

# Canadian Intellectual Property Enforcement Guidelines

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Presentation before  
FTC/DOJ Hearings

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# Canadian Intellectual Property Enforcement Guidelines (IPEGs)

- Explain enforcement approach towards refusals to license IP
- Design of the IPEGs
  - the interface between intellectual property laws & competition
  - application of the provisions of the *Competition Act*
  - treatment of refusals

# Interface

- IP Law - Competition Law  
Complementary
- Share Common Goal
- Promoting Innovation & Enhancing  
Overall Welfare

# Integrated Market Paradigm

- IP creates possibility for markets for new processes, technologies, etc.
- Competition Law extends over all property rights (IP included) to protect efficient operation of market forces

# Integrated Market Paradigm

- IP Rights bring innovation into the Allocative Market System
- Competition Laws prevent abuse of property rights to make the Allocative Market System attain fullest potential

# Basic Principles

- **Competition Law Analysis in Applying to All Forms of Property - Treats IP as other Forms of Property**
- **Right to Exclude others from using does not create Market Power**
- **Licensing is viewed as Pro-competitive**

# The Approach directed by the Law and Jurisprudence

- Law

- General Provisions vs. Special Remedies (S32)

- Jurisprudence

- The mere exercise of IP is not anti-competitive

# Canadian Law

- **General Provisions**

- Criminal provisions
- Civil provisions

- **Special Remedies**

- Section 32

# Criminal Provisions

- **Before Criminal Courts**
  - Fines & Imprisonment
  - Prohibition Orders
- **Offenses**
  - Conspiracy
  - Bid Rigging
  - Price Discrimination
  - Resale Price Maintenance
  - Misleading & Deceptive Marketing Practices

# Civil Provisions

- **Reviewed before Competition Tribunal**
  - Remedial Orders
- **Reviewable Matters**
  - Tied Selling
  - Market Restriction
  - Exclusive Dealing
  - Abuse of Dominant Position
- **Mergers**
- **Misleading & Deceptive Marketing Practices**

# Section 79 Abuse of Dominant Position

## Subsection 79(5)

- **Exception to Section 79:**

- *For the purpose of this section, 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.*

# Section 32

## Special Remedies

- 32(1) In any case where the use has been the exclusive rights and privileges conferred by one or more patents for invention, by one or more trade-marks, by a copyright or by a registered integrated circuit topography, so as to
  - (a) limit unduly the facilities for transporting, producing, manufacturing, supplying, storing or dealing in any article or commodity that may be a subject of trade or commerce,
  - (b) restrain or injure, unduly, trade or commerce in relation to any such article or commodity

# Section 32

## Special Remedies

- **32(1) In any case where the use has been the exclusive rights...**
  - (c) prevent, limit or lessen, unduly, the manufacture or production of any such article or commodity or unreasonably enhance the price thereof, or
  - (d) prevent or lessen, unduly, competition in the production, manufacture, purchase, barter, sale, transportation or supply of any such article or commodity
- **The Federal Court may make one or more of the orders referred to in subsection (2) in the circumstances described in that subsection**

# Section 32

## Special Remedies

- **32(2) The Federal Court, on an information exhibited by the Attorney General of Canada, may, for the purpose of preventing any use in the manner defined in subsection (1) of the exclusive rights and privileges conferred by any patents for invention, trade-marks, copyrights or registered integrated circuit topographies relating to or affecting the manufacture, use or sale of any article or commodity that may be subject of trade or commerce, make one or more of the following orders:**
  - (a) declaring void, in whole or in part, any agreement or licence relating to that use
  - (b) restraining any person from carrying out or exercising any or all the terms or provisions of the agreement, arrangement or licence;

# Section 32

## Special Remedies

- **32(2) The Federal Court, on an information exhibited by the Attorney General of Canada, ...**
  - (c) directing the grant of licences under any such patent, copyright or registered integrated circuit topography to such persons and on such terms and conditions as the court may deem proper or, if the grant and other remedies under this section would appear insufficient to prevent that use, revoking the patent;
  - (d) directing that the registration of a trade-mark in the register of trade-marks or the registration of an integrated circuit topography in the register of topographies be expunged or amended; and
  - (e) directing that such other acts be done or omitted as the Court may deem necessary to prevent any such use.

# Section 32

## Special Remedies

- Federal Court has the power to make remedial orders where it finds that use has been made of the exclusive rights & privileges conferred by certain IP rights:  
**when such use**
- Unduly restrains trade or lessens competition

# Section 32

## Special Remedies

- Remedial Orders could include:
  - declaring any agreement or licence relating to the use of IP void;
  - ordering licensing of the right;
  - revoking the right;
  - direct such action to prevent such use (restraint of trade)

# Jurisprudence

- **Tele-Direct/Warner:**

- “(...) in the Tribunal’s view **something more than the mere exercise** of statutory rights, even exclusionary in effect, must be present before there can be a finding of misuse of a trade-mark. Subsection 79(5) explicitly recognizes this”

- **Essence of IP Rights:**

- IP laws grant firms acting **UNILATERALLY** the power to **EXCLUDE OTHERS FROM USE** of the holders IP. The power to exclude is the very **ESSENCE** of IP as it is for **ALL PROPERTY RIGHTS**

# Enforcement Principles

- General Provisions - The Mere Exercise of an IP Right **IS NOT AN ANTICOMPETITIVE ACT**
- Section 32 - The Mere Exercise of an IP Right **can be ANTICOMPETITIVE**

The Mere Exercise of an IP Right is the **UNILATERAL REFUSAL** (EXCLUSION) and Nothing More

# Three General Categories

- **General Provisions**

Competitive Harm stems from something other than the unilateral exclusion and nothing more

- Joint or Coordinated Behaviour
- Licensing Practices
- Something More than Refusal

- **Section 32**

Competitive Harm stems from unilateral exercise of the IPR to exclude

- CAN IT BE UNDUE in IP Context?
- Will not invoking a special remedy adversely affect innovation or R&D?

- **Matters Outside of the *Competition Act***

# Does competitive harm stem from...

(i) something more than unilateral exclusion?

General Provisions

(ii) unilateral exercise of the IP right to exclude and nothing else?

Section 32  
Special Remedies

# Application of Section 32

## Step One

- Mere refusal adversely affects competition substantially in a market different or larger than subject matter of IP
  - Holder of IP is dominant in market, and
  - IP is an essential input for firms participating in the market

# Application of Section 32

## Step Two

- Invoking a special remedy would not adversely alter incentives to invest in research and development

# General Provisions

# S.32 Special Remedies

## More than Mere exercise of IPR

## Mere exercise of an IPR

Harm stems from something more than the unilateral exclusion

Joint Conduct  
2 or more firms  
coordinating  
their behaviour

- Conspiracy
- Bid rigging
- Joint Abuse of Dominance
- Specialization Agreement
- Mergers

Unilateral  
Transfer of IP

- Pricing practices
- Market Restrictions
  - Tying
  - Exclusive dealings

\*More than  
unilateral  
exclusion

- Acquisition of IPR + Refusals
- Termination of ongoing supplies + misleading

Harm stems from unilateral exercise of the IPR to exclude and nothing else

Refusal of  
IP

Relevant Market  
Subject Matter of IP

A. Is IP holder  
dominant in a  
relevant market?

B. Is IP an  
essential input to  
participate in the  
market?

+

Would a special remedy not  
harm incentives to innovate?

# Hypothetical S.32 Case

- **ABACUS - first to market with spreadsheet software**
- **Network effects exist: value increases with the number of compatible spreadsheets**
- **Abacus becomes dominant**
- **Abacus has copyright protection for words and layout of menu command hierarchy**
- **CALCULATOR enters with superior product and lower price - no success**
- **ABACUS refuses to grant licence to copy its menu to CALCULATOR**
- **Other firms discontinue spreadsheet development programs**

# S. 32 Case - Analysis

- Refusal - “mere exercise” of IP right, S. 32
- Step One:
  - Is ABACUS dominant in market?
  - Is ABACUS’s IP an essential input?
- Yes, if market determined to be ABACUS-compatible spreadsheets
- Depends on network effects and switching costs

# S. 32 Case - Analysis (cont'd)

- **Step Two:**

- Would invoking a special remedy adversely alter R&D investment?

- **Likely not:**

- Facts suggest that ABACUS's refusal could be chilling R&D
- The choice of words and layout likely arbitrary, involved little innovation effort and had little value relative to other substitutes

- **A special remedy could restore incentives for other firms to developing competing compatible spreadsheet programs**

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