumstances) be appropriate to examine the conduct under sections 92 or 90.1 of the Act, and not section 79. In any event, the CBA Section

¹ See, in this regard, section 1.2 of the *Competitor Collaboration Guidelines*, which states as follows:

- (a) Mergers: A proposed or completed acquisition of control over, or significant interest in, the whole or part of a business through the purchase or lease of shares or assets, by amalgamation or combination, will be assessed under the merger provisions in section 92 and following of the Act, and not the civil agreements provision in section 90.1 or the conspiracy provision in section 45 of the Act.

is of the view that the Bureau should provide further guidance regarding the circumstances in which a review could be commenced in respect of the acquisition of IP rights.

C. Potential Competitors

Hypothetical Example 2 in section 7 of the Update considers a case of price fixing and assumes that the firms in question are competitors for purposes of section 45. However, the Bureau's analysis of the example also includes a reference to the firms as potential competitors for purposes of section 45 "even if the parties had not been in competition when the agreement was concluded or during the term of the agreement." The CBA Section is of the view that further clarity should be added (e.g., an additional factual assumption) on the "deemed competition" portion of the analysis. As currently drafted, the Bureau's analysis simply concludes that, even if the parties had not been in competition when the agreement was concluded or during the term of the agreement, the parties would still be deemed to be competitors for purposes of section 45. But there is no basis provided for the Bureau's implicit assumption that the parties would potentially compete with respect to their procedures in the absence of the conspiracy, or that the parties were not competing because of the conspiracy itself. The CBA Section is of the view that the example should provide additional assumptions supporting the parties' potential competition, so as not to create confusion about when parties may be potential competitors for purposes of section 45.

D. Patent Pooling

Hypothetical Example 6 in section 7 of the Update addresses a case of patent pooling, where two companies agree to cross-license patents relating to a particular technology. The Bureau states that the scenario presented (where companies with patents for functionally interchangeable x-ray machines fix a licensing fee to be paid for the use of either company's x-ray machine) would "likely" be examined under section 45 of the Act. The analysis in this example goes on to note that the Bureau recognizes that certain patent pooling arrangements may provide pro-competitive benefits, further indicating that there might be some purview for certain patent pooling arrangements to be considered under section 90.1 of the Act as opposed to section 45. The CBA Section has concerns with the analysis in this example, for several reasons:

1. Without any further details in the example (such as the patent pooling arrangement being a sham), reviewing this particular arrangement under section 45 (as opposed to section 90.1) is not consistent with the approach reflected in the Bureau's *Competitor Collaboration*

Guidelines, which generally reserve section 45 treatment for naked price-fixing restraints. In this example, there are potential pro-competitive justifications, including avoiding costly litigation and promoting the dissemination of technology, which suggest that treatment under section 45 would be inappropriate. As currently drafted, the example and analysis in the Update could deter legitimate and pro-competitive patent pooling or other conduct (including, as noted below, in the context of patent infringement litigation settlements) that is not deserving of criminal condemnation. The CBA Section is of the view that the Bureau should provide additional guidance regarding the particular scenarios (if any) in which patent pooling might be examined under section 90.1 or other civil provisions of the Act, as opposed to section 45.

2. Certain aspects of the discussion of patent pooling arrangements could be analogized to other factual scenarios (e.g., reverse settlement payments), which are not addressed in the Update. The CBA Section is of the view that a more direct and transparent approach would be preferable regarding the Bureau's views on the important issue of reverse settlement payments (and any other topics that may be impacted). Accordingly, it should be made clear in the Update that Hypothetical Example 6 is intended to deal only with patent pooling arrangements and no other IP arrangements.
3. The CBA Section suggests re-including the scope of ABC's patent and the merits of its infringement claim against ZENIX in the example, since removing that information presents a number of issues. For example:
 - As currently drafted, the example is arguably inconsistent with the approach reflected in the other hypotheticals in the Update, where the merits of an infringement claim are considered to be relevant to the Bureau's analysis (see, e.g., Hypothetical Example 1).
 - The merits of the infringement claim are relevant to the requirement under section 45 that the parties be competitors or potential competitors (as recognized earlier in the hypothetical).
 - The merits of the infringement claim and scope of the patent are also arguably relevant to the potential application of the ancillary restraints defence insofar as the patent pool was ancillary to a settlement agreement in relation to ABC's infringement claim.

III. GENERAL DRAFTING SUGGESTIONS

In addition to the substantive points noted above, the CBA Section offers the following additional drafting points for consideration in the Update:

1. Given the issues discussed above with respect to Hypothetical Examples 2 and 6, the Update should include a general statement acknowledging that agreements between competitors or potential competitors involving IP will be analyzed in accordance with the principles set out in the Bureau's *Competitor Collaboration Guidelines* (or if not, the Bureau should explain the circumstances in which an agreement between competitors involving IP will be treated differently). The Bureau should be careful to ensure that the treatment of hypotheticals involving competitor agreements tracks the analytical framework set forth in the *Competitor Collaboration Guidelines*, so as not to create unnecessary uncertainty and internal inconsistency in the Bureau's own sets of guidelines.
2. The Update provides examples that are out of step with current technologies. For example, the Bureau's definition of a network industry on page 15 of the Update uses the example of fax machines to illustrate a network industry, stating "fax machines exhibit network effects because of the value of owning a fax machine clearly depends on the number compatible fax machines in use." Today, that network would be small indeed. A more up-to-date example might be appropriate.
3. The Update contains various characterizations of the types of conduct to which the IPEGs can be relevant. The first reference is in subsection 4.1, which refers to "identifying transaction or conduct" with a footnote referring to "mergers, pooling of licenses, setting standards for products, tied selling and exclusive dealing." For consistency, the CBA Section suggests referring only to "conduct" which (particularly in light of the further explanation in the footnote) is broad enough to include a transaction, whether it is a merger or licensing agreement.

IV. FUTURE CONSIDERATIONS

Bearing in mind that the Bureau plans to engage in a more substantive and in-depth review of its policies on IP and competition law, and given that the intersection between IP and competition law will continue to be of great interest to members of the CBA Section and their clients, we encourage the Bureau not to stray from its recognition of the "bargain" that patent law provides for between an inventor and the government. The Bureau should continue to

recognize the importance of protecting IP rights as being generally consistent with the competition policy goal of fostering innovation and dynamic competition.

To the extent that specific policy issues arise within the patent system that impact on competition – for example with respect to patent-assertion entities and standards-essential patents – the CBA Section is of the view that the Bureau should consider working within the framework of the patent system (perhaps through the use of its Advocacy Initiative) to address those issues, rather than pursuing enforcement action under the Act. Otherwise, the Bureau risks moving too broadly into the IP area, which could inadvertently chill the innovation and dynamic competition that drives economic growth in Canada today.

V. CONCLUSION

The CBA Section appreciates the opportunity to comment on the Update and hopes that these comments will be of assistance as the draft progresses. The CBA Section would be pleased to discuss its comments in more detail if that would be helpful.