The Canadian Institute's 10th Annual Conference on Intellectual Property Licence Agreements

Competition Law in the IP Licensing Arena: What You Need to Know

by

George Addy, Mark Katz and Elisa Kearney
Davies Ward Phillips & Vineberg LLP
(Toronto, Canada)

November 27-28, 2006
Toronto, Canada

COMPETITION LAW IN THE IP LICENSING ARENA: WHAT YOU NEED TO KNOW

George Addy, Mark Katz and Elisa Kearney[*]
Davies Ward Phillips & Vineberg LLP

November 2006

I. INTRODUCTION

In today's knowledge-based economy, a firm's competitive position is largely dependent upon its ability to stay on top of, and benefit from, the rapid technological changes that are taking place. In many cases, these changes create economic, cultural, social and educational opportunities for firms to put ideas to work in innovative ways that increase productivity and create employment and wealth. It is therefore not surprising that governments, policymakers and antitrust agencies have recognized the significance of technological change to economic efficiency[1] and the importance of promoting and protecting the intellectual property ("IP") rights that in many cases are driving such change.[2] Canada's commitment to promoting and protecting IP rights is, for

---

* George Addy and Mark Katz are partners in the Davies Competition and Foreign Investment Review Group. Elisa Kearney is an associate in the Group. The authors also would like to thank articling student Mara Abols for her assistance in preparing this paper.

1 For example, the Commissioner of Competition (the "Commissioner") has stated that "the acceleration of technological change … [is] having a significant impact on [the Canadian] economy and on [Canada's] ability to compete": S. Scott, "Competition in a Dynamic Marketplace" (Speaking Notes for Address to the Canadian Bar Association Annual Conference on Competition Law, September 23, 2004) at 3, available at http://www.competitionbureau.gc.ca/PDFs/ct02950eCBAfinal1.pdf. The Commissioner also stated that "[i]f we wish to ensure effective enforcement of the [*Competition Act*] … we will have to stay on top of technological change" and that "we must ensure that the Competition Bureau [(the "Bureau")] remains flexible enough to absorb the implications of the changing environment and rigorous enough to determine which changes are meaningful": *id.* at 4. See also G. F. Masoudi, "Intellectual Property and Competition: Four Principles for Encouraging Innovation" (U.S. Department of Justice address to the Digital Americas Meeting, Sao Paolo, Brazil, April 11, 2006), available at: http://www.usdoj.gov/atr/public/speeches/215645.pdf.

2 See, for example, G. Addy, "Competition Policy and Intellectual Property Rights: Complimentary Framework Policies for a Dynamic Market" (Address to the XXXVIth World Congress of the AIPPI, June 29, 1995) at 1, available at http://www.competitionbureau.gc.ca/internet/index.cfm?itemID=980&lg=e, in which former Director of Investigation and Research (the "Director") Addy noted as follows:

> [IP] rights… including patents, trade-marks, copyrights, registered industrial designs and integrated circuit topographies, are a key factor in fostering innovation and growth in today's economy. Such rights provide vital incentives for research and development leading to new products and production processes. By promoting innovation, [IP] rights also serve to strengthen competition in particular markets for goods and services.

(On March 18, 1999, the "Director of Investigation and Research" became known as the "Commissioner of Competition". The terms "Director" and "Commissioner" are used interchangeably in this paper.) See also Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (1995) at § 1, reprinted in 4 Trade Reg. Rep. (CCH) at § 13,132 and available at http://www.usdoj.gov/atr/public/guidelines/0558.pdf (the "U.S. IP Guidelines"), which provide as follows:

example, reflected in the *Patent Act*,[3] the *Copyright Act*,[4] the *Trade-Marks Act*,[5] the *Industrial Design Act*[6] and the *Integrated Circuit Topography Act*.[7] In addition, Canada is a member of the World Intellectual Property Organization and a signatory to many international treaties concerning the recognition and enforcement of IP rights, including the World Trade Organization treaty concerning Trade-Related Aspects of Intellectual Property ("TRIPS").

IP laws and competition laws are complementary instruments of government policy that share a common objective, namely the promotion of an efficient economy. IP laws establish enforceable property rights for the creators of new products which allow the owners of the IP to unilaterally exclude others from using the property, thereby providing incentives for owners to invest in creating and developing new products. At the same time, however, as Canada's Supreme Court recently stated, at the root of IP law "lies a concern to avoid overextending monopoly rights on the products themselves and impeding competition".[8]

Similarly, competition laws are designed to protect against unreasonable restraints of trade that create, maintain or enhance market power or otherwise harm vigorous rivalry among firms. However, in doing so, competition laws recognize, and increasingly so, the role of innovation in strengthening competition in particular markets for goods and services and the importance of IP rights in fostering such innovation. The challenge is to enforce competition laws to IP rights without interfering with the legitimate exercise of those rights. An over-zealous approach to antitrust enforcement will impede innovation and have a chilling effect on the rate of technological advancement, which would undoubtedly have a serious impact on the competitiveness of the Canadian economy.

In a speech earlier this year, the Commissioner of Competition summarized the complementary roles of IP and competition law as follows:

> Continual innovation is both one of the hallmarks of competition, and an important source of competition in the market place. To the extent that a strong and effective intellectual property framework

---

> The intellectual property laws provide incentives for innovation and its dissemination and commercialization by establishing enforceable property rights for the creators of new and useful products, more efficient processes, and original works of expression. In the absence of intellectual property rights, imitators could more rapidly exploit the efforts of innovators and investors without compensation. Rapid imitation would reduce the commercial value of innovation and erode incentives to invest, ultimately to the detriment of consumers. The antitrust laws promote innovation and consumer welfare by prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers.

3 R.S.C. 1985, c. P-4, as amended, available at http://laws.justice.gc.ca/en/P-4/.

4 R.S.C. 1985, c. C-42, as amended, available at http://laws.justice.gc.ca/en/C-42/.

5 R.S.C. 1985, c. T-13, as amended, available at http://laws.justice.gc.ca/en/T-13/.

6 R.S.C. 1985, c. I-9, as amended, available at http://laws.justice.gc.ca/en/I-9/.

7 S.C. 1990, c. 37, as amended, available at http://laws.justice.gc.ca/en/I-14.6/.

8 *Kirkbi AG v. Ritvik Holdings Inc.*, [2005] 3 S.C.R. 302 at para. 52.

> contributes to this innovation, it supports competition. And to the extent that competition stimulates innovation, it clearly contributes to the development of intellectual property.[9]

The Commissioner also announced in the same speech that the Bureau, together with Industry Canada and the Canadian Intellectual Property Office, has commissioned a review paper of the issues relating to the interface between IP and competition policy. Among the topics to be considered are compulsory licensing, tying/bundling in the IP context, extension of IP rights, copyright collectives, and Canada's trade-mark system.

With the foregoing background in mind, this paper describes the interface between IP rights (including IP licensing) and competition policy in Canada, reviewing the key relevant provisions and cases. We also highlight several emerging issues, such as compulsory licensing, cross-licensing and standard-setting misconduct. Given that the Canadian case law is sparse on some of these topics, where necessary, we consider developments in other jurisdictions, such as the U.S. and Europe, to see what guidance they offer. It is important to recognize, however, that even the relevant law in these other jurisdictions may be unsettled in certain respects.

II. INTELLECTUAL PROPERTY AND THE *COMPETITION ACT*

The Bureau's approach to dealing with the competition issues raised by IP is articulated in its *Intellectual Property Enforcement Guidelines* (the "IP Guidelines").[10] Among other things, the IP Guidelines state that IP laws and competition laws work together to promote an efficient economy; that the *Competition Act* (the "Act")[11] generally applies to conduct involving IP as it applies to conduct involving other forms of property; and that the exercise of an IP right is not necessarily anti-competitive.[12] Moreover, the IP Guidelines state that while IP has important characteristics that distinguish it from other forms of property, the Bureau nevertheless applies

---

9 S. Scott, "Aristotle and the 'Just Right' Policies" (Address to the Intellectual Property Institute of Canada 40th Spring Meeting, April 24, 2006), available at http://www.competitionbureau.gc.ca/PDFs/20060424-Aristole-e.pdf.

10 Competition Bureau, *Intellectual Property Enforcement Guidelines* (Ottawa: Supply and Services Canada, September 2000), available at http://strategis.ic.gc.ca/pics/ct/ipege.pdf. See also R.D. Anderson, S.D. Khosla and M.F. Ronayne, "The Competition Policy Treatment of Intellectual Property Rights in Canada: Retrospect and Prospect", in R.S. Khemani and W.T. Stanbury, eds., *Canadian Competition Law and Policy at the Centenary* (Halifax: Institute for Research on Public Policy, 1991) 497 at 498.

11 R.S.C. 1985, c. C-34, as amended, available at http://laws.justice.gc.ca/en/C-34/.

12 *Supra* note 10 at 1-2. The approach applied by the United States Department of Justice and the Federal Trade Commission (the "FTC") in analyzing issues involving IP is similar to that applied by the Bureau. In this regard, the U.S. IP Guidelines, *supra* note 2, embody the following three general principles (at § 2.0): (1) IP is comparable to any other form of property; (2) IP licensing is generally pro-competitive; and (3) there is no presumption that IP creates market power in the antitrust context.

While the general approaches of Canadian and U.S. antitrust authorities are similar, it is worth noting that the U.S. IP Guidelines and the Canadian IP Guidelines differ slightly in their application to trade-marks. Specifically, while both sets of guidelines are generally concerned with technology transfer and innovation related issues, the U.S. IP Guidelines do not cover the antitrust treatment of trade-marks whereas the Canadian IP Guidelines provide that the Bureau will consider as part of its analysis the source and quality differentiation issues that arise in respect of trade-marks.

the same analytical framework to conduct involving IP that it applies to other forms of property.[13]

The circumstances in which the Bureau will apply the Act to anti-competitive conduct involving IP rights fall into two broad categories, namely (a) those involving anti-competitive conduct that is something more than the "mere exercise" of an IP right and (b) those involving the "mere exercise" of an IP right and nothing else.[14] In the former case, the Bureau may proceed under one or more of the "general" provisions of the Act, such as the refusal to deal, abuse of dominance or conspiracy provisions. In the latter case, the Bureau will consider referring the matter to the Attorney General of Canada (the "Attorney General") to commence proceedings under section 32 of the Act, which provides for special remedies where an IP right has been used to prevent or lessen competition unduly. For these purposes, the Bureau defines the "mere exercise" of an IP right as the owner's right to unilaterally exclude others from using the IP right or to decide whether to use or not use the IP right itself.[15]

1. "General Provisions" of the Act

(a) Overview

The Bureau will normally not proceed under the Act's "general" provisions when all that is involved is the "mere" exercise of an IP right, no matter to what degree competition is affected.[16] Furthermore, the Bureau is not likely to take enforcement action where there exists an available remedy under a relevant IP statute.[17] For example, the Bureau in 2004 discontinued its inquiry into the alleged misuse of Canada's drug patent rules by brand-name pharmaceutical companies because the practice in question, commonly referred to as "evergreening", could be challenged under the existing patent regulatory system and in the courts.[18] Accordingly, the Bureau concluded that the Act was not the appropriate vehicle for resolving what was in effect a patent dispute between two private companies. The Bureau did, however, suggest that the Government of Canada may wish to review the current patent rules to ensure that an appropriate balance is maintained between protecting IP rights and facilitating a competitive supply of pharmaceutical products for consumers.[19]

---

13 For a summary of the analytical approach applied by the Bureau, see *id.* at 6-7 and 11-14.

14 *Id.* at 7.

15 *Id.*

16 *Id.*

17 *Id.* at 9.

18 Evergreening occurs where a brand-name pharmaceutical company files additional patents for a given drug after a generic pharmaceutical company provides the brand-name pharmaceutical company with a notice that it wants to copy the drug following the expiration of the original patent. These additional patents, which may cover everything from aspects of the manufacturing process to tablet colour, provide the patent holder with the possibility of claiming infringement of those patents thus delaying the entry of generic drugs beyond the original patent protection period.

19 Competition Bureau, Information Notice and Backgrounder, "Competition Bureau Responds to Complaint Over Alleged Misuse of Canada's Drug Patent Rules" (February 27, 2004), available at

The Bureau will resort to the "general" provisions of the Act only if a party uses the protection afforded by IP rights to engage in conduct which goes beyond the "mere" exercise of such rights. For example, the Bureau may apply the "general" provisions of the Act when IP rights form the basis of arrangements between independent entities, whether in the form of a transfer, licensing arrangement or agreement to use or enforce IP rights, and when the alleged competitive harm stems from such an arrangement and not the mere exercise of the IP right.[20] While applying the Act in this way may limit to whom and how the IP owner may license, transfer or sell the IP, it does not challenge the fundamental right of the IP holder to do so as long as such conduct does not have an anti-competitive effect.

The Bureau's approach as articulated in the IP Guidelines is, for the most part, consistent with various decisions of the Tribunal and the courts. The Tribunal, for example, has held that the refusal to license trade-marks to competitors is nothing more than "the mere exercise of statutory rights" and thus cannot constitute an anti-competitive act under the Act's abuse of dominance provisions even if exclusionary in effect.[21] Similarly, the Federal Court of Appeal (the "FCA") has confirmed that the Act applies when there is something more than the "mere exercise" of an IP right.[22]

(b) Relevant Provisions

(i) Refusal to Deal

Refusal to deal is a civil reviewable practice dealt with under section 75 of the Act. Pursuant to this provision, the Tribunal may order a supplier to supply a customer on usual trade terms where the Tribunal finds, among other things, that a customer is substantially affected in its business

---

http://www.competitionbureau.gc.ca/internet/index.cfm?itemID=323&lg=e and http://www.competitionbureau.gc.ca/internet/index.cfm?itemID=843&lg=e.

20 *Supra* note 10 at 7. See also R. Davidson, "Combines Considerations and the Licensing of Patents" (Address to the Law Society of Upper Canada, June 14, 1974), in which a former Deputy Director identified a number of licensing provisions and practices that would arguably have the effect of unreasonably extending IP rights or entrenching a monopoly beyond the rights granted by a patent or other IP right. These practices include, among other things, tying arrangements, charging royalties or placing other restrictions on patents after they expire, restrictions on imports and cross-licensing. Clearly, not all of the identified conduct would necessarily violate the Act or provide grounds for an order of the Competition Tribunal (the "Tribunal"). However, this list may be useful in identifying conduct that could raise issues and ought not to be engaged in without first considering the possible application of the Act.

21 *Canada (Director of Investigation and Research)* v. *Tele-Direct (Publications) Inc.* (1997), 73 C.P.R. (3d) 1 at 32-33 (Comp. Trib.) ("*Tele-Direct*"). The *Tele-Direct* case involved, among other things, an allegation that the dominant provider of telephone directory advertising services in Canada had abused its dominant position by refusing to license its "Yellow Pages" trade-mark to competing telephone directory advertising companies. In rejecting this allegation, the Tribunal relied upon subsection 79(5) of the Act, which provides that, for the purposes of the abuse of dominance provisions, "an act engaged in pursuant only to the exercise of any right or enjoyment of any interest derived under the *Copyright Act*, *Industrial Design Act*, *Integrated Circuit Topography Act*, *Patent Act*, *Trade-Marks Act* or any other Act of Parliament pertaining to intellectual or industrial property is not an anti-competitive act". See also *Canada (Director of Investigation and Research)* v. *Warner Music Canada Ltd.* (1997), 78 C.P.R. (3d) 321 (Comp. Trib.) ("*Warner Music*").

22 *Apotex Inc.* v. *Eli Lilly and Co.* (2005), 44 C.P.R. (4th) 1 (FCA).

because it is unable to obtain an adequate supply of a product on usual trade terms as a result of insufficient competition among suppliers in the relevant market. In addition, the Tribunal must find that the refusal to deal is having or is likely to have an adverse effect on competition in a market.[23]

The application of the refusal to deal provisions to copyright licences was considered by the Tribunal in its 1997 decision in *Warner Music*. In that case, the Director filed an application with the Tribunal seeking an order requiring Warner Music Canada Ltd. ("Warner") to supply BMG Direct Ltd. ("BMG") with a mail order record club licence in Canada. In particular, the Director sought an order requiring Warner to supply BMG with a licence to manufacture, advertise, distribute and sell sound recordings made from master recordings owned or controlled by Warner. The Director took the position that Warner music recordings were a separate product from other music recordings, in part because consumers demanded specific Warner music titles and would not accept substitutes.

Warner subsequently brought a motion to strike the Director's application on the grounds that section 75 does not give the Tribunal jurisdiction to compel the supply of IP rights. The Tribunal agreed and granted Warner's application. The Tribunal held that "on the facts of this case the [copyright] licences are not a product as that term is used in section 75 of the Act".[24] Specifically, the Tribunal said that:

> Although a copyright licence can be a product under the Act, it is clear that the word "product" is not used in isolation in section 75, but must be read in context. The requirements in section 75 that there be an "ample supply" of a "product" and usual trade terms for a product show that the exclusive legal rights over [IP] cannot be a "product" – there cannot be an "ample supply" of legal rights over [IP] which are exclusive by their very nature and there cannot be usual trade terms when licences may be withheld.[25]

In the course of its decision, the Tribunal also stated that "[t]he right granted by Parliament to exclude others is fundamental to [IP] rights and cannot be considered to be anti-competitive".[26] The Tribunal also added that "there is nothing in the legislative history of section 75 of the Act which would reveal an intention to have section 75 operate as a compulsory licensing provision for [IP]".[27]

A refusal to license may, however, give rise to proceedings under other provisions of the Act. For example, the IP Guidelines provide that if a firm acquires market power by systematically

---

23 The requirement that the Tribunal find that the refusal to deal is having or is likely to have an adverse effect on competition was added to the Act in June 2002, the same time at which the Act was amended to provide private parties with a limited right of access to the Tribunal under the refusal to deal, exclusive dealing, tied selling and market restriction provisions.

24 *Warner Music*, *supra* note 21 at 333.

25 *Id.*

26 *Warner Music*, *supra* note 21 at 333.

27 *Id.*

purchasing a controlling collection of IP rights and then refuses to license the rights to others, thereby substantially lessening competition in the markets associated with the IP rights, the Bureau could review this conduct under the Act's abuse of dominance or merger provisions (see below).[28]

(ii) Abuse of Dominance

Abuse of dominance is another potentially relevant civil provision. In order to grant relief under this provision, the Tribunal must be satisfied that:

- one or more persons substantially or completely control, throughout Canada or any area thereof, a class or species of business;[29]
- that person or those persons have engaged in or are engaging in a practice of anti-competitive acts;[30] and
- the practice has had, is having or is likely to have the effect of preventing or lessening competition substantially in a market.[31]

---

28 *Supra* note 10 at 8.

29 The Tribunal has held that the phrase "class or species of business" is synonymous with the concept of "relevant product market" and that the phrase "substantially or completely control" is synonymous with "market power" (i.e., the ability to set prices above competitive levels for a considerable period of time). The key factors in determining the presence or absence of market power are market shares and barriers to entry. Other relevant factors include the number of competitors in the market and their market shares; excess capacity; profitability levels; pricing behaviour; extent of technological change; customer or supplier countervailing power; and the views of market participants. See Competition Bureau, *Enforcement Guidelines on the Abuse of Dominance Provisions* (Ottawa: Supply and Services Canada, July 2001) at 10-14 (the "*Abuse of Dominance Guidelines*"), available at http://strategis.ic.gc.ca/pics/ct/aod.pdf, and IP Guidelines, *supra* note 10 at 12-13.

30 The Tribunal has held that a "practice" generally refers to more than an isolated act or acts; however, a single act may be considered a practice if it is sustained or systematic or has had a lasting impact on competition (e.g., a long-term contract). Section 78 of the Act sets out a non-exhaustive list of the types of conduct that can be considered anti-competitive for these purposes. More generally, the Tribunal has stated that an "anti-competitive act" must be designed to have an effect on a competitor that is "predatory, exclusionary or discriminatory" (e.g., to eliminate or discipline a competitor or to prevent future entry by new competitors). Proof of subjective intent is not necessary; the exclusionary intent can be derived from an analysis of the objective impact of the allegedly anti-competitive act. The Bureau also will consider whether there are credible efficiency or pro-competitive business justifications for the conduct at issue. See the *Abuse of Dominance Guidelines*, *supra* note 29 at 17-18 and 20-25. In addition, the IP Guidelines, *supra* note 10 at 11 and 13, provide that conduct that reduces innovation activity and restricts the innovation efforts of others may be an anti-competitive act.

31 A practice of anti-competitive acts will have the effect of preventing or lessening competition substantially if it serves to preserve or add to the dominant party's market power. In making this determination, the Act directs the Tribunal to consider whether the practice is "a result of superior competitive performance" (subsection 79(4)). See the *Abuse of Dominance Guidelines*, *supra* note 29 at 27. In addition, with respect to the requirement of a substantial prevention or lessening of competition, the IP Guidelines, *supra* note 10 at 13, state that, where an alleged abuse of an IP right is concerned, the Bureau will focus on whether the conduct will result in horizontal anti-competitive effects (i.e., consequences for firms producing substitutes or firms potentially producing substitutes).

Subsection 79(5) of the Act provides that an act engaged in pursuant only to the exercise of an IP right is not an "anti-competitive act". This provision was considered in *Tele-Direct*, a case in which the Director alleged that a telephone directory publisher had engaged in anti-competitive acts, contrary to the abuse of dominance provision of the Act, by, among other things, refusing to license its "Yellow Pages" and walking fingers logos to competing suppliers of telephone directory advertising services.

The Tribunal concluded that a decision by a trade-mark owner to refuse to license its trade-marks, even if motivated by competitive considerations, is not an abuse of dominance and that "the selective refusal to license a trade-mark is not an anti-competitive act".[32] As the Tribunal stated:

> [Tele-Direct's] refusal to license [its] trade-marks falls squarely within [its] prerogative. Inherent in the very nature of the right to license a trade-mark is the right for the owner of the trade-mark to determine whether or not, and to whom, to grant a licence; selectivity in licensing is fundamental to the rationale behind protecting trade-marks.[33]

The Tribunal did not close the door to the possibility that a trade-mark could be abused for the purpose of section 79. In the Tribunal's view, however, this would require something more than the "mere" exercise of the trade-mark holder's statutory rights.[34]

The Tribunal's earlier decision in *NutraSweet* provides some guidance on the types of circumstances that may constitute more than the "mere" exercise of trade-mark rights.[35] In that case, the Tribunal found that NutraSweet's use of its trade-mark amounted to an abuse of dominance under the Act. More specifically, the Tribunal found that certain trade-mark display allowances and co-operative marketing allowances offered by NutraSweet, referred to by the Tribunal as the "branded ingredient strategy", coupled with exclusive supply and use clauses,

---

32 *Tele-Direct*, *supra* note 21 at 30.

33 *Id.* at 32. Section 19 of the *Trade-Marks Act*, *supra* note 5, gives the trade-mark holder the right to exclusive use of the trade-mark.

34 The approach applied in the U.S. is similar. In Europe, however, there is a growing line of cases holding that a unilateral refusal to license IP may violate E.U. competition law principles where the IP is the source of a company's "dominant position" and where the IP is considered to be "indispensable" to competitors. For example, the European Commission, in its decision in *Microsoft Corp.* v. *Commission*, COMP/C-3/37.792, [2004] ECComm 1 (March 24, 2004), available at http://www.worldlii.org/eu/cases/ECComm/2004/12.html, found that Microsoft's refusal to share its IP was contrary to the general public good and a violation of Article 82 of the Treaty Establishing the European Union. The Court of First Instance upheld the Commission's decision and required Microsoft to take the necessary measures to comply with the Commission's order. The Court of First Instance did, however, note that Microsoft's case for annulment is not, at first sight, unfounded. See *Microsoft Corp.* v. *Commission of European Communities*, Case T-201/04 R 2 (Ct. First Instance) (December 22, 2004), available at http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=en&Submit=Rechercher&alldocs=alldocs&docj=docj&docop=docop&docor=docor&docjo=docjo&numaff=T-201/04&datefs=&datefe=&nomusuel=&domaine=&mots=&resmax=100 .

35 *Canada (Director of Investigation and Research)* v. *NutraSweet Co.* (1990), 32 C.P.R. (3d) 1 ("*NutraSweet*").

meet-or-release clauses and most-favoured-nation clauses, constituted anti-competitive acts.[36] The "branded ingredient strategy" was developed at a time when NutraSweet held a patent in Canada on aspartame and customers did not have a choice of suppliers. The Tribunal concluded that this strategy was used to exclude competitors once NutraSweet's Canadian patent expired and not for any other justifiable business purpose.

The Tribunal also found that NutraSweet had used its U.S. patent to secure an anti-competitive advantage in Canada. NutraSweet had apparently offered customers rebates on exports of aspartame from the United States in an effort to induce importers to exclusively use NutraSweet's aspartame in products purchased by them in Canada. The Tribunal decided that this arrangement constituted an abuse of NutraSweet's IP rights (in this case a U.S. patent), which amounted to an anti-competitive inducement to exclusivity.

In addition to *Tele-Direct* and *NutraSweet*, which were both contested cases, two abuse of dominance cases involving IP have been resolved by way of consent order. First, in the *Interac* case, the charter members of an electronic banking network were alleged to have engaged in a series of anti-competitive acts that restricted membership to that network and allowed the major chartered banks in Canada to maintain control of shared electronic financial services.[37] Second, in the *AGT Directory* case, the Director alleged that the respondents had jointly engaged in a practice of anti-competitive acts stemming from, among other things, the methods used in selling advertising in certain telephone directories.[38]

(iii) Conspiracy

Section 45 of the Act makes it a criminal offence for parties to knowingly enter into agreements that prevent or lessen competition "unduly".

Conspiracy offences under the Act are investigated by the Commissioner and Bureau but prosecuted by the Attorney General. Potential penalties include fines and imprisonment. In addition, private parties may sue for damages resulting from conduct that is contrary to section 45.

The Federal Court of Appeal (the "FCA") recently had occasion to consider the applicability of section 45 to IP rights in one such private action for damages, *Eli Lilly and Co.* ("Lilly") *v. Apotex Inc.* ("Apotex"). In this case, Lilly filed a statement of claim in June 1997 alleging that Apotex had infringed several of its patents, including four patents that had previously been assigned to it by Shionogi and Company Limited ("Shionogi") (the "Shionogi Patents"). Each of

---

36 Pursuant to NutraSweet's "branded ingredient strategy", customers were provided a 40% discount from the gross price of the aspartame in exchange for displaying the NutraSweet name and logo on their packaging and advertising. In addition, NutraSweet provided a discount to customers in the form of a payment to be applied to the marketing of products containing NutraSweet brand aspartame, provided that the NutraSweet name and logo were used in the advertisement.

37 *Canada (Director of Investigation and Research)* v. *Bank of Montreal* (1996), 68 C.P.R. (3d) 527 (Comp. Trib.) ("*Interac*").

38 *Director of Investigation and Research* v. *AGT Directory Limited*, CT-1994-002, Statement of Grounds and Material Facts, September 20, 1994 (Comp. Trib.) ("*AGT Directory*") at para. 2, available at http://www.ct-tc.gc.ca/english/CaseDetails.asp?x=219&CaseID=213#294 .

the Shionogi Patents described and claimed processes suitable for making intermediates, which could be converted to the antibiotic cefaclor using other non-infringing processes. In its statement of defence and counterclaim, Apotex alleged that the assignment of the Shionogi Patents to Lilly violated section 45 of the Act and counterclaimed for damages. Apotex also requested a declaration that the Shionogi Patents were "invalid, void, unenforceable and of no force or effect".

Lilly and Shionogi brought a motion seeking summary judgment striking out certain paragraphs of Apotex's statement of defence and counterclaim, including those relating to section 45 of the Act. They relied on an earlier decision of the FCA in *Molnlycke*,[39] which they argued had struck out allegations of anti-competitive conduct on the basis that the assignment of a patent involves nothing more than the legitimate exercise of the patentee's monopoly under the *Patent Act*.

Initially, a Prothonotary concluded that *Molnlycke* was distinguishable and allowed Apotex's claim to proceed.[40] On appeal, the Federal Court of Canada (Trial Division) (the "Trial Division") reversed the Prothonotary, holding that Apotex's counterclaim did not state a cause of action and granting summary judgment in favour of Lilly and Shionogi.[41] According to the Trial Division judge:

> … [the] allegation that Shionogi and Lilly entered into the agreement to assign the Shionogi Patents … for the purpose and with the effect of allowing Lilly to continue to have a monopoly of the Canadian market for cefaclor is simply not … an allegation of illegal conduct. Everyone who obtains a patent, whether by issue or by assignment, does so for the purpose of obtaining a monopoly which, by definition, is a lessening of competition. That monopoly is one that is legally sanctioned and simply cannot, as a matter of law, result in the lessening of competition being "undue" during the life of the patent.[42]

On further appeal, the FCA reversed the Trial Division decision.[43] The FCA held that where "there is evidence of something more than the mere exercise of patent rights that may affect competition in the relevant market, *Molnlycke* does not purport to completely preclude application of the [Act]".[44]

The FCA also agreed with the Prothonotary that *Molnlycke* was distinguishable from the case at hand. In *Molnlycke*, there was a single supplier lawfully entitled to sell the subject of the patent prior to the patent being assigned. The assignment merely transferred the patent to another company. The only effect of the assignment was that a different company could sue the

---

39 *Molnlycke AB* v. *Kimberly-Clark of Canada Limited* (1991), 36 C.P.R. (3d) 493 (F.C.A.) ("*Molnlycke*").

40 A Prothonotary is a barrister or advocate appointed by the Governor in Council to perform certain functions set out in the *Federal Court Rules, 1998*, SOR/98-106, including, for example, hearing motions for summary judgment where the amount claimed by an applicant does not exceed Cdn. $50,000.

41 *Eli Lilly and Co.* v. *Apotex Inc.* (2003), 28 C.P.R. (4th) 37 (F.C.T.D.).

42 *Id.* at 45-46.

43 *Apotex Inc.* v. *Eli Lilly Co.* (2004), 32 C.P.R. (4th) 195 (F.C.A.).

44 *Id.* at 199-200.

defendant for infringement. There was no change in the number of patent-holders before and after the assignment. By contrast, before the assignment of the Shionogi Patents, there were two companies with commercially viable processes for making cefaclor, namely Shionogi and Lilly. After the assignment, there was only one such company.

In light of the foregoing, the FCA remanded the matter to the Trial Division for further consideration. Specifically, the FCA stated that the Trial Division would, "at a minimum, have to address (1) whether subsection 45(1) can ever apply to an agreement involving the exercise of patent rights; and (2) if it can, whether the facts of this case are sufficient to prove that Lilly and/or Shionogi engaged in conduct that was contrary to section 45".[45]

On remand, the Trial Division held, again, that there was no basis upon which to find a section 45 offence.[46] The Trial Division judge held that patent assignments are lawful because they have been specifically authorized by Parliament and that neither the number of patents involved nor the identity of the parties can alter this fundamental proposition.

Perhaps not surprisingly, the Trial Division's decision was reversed once more on further appeal to the Federal Court of Appeal.[47] Writing for a unanimous court, Evans J.A. held that, as a matter of law, an assignment of a patent can constitute an agreement or arrangement to lessen competition unduly, contrary to section 45 of the Act, if it results in an increase to the assignee's market power greater than that inherent in the patents assigned. Evans J.A. stated that, in such instances, the *Patent Act* does not immunize an agreement to assign a patent from the application of section 45 of the Act:

> The right to assign a patent is … valuable, and Parliament has authorized patent holders to assign their patents. No doubt, a patent holder may expect to obtain a higher price from a purchaser who already owns patents that would give the assignee a monopoly in a relevant market. However, to deter a patentee from obtaining the full potential value of the patent in these circumstances in order to maintain competition in a market is not incompatible with the essential bargain between the patentee and the state.[48]

Evans J.A. stated further that a contrary interpretation of the law, which would exempt patent assignments from section 45 scrutiny, would be inconsistent with the Act's core objective of maintaining and encouraging competition "in order to promote the efficiency and adaptability of the Canadian economy" (see section 1.1 of the Act).

Evans J.A. also took comfort from the fact that the FCA's decision is consistent with the IP Guidelines. For example, he quoted that portion of the IP Guidelines where the Bureau states that if "an IP owner licenses, transfers or sells the IP to a firm or a group of firms that would

---

45 *Id.* at 201.

46 *Eli Lilly and Co.* v. *Apotex Inc*. (2004), 35 C.P.R. (4th) 155 (F.C.T.D.).

47 *Apotex Inc.* v. *Eli Lilly and Co.* (2005), *supra* note 22. The Bureau was granted leave to intervene in this appeal.

48 *Id.* at 14-15.

have been actual or potential competitors without the arrangement, and if this arrangement creates, enhances or maintains market power, the Bureau may seek to challenge the arrangement under the appropriate section of the [Act]".[49]

(iv) Price Maintenance

Section 61 of the Act makes it a criminal offence for any "person who is engaged in the business of producing or supplying a product [...] or who has the exclusive rights and privileges conferred by a patent, trade-mark, copyright, registered industrial design or registered integrated circuit topography" to either (a) attempt to influence upward or to discourage the reduction of the price at which the product is supplied or advertised within Canada or (b) refuse to supply a product to or otherwise discriminate against any person because of the low pricing policy of that person. Given the broad wording of the section and the express reference to IP rights, the price maintenance provisions should be considered in drafting IP licences and sublicensing arrangements. For example, a provision in an IP licence that imposes a minimum resale price or advertised price on the licensee may violate the price maintenance provisions.

A British Columbia court has held that a refusal to supply a person with a specific brand of an item because of that person's low pricing policy contravened paragraph 61(1)(b), even where the accused offered to supply a different brand of the same product. In that case, the defendant was held liable for refusing to supply a particular brand of mattress to a discount retailer even though he offered to supply a similar mattress with a different brand name.[50]

(v) Exclusive Dealing/Tied Selling/Market Restriction

The terms of a patent, trade-mark or copyright licence may also be reviewed by the Tribunal under the tied selling, exclusive dealing or market restriction provisions in section 77 of the Act.[51] For example, the Tribunal has specifically found that a trade-mark could, in principle, be a tying product for the purposes of section 77 of the Act.[52] However, subsection 77(4) specifically provides that the Tribunal shall not make an order in respect of tied selling where the practice is reasonable having regard to the technological relationship between or among the products to which it applies.[53]

---

49 *Id.* at 7. See IP Guidelines, *supra* note 10 at section 4.2.1.

50 *R.* v. *Grange* (1978), 40 C.P.R. (2d) 214 (B.C. Co. Ct.).

51 Exclusive dealing is defined as a practice of requiring or inducing a customer, as a condition of supply, to deal only or primarily in products supplied, or designated, by the supplier. Tied selling is defined as the practice of requiring or inducing a customer to acquire some other product from the supplier or to refrain from using a specific product in conjunction with the tied product. Market restriction includes any practice where a supplier of a product requires or induces the customer, as a condition of supply, to supply the product only in a defined market.

52 *NutraSweet, supra* note 35 at 57. See also Restrictive Trade Practices Commission, *Distribution and Pricing of Pesticides; A Report in the Matter of an Inquiry Relating to the Manufacture, Formulation, Distribution and Sale of Weed Killers, Insecticides and Related Products* (1965), R.T.P.C. No. 37.

53 The United States Supreme Court recently dealt with a tying case involving patent rights in *Illinois Tool Works Inc.* v. *Independent Ink, Inc.*, No. 04-1329, 547 U.S. ___, slip op. (March 1, 2006), available at http://caselaw.lp.findlaw.com/scripts/getcase.pl?court=US&vol=000&invol=04-1329. Independent Ink

Section 77 contains two additional exemptions in circumstances involving IP rights. First, section 77 does not apply where one party grants another party the right to use a trade-mark or "trade name" in connection with a business that is involved in the sale or distribution of a multiplicity of products obtained from competing sources of supply and a multiplicity of suppliers. This is commonly referred to as the "franchise exemption". Second, section 77 does not apply to a supplier of food or drink ingredients that imposes market restrictions on a processor which sells the product under the supplier's trade-mark. This is sometimes referred to as the "Coca-Cola exemption".

(vi) Mergers

The IP rights of respective corporations that are parties to a merger or acquisition may be a relevant consideration in merger assessment as well. The Bureau's *Merger Enforcement Guidelines* provide that asset transactions which include the purchase or lease of a brand name or IP rights generally fall within the scope of the merger provisions.[54] Moreover, the IP Guidelines acknowledge that, in the case of a merger, the Tribunal may order the divestiture of assets, including IP, where a substantial lessening of competition was likely to result, thereby overriding the rights of property owners.[55]

For example, as part of a consent order filed with the Tribunal in 2002, Bayer AG agreed to divest three agricultural chemical products, including all related IP rights. Bayer also agreed to provide a "royalty-free, perpetual, irrevocable, sublicenseable, transferable licence [to the purchasers of the divested products] to develop, patent, make, have made, use, sell, offer for sale and import any product anywhere in the world", subject to certain exceptions. In addition, Bayer agreed to license all intellectual property relating to a fourth product to the purchaser of certain assets of the divested assets.[56] Similarly, in order to address the Bureau's concerns following its acquisition of Pharmacia Corporation in 2003, Pfizer Inc. agreed to divest two developmental pharmaceutical compounds and terminate a collaboration and licensing agreement between Pharmacia and a third party. The consent agreement expressly provided for the divestiture of related IP rights, including, for example, patents, copyrights, trade-marks and trade secrets.[57]

---

alleged that a business unit of Illinois Tool had unlawfully tied the sale of ink refills to the purchase of the patented components of its printer system. The issue before the Supreme Court was whether the fact that a patented product was involved was sufficient in and of itself to establish that Illinois Tool had the necessary market power to coerce Independent Inc. to purchase the ink refills. Stevens J., who delivered the opinion of the Court, held that the mere fact that a "tying" product is patented does not support a presumption of market power. He also noted that "[m]any tying arrangements, even those involving patents and requirements ties, are fully consistent with a free, competitive market". Accordingly, the matter was remanded back to the lower court to decide if Illinois Tool had the requisite market power.

54 Competition Bureau, *Merger Enforcement Guidelines* (Ottawa: Supply and Services Canada, September 2004) at 3, available at http://www.competitionbureau.gc.ca/PDFs/2004%20MEGs.Final.pdf.

55 *Supra* note 10 at 4.

56 *Commissioner of Competition* v. *Bayer AG*, CT-2002-003, Consent Order, July 18, 2002 (Comp. Trib.), available at http://www.ct-tc.gc.ca/english/CaseDetails.asp?x=228&CaseID=171#223.

57 *Commissioner of Competition* v. *Pfizer Inc.*, CT-2003-002, Consent Agreement in Relation to the Acquisition of Pharmacia Corporation by Pfizer Inc., April 11, 2003 (Comp. Trib.), available at http://www.ct-tc.gc.ca/english/CaseDetails.asp?x=228&CaseID=156#206.

Finally, in order to resolve the concerns arising from the merger of Chapters and Indigo in 2001, the merging parties agreed to divest, among other things, a number of retail book stores and at least one trade name.[58]

2. Special Remedies – Section 32

Canada's competition laws are unique in the provision of special remedies for the anti-competitive use of IP rights. Section 32 of the Act authorizes the Federal Court, on application by the Attorney General, to issue remedial orders if it finds that a company has used the exclusive rights and privileges conferred by a patent, trade-mark, copyright or registered integrated circuit topography to restrain trade or lessen competition "unduly".[59] Canada does not make provision for any "safe harbours" under which anti-competitive restraints in IP licensing agreements will not be challenged.[60]

Pursuant to section 32, remedial orders may be issued declaring any agreement or licence relating to the anti-competitive use void; restraining any person from carrying out any or all of the terms of the agreement or licence; ordering compulsory licensing of the IP right (except in the case of trade-marks); expunging or amending a trade-mark; or directing that other things be done to prevent anti-competitive use of the IP right. However, according to the IP Guidelines, the Bureau will only consider recommending use of section 32 if the following conditions are met: (i) the conduct at issue involves the "mere exercise" of an IP right; (ii) no appropriate remedy is available under another statute; (iii) the IP rights holder is dominant in the relevant market and the IP is an essential input or resource for other firms seeking to compete in the relevant market; (iv) the exercise of the IP right (e.g., a refusal to license) prevents other firms from effectively competing in the relevant market; and (v) invoking a special remedy would not reduce incentives to invest in research and developments in the economy.[61] The IP Guidelines recognize that these conditions will be met only in very rare circumstances.

---

[58] *Commissioner of Competition* v. *Trilogy Retail Enterprises L.P.*, CT-2001-003, Consent Order, June 6, 2001 (Comp. Trib.), available at http://www.ct-tc.gc.ca/english/CaseDetails.asp?x=219&CaseID=203#275.

[59] It appears to be open to argument as to whether the "undueness" requirement in section 32 would be interpreted by the Federal Court in a manner similar to the concept of "undueness" found in the context of a criminal conspiracy case. In *R.* v. *Nova Scotia Pharmaceutical Society*, [1992] 2 S.C.R. 606 at 651-658, "undueness" was described by the Supreme Court of Canada as a serious or significant effect on competition as determined by an examination of two factors. The first is whether the parties have market power in the relevant market; the second requires a determination as to whether the party's behaviour has been or will be likely to injure competition. However, in the context of intellectual property rights, which by their very nature limit competition, it would seem that the abuse of such rights would require an injury to competition beyond the intellectual property rights holder's "right" to do so.

[60] The U.S. IP Guidelines create a "safety zone" under which IP licensing arrangements will not be challenged. Similarly, in the European Union, the Transfer Block Exemption, which governs the licensing of IP, establishes a series of safe harbours or "block exemptions" for IP licensing agreements.

[61] *Supra* note 10 at 8-9.

Only two applications have been brought under section 32 (or its predecessor provisions) in the almost 100 years since it was enacted.[62] Both of these applications were settled. As such, there are no judicial decisions applying or interpreting this provision.[63]

III. SPECIFIC ISSUES

1. Compulsory Licensing

Compulsory licensing is a frequently discussed topic in the competition law/IP context. In the U.S., compulsory patent licensing has been a rarity in recent history. Compulsory copyright licensing has been more frequent but not usually in the antitrust context.[64] The trilogy of cases in the European Union, *Magill*, *IMS*[65] and *Microsoft*,[66] suggest that compulsory copyright licensing is becoming a more frequent remedy in E.U. antitrust cases.[67]

---

62 The origins of section 32 date back to 1910. At that time, section 22 of the *Combines Investigation Act* (Canada) (the "CIA") dealt only with abuse of patents in providing for the possible revocation of exclusive rights conferred under the *Patent Act* in cases where they had specific anti-competitive effects. In 1937, amendments to the CIA resulted in the repeal of the patent remedy provision due to the perception that the existing remedies under the *Patent Act* were sufficient. Amendments to the CIA were passed in 1946 to reinstate the patent remedy provision after a report of the Commissioner under the CIA found that the *Patent Act* inadequately addressed anti-competitive abuses of patents. The new provision, then section 30 of the CIA, both broadened the range of intellectual property rights covered to include trade-marks as well as patents and expanded the range of remedies available to the court to deal with anti-competitive abuses. In addition, the test of "undueness" was added to all of the subsections enumerating the grounds upon which a charge of abuse of patents or trade-marks could be made. Finally, a new subsection was added to the 1946 provision to ensure that it would not be applied in a manner contrary to Canada's obligations under any international treaty, convention or other arrangement dealing with intellectual property.

63 Both applications involved challenges to provisions in licences that Union Carbide of Canada had granted with respect to certain of its patents. The first application was settled in the late 1960s, while the second was settled in the early 1970s.

64 See M. Delrahim, "Forcing Firms to Share the Sandbox: Compulsory Licensing of Intellectual Property Rights and Antitrust" (U.S. Department of Justice address to the British Institute of International and Comparative Law, May 10, 2004), available at http://www.usdoj.gov/atr/public/speeches/203627.pdf. See also R. Hewitt Pate, "Competition and Intellectual Property in the U.S.: Licensing Freedom and the Limits of Antitrust" (U.S. Department of Justice address to the EU Competition Workshop, Florence, Italy, June 3, 2005), available at: http://www.usdoj.gov/atr/public/speeches/209359.pdf. See also T. O. Barnett, "Interoperability Between Antitrust and Intellectual Property" (U.S. Department of Justice address to the George Mason University School of Law Symposium on Managing Antitrust Issues in a Global Marketplace, Washington, DC, September 13, 2006), available at: http://www.usdoj.gov/atr/public/speeches/218316.pdf.

65 1995 ECR I-743 and 2002 O.J. (L 59) 18.

66 *Supra* note 34.

67 For example, in *Microsoft*, the Commission found that Microsoft's refusal to license IP necessary for Microsoft's competitors to develop products that would be fully compatible with windows-based PCs was in violation of the abuse of dominance provisions found in Article 82. The remedy imposed by the Commission was to order Microsoft to license its IP that would enable non-Microsoft workgroup servers to become interoperable with windows-based PCs. Microsoft was also required to license updated interface information whenever it released a new version of its software. See *supra* note 34 at § 1002.

As noted previously, section 32 of the Act explicitly authorizes the Federal Court to order compulsory licensing (except for trade-marks) when IP is used to restrain trade or lessen competition unduly.

Moreover, notwithstanding its decisions in *Warner Music* and *Tele-Direct*, the Tribunal has expressly sanctioned the compulsory licensing of IP rights in the abuse of dominance context. For example, the consent order in the *Interac* case required, among other things, that the charter members of the electronic banking network provide a "commercially reasonable trade mark license without charge upon request to any member participating in the shared services that use the trade marks".[68] Similarly, in the *AGT Directory* case, the consent order prohibited the respondents from refusing to license the "Yellow Pages" trade-marks to certain companies for use in the sale of advertising in telephone directories, provided these companies entered into and maintained commercially reasonable standard form trade-mark licences.[69]

Compulsory licensing has also been used as a merger remedy. For example, as a result of the examination of the proposed 1997 merger of Ciba-Geigy Limited and Sandoz Corporation, both the Bureau and the U.S. Federal Trade Commission (the "FTC") found that the proposed merger, if consummated, would substantially lessen competition or create a monopoly in certain gene therapy markets by combining portfolios of patents and patent applications of uncertain breadth and validity.[70] As a result, they were concerned that the proposed merger would raise barriers to entry by requiring potential entrants to invent around, or declare invalid, a larger array of patents, and create a disincentive for the merged firm to license IP rights to, or collaborate with, other companies, when compared to its pre-merger incentives. The merging parties agreed to a U.S. consent order requiring them to, among other things, license certain patents and provide access to the contents of certain drug regulatory files on a non-exclusive basis to third parties. These provisions were intended to permit third parties to continue research on the specific types of gene therapy affected by those patents. The licensing arrangements extended to Canada and the Director advised the parties that the U.S. consent order addressed his concerns as well.

2. Cross-Licensing

Cross-licensing is an agreement among two or more owners of different items of IP to license to one another or third parties. The pro-competitive benefits of cross-licensing include integrating

---

[68] *Director of Investigation and Research* v. *Bank of Montreal*, CT-95/2, Consent Order at § 4(e), June 20, 1996 (Comp. Trib.), available at http://www.ct-tc.gc.ca/english/CaseDetails.asp?x=228&CaseID=160#210.

[69] *Director of Investigation and Research* v. *AGT Directory Limited*, CT-1994-002, Consent Order, November 18, 1994 (Comp. Trib.) at § 3(e), available at http://www.ct-tc.gc.ca/english/CaseDetails.asp?x=219&CaseID=213#294. Interestingly, the orders issued in these two cases appear to contravene Article 21 of TRIPS, which provides as follows: "Members may determine conditions on the licensing and assignment of trademarks, it being understood that the compulsory licensing of trademarks shall not be permitted and that the owner of a registered trademark shall have the right to assign the trademark with or without the transfer of the business to which the trademark belongs."

[70] See Annual Report of the Director of Investigation and Research for the year ending March 31, 1997 at 17, available at http://strategis.ic.gc.ca/pics/ct/icrepren.pdf, and *In the Matter of CIBA-Geigy Limited, CIBA-Geigy Corporation, Chiron Corporation, Sandoz Ltd., Sandoz Corporation, and Novartis AG*, File No. 961 0055, Docket No. C-3725, Complaint, March 4, 1997 (FTC), available at http://www.ftc.gov/os/caselist/c3725.htm.

complementary technologies, reducing transaction costs, clearing blocking positions and avoiding costly infringement litigation. However, cross-licensing by parties collectively possessing market power may give rise to antitrust concerns if it is used as a mechanism to accomplish price-fixing or market allocation. Cross-licensing also may be considered anti-competitive if the arrangement is exclusive or deters or discourages participants from engaging in research and development.[71]

One form of cross-licensing that has drawn considerable interest is patent pooling, which involves two or more owners of different patents agreeing to collectively license a set of patents. Like cross-licensing generally, patent pools are typically considered to be pro-competitive. If, however, the pool creates market power, the patents are competing patents and a less anti-competitive means of achieving the same result is available, the patent pool may be found to contravene the Act.

Anti-competitive issues relating to patent pools would likely be addressed under section 45 of the Act. According to the IP Guidelines, such issues could potentially arise in a situation where Company A's product may infringe on some of Company B's patents but Company B's products do not infringe on Company A's patents and the companies place their patents in a patent pool and both continue to manufacture the product. In such a case, the Bureau might view the patent pool as an unnecessary and anti-competitive arrangement which was not required in order for the new technology to enter the market.[72] The fact that the patents could have been licensed in a less anti-competitive manner could suggest that the arrangement was in fact anti-competitive by design and that there was no legitimate business purpose behind the patent pool.

3. Standard Setting

Misconduct in relation to standard setting is a major issue in the United States. Standard setting involves collective industry agreement (a) on the technical or safety requirements for products or (b) to provide for interoperability or compatibility among suppliers of complementary products. Standard setting can raise antitrust concerns if members of the standard setting body use the process to exclude competitors and/or a member of the standard setting body manipulates the process to monopolize the relevant market.[73]

In *Rambus*, for example, the FTC alleged that Rambus Inc. had violated the U.S. antitrust laws by deliberately failing to disclose its relevant patents and patent applications as part of an industry-wide standard setting process for computer memory technology. Rambus then sued industry members that had incorporated the standard for patent infringement.[74]

---

71 See U.S. IP Guidelines, *supra* note 2 at § 5.5.

72 *Supra* note 10 at 22-23.

73 See R.A. Jacobsen Jr. and S.M. Meisner, "A review of developments in U.S. antitrust and IP law", *Global Competition Review* (2005).

74 See *In re Rambus Inc.*, FTC Docket No. 9302 (June 18, 2002) (Complaint), available at http://www.ftc.gov/os/adjpro/d9302/.

At first instance, an administrative law judge dismissed the FTC's complaint, holding that Rambus's non-disclosure of its IP was a legitimate measure required to preserve the confidentiality of its proprietary information.[75] On appeal to the full Commission, the FTC unanimously reversed the administrative law judge's decision, holding that Rambus's actions constituted unlawful monopolization of the computer memory technologies in question.[76] The FTC heard the parties' oral arguments on remedies on November 15, 2006.

The Antitrust Division of the U.S. Department of Justice recently issued a "business review letter" in which it also discussed the standard-setting process.[77] The letter was issued to VITA, an international trade association, and VSO, its standard development sub-committee, regarding proposed patent sharing and licensing requirements for certain computer technology systems. The Division's letter observed that, although standard setting can produce many pro-competitive benefits, it may also lead to "exclusionary and collusive practices that have been found to harm competition and violate the [U.S.] antitrust laws". In this instance, however, the Division concluded that the proposed standard-setting policy was unlikely to have an anti-competitive effect. For example, among other things, the policy required disclosure of potentially essential patents and patent applications (unlike *Rambus*) and of the most restrictive licensing terms that would be required (price and non-price).

There are no Canadian cases dealing with the type of standard-setting misconduct seen in *Rambus.* Presumably, this type of scenario could be addressed under one of the Act's general provisions, such as abuse of dominance.

The closest the IP Guidelines come to a discussion of "standards" is in a hypothetical example involving the refusal to licence a *de facto* industry standard. This hypothetical scenario involves three companies that were the first to market a spreadsheet for personal computers. Within three years, one firm left the market and one firm's market share rose to 75 percent. The remaining competitor runs into financial difficulty and requests that the dominant firm grant it a licence to copy the words and layout of its menu command hierarchy, which by now has become a *de facto* industry standard. The dominant firm refuses. According to the IP Guidelines' analysis, the dominant firm's refusal to license its IP would constitute a "mere exercise" of its IP rights and would, therefore, be subject to review under section 32 of the Act.

Despite the use of this example in the IP Guidelines, one would hope that the Bureau would not recommend enforcement action in this situation. This is the type of over-zealous enforcement that could have a chilling effect on future innovation. The promotion of an efficient economy will not be achieved by enabling competitors to free-ride on the innovation and success of companies which exhibit superior competitive performance. Even *de facto* industry standards can be replaced.

---

75 See *In re Rambus Inc*., FTC Docket No. 9302 (February 17, 2004) (Administrative Law Judge Decision), available at http://www.ftc.gov/os/adjpro/d9302/.

76 See *In re Rambus Inc*., FTC Docket No. 9302 (July 31, 2006) (Order reversing and vacating initial decision and accompanying order, scheduling supplemental briefing on issues of remedy, and denying complaint counsel's motions for sanctions), available at http://www.ftc.gov/os/adjpro/d9302/.

77 Department of Justice, Antitrust Division, "Letter to Mr. Robert Skitol, Drinker, Biddle & Reath, LLP" (October 30, 2006), available at http://www.usdoj.gov/atr/public/busreview/219380.pdf.

IV. CONCLUSION

The importance of promoting and protecting IP and IP rights in today's knowledge-based economy has been recognized by governments, policymakers and competition agencies around the world. The challenge, however, is to apply competition laws to anti-competitive conduct amounting to an abuse or misuse of IP rights without interfering with the legitimate exercise of those rights. An over-zealous approach to enforcement is likely to impede innovation and have a chilling effect on the rate of technological advancement, which would undoubtedly have a serious impact on the competitiveness of the Canadian economy. On the other hand, an overly conservative approach to enforcement is likely to allow otherwise anti-competitive conduct to go unchecked. Determining where the enforcement boundaries should be drawn requires a thorough understanding of the role of both IP laws and competition laws and the common objective they share, namely the promotion of an efficient economy.

Current issues at the interface of IP and competition law, such as compulsory licensing, patent pooling and standard-setting misconduct, illustrate the fine line that enforcers have to tread. Canadian enforcement authorities have typically been less proactive than enforcement agencies in the U.S. and Europe. It is likely that the Tribunal and the courts would have to be presented with a very strong factual case before the question as to what amounts to an abuse or misuse of IP protection in Canada (including in the licensing context) is further clarified.