

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE**

**Cancels & replaces the same document of 10 May 2019**

**Licensing of IP rights and competition law – Note by Canada**

**6 June 2019**

This document reproduces a written contribution from Canada submitted for Item 6 of the 131<sup>st</sup> OECD Competition committee meeting on 5-7 June 2019.

More documents related to this discussion can be found at

<http://www.oecd.org/daf/competition/licensing-of-ip-rights-and-competition-law.htm>

Please contact Mr. Antonio Capobianco if you have any questions about this document  
[E-mail: [Antonio.Capobianco@oecd.org](mailto:Antonio.Capobianco@oecd.org)]

**JT03448671**

## Canada

### 1 Introduction

1. Canada's Competition Bureau ("Bureau") is pleased to provide this submission to the OECD Competition Committee's roundtable on the "Licensing of IP Rights and Competition Law".

2. The Bureau, headed by the Commissioner of Competition ("Commissioner"), is an independent law enforcement agency of the Federal Government of Canada responsible for the administration and enforcement of the Competition Act ("Act")<sup>1</sup> and certain other statutes.<sup>2</sup> In carrying out its mandate, the Bureau strives to ensure that Canadian consumers and businesses have the opportunity to prosper in a competitive and innovative marketplace. The Commissioner may bring applications for reviewable business conduct, such as abuse of dominant position, and mergers to the Competition Tribunal ("Tribunal")<sup>3</sup> for adjudication.

3. This submission begins with a review of the Bureau's Intellectual Property Enforcement Guidelines ("IPEGs")<sup>4</sup> covering the background, general principles and overall enforcement approach. The focus then shifts to the Bureau's specific approach to the licensing of intellectual property rights and the illustrative approach in assessing business conduct involving patent hold-up and hold-out. Examples of previous enforcement cases involving the licensing of IP rights are also provided.

### 2 The Intellectual Property Enforcement Guidelines

#### 2.1 Background

4. The Bureau recognises the importance of intellectual property and intellectual property rights ("IP rights") in today's knowledge-based economy, and as a result the Bureau has made it a priority to provide clarity on this subject through the IPEGs. The IPEGs were originally released in September 2000, and substantially revised in March 2016 in order to provide details of the Bureau's enforcement approach to conduct involving patent assertion entities, standard essential patents, as well as product hopping and patent

---

<sup>1</sup> R.S.C., 1985, c. C-34. The full text of the Competition Act is available online at: <http://laws-lois.justice.gc.ca/eng/acts/C-34/index.html>.

<sup>2</sup> These other statutes include the Consumer Packaging and Labelling Act, the Textile Labelling Act and the Precious Metals Marking Act.

<sup>3</sup> The Competition Tribunal is quasi-judicial body consisting of judicial and lay members.

<sup>4</sup> Competition Bureau Intellectual Property Enforcement Guidelines – March 13, 2019. The full text of the IPEGs is available online at: <https://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04421.html>.

settlements in the pharmaceutical sector.<sup>5</sup> The most recent revision of the IPEGs occurred in March 2019<sup>6</sup> in which minor updates were made in terms of recent competition jurisprudence and changes to Canada's regulations governing the framework for generic pharmaceuticals.<sup>7</sup>

## 2.2 General principles

5. The IPEGs outline the Bureau's enforcement approach with respect to business conduct involving all types of IP rights including: patents, trademarks, copyrights, industrial designs and integrated circuit topographies. It also recognizes that IP rights encompass the protection afforded to IP at Canadian common law and the Civil Code of Quebec, including that given to trade secrets and unregistered trademarks.

6. In many cases, IP rights incentivize the creation of innovative products and services. The development of new products and services are viewed from an economic perspective as benefitting the economy on the whole. Hence, the general antitrust approach is aimed at preserving these benefits. This fundamental link forms the basis of the following general principles of the IPEGs:

1. IP rights and competition law are complementary instruments of government policy that promote an efficient economy;
2. IP rights are very similarly to other types of private property in that ownership confers some form of exclusivity in terms of usage;
3. An IP right does not necessarily confer market power upon the holder<sup>8</sup>; and
4. IP licensing in the vast majority of cases is generally procompetitive, in that it facilitates the broader use of a valuable IP right by additional parties.<sup>9</sup>

---

<sup>5</sup> The news release covering the March 2016 revisions is available online at: <https://www.canada.ca/en/competition-bureau/news/2016/03/competition-bureau-releases-updated-intellectual-property-enforcement-guidelines.html>.

<sup>6</sup> The news release covering the March 2019 version is available online at: <https://www.canada.ca/en/competition-bureau/news/2019/03/competition-bureau-publishes-final-version-of-its-revised-intellectual-property-enforcement-guidelines.html>.

<sup>7</sup> Guidance Document Patent Medicines (Notice of Compliance) Regulations (2018). The full text version of this document is available online at: <https://www.canada.ca/en/health-canada/services/drugs-health-products/drug-products/applications-submissions/guidance-documents/patented-medicines/notice-compliance-regulations.html>.

<sup>8</sup> When assessing market power, the Bureau considers a number of factors including but not limited to, the availability of acceptable substitutes, the level of concentration, entry conditions, the rate of technological change and ability of firms to "leap-frog over" seemingly entrenched positions.

<sup>9</sup> Licensing is a means by which owners trade IP, and it signals the willingness of IP holders to participate in the marketplace. Licensing arrangements also promote the efficient use of IP by facilitating its integration with other components of production, such as manufacturing and distribution.

### 2.3 Overall enforcement approach

7. The Bureau's overall enforcement approach distinguishes between the mere exercise of an IP right and conduct that involves more than a mere exercise. More specifically:

8. The mere exercise of an IP right is defined as the right of the IP holder to unilaterally exclude others as well as the right to utilise or not to utilise the IP right.<sup>10</sup>

9. The Bureau's overall enforcement approach is consistent with the Section 79(5) provision in the Act relating to abuse of dominance. In terms of this provision, there is an exception in applicability for acts engaged in pursuant only to the exercise of any right or enjoyment of any interest derived under an Act of Parliament pertaining to intellectual property.<sup>11</sup>

10. This distinction has also been confirmed through jurisprudence in Canada. More specifically:

1. In its decision in *Tele-Direct*, the Tribunal indicated that competitive harm must stem from something more than just the mere refusal to license.<sup>12</sup>
2. In its decision in *Warner* the Tribunal held that the mere exercise of the IP right to refuse to license to a complainant did not contravene the general provisions of the Act.<sup>13</sup>
3. In its decision in *TREB* the Tribunal held that where a respondent attaches anti-competitive conditions to the use of its IP, subsection 79(5) will not immunize it from scrutiny.<sup>14</sup> Subsection 79(5), provides an exception to the application of the abuse of a dominant position provisions on the basis of the sole exercise of IP rights. The *TREB* decision was upheld in a decision by the Federal Court of Appeal ("FCA"). The FCA noted that Parliament intended to insulate IP rights from allegations of anti-competitive conduct in circumstances where the right granted by Parliament, in this case, copyright is the sole purpose of exercise or use.<sup>15</sup>

11. Section 32 of the Act contemplates the possibility that the mere exercise of an IP right may cause concern in certain circumstances. Under Section 32, the Attorney General may bring an application for a special remedy to the Federal Court. Generally, the Bureau

---

<sup>10</sup> IPEGs at paragraphs 35 and 36.

<sup>11</sup> See Section 79(5) of the Act.

<sup>12</sup> [In the matter between \*The Director of Investigation Research and Tele-Direct \(Publications\) Inc. and Tele-Direct \(Services\) Inc.\*, CT – 1994 / 003 – Doc # 204 Reasons and Order, February 28, 1997.](#)

<sup>13</sup> [In the matter between \*The Director of Investigation Research and Warner Music Canada and Others\*, CT – 1997 / 003 – Doc # 22: Reasons and Order, December 18, 1997.](#)

<sup>14</sup> [The Commissioner of Competition v The Toronto Real Estate Board](#), 2016 Comp. Trib. 7, CT-2011-003 – Document no 385, REASONS FOR ORDER AND ORDER, April 27, 2016. See paragraph 754.

<sup>15</sup> [The Toronto Real Estate Board and Commissioner of Competition and The Canadian Real Estate Association](#), 2017 FCA 236, December 1, 2017. See paragraph 180.

would recommend to the Attorney General that an application be made to the Federal Court under section 32 when, in the Bureau's view, no appropriate remedy is available under the relevant IP statute. Such circumstances require the Federal Court to balance the interests of the system of protection for IP (and the incentives created by it) against the public interest in greater competition in the particular market under consideration. Section 32 has rarely been used.<sup>16</sup>

12. The Bureau's overall enforcement approach has been favourably cited by the FCA. More specifically:

*In its decision in the Apotex Inc , the FCA noted that its interpretation that Section 50 of the Patent Act does not immunize the assignment of patents from conduct involving cartels (Section 45) is consistent with the Bureau's IPEGs.<sup>17</sup>*

### 3 The Bureau's specific approach to the licensing of IP Rights

13. In applying its enforcement approach outlined in the IPEGs, the Bureau views IP licensing as conduct that extends beyond the mere exercise of an IP right. Therefore, IP licensing is reviewed under the general provisions of the Act which focus on conduct involving cartels (Sections 45 to 47), abuse of a dominant position (Sections 78 and 79 of the Act), collaborative agreements or arrangements (Section 90) and mergers or acquisitions (Sections 92 to 95 of the Act).

14. Section 4.1 of the IPEGs describes the Bureau's effects based approach to determine whether any competitive harm arises out of conduct involving the licensing of IP rights.<sup>18</sup> The key steps in making this determination include the following:

1. Identifying the conduct (for example license pooling, standard setting, mergers, etc.);
2. Defining the relevant market(s);
3. Determining if the firm or firms under scrutiny possess market power by examining relevant factors including the level of concentration and entry conditions;
4. Determining if the conduct would substantially prevent or lessen competition in the relevant market(s); and
5. Considering, when appropriate, any relevant efficiency rationales or valid business justifications.

15. The IPEGs state that these key steps apply to all types of business conduct and are sufficiently flexible to accommodate differences among the many forms of IP rights protection, as well as between IP rights and other types of property rights. Hence, virtually all types of licensing arrangements are subject to review under the Act.

---

<sup>16</sup> Information has only been laid in two cases under section 32 and in both cases the disputes were settled before proceeding to full hearings. See *R. v. Union Carbide of Canada Limited*, December 9, 1969 and *R. v. Union Carbide of Canada Limited*, June 19, 1971. Since these two cases the Bureau has never recommended that the Attorney General bring an application for a special remedy under section 32 and there has never been a remedial order granted pursuant to that section.

<sup>17</sup> [Apotex Inc. v Eli Lilly and Company, 2005 FCA 361, November 2, 2005](#), at paragraph 33.

<sup>18</sup> This is the case when the Bureau is assessing a licensing arrangement outside the criminal provisions (Sections 45 to 47 of the Act).

16. Paragraph 34 of IPEGs makes particular to reference to IP licensing as follows:

*“In assessing whether a particular licensing arrangement raises a competition issue, the Bureau examines whether the terms of the licence serve to create, enhance or maintain the market power of either the licensor or the licensee. The Bureau will not consider licensing agreements involving IP to be anti-competitive unless they reduce competition substantially relative to that which would have likely existed in the absence of the licence’s potentially anti-competitive terms.”*

17. The Bureau’s scope of enforcement in terms of the licensing of IP rights is only limited in respect of royalties and related terms and conditions arising under collective society agreements filed with the Copyright Board. More specifically:

*These collective society agreements are exempt from the application of Section 45 of the Act focusing on the following types of cartel conduct: price and/or production fixing, sales, territories, customer and/or market allocation.<sup>19</sup>*

18. These collective society agreements mainly relate to the reproduction and/or broadcasting of sound recordings by musical artists but can also apply to any literary, dramatic or artistic work.

#### 4 The Bureau’s illustrative approach in assessing patent hold-up and hold-out

19. The IPEGs contain numerous hypothetical examples of general business conduct involving IP and the Bureau’s approach to reviewing the conduct under the Act.<sup>20</sup> Some of these examples are of business conduct where patentees undertake certain actions to have their patented technologies incorporated into an industry standard and there is the potential for patent hold-up.<sup>21</sup> In these circumstances, the Bureau would likely review the conduct under the abuse of a dominant provision (Section 79) of the Act.<sup>22</sup> More specifically:

*The Bureau is of the view that conduct such as patent ambush, reneging on a license commitment or seeking an injunction against willing licensees after making a licensing commitment is something more than the mere exercise of patent rights. Accordingly, the Bureau would not consider the exception to apply, nor would it review the conduct under Section 32 of the Act. The Bureau would take the effects based approach outlined in Section 3 of this document in determining whether conduct that could result in patent hold-up has had, is having or is likely to have the effect of preventing or lessening competition substantially in a market. A key*

---

<sup>19</sup> This is in terms of Section 70(1) to (3) of the Copyright Act, R.S.C., 1985, c. C-34.

<sup>20</sup> IPEGs Section 7, Application of Competition Law to IP, pages 25 to 66.

<sup>21</sup> See examples 16 (Patent “Ambush”) and 17 (Reneging on a Licensing Commitment), pages 56 to 60.

<sup>22</sup> The business conduct involving a group firms setting the industry standard(s) would be reviewed according to the analytical framework described in the [Competitor Collaboration Guidelines, December 23, 2009](#).

If the Bureau determined that the arrangement was for the purpose of setting an industry standard and there was no evidence that it was for the purpose of facilitating an agreement prohibited under the criminal subsection 45(1), the Bureau review would proceed under civil section 90.1.

*consideration in this determination would be whether, but for the patent holder's conduct there would likely be substantially greater competition in the markets wherein which there is a competitive concern. If the Bureau concluded that the constituent elements of section 79(1) of the Act were met, it would likely seek to negotiate a remedy with the firm under review and failing that, bring an application to the Tribunal.<sup>23</sup>*

20. In terms of business conduct specifically involving patent holders seeking an injunction against willing licensees the Bureau recognizes the following:

1. A firm's commitment to license on fair, reasonable and non-discriminatory ("FRAND") terms does not mean that it is committing to license on a royalty-free basis;
2. Firms may make large investments in research and development and are entitled to seek royalties to recover the value of their investment; and
3. Potential licensees may seek to take advantage of FRAND commitments by "holding out" for a particular royalty or simply by not undertaking licensing negotiations in good faith.<sup>24</sup>

21. Because of the potential problem of patent hold-out, in its inquiry to determine the underlying purpose for a patent holder seeking an injunction, the Bureau would look for evidence to determine whether the potential licensee was willing to enter into negotiations and pay a FRAND rate.

22. Circumstances where the Bureau would conclude that the seeking of an injunction could be appropriate include when:

1. A prospective licensee refuses to pay a royalty that is determined to be FRAND by a court or arbitrator;
2. A prospective licensee refuses to engage in licensing negotiations;
3. A prospective licensee constructively refuses to negotiate (for example, by insisting on terms clearly outside the bounds of what could be considered to be FRAND terms); or
4. A prospective licensee has no ability to pay damages (for example, a firm that is in bankruptcy).<sup>25</sup>

## 5 Previous enforcement cases involving the licensing of IP rights

23. The licensing of IP rights in the context of Canadian competition law enforcement has largely occurred in context of merger remedies. In this regard, The Bureau has reached agreements requiring parties to divest of assets and associated IP rights when it concluded that the proposed merger was likely to substantially lessen or prevent competition. Two examples of these agreements are as follows:

---

<sup>23</sup> IPEGs at paragraphs 206 to 208 and 231.

<sup>24</sup> IPEGs at paragraphs 231.

<sup>25</sup> IPEGs at paragraphs 231.

- In *Pfizer / Wyeth* the parties, both involved in the production and sale of animal health products, agreed to divest a significant number of their animal health products and the associated IP rights. Pfizer also agreed to amend its existing relationship with Paladin Labs governing the distribution, marketing and sale of Pfizer's human pharmaceutical product, Estring, in Canada to ensure continued competition in the supply of hormone replacement therapy products.<sup>26</sup>
- In *Bayer / Monsanto*, both parties were leading developers and producers of agricultural inputs including seeds, traits, crop protection products, seed treatments, biologicals and digital decision making tools for growers. As part of its settlement with the Bureau regarding its proposed acquisition of Monsanto, Bayer agreed to divest its canola seeds and traits business, soybean seeds and traits business, carrot seeds business, and digital farming business in Canada to BASF, including the IP related to those businesses. In terms of canola seeds and traits, the divestiture included, not just Bayer's proprietary portfolio of canola genetics and traits but also the associated global research, breeding, production and processing facilities, all of which represented significant investments in specialized capabilities to support an IP-intensive business.<sup>27</sup>

24. In *TREB*, the Tribunal and Federal Court of Appeal recently considered the application of the Act's abuse of dominance provisions to conduct involving IP rights, although the case was ultimately decided on other grounds.

25. The case focused on the Toronto Real Estate Board's ("TREB's") restrictions on the use and online disclosure of certain important data in the Multiple Listing Service ("MLS") – a database containing both current property listings and historical sales data, such as sold prices. While TREB allowed its members to share data with clients by hand, email, or fax, it prevented the same data to be displayed online through Virtual Office Websites ("VOWs"), secure password-protected online portals where brokers can provide MLS information to their customers and clients. TREB claimed that these restrictions were designed to protect consumer privacy in accordance with federal privacy law and requirements of the provincial real estate regulator. TREB also asserted that it owned copyright in the MLS database and that its VOW policy and rules were a mere exercise of that copyright.<sup>28</sup>

26. In 2016, the Tribunal ruled that TREB had abused its dominant position, finding that TREB's restrictions substantially prevented competition. The Tribunal held that TREB's restrictions were not required by privacy law and were not motivated by privacy concerns.<sup>29</sup> The Tribunal also found that TREB had not established the existence of copyright in the MLS database, and that even if such copyright existed some of TREB's

---

<sup>26</sup> [\*The Commissioner of Competition and Pfizer Inc. and Wyeth, Consent Agreement, CT – 2009-014, October 14, 2010.\*](#)

<sup>27</sup> [\*The Commissioner of Competition and Bayer AG, Consent Agreement, CT – 2018-008, May 29, 2018\*](#) and [\*The Commissioner of Competition and BASF SE, Consent Agreement, CT – 2018-010, June 27, 2018.\*](#)

<sup>28</sup> [\*The Commissioner of Competition v The Toronto Real Estate Board, 2016 Comp. Trib. 7\*](#), at paragraphs 321 and 717.

<sup>29</sup> [\*The Commissioner of Competition v The Toronto Real Estate Board, 2016 Comp. Trib. 7\*](#), at paragraph 452.

restrictions went beyond its mere exercise.<sup>30</sup> Specifically, it found that where an IP rights holder attaches anti-competitive conditions to the use of its IP, subsection 79(5) will not immunize that conduct from scrutiny.<sup>31</sup> The Federal Court of Appeal dismissed TREB's appeal, upholding the Tribunal's finding that because TREB attached anti-competitive conditions to the use of the database, the purpose of any asserted copyright was not "only" to exercise a copyright interest.<sup>32</sup> The Supreme Court of Canada ultimately dismissed TREB's application to further appeal in August 2018.<sup>33</sup>

## 6 Conclusion

27. The Bureau recognises that a measured enforcement approach in respect of the licensing of IP rights is critical to its mandate in ensuring that Canadian consumers and businesses prosper in a competitive and innovative marketplace. The Bureau's overall enforcement approach to IP rights including IP licensing is codified in the IPEGs. IP licensing in the vast majority of cases is generally procompetitive and therefore the Bureau will continue to carefully evaluate any current and future enforcement action involving IP licensing and IP rights.

---

<sup>30</sup> [\*The Commissioner of Competition v The Toronto Real Estate Board\*, 2016 Comp. Trib. 7](#), at paragraph 721.

<sup>31</sup> [\*The Commissioner of Competition v The Toronto Real Estate Board\*, 2016 Comp. Trib. 7](#), at paragraph 754.

<sup>32</sup> [\*The Toronto Real Estate Board and Commissioner of Competition and The Canadian Real Estate Association\*, 2017 FCA 236, December 1, 2017](#), at paragraph 181.

<sup>33</sup> [\*Toronto Real Estate Board v. Canada \(Commissioner of Competition\)\*, \[2018\] S.C.C.A. No. 24](#).