

INTELLECTUAL PROPERTY RIGHTS AND COMPETITION LAW AND POLICY: ATTEMPTS IN CANADA AND JAPAN TO ACHIEVE A RECONCILIATION

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I. INTRODUCTION

The relationship between intellectual property rights (IPRs) and competition law has been topical for most of the preceding decade, despite the historically separate development of each area.¹ This emphasis on the relationship between IPRs and competition has forced regulatory agencies to adopt guidelines that attempt to reconcile, explain, and illustrate the interaction of these areas. At the very least, regulators must provide a working basis for practical accommodation between the laws and principles of each, though this simply may invoke “a general lack of comprehension, on both sides.”²

Canada,³ Japan,⁴ and the United States⁵ have formulated guidelines. The

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1. See, e.g., Act Concerning the Prohibition of Private Monopoly and Maintenance of Fair Trade, Act No. 54 of 1947, § 21 [hereinafter Antimonopoly Act], reprinted in HIROSHI IYORI & AKINORI UESUGI, THE ANTIMONOPOLY LAWS AND POLICIES OF JAPAN app. A, at 387 (1994). A copy of the Antimonopoly Act is available at <http://www.jftc.go.jp>.

2. Donald M. Cameron & Jan E. Scott, *Intellectual Property Rights and the Competition Act: Different Perspectives on Welfare Maximization*, in COMPETITION LAW FOR THE 21ST CENTURY 304 (James B. Musgrove ed., 1998). See also Howard I. Wetston, *The Treatment of Intellectual Property Rights Under Canadian Competition Law*, in PATENT LAW OF CANADA 309 (Gordon F. Henderson et al. eds., 1994).

3. Canada Competition Bureau, Intellectual Property Enforcement Guidelines (Sept. 21, 2000), available at <http://strategis.gc.ca/ssg/ct01992e.html> [hereinafter IPEGs].

4. Japan Fair Trade Comm'n, Guidelines for Patent and Know-How Licensing Agreements Under the Antimonopoly Act (July 30, 1999), available at <http://www.jftc.go.jp/e-page/guideli/patent99.htm> [hereinafter GPLAs].

5. U.S. Dep't of Justice & Fair Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property (Apr. 6, 1995), available at <http://www.usdoj.gov/atr/public/guidelines/ipguide.htm> [hereinafter U.S. Guidelines].

European Union also has given extensive consideration to the matter.⁶ In addition, in September 1988, the Organisation for Economic Co-operation and Development (OECD) published an exhaustive report on the issue, which included a number of commentaries.⁷ Two months later, the OECD's Deputy Secretary-General discussed publicly the prospects for international rules on competition policy that would bring a measure of international or transnational regulation as well as harmonization or comity.⁸ Arguably, this might be viewed as the competition law equivalent to the World Trade Organization (WTO) Agreement on Trade Related Aspects of Intellectual Property (TRIPs), which stipulates minimum requirements for the protection of IPRs.⁹

The impetus toward an accommodation between IPRs and competition law has come at precisely the same time as the emergence of IPRs as a major form of wealth in the information-based economies of developed countries. Likewise, the convergence of industrial and communication systems, through digitization, has ensured that the use and management of such information is of a global dimension. Therefore, the need for an international legal framework for not merely intellectual property law, but also competition law, is both necessary and likely to develop.

This Article compares the positions of Canada and Japan on the relationship between IPRs and competition law. To do this, we compare the nature and scope of each country's IPRs and competition law, including the guidelines each country has issued to facilitate a working relationship between the recognition of IPRs and the application of competition law. These guidelines reflect the efforts by regulatory agencies to distinguish between the *existence* of IPRs and the *use* of IPRs. The guidelines focus on whether the use of an IPR in particular circumstances is anticompetitive, and the solution they provide is compulsory licensing. However, this distinction is problematic because part of the exclusivity of an IPR is the right to refuse to license.

The question then becomes: When is the situation one of *mere use* (i.e.

6. See *infra* text accompanying notes 13-38.

7. See ORG. FOR ECON. CO-OPERATION AND DEV. (OECD) DIRECTORATE FOR FINANCIAL, FISCAL AND ENTERPRISE AFFAIRS, COMMITTEE ON COMPETITION LAW AND POLICY, COMPETITION POLICY AND INTELLECTUAL PROPERTY RIGHTS (Sept. 16, 1998) [hereinafter OECD ROUNDTABLE REPORT]. Part I contains "National Contributions." Part II contains "Other Titles," which are the commentaries of expert participants.

8. See Joanna R. Shelton, *Competition Policy: What Chance for International Rules?*, 1 OECD J. COMPETITION L. & POL'Y 37 (1999).

9. See Agreement on Trade-Related Aspects of Intellectual Property Rights, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND vol. 31, 33 I.L.M. 81 (1994) [hereinafter TRIPs Agreement].

existence) and when is there *something more*? As will be seen, the Canadian guidelines acknowledge that the “something more” requirement can be met if the wider circumstances involve a breach of any of the general prohibitions contained in the Competition Act.¹⁰ However, the Act also envisions (though, as yet, without any actual application) that the *mere use* of an IPR may invoke a sanction under Section 32.¹¹

Likewise, certain decisions in the European Union may be seen as essentially requiring *mere use*. Nevertheless, the decisions have been remedial in circumstances where it is suggested that the enforcement or “mere use” of the IPR would give a monopoly broader than the proper scope of the IPR. These European decisions are discussed below only to provide a comparative perspective that may assist in suggesting a potential circumstance under which Canada’s Section 32 might be an appropriate remedy. This Article does not attempt to provide a detailed analysis of the European position.

Additionally, the 1998 OECD Roundtable, while recognizing IPRs as pro-competitive, and endorsing the distinction between *existence* (i.e. *mere use*) on the one hand, and *something more* on the other, also concluded that in some circumstances IPRs might impinge on competition by being “overly broad.”¹²

A. Recent Trends in the European Union

In 1988, the Court of Justice of the European Communities (ECJ), in *Volvo AB v. Erik Veng*, held that a refusal by the holder of an IPR (registered design for automobile body panels and spare parts) to license, for a reasonable royalty, third parties to produce the panels or parts covered by its registered design “cannot itself constitute abuse of a dominant position” because a refusal to license is “the substance of [the] exclusive right . . .”¹³ This ruling represents the ECJ’s acceptance of the existence/use distinction. The holder of the registered design was permitted to retain its monopoly in the spare parts market through the exercise of its IPRs. However, the court

10. See IPEGs, *supra* note 3, pt. 1.

11. See *id.* pts. 1, 4, para. 4.2.2 (noting that such circumstances would be “very rare” and only “when the conduct cannot be remedied by the relevant IP statute.”). See also *infra* text accompanying notes 192-205.

12. See OECD ROUNDTABLE REPORT, *supra* note 7.

13. Case 238/87, *Volvo AB v. Erik Veng (U.K.) Ltd.*, [1988] E.C.R. 6211, [1989] 4 C.M.L.R. 122. Abuse of a dominant position is a category of competition law infringement under Article 86 of the European Community (EC) Treaty. See Treaty Establishing the European Community, Mar. 25, 1957, art. 82, 298 U.N.T.S. 11.

limited its holding by noting that the design holder's right to monopolize the supply of parts incorporating its design fell in this instance within "the very subject-matter of [the design right]."¹⁴ This suggests a need to consider the degree or extent of connection between the IPR and the broader business activity. The greater the linkage, the more likely the exercise of the IPR will prevail.

In addition, notwithstanding the design IPR, if the holder were arbitrarily to refuse to supply the spare parts, fix prices for the spare parts at an unreasonable level, or decide to no longer produce spare parts for a particular model of vehicle, many of which are still in circulation, then an abuse of a dominant position would occur.¹⁵

Volvo, therefore, provided a precedent for the leading European authority, the 1995 *Magill* proceedings before the ECJ.¹⁶ In *Magill*, television-broadcasting entities had licensed several sources to publish daily television program guides, but had limited publication of weekly program guides to specific publishers on an exclusive basis.¹⁷ No overall composite schedule of all television broadcasters' weekly programming was available; each broadcaster simply published its own schedule.¹⁸ The broadcasters claimed that they had copyright protection in the schedules, and argued that the refusal to license publication of a weekly program schedule to those other than exclusive licensees constituted a mere exercise of an IPR.¹⁹ However, the ECJ found that the broadcasters were abusing a dominant market position, and required them to license, on a non-discriminatory basis, third parties to publish weekly schedules, including a compiled list of programs from all broadcasters.²⁰

The ECJ reiterated the existence/exercise distinction, finding that the refusal to grant a license "cannot in itself" constitute an abuse of a dominant position, but that "in exceptional circumstances" the exercise of an IPR might constitute an abuse.²¹ In *Magill*, the ECJ found an exceptional circumstance—the television companies were the exclusive source of the basic, or raw, information, and the failure to release this information (rather

14. *Volvo*, 4 C.M.L.R. at 135.

15. *Id.* at 135-36.

16. Joined Cases C241/91 & 242/91P, *Radio Telefis Eireann v. Comm'n*, [1995] 4 C.M.L.R. 718 [hereinafter *Magill*].

17. *Id.* at 726-28.

18. *Id.*

19. *Id.*

20. *Id.* at 731.

21. *Id.* at 790, paras. 49-50.

than any schedule) was an abuse of their dominant position.²²

The court also noted other factors in *Magill*. Programming information on a weekly schedule was a different product from the provision of daily schedules, so that there was “no actual or potential substitute” for the weekly publications of the television broadcasters through their exclusive licensees.²³ In addition, with each television entity publishing its own weekly schedule, viewers had no option but to buy each separate television schedule and compile them for themselves.²⁴ The court also noted that viewers expressed a “specific, constant and regular potential demand” for a comprehensive compilation of all weekly schedules.²⁵

The court held that the television entities’ refusal to provide the necessary raw material, in reliance on their copyright, prevented the appearance of a comprehensive television schedule for which there was a demand.²⁶ Finally, the court found that there was “no justification,” with respect to broadcasting or the supply of program guides, for the refusal to supply the information to third parties.²⁷

Magill provides a key example of the relationship between competition law and IPRs. First, from a competition law perspective, the circumstances of the case enabled an abuse of a dominant position to be established in a situation that is *prima facie* one of mere existence of an IPR. However, from an intellectual property perspective, the essential factor was the *information* that would be contained in a program schedule, rather than the schedule itself. The third party compulsory licensees were to compile them from information they were ordered to disclose. As will be explained, copyright does not exist in information or ideas, but in the *expression* of information.²⁸ Therefore, there arguably was no breach of any copyright held by the television entities, whose dominant position related to the information itself, rather than any schedules.

Why then was this proceeding not decided by denying any violation of an IPR? The answer is that the jurisdictional structure of the EC prevented such an approach. The existence and scope of any IPR is determined by its respective national jurisdiction. Community jurisdiction derives only from

22. *Id.* at 791, paras. 53-54.

23. *Id.* at 790, para. 52. The weekly schedules enabled viewers to “arrange their leisure activities for the week” which could not be done merely with daily schedules.

24. *Id.* at 791, para. 53.

25. *Id.* at 791, para. 52.

26. *Id.* at 791, para. 54.

27. *Id.* at 791, para. 55.

28. *See infra* text accompanying notes 93-104.

finding an infringement of Community law.²⁹ Furthermore, as discussed below, the intellectual property law determination of the existence and scope of a copyright in any schedule presented a controversial copyright issue. This issue arose because in order to provide the information, the television entities would have had to list, set out, or express in some manner the relevant information. Any such vehicle of information delivery constitutes a copyright-protected form of expression, so that once information was supplied it automatically would be subject to copyright through the *form of expression* of delivery. This question concerns the minimum requirements necessary to constitute original and copyrightable expression. Is mere writing enough, or must it present some creative or qualitative feature?³⁰

Leaving aside this difficult issue of copyright law, which was correctly avoided by the ECJ on jurisdictional grounds, the court has, in the context of competition law, provided several factors that indicate the requisite “something more” that enables scrutiny under competition law principles. Applying these factors, *Volvo* and *Magill* are distinguishable. In *Volvo*, the IPR (a registered industrial design) covered the very product (automotive panels and parts) for which an abuse of dominant position was claimed. In *Magill*, on the other hand, the product was characterized as information, which in itself is well outside the scope of copyright, the relevant IPR.

The European Commission recently applied the *Magill* principle in an interim measure imposed in *IMS Health*.³¹ This proceeding involved a similar restraint on the supply of information through the exercise of copyright in a data collection and distribution structure that had become so pervasive (a “national standard” in Germany) that no data or information of this type (information on pharmaceutical sales and prescriptions) could be sold through means other than the “national standard” structure.³² The

29. *Magill*, 4 C.M.L.R. at 785-86, 788. The ECJ notes that “in the absence of Community standardization or harmonisation of laws, determination of the conditions and procedures for granting protection of an intellectual property right is a matter for national rules.” *Id.* at 790. The court continued by noting, therefore, that a “refusal to grant a licence, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute abuse of a dominant position.” *Id.* The court then, however, looked more broadly at the “conduct” of the holder of an exclusive right and found that such “conduct” “may, in exceptional circumstances, involve abuse of a dominant position,” therefore involving breach of an EC law. *Id.*

30. See *infra* note 92 and accompanying text.

31. See Press Release, European Comm’n, Commission Imposes Interim Measures on IMS HEALTH in Germany (July 3, 2001), available at <http://europa.eu.int>.

32. The structure for data collection and distribution, the “national standard” in Germany, was known as the “1860 brick structure.” *Id.* The two complainant companies had attempted to sell their own regional data in their own structure but “discussions with potential customers showed that data presented in another structure was not marketable, because of the pre-eminent position of the 1860 brick structure within the industry.” *Id.* The Commission’s own assessment of the industry position

Commission concluded that a refusal to license the structure would foreclose the informational products market to new entrants and thereby prevent competition.³³ However, this interim measure was suspended in interlocutory proceedings before the President of the Court of First Instance of the European Union.³⁴ Although the case would proceed to be heard on its merits by the Court of First Instance, the balance of interest did not warrant an “interim measures” order against the copyright holder.³⁵ In suspending the interim measures, the President of the Court of First Instance commented:

[T]he inherently exceptional nature of the power to adopt interim measures would normally require that conduct whose termination or amendment is targeted by such measures fall clearly within the scope of the Treaty competition rules. However, the characterisation of the refusal to licence at issue in the present proceedings as abusive turns, prima facie, on the correctness of the Commission’s interpretation of the case-law concerning the scope of the “exceptional circumstances.” It is this case law that explains the clearly special situations in which the objective pursued by Article 82 EC may prevail over that underlying the grant of intellectual property rights. In this context, where the abusive nature of the applicant’s conduct is not unambiguous having regard to the relevant case-law and where there is a tangible risk that it will suffer serious and irreparable harm if forced, in the meantime, to license its competitors, the balance of interests favours the unimpaired preservation of its copyright until judgment in the main action.³⁶

IMS Health may present another example of a situation where the use of an IPR (copyright in the *form of expression* of a standard structure for data collection and distribution) may result in the control or monopolization of the supply of information or data itself. For instance, potentially competing suppliers might be precluded from supplying information or data if the only acceptable format is that covered by someone else’s copyright. Such control and monopoly of information itself is beyond the purpose and scope of copyright protection.³⁷ The factual situation in *IMS Health* deserves careful

supported this conclusion.

33. Order of the President of the Court of First Instance, *IMS Health Inc. v. Comm’n of the Eur. Communities* (Oct. 26, 2001), at <http://curia.eu.int>.

34. *Id.*

35. *Id.*

36. *Id.*

37. *Cf. Magill*, 4 C.M.L.R. at 786 (in addition to determining that the television entities were seeking a monopoly in *information* the ECJ also commented, “[t]he [television entities] were thus

consideration to determine whether a monopoly in information supply would be the consequence of exercising the IPR.

We present some of the principles propounded by the European Union in order to identify themes and trends that provide perspective on the interface between intellectual property and competition law. This perspective is from a jurisdiction that has provided the most significant judicial consideration of this relationship to date. These examples also demonstrate the critical need to consider not just IPRs in general, but the nature and scope of the particular IPR that is involved in a proceeding. In both *Magill* and *IMS Health* the IPR involved was copyright—a weak and limited IPR never meant to cover things, facts, ideas, or information. It only was intended to cover forms of expression. In *Volvo*, the IPR (a registered design) was intended to protect the item itself.³⁸

To date, no proceeding in Canada has presented dimensions similar to those that occurred in the European Union. Nevertheless, the European trend presents useful comparative features that must be considered if similar circumstances arise in Canada.

B. Features and Perspectives of IPRs

The following broad perspectives must be considered in any analysis of IPRs and competitiveness in the marketplace:

- (a) Each type or category of IPR is distinct in its nature and scope. The conceptual definition and boundaries of each IPR determine the extent of any exclusivity or monopoly afforded by that IPR. Naturally, this relates directly to the nature of any infringement of the IPR and to the availability of competing products in the marketplace. Some IPRs afford the holder “strong” protection, or substantial exclusivity. Other IPRs provide only “weak” protection, allowing only limited exclusivity with greater opportunity for product competition.

using their copyright . . . as part of the activity of *broadcasting* in order to secure a monopoly in the derivative market of weekly television guides”) (emphasis added). In *IMS Health*, a refusal to license would grant a monopoly in the business of supplying data. See *supra* text accompanying note 36.

38. See *Volvo*, 4 C.M.L.R. at 135: “It must also be emphasized that the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing . . . products incorporating the design constitutes the very subject-matter of his exclusive right.” See the Opinion of the Advocate General in *Magill*, arguing that the distinction between the *existence* and *exercise* of an IPR is of no independent significance. 4 C.M.L.R. 752. The essential focus should be to determine whether the exercise of rights falls within “the specific subject-matter of an intellectual property right.” *Id.* The Advocate General was prepared to accept that “spare parts” in *Volvo* were the specific subject matter of the IPR (registered design). However, he failed to distinguish the more limited right in the nature of copyright in *Magill*.

Therefore, each IPR should be evaluated separately. At present, this is of greater significance in Canada than in Japan because Canadian competition laws and guidelines encompass almost all categories of IPRs.³⁹ The Japanese guidelines, on the other hand, relate only to patents and “know how.”⁴⁰ Nonetheless, there is nothing to suggest that in Canada the nature and scope of each category of IPR has received individualized examination in an IPR/competition law context in the manner that has been suggested;

(b) In general, IPRs are considered to be pro-competitive because they foster and encourage innovation, creation, research, and development.⁴¹ Patent law theory demonstrates this because it requires full public disclosure of the invention, in the interest of the public, but with a period of state-guaranteed exclusivity or monopoly in order to provide incentives and rewards for innovation.⁴² As such, the limitations of an IPR should reflect the balance between private right and public domain. If this balance is not struck in any particular category of IPR, then changes should be made to the IPR itself,⁴³ rather than shifting the balance through an application of competition law;

(c) When considering an IPR’s application, courts should be more conscious of the need to consider the appropriate boundary limitation of that IPR. It is understood that an item might receive protection under more than one category of IPR.⁴⁴ The broader and more significant question is whether an item properly falls within an IPR. Allowing an IPR to expand through overly broad interpretation may

39. See IPEGs, *supra* note 3, pt. 2, para. 2.1.

40. See GPLAs, *supra* note 4, pt. 1, para. 3. Paragraph 5 includes definitions relating to the terms “patents” and “know-how.”

41. See *infra* text accompanying note 48 (concerning recognition of this policy by the OECD). See also IPEGs, *supra* note 3, pt. 1; GPLAs, *supra* note 4, pt. 1.

42. This principle originated in 1602 with *Darcy v. Allen*, 11 Coke 84b, 77 Eng. Rep. 1260 (K.B. 1603), where a distinction was drawn between invention patents and other patents. The principle received judicial recognition and was enacted in the exception for patents of invention in Section 6 of the Statute of Monopolies (1624 Eng.). See H.G. FOX, THE CANADIAN LAW AND PRACTICE RELATING TO LETTERS PATENT FOR INVENTIONS 1-13 (4th ed. 1969).

43. For example, if the regular term of patent protection (twenty years from the date of registration) is considered to be too long and, therefore, anticompetitive for certain categories of products or processes, then a shorter period should be adopted to better reflect the competitive incentive a patent brings to that product or process. See *infra* text accompanying note 61.

44. Courts frequently acknowledge this duplication. See, e.g., *British Columbia v. Mihaljevic*, [1989] 26 C.P.R. (3d) 184, 190-92 (B.C.S.C.) (applying both copyright and trademark principles to visual depictions).

create an overly broad exclusivity or monopoly.⁴⁵ This is not to suggest that an IPR ought not to be interpreted to encompass a new product or technology (for example, the recognition of patent rights in “higher life” living organisms or the recognition of “business method” patents) if such is within the conceptual framework provided by the legislature of the particular jurisdiction.⁴⁶ The feature that ought to be avoided is the expansion of an IPR beyond the permissible conceptual boundary applicable to that IPR;

(d) In the Canadian context, the effect of limitations on IPRs imposed by related legal principles also should be considered. These limitations include:

(i) Proceedings for “abuse of the exclusive rights” under a patent as provided for in Sections 65-71 of the Patent Act;⁴⁷ and

(ii) A potential of no, or only limited, enforcement of copyright in a work or other subject matter (i.e. a neighboring right) that contains or presents some measure of illegality.

C. *The 1998 OECD Roundtable*

The OECD Roundtable accepted, and urged competition agencies to accept, the distinction between the existence of IPRs and their definition or scope on the one hand, and the use of IPRs on the other. However, with the need for competition agencies to concentrate on the latter, there was little consensus on how this distinction might be drawn.⁴⁸ This suggests that while OECD jurisdictions may agree generally on the primary principle to follow,

45. An obvious example of an overextension of an IPR was allowing copyright to exist in a three dimensional construction of a two dimensional copyrighted drawing without reflecting that this would expand copyright protection to an item or object rather than simply the expression or depiction of that item. See, e.g., *L.B. (Plastics) Ltd. v. Swish Products Ltd.* [1979] R.P.C. 551 (Eng.); *British Leyland Motor Corp. Ltd. v. Armstrong Patents Co. Ltd.*, [1986] 2 W.L.R. 400, 1 A11 E.R. 850 (H.L.); *Bayliner Marine Corp. v. Doral Boats Ltd.*, [1988] 10 C.P.R. (3d) 289, 297, 306-08 (F.C.A.). This matter ultimately required legislative intervention. See the Copyright Amendment Act, R.S.C. 1985, ch. 10, § 11 (1988) (Can.), inserting §§ 64 and 64.1 of the Copyright Act.

46. With respect to new life forms (“genetically altered non-human mammals”), see *President and Fellows of Harvard College v. Canada (Commissioner of Patents)*, [2000] 4 F.C. 528 (F.C.A.). There currently is no judicial determination in Canada concerning “business method” patents, but see Stephen J. Ferance, *Debunking Canada’s Business Method Exclusion from Patentability*, 17 C.I.P.R. 493 (2000). The analysis in both instances is that patents in these subject areas are within the conceptual perimeters of patentability in Canada.

47. See Patent Act, R.S.C., ch. P-4, §§ 65-71 (2001) (Can.).

48. See *Executive Summary*, OECD ROUNDTABLE REPORT, *supra* note 7, at 8-9.

the application of that principle in particular cases, as well as the recognition of secondary principles to determine when such application should occur, is likely to present some controversy.

Nevertheless, in every instance the starting point for the analysis of IPRs and competition law is the often-stated description that they present “two complementary instruments of government policy.”⁴⁹ This conclusion reflects the economic objective of both areas to promote competition. IPRs give a proprietary exclusivity that provides an incentive for competitive innovation and development. Competition law, in turn, prevents anticompetitive behavior in the marketplace, thereby promoting competition.⁵⁰ A similar characterization acknowledges IPRs as simply a variety of private property. Private property never has been seen in itself as anticompetitive. Indeed, it is the essential feature of capitalism and free market competitiveness.⁵¹ Thus, today’s focus on the complementation between IPRs and competition law has displaced the traditional perspective that IPRs afford monopolies, while competition law restrains or prevents monopolies. Such a characterization is now seen to be too superficial.⁵²

Yet, commentary at the OECD Roundtable recognized that to claim complementation between these areas may not be totally accurate.⁵³ The degree of complementation may depend upon the level of abstraction involved in the comparison. A broad abstraction, as drawn above, may well present complementation, but this may diminish under a more narrow comparison, especially one that contrasts the short and long term consequences of IPRs.⁵⁴ In the short term, IPRs may tend toward anticompetitiveness. However, the increased long-term innovation that IPRs afford actually might encourage competition.⁵⁵

These ideas must be considered within the scope of each type of IPR, as set out below. Although, as the OECD Roundtable noted, the common economic characteristics of IPRs are the high fixed costs of production (essentially research and development), the relatively low marginal costs of reproduction, and the relative ease with which a third party might effect a

49. IPEGs, *supra* note 3, pt. 1.

50. *See id.* pt. 2, para. 2.2.

51. *See id.* pt. 3, paras. 3.1-3.4.

52. Willard K. Tom, *Background Note*, OECD ROUNDTABLE REPORT, *supra* note 7, at 22.

53. *See Executive Summary*, *supra* note 48, at 7. “Despite sharing important goals, [IPR] and competition policies are *not purely complementary* policies and managing the interface between them can be difficult.” *Id.* (emphasis added).

54. *Id.* *See also* Tom, *supra* note 52, at 22, *relying on* Nancy T. Gallini & Michael Trebilcock, *Intellectual Property Rights and Competition Policy: A Framework for Analysis of Economic and Legal Issues*, OECD ROUNDTABLE REPORT, *supra* note 7, at 325, 333.

55. *Executive Summary*, *supra* note 48, at 7.

taking, misappropriation, or usurpation of that subject matter.⁵⁶ IPRs prevent such misappropriation. They also prevent short-term competition from third parties. However, in most instances, third party competition in the short term depends primarily on a usurpation of the innovative features of the original product. This is the very usurpation that IPRs are designed to prevent, in the interest of longer-term innovation.

The practical accommodation between IPRs and competition law and policy, articulated at the OECD Roundtable, and to some extent reflected in the national guidelines, includes:

- Competition agencies should not presume that IPRs create or increase market power, but in certain circumstances IPRs might be found to do so.
- Competition agencies should accept that IPRs are “potentially pro-competitive” in nature, even though short-term anticompetitiveness might exist. The essence of the pro-competitiveness is innovation that may flow from the IPRs.
- Overly broad IPRs might inhibit innovation by discouraging or preventing subsequent secondary innovation with respect to an invention. They also might increase the likelihood that a holder will be found to enjoy a dominant position in the marketplace.⁵⁷ Patent protection is identified in this context because patent law regulates biotechnological innovations (an industry the OECD Roundtable considers to have many overly broad patents) and its claims are the only type of IPR with the inherent capacity to be drawn broadly or narrowly. From a technical perspective, the drawing of a patent “claim,” which determines the breadth of the patent, requires considerable skill. If it is drawn too narrowly, subsequent inventors can draw their patents around it and destroy its economic value. On the other hand, if a claim is drawn beyond that disclosed in the patent specification, or so broadly that it encompasses a feature within the scope of an earlier patent (the “prior art”), or to an extent that the actual product or process cannot do or achieve what the claim states (i.e., fail a “usefulness” test), then the patent will be invalid.

56. See Tom, *supra* note 52, at 23.

57. See *Executive Summary*, *supra* note 48, at 7-8.

- Competition agencies should not attempt to remedy the situation by adjusting or refining the scope of an IPR. Such intervention after an IPR has been created would discourage innovation. Alternatively, the OECD Roundtable urges competition agencies to acquaint patent offices with information about the likelihood that anticompetitiveness will flow from overly broad patents. Implicitly, the patent office or the particular examiner would take such factors into account and determine an appropriately competitive breadth for the patent.⁵⁸

The consensus and commentary of the OECD Roundtable is consistent with themes in the Canadian and Japanese guidelines, as well as general principles of IPRs. However, only the OECD suggests that patent offices should exercise some discretion as to perceived anticompetitiveness from “overly broad” patent claims. It is difficult to envision such a role for patent offices. The jurisdictional requirements and other criteria for issuing a patent involve meeting the essential elements of patentable subject matter (or “patentability”) as stipulated in the particular patent legislation.⁵⁹ The preservation of market competition is not one of the criteria stipulated by the Patent Examiners. As noted above, a patent claim may be as narrow or as broad as permitted by the particular invention and some of the other criteria of novelty, usefulness, and the available “prior art.” These are the only criteria specified for patent examiners to act upon.⁶⁰ Giving examiners (or any other patent office officer) the authority to assess and evaluate the breadth of patent claims beyond the traditional criteria of patentability would re-focus the work of patent offices. At a minimum it would involve legislative amendments in national jurisdictions. Perhaps modifying the “minimum standards” for patentable IPRs under the TRIPs Agreement also would be necessary.⁶¹

Additionally, the OECD Roundtable considered whether a patent office or a competition agency possesses enough knowledge, skill, and experience

58. *See id.* at 8.

59. Essentially, this concerns whether the patent is an “invention” under the particular patent legislation. In Canada, the requirements include “novelty,” “inventiveness” or “non-obviousness,” “usefulness,” and composition of patentable subject matter. There is no “competitiveness” criterion or requirement that must be considered by the Patent Office Examiner.

60. *See supra* text accompanying note 58 and *infra* text accompanying notes 70-72.

61. TRIPs Agreement, *supra* note 9, arts. 27-31 (providing for patentability upon application of the same criteria required in the Patent Act). The TRIPs Agreement does not enable a party to require an “anticompetitiveness” test in the patent granting process.

to assess competitiveness.⁶² It concluded that neither entity possesses sufficient expertise to “determine optimal patent breadth,” although competition agencies may have “a comparative advantage in discovering and appreciating the anticompetitive effects” of overly broad patents.⁶³ Nevertheless, the OECD Roundtable still considered patent offices better suited to set a balance between primary and secondary innovation.

Apart from these difficulties, the term or duration of a patent, or any other IPR, provides the crucial balance between primary and secondary innovation incentives. Should a particular product warrant a longer or shorter period of protection, then national policy makers, together with their international counterparts, might decide to change the terms of protection for products or processes.

The issue of overly broad patents will not be easy to resolve. Perhaps cooperation or coordination between patent offices and competition agencies would enable a pre-grant assessment of competitiveness, or allow a summary style evaluation from a competition agency within one year of the patent grant.⁶⁴ This, however, is unlikely to occur.

D. The Nature and Scope of IPRs

While most commentaries on the IPR/competition law relationship use the expression “intellectual property right,” or IPR, and intend the expression to be compendious of protections by way of copyright, trademark (registered and unregistered), trade secret, industrial design (or, design patents in the United States), and patent, the major emphasis in most circumstances is on patent, or contexts principally related to patent protection.⁶⁵ This probably reflects the substantial exclusivity afforded by a patent, even though it lasts for only a limited period of time.

The varying scope of protections afforded by each type of IPR is directly related to the impact of IPRs on a competitive marketplace. The scope of any protection should include the following:

62. *Executive Summary*, *supra* note 48, at 8.

63. *Id.*

64. A comparison might be drawn between telecommunications deregulation in Canada and the issue of jurisdiction between the Canadian Radio-Television Telecommunications Commission (CRTC) and the Canadian Competition Bureau. As the industry becomes more deregulated (because of the CRTC’s “regulatory guidance”), does it cease to be regulated and therefore subject to general competition regulation? See CRTC/Competition Bureau Interface, at <http://strategis.ic.gc.ca/SSG/ct01544e.html>.

65. See, e.g., *supra* text accompanying note 57 concerning overly drawn IPRs (essentially referring to patent protection).

(i) The conceptual limits of each IPR. For example, does the IPR give exclusivity for the item or product itself, or merely for the particular form in which an item or idea is presented or utilized? Or, is it dependent on external factors, such as continuing public recognition or a perceived linkage between the holder and the item (as with, for example, the “distinctiveness” of a trademark)?;

(ii) A formal time limit on exclusivity. To some extent this feature will overlap with that of (i), above, if a conceptual requirement (say, a public perception of distinctiveness of a trademark) ceases to exist; and

(iii) Territorial limitations on a particular subject matter. This feature is significant in global or at least transnational marketplaces. If the “relevant market” for competition law purposes is transnational, then giving a particular IPR a purely territorial limit may not encourage innovation or anticompetitive forces. This would be so whether the relevant market was that of the product, or process, or any other separate “innovation.”

II. IPRS IN CANADA AND JAPAN

A. Canadian IPRs

This section refers only to those aspects of IPRs that are relevant to the interface with competition law.⁶⁶ Canadian IPRs can be presented in four categories of exclusivity:

(i) First, there are the IPRs that afford the greatest level of exclusivity, granting a monopoly in an item, product, or process. These IPRs preclude any other person or entity from producing that item or an equivalent item that utilizes the same elements of protected practical application. Such IPRs include patents and industrial designs.

In Canada, patent law is under federal constitutional jurisdiction⁶⁷ and is statutory (i.e., subject to judicial interpretation but not involving any substantive common law features).⁶⁸ A patent is granted by the state and is limited territorially to the particular jurisdiction. Therefore, a patent grants a

66. See Cameron & Scott, *supra* note 2, at 304-20. For a general survey of intellectual property law in Canada, see DAVID VAVER, *INTELLECTUAL PROPERTY LAW: COPYRIGHT, PATENTS, TRADE-MARKS* (1997).

67. Constitution Act, 30 & 31 Vict., ch. 3, § 91(22) (1867) (Can.).

68. Patent Act, R.S.C., ch. P-4, § 1 (2001) (Can.).

strong and substantial monopoly, but one limited by time and territory.

The granting of a patent is sometimes described as a “social contract,” whereby a state grants exclusivity in exchange for the right to disclose the invention publicly upon the expiration of the patent. For this reason, the patent “disclosures” must be expressed sufficiently to enable someone “skilled in the art” to replicate the item, product, or process after the patent expires.

A patent holder has the exclusive right to make, use, and sell (including by importation)⁶⁹ the patented invention. The subject matter must be novel,⁷⁰ inventive (i.e., not an “obvious” development),⁷¹ and useful (i.e., it must achieve what the patent claims that it will achieve).⁷² A patent expires twenty years after the application is filed.⁷³

Recent expansions of patent coverage include new technological subject matter, such as internet-related “business method” systems and life form creations of biotechnology.⁷⁴ While expanding an IPR to encompass new subject matter is not necessarily anticompetitive, expanding it to include particular subject matter could contribute to the technology sector’s dominance.

Industrial designs are known as “design patents” in the United States. In Canada, they are protected by a distinct federal statute⁷⁵ under federal constitutional jurisdiction.⁷⁶ A design presents the aesthetic appearance of a product. The Industrial Design Act defines “design” or “industrial design” as “mean[ing] features of shape, configuration, pattern or ornament and any combination of those features that, in a finished article, appeal to and are judged solely by the eye.”⁷⁷

Industrial design is only protected for ten years from the date of

69. *Id.* § 42.

70. *See id.* § 2.

71. *Id.* § 28.3.

72. *See id.* § 2.

73. *Id.* § 44 (when an application for a patent is filed on or after Oct. 1, 1989). *See also id.* § 45 (an application filed before Oct. 1, 1989, expires seventeen years from the date on which the patent is issued); An Act to Amend the Patent Act, S.C., ch. 10, § 1 (2001) (Can.) (regarding patents filed prior to Oct. 1, 1989, but not expired as of July 12, 2001; these patents now have a minimum term of twenty years date the time of filing).

74. *See supra* note 45 and accompanying text.

75. Industrial Design Act, R.S.C., ch. I-9 (1985) (Can.).

76. *See* Constitution Act, 30 & 31 Vict., ch. 3, § 91 (1867) (Can.). Constitutional jurisdiction for protection of industrial designs is not provided for specifically in the Constitution Act of 1867. However, Section 91(2) “trade and commerce” is the appropriate federal legislative context. *See* MacDonald v. Vapor Canada Ltd., [1977] 2 S.C.R. 134, 165-66. *But see* Pipeline Displays & Fixtures, Inc. v. Produits Metalliques J.P., Inc., [1987] 17 C.P.R. (3d) 252, 253 (where counsel raised the issue of the constitutionality of the Constitution Act but the court did not discuss it).

77. Industrial Design Act § 2.

registration,⁷⁸ but it is still a conceptually strong IPR because exclusivity is afforded to the registered design itself. No other person may use the registered design even if that person achieved the design by independent creation.⁷⁹ In effect, the exclusivity is in the idea, its depiction, and the design. As such, an industrial design is similar to a patent. It is limited to Canada's territory. However, because of the narrow and aesthetic nature of this IPR, the scope of any anticompetitive activity concerning its usage is limited.

(ii) Second, the trade secret (or confidential information) IPR affords similar exclusivity to patent protection because it encompasses the item or idea itself. Indeed, a trade secret can exist in perpetuity, yet it will be lost once it is no longer secret. Any licensing of a trade secret, therefore, must be subject to a confidentiality agreement. In the common law provinces of Canada and the (British) Commonwealth, trade secrets are protected within the broad equitable theory "breach of confidence." In Quebec, Civil Code proceedings mirror the breach of confidence proceeding.⁸⁰ A major limitation of the breach of confidence proceeding is that an obligation of confidence is established only where the holder of the information imparts or confides the information to another in circumstances that reasonably imply an obligation of confidentiality.⁸¹

Currently, the proceeding has made only minimal headway toward encompassing a nonconsensual "taking" of the information, although reform to this effect has been recommended.⁸² Therefore, while a trade secret IPR may provide a monopoly for an item or product that may be important to the marketplace, it is still tenuous, depending entirely on the effectiveness of the security system that keeps it secret or confidential and the limitation of a requisite "relationship." In Canada, trade secret protection is constitutionally under provincial jurisdiction at common law and equity or under the Civil Code in Quebec. Uniform legislation across all provinces has been

78. *Id.* § 10(1).

79. *Id.* §§ 9, 11. Contrast this position with that of copyright. *See infra* text accompanying note 92.

80. *See* Mistrale Goudreau, *Protecting Ideas and Information in Common Law Canada and Quebec*, 8 INTELL. PROP. J. 189, 205 (David Vaver trans., 1994).

81. In *Lac Minerals Ltd. v. International Corona Resources Ltd.*, [1989] 2 S.C.R. 574, 61 D.L.R. 4th 14, the Supreme Court of Canada adopted the classic English test: (a) the information must have the quality of confidence; (b) the information must be imparted where an obligation of confidence arises; and (c) there must be an unauthorized use (or misuse) of the information to the detriment of the plaintiff.

82. *See* Report on Trade Secrets, Report No. 46 of the Institute of Law Research and Reform (July 1986). In the United Kingdom, see the Report of the United Kingdom's Law Commission, *Breach of Confidence* (Cmd. 83-88).

recommended, but not yet adopted.⁸³ In a technology context, a prime item protected by trade secret (and an effective security system) is the source code version of computer programs.

The scope of trade secret protection can be said to merge with a concept like that of “unfair competition.”⁸⁴ This is illustrated by the inclusion within secret or confidential subject matters of information that is public, but exclusive of “secret” from the act of compilation or collection.⁸⁵ The commercial value of trade secret protection lies in the convenience of its availability in one location, efficiently organized. Using the compilation without the consent of the compiler saves the time and cost of compiling the information oneself. This advantage is termed the “springboard principle,” and has been found to exist “even when all the features have been published or can be ascertained by actual inspection by any member of the public.”⁸⁶ The measure of damage, or the duration of any injunctive restraint, is commensurate with negating any unfair advantage that a person has gained through utilization in breach of confidence.⁸⁷ While Canadian common law does not yet recognize a formal link between confidence and unfair competition, Quebec’s interpretation of the Civil Code does.⁸⁸

From a competition theory perspective, the Supreme Court of Canada has recognized that trade secret protection creates an incentive to innovate. Lamer J. wrote for the Court that confidential information is protected because such information “is the product of labour, skill and expenditure, and its unauthorized use would undermine productive efforts which ought to be encouraged.”⁸⁹

83. See *id.*; Uniform Law Conference of Canada, Draft Uniform Trade Secrets Act, PROCEEDINGS OF THE 70TH ANNUAL MEETING 31 (Aug. 1988).

84. This has been clear in the United States since 1993 with the incorporation of trade secret protection in the then-new Restatement (Third) of Unfair Competition. Prior to this the law of trade secrets was reported in the Restatement of Torts § 757 (1939).

85. Apart from the information or data itself, a particular method of selecting or arranging a compilation or database may qualify as a trade secret, even if it is not “novel” (in a patent sense), as long as it is not well known. See *Promotivate International Inc. v. Toronto Star Newspapers Ltd.*, [1985], 23 D.L.R. (4th) 196.

86. *Terrapin Ltd. v. Builders’ Supply Co. (Hayes) Ltd.*, [1967] R.P.C. 349, 391. This passage subsequently was approved by the English Court of Appeal in *Seager v. Copydex Ltd.*, [1967] R.P.C. 349, 367 (CA). In Canada, see BARRY SOOKMAN, SOOKMAN: COMPUTER, INTERNET AND ELECTRONIC COMMERCE LAW ch. 4.9(b) (1989).

87. See *id.* See also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 (1995).

88. See Quebec Civil Code art. 1457 (Can.) (with effect from January 1, 1994, formerly Article 1053, Civil Code of Lower Canada, art. 1053, concerning delict or quasi-delict). See also Goudreau, *supra* note 80, at 204 (noting that “unfair competition . . . covers most cases of taking of secrets and ideas [with] industry custom and practice often serv[ing] as yardsticks by which to measure the unfairness of any conduct.”).

89. *R. v. Stewart*, [1988] 1 S.C.R. 963, 50 D.L.R. 4th 1, 10.

However, in contrast to patent law protection, a trade secret (providing it is effectively secured) is more likely to affect a monopoly than patent protection. This is due to several factors:

- The absence of a “social contract” of public disclosure in exchange for a limited monopoly.
- The absence of a set time or period of monopoly—a trade secret may exist in perpetuity.
- Without a finite period of exclusivity, the finding of an accommodation between long-term (primary) innovation and short-term (secondary) or “improvement” innovation, as noted earlier with respect to patent protection,⁹⁰ will be difficult, if not impossible.
- A trade secret, deriving not from a sovereign grant, but instead from a judicial recognition of a relationship sufficient to constitute “a relationship of confidence,” is not inherently limited in its exclusivity or monopoly to the territory of origin, but can be enforced in any jurisdiction that is prepared to recognize the relationship as worthy of protection.
- The potential breadth of trade secret protection to incorporate merely the collection or compilation of publicly available information or data may present some measure of “overly inclusive” protection unless appropriately controlled by the court.

In contrast, “compilations” are protected by copyright law, but only as far as the *selection* or *arrangement* used in the presentation of the information,⁹¹ because these are the only components that are original to the compiler. Copyright cannot exist in the facts or information itself because such features are not original to the compiler. There is, however, some dispute in Canada as to whether copyright protects selection or arrangement established by mere effort (“sweat of the brow”), or whether it requires some measure of creativity or a qualitative feature.⁹²

90. See *supra* note 42 and accompanying text.

91. See Copyright Act, R.S.C., ch. C-42, § 2 (1985) (Can.) (definition of “compilation.”).

92. The leading case is *Tele-Direct (Publications) Inc. v. Am. Bus. Info., Inc.*, [1996] 74 C.P.R. (3d) 72, *affid.* [1998] 2 Fed. Ct. 22, 76 C.P.R. (3d) 296, *leave to appeal denied* [1998] 1 S.C.R. xv, 78 C.P.R. (3d). *Cf.* *Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc.*, 449 U.S. 340 (1991); *Edufile, Inc. v. Auto. Prot. Ass’n.*, [2000] 4 F.C. 195. See also ROBERT G. HOWELL ET AL., INTELLECTUAL

(iii) Third, copyright affords a substantial duration of protection, generally, for the life of the author plus fifty years.⁹³ Nevertheless, copyright is a weak IPR because it covers only the form of expression of a subject matter that is a literary, dramatic, musical, or artistic depiction of an idea. There is no exclusivity in the subject matter or idea itself. The independently created expression of the same subject matter will not infringe on an earlier copyrighted expression and will be entitled to an independent copyright.⁹⁴ Matters protected by copyright include “works” or primary subject matter (literary, dramatic, musical, and artistic) and “other subject matter” or matters covered by “neighboring rights,” which are secondary and generally derive from primary works. These copyrights are protected only to the extent expressly stipulated for each category and only for a term of fifty years (i.e. there is no reference to the “life” of a creator in the duration).⁹⁵ In Canada, “other subject matter” or neighboring rights include a performer’s performance rights,⁹⁶ the rights of sound recording makers,⁹⁷ and the rights of broadcasters in communication signals.⁹⁸

In addition, copyright protects computer programs as literary works.⁹⁹ However, the scope of protection is somewhat uncertain when infringement moves from being purely literal copying to non-literal copying (i.e., copying merely the features of plot, structure and sequence, without copying the literal text).¹⁰⁰ The greater the scope of protection in a non-literal context, the greater the likelihood that protection encroaches upon monopolizing ideas or non-copyrightable material. Setting and applying a precise and effective demarcation around copyright will prevent such overreaching.

The relative uncertainty about the proper scope of protection was

PROPERTY LAW 233-68 (1999); Robert G. Howell, *Database Protection and Canadian Laws: State of Law as of June 15, 1998*, INDUSTRY CANADA, Oct. 1998, at 20-25, available at <http://strategis.ic.gc.ca>. For an interesting analysis of the IPR protection in databases from the perspective of competition policy and the *sui generis* right in data itself provided for in the 1996 *European Database Directive*, 96/9/ED of the European Parliament and of the Council of March 11, 1996, on the Legal Protection of Databases, see Graham A. Knight, *The Fall and Rise of Sweat of the Brow*, 13 INTELL. PROP. J. 336 (1999).

93. Copyright Act § 6. The general term of protection is “the life of the author, the remainder of the calendar year in which the author dies, and a period of fifty years following the end of that calendar year.”

94. *Id.* § 5(1).

95. *Id.* § 23.

96. *Id.* §§ 15, 26.

97. *Id.* § 18.

98. *Id.* § 21.

99. *Id.* § 2 (defining “computer program” as “a set of instructions or statements, expressed, fixed, embodied or stored in any manner, that is to be used directly or indirectly in a computer in order to bring about a specific result”).

100. See generally HOWELL ET AL., *supra* note 92, at 90-117.

illustrated by a divided U.S. Supreme Court in 1996.¹⁰¹ However, Canadian courts have followed the decisions of some U.S. appellate courts, which have established an appropriate boundary to limit copyright to the form of expression, even in the context of non-literal infringement.¹⁰² The courts attempt to filter or deconstruct a program to identify those portions that constitute expression that is original to the copyright claimant, rather than that constituting public domain material or commonly utilized procedures or sequences. This approach is similar to that described earlier for databases.¹⁰³

Thus, a copyright IPR may produce anticompetitive consequences. The expression and the matter or idea that is expressed may merge, in the sense that there is only one way (or a very limited number of ways) to express a matter or idea. Such a circumstance would give a copyright exclusivity in the matter, object, or idea itself.¹⁰⁴ This may be seen as an IPR that has become either “overly broad” or not adequately contained. Beyond this, copyright cannot be inherently anticompetitive, and it likely will be the business activity itself, to which the copyright is merely incidental, that is the focus of any anticompetitive assessment.

(iv) Fourth, trademarks in Canada may be registered under the federal Trade-marks Act¹⁰⁵ with respect to particular wares or services, or be unregistered. An unregistered trademark is remedial under provincial common law or civil law as the tort or delict of passing off (unfair competition). In unregistered, and probably all registered, situations, a trademark IPR is infringed only if there is a likelihood of public confusion as to the source of the wares or services depicting the trademark.¹⁰⁶ A

101. See *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 516 U.S. 233 (only eight of nine Justices participated). Justice Stevens is reported to have taken no part in the consideration or decision. The *per curiam* result was: “The judgment of the United States Court of Appeals for the First Circuit is affirmed by an equally divided Court.”

102. See, e.g., *Delrina Corp. v. Triolet Sys., Inc.* [1993] 47 C.P.R. (3d) 1 (Ont. G.D.); *Prism Hosp. Software, Inc. et al. v. Hosp. Med. Records Inst. et al.*, [1994] 57 C.P.R. (3d) 129, 269-74, following *Computer Assoc. Int'l, Inc. v. Altai Inc.*, 982 F.2d 693 (2d Cir. 1992).

103. See *supra* notes 89-91 and accompanying text.

104. The classic U.S. authority in the merger context is *Baker v. Selden*, 101 U.S. 99 (1879). This decision, however, is not prominent in Canadian or Commonwealth jurisprudence. Indeed, the Canadian courts rejected this decision in *Apple Computer, Inc. v. Mackintosh Computers Ltd.*, [1990] 2 S.C.R. 209. Nevertheless, *Baker v. Selden* is inherent in, and is the background to, any discussion of the dichotomy between form of expression and facts. Recently, however, the principle of merger was adopted in Canada: “If an idea can be expressed in only one or in a very limited number of ways, then copyright of that expression will be refused for it would give the originator of the idea a virtual monopoly on the idea. In such a case it is said that the expression merges with the idea and thus is not copyrightable.” *Delrina*, 47 C.P.R. (3d) at 4.

105. Trade-marks Act, R.S.C., ch. T-13 (1985) (Can.).

106. Traditionally, infringement of registered trademarks in Canada was thought to involve two tests: one under Section 19 and the other under Section 20. The context of Section 19 involves a use of

trademark, therefore, must be distinctive to the owner of the mark. If a trademark ceases to have such distinctiveness, for instance by assignment to another party¹⁰⁷ or by becoming generic or descriptive of the ware or service to which it relates, its exclusivity is lost.¹⁰⁸ However, licensing of a trademark will not invalidate the trademark through lack of distinctiveness in the licensee. This is a consequence of the Trade-marks Act, which stipulates that “use, advertisement or display of the trade-mark . . . is deemed always to have had, the same effect as such a use, advertisement or display of the trade-mark . . . by the owner . . .” as long as the owner retains “direct or indirect control of the character or quality of the wares or services.”¹⁰⁹

Generally, for trademarks in Canada, any anticompetitive consequence appears in the context of parallel importation. There the issue presented concerns whether the exclusivity of trademark use should be territorial or universal (or at least transnational). In other words, does the exhaustion of trademark relief (after its first sale) occur territorially or universally? In the context of licensing, the Canadian Federal Court of Appeal has acknowledged exhaustion on a universal or transnational basis. The court expressly reserved judgment with respect to a territorial assignment of a trademark.¹¹⁰

B. Abuse of Patents and Other IPRs in Canada

In addition to the conceptual and political limitations on IPRs, all patents granted in Canada are subject to “abuse proceedings.” The Attorney General

exactly the same mark with exactly the same wares or services for which the mark was registered. An infringement was found upon simply that usage, without any need to show “confusion.” See *Mr. Submarine Ltd. v. Amandista Inv. Ltd.*, [1987] 19 C.P.R. (3d) 3. A proceeding involving Section 20 (use of a non-identical mark) requires a showing of “confusion” under Section 6. However, in *Coca-Cola Ltd. v. Pardhan*, [1999] 85 C.P.R. (3d) 489, 498-99, the court held that the meaning of “use” in Section 19 and Section 20 requires “confusion.” Hence, this criterion may now be required for infringement under Section 19 as well as Section 20.

107. See *Wilkinson Sword (Canada) Ltd. v. Arthur Juda*, [1966] 59 D.L.R. 2d 418. This classic authority points out that, under Canadian trademark law, there cannot be a “deemed” distinctiveness in favor of an assignee, even though Section 48 of the Trade-marks Act enables a trademark to be transferable separately from the goodwill of the business to which it relates. The assignee must advertise or act otherwise in the marketplace to ensure that the trademark is distinctive, and that it remains the distinctive belonging of its owner.

108. See, e.g., *Aladdin Indus., Inc. v. Can. Thermos Prod. Ltd.*, [1969] 57 C.P.R. 230 (regarding use of the expression “Thermos” for flasks).

109. Trade-marks Act § 50(1).

110. See *Smith & Nephew Inc. v. Glen Oak Inc.*, [1996] 3 F.C. 565 68 C.P.R. (3d) 153, 158-60. See also Robert G. Howell, *Parallel Importation of Wares and Reputation Spillover: Examples of Transnationalization of Law*, in *ASIA-PACIFIC LEGAL DEV.* 84, 94-95 (Douglas M. Johnston & Gerry Ferguson eds., 1998).

of Canada “or any person interested” may bring these to the Commissioner of Patents,¹¹¹ with appeal to the Federal Court.¹¹² The Commissioner is empowered to grant compulsory licenses or even revoke the patent.¹¹³

The Patent Act stipulates the following circumstances as abuses of the exclusive rights under a patent:

if the demand for the patented article in Canada is not being met to an adequate extent and on reasonable terms¹¹⁴;

if, by reason of the refusal of the patentee to grant a license or licenses on reasonable terms, the trade or industry of Canada or the trade of any person or class of persons trading in Canada, or the establishment of any new trade or industry in Canada, is prejudiced, and it is in the public interest that a license or licenses should be granted¹¹⁵;

if any trade or industry in Canada, or any person or class of persons engaged therein, is unfairly prejudiced by the conditions attached by the patentee, whether before or after the passing of this Act, to the purchase, hire, license or use of the patented article or to the using or working of the patented process¹¹⁶; or

if it is shown that the existence of the patent, being a patent for an invention relating to a process involving the use of materials not protected by the patent or for an invention relating to a substance produced by such a process, has been utilized by the patentee so as to unfairly prejudice in Canada the manufacture, use or sale of any materials.¹¹⁷

Additionally, when settling the terms of a compulsory license under this provision, the Commissioner “shall be guided as far as possible” in this deliberation by

[securing] the widest possible use of the invention in Canada consistent with the patentee deriving a reasonable advantage from his patent rights;

111. Patent Act, R.S.C., ch. P-4, § 65(1) (2001) (Can.). Section 2 defines “Commissioner” as “the Commissioner of Patents.”

112. *Id.* § 71.

113. *Id.* § 66.

114. *Id.* § 65(2)(c).

115. *Id.* § 65(2)(d).

116. *Id.* § 65(2)(e).

117. *Id.* § 65(2)(f).

[securing] to the patentee the maximum advantage consistent with the invention being worked by the licensee at a reasonable profit in Canada; and

[securing] equality of advantage among the several licensees, and for this purpose may, on due cause being shown, reduce the royalties or other payments accruing to the patentee under any license previously granted.¹¹⁸

The principal focus of these provisions is the failure in Canada to use patented inventions, and the adverse impact such failure has on trade and industry. These provisions attempt to ensure balance between private and public interests, and to prevent the inhibition of innovation that may come with the loss of competition.

In the United States, the courts established the principle of patent abuse or misuse. These principles concern situations similar to those that are anticompetitive under antitrust or competition law.¹¹⁹

Other categories of IPRs may, to greater or lesser extents, include some principle of “misuse” that is linked closely with infringement of antitrust or competition law. However, once beyond the scope of patent law, the application of the misuse theory is fledgling.¹²⁰ To date, Canada has seen little movement in this direction.

C. Illegality and IPR Enforcement in Canada

In Canada, the Competition Commissioner brings proceedings for infringement of the competition law under the Competition Act before the Competition Tribunal.¹²¹ Private parties cannot initiate Competition Act proceedings. A party being sued for an IPR infringement can argue that the IPR cannot be enforced if it is “tainted” with illegality by reason of infringement of the Competition Act or other relevant law.

The Canadian position on IPR enforcement and illegality is confused. Recent proceedings clarify that copyright can exist and may be enforced, at

118. *Id.* § 66(4)(a)-(c).

119. These practices fall into three principal categories: “tying arrangements, improper royalty arrangements, and other improper licence restrictions.” David Bender, *Interface of Intellectual Property and Competition Law: The U.S. Experience*, in PATENT LAW OF CANADA *supra* note 2, at 323, 330.

120. *See id.* at 336-39. Bender foresees an increasing trend in this direction, especially with respect to computer software copyrights. He concludes that attempts to bring more IPRs under an “abuse” or “misuse” theory “may ultimately result in it becoming indistinguishable from traditional antitrust analysis with its considerations of market power and anticompetitive effects.” *Id.* at 339.

121. *See infra* text accompanying note 192.

least by injunctive means, in a work that is of illegal content by way of obscenity, notwithstanding the contrary opinion of the historical and current English position.¹²² However, an early proceeding before the Supreme Court of Canada suggests that copyright in a business form would not be enforced if such enforcement would further a monopoly alleged to be illegal under then existing competition law.¹²³ Similarly, a copyright might not be enforced in a work deemed to be illegal due to fraud¹²⁴ or in a work that is itself an infringement of an earlier copyright.¹²⁵

Accordingly, the perspective of illegality and IPR enforcement adds a dimension to the current analysis that essentially is unresolved and awaits judicial determination.

D. Japanese IPRs

Various statutes, which fall into three groups, protect intellectual property rights in Japan: traditional industrial properties, copyright, and other protections. Since the Japanese Fair Trade Commission's enforcement guidelines confine themselves to license agreements of patent and know-how, other kinds of IPRs are touched upon only briefly in the following text.

(i) Traditional industrial properties include patents, utility models, designs, and trademarks. Statutes on integrated circuit topographies and breeders' rights, enacted only recently, adopt slightly different systems of protection.

First, one who has made an industrially applicable invention can acquire a patent by following the procedure provided by the Patent Act.¹²⁶ An "invention" is defined as a "highly advanced creation of technical ideas by which a law of nature is utilized."¹²⁷ There has been much debate about whether computer software qualifies as an invention under this definition. The Japanese Patent Office considers computer software to be a mere expression of natural law and, therefore, not patentable. Software-related

122. See *Pasickniak v. Dojacek*, [1928] 2 D.L.R. 545; *Aldrich v. One Stop Video Ltd.*, [1987] 13 B.C.L.R.2d 106. See also Robert G. Howell, *Copyright and Obscenity: Should Copyright Regulate Content?*, 8 INTELL. PROP. J. 139 (1994).

123. *Underwriters' Survey Bureau Ltd. v. Massie & Renwick Ltd.*, [1937] S.C.R. 265, 268.

124. This proposition was noted with apparent approval in *Pasickniak v. Dojacek*, 2 D.L.R. at 554, and was expressly left open in *Aldrich v. One Stop Video Ltd.*, 13 B.C.L.R. 2d at 141.

125. *Compare Compo Co. v. Blue Crest Music Inc.*, [1980] 1 S.C.R. 357, 374 (suggesting that copyright could not subsist in an infringing work) with *Redwood Music Ltd. v. Campbell & Co. Ltd.*, [1982] R.P.C. 109, 120 (finding that copyright could exist in an infringing work). See also HOWELL ET AL., *supra* note 92, at 78-80.

126. Japan Patent Act, Law No. 121 of 1959, reprinted in 6 EHS Law Bulletin Series Japan SA-A11 (1966). An updated copy of the Patent Act is available at <http://www.jpo.go.jp>.

127. *Id.* § 2(1).

inventions are included in the definition of an “invention” as long as the solution expressed in it is related to hardware resources in some way.¹²⁸ An invention concerning a business method, which recently has attracted public attention, shall be examined as a software-related invention and is subject to the same standard.

An invention is categorized as “an invention of a product” or “an invention of a process.”¹²⁹ The latter category is subdivided into the invention of a manufacturing process and the invention of other kinds of processes.¹³⁰ In any case, an invention is patentable when it satisfies three qualifications: industrial applicability, novelty, and the existence of an inventive step (nonobviousness).¹³¹ Recent increases in biotechnological inventions have brought some difficulties with regard to these qualifications. Whether there exists an inventive step in it and whether it is industrially applicable poses a difficult question, especially in the case of Expressed Sequence Tags (ESTs). Such an invention should be patentable only when the EST’s function could not have been thought of by a person in the same field.

A patent holder enjoys “an exclusive right to commercially work the patented invention.”¹³² This right comes into force upon registration with the Commissioner of the Patent Office¹³³ and expires twenty years from the date of application.¹³⁴ The patent holder can require an injunction¹³⁵ as well as damages against the party that infringes the patent.¹³⁶ The scope of exclusivity is determined on the basis of the statements of the patent claim.¹³⁷ However, a recent decision of the Supreme Court, *K.K. Tsubakimoto Seiko v. THK K.K.*,¹³⁸ adopted the doctrine of equivalence and widened the scope of exclusivity to products that are different from the structure stated in the patent claim in the following ways:

128. The following are examples of solutions that will make the invention patentable: “(i) control for hardware resources, or processing with respect to the control; (ii) information processing based on the physical or technical properties of an object; (iii) information processing in which hardware resources are used.” Japanese Patent Office, Implementing Guidelines for Inventions in Specific Fields § 2.2 1(c)-2 (1997), available at <http://www.jpo.go.jp/infoe/sisine.htm>.

129. Japan Patent Act § 2(3).

130. *Id.*

131. *Id.* § 29.

132. *Id.* § 68.

133. *Id.* § 66(1).

134. *Id.* § 67.

135. *Id.* § 100.

136. *Id.* § 102.

137. *Id.* § 70.

138. 52 MINSHŪ 113 (Sup. Ct., 1998) (Japan), excerpted in YUKIO YANAGIDA ET AL., LAW AND INVESTMENT IN JAPAN: CASES AND MATERIALS 390 (2d ed. 2000).

- (1) the elements are not an essential portion of the patented invention;
- (2) the objective of the patented invention can be attained even if the elements are replaced with the structures in the accused product . . . ;
- (3) a person with ordinary skill in the field of the patented invention (the person will be addressed as “one skilled” hereinafter) would have readily conceived the interchangeability between the claimed portion and the replaced structures in the accused product as of the time of exploitation . . . ;
- (4) the accused product is novel and would not have been able to be conceived by one skilled as of the application time of the patented invention; and
- (5) the accused product was not intentionally removed from the technical scope of the claim by the applicant during the patent prosecution.¹³⁹

Second, a utility model is a “creation of technical ideas by which a law of nature is utilized.”¹⁴⁰ As this definition implies, a utility model is a simpler patent. It can be registered with the Commissioner of the Patent Office without examination of its substance.¹⁴¹ The registrant is entitled to the exclusive right to commercially implement the registered utility model for six years from the date of application,¹⁴² unless it is challenged.¹⁴³

Third, the Design Act defines “design” as a “shape, pattern, color or any combination thereof in an article (including part of an article)” that raises a sense of beauty visually.¹⁴⁴ The creator of a design that is industrially applicable can apply to register the design as long as the design is novel and could not have been created easily by a person with ordinary knowledge in the same field.¹⁴⁵ The design is registered with the Commissioner of the Patent Office after examination.¹⁴⁶ The design right, which is an exclusive right to implement the registered design as well as similar ones

139. YANAGIDA ET AL., *supra* note 138, at 391.

140. Japan Utility Model Act, Law No. 123 of 1959, § 2(1), available at <http://www.ipo.go.jp/shoukaie/utility.htm>.

141. *See id.* § 14.

142. *Id.* § 15.

143. *See id.* § 37.

144. Japan Design Act, Law No. 125 of 1959, § 2(1), available at <http://www.ipo.go.jp/shoukaie/design.htm>.

145. *Id.* § 3.

146. *Id.* § 16.

commercially,¹⁴⁷ comes into force upon registration¹⁴⁸ and expires after fifteen years.¹⁴⁹

Fourth, the Trademark Act defines a “trademark” as “characters, figures, signs, three-dimensional shapes or any combination thereof, or any combination thereof with colors” that are used in respect of a product or service in the course of trade.¹⁵⁰ Anyone can apply to register a trademark with the Commissioner of the Patent Office by designating the products or services with respect to which the applicant is going to use the trademark.¹⁵¹ A trademark is registered after examination.¹⁵² A trademark right “come[s] into force upon registration”¹⁵³ and expires ten years thereafter, unless it is renewed for another ten years.¹⁵⁴ The use of a trademark identical with or similar to the registered trademark of a product or service identical with or similar to the designated product or service violates the Trademark Act.¹⁵⁵

Finally, two other Japanese statutes provide intellectual property rights upon registration. The Act Concerning Topographies of Integrated Circuits of Semiconductors provides for registration of topographies of integrated circuits. It can be registered with the Minister of Economy, Trade and Industry. The registrant can enjoin the use of any topography copied from the registered topography. The Act on Seeds and Seedlings endows a breeder’s right to the breeder of a botanical species upon registration of the species with the Minister of Agriculture, Forestry and Fisheries.

(ii) Copyright differs from industrial properties. First, the author of a “work of authorship” is endowed with rights in connection with the work ipso facto, that is, without registration or any other formal procedure. Second, the author cannot enforce his right against a work that has been created independently, even though the two works look similar.¹⁵⁶

The Copyright Act defines a “work” as a creative expression of ideas or sentiments that belong to literature, science, art or music.¹⁵⁷ It is noteworthy that the list of copyrightable subject matter includes computer programs.¹⁵⁸

147. *Id.* § 23.

148. *Id.* § 20(1).

149. *Id.* § 21.

150. Japan Trademark Act, Law No. 127 of 1959, § 2(1), available at <http://www.ipo.go.jp/shoukaie/shohyo.htm>.

151. *Id.* § 3.

152. *Id.* § 14.

153. *Id.* § 18.

154. *Id.* § 19.

155. *Id.* § 37.

156. 32 MINSHŪ 1145 (Sup. Ct., Sept. 7, 1978).

157. Japan Copyright Act, Law No. 48 of 1970, art. 2(1), available at http://www.cric.or.jp/cric_e/clj/clj.html.

158. *Id.* art. 10(1)(ix).

Also copyrightable are materials that are creative by reason of the selection or arrangement of their contents and databases that are creative by reason of the selection or systematic structure of included information.¹⁵⁹

The Copyright Act gives the author moral rights and copyrights. Moral rights include the right to make the work public, to display the name of the author, and to escape any change to the work.¹⁶⁰ These rights are non-transferable and last as long as the author is alive.¹⁶¹ Copyrights, on the other hand, can be transferred wholly or partly, and consist of enumerated exclusive rights such as the right to reproduce, to perform publicly, to transfer, to lend or to translate.¹⁶² They expire fifty years after the author's death.¹⁶³

(iii) The Unfair Competition Act enumerates several types of commercial torts against which a court can order an injunction or damages.¹⁶⁴ The list of commercial torts includes the following:

- to use a mark identical with or similar to the widely recognized mark of another party and raise confusion with the business of the latter (passing off);
- to use a mark identical with or similar to a well known mark of another party (dilution);
- to trade a product that copies the form of another party's product within three years from the time the latter product was first sold;
- to unfairly use or disclose trade secrets.¹⁶⁵

Know-how is protected under the Unfair Competition Act as a kind of trade secret. It is protected from acts of: (a) unfair acquisition, such as theft or fraud; (b) acquisition, use, or disclosure of the trade secret with knowledge (gross negligence) that it has been acquired unfairly; and (c) use or disclosure of the trade secret transmitted by its holder, with the intent to unfairly benefit the user or cause damages to its holder.¹⁶⁶ The party that suffers or may suffer damages (the holder of the trade secret) is entitled to an injunction and/or compensation for damages against the tortfeasor.¹⁶⁷

159. *Id.* art. 12.

160. *See id.* art. 59.

161. *Id.*

162. *Id.* art. 61.

163. *Id.* art. 51(2).

164. Japan Unfair Competition Act, Law No. 47 of 1993.

165. *Id.* art. 2(1).

166. *Id.* art. 2(1)(iv-ix).

167. *Id.* arts. 3-4.

III. CANADIAN COMPETITION LAW

A. *Nature and Scope*

Canada's first competition law dates back to 1889,¹⁶⁸ one year before the introduction of the U.S. Sherman Act. It was a modest measure, essentially a criminal prohibition against agreements or conspiracies that unduly prevent or lessen competition (i.e., price fixing or market sharing).¹⁶⁹ In 1892, a slightly amended version was incorporated into Canada's criminal code,¹⁷⁰ and in 1910 the first Combines Investigation Act was expanded to cover mergers and monopolies.¹⁷¹ A judicially imposed constitutional straitjacket, only later removed, thwarted several efforts to decriminalize the legislation.¹⁷²

Finally, as a result of significant amendments in 1976,¹⁷³ and then again in 1985,¹⁷⁴ the present Competition Act¹⁷⁵ came into effect, complete with "a somewhat paradoxical purposive statement":¹⁷⁶

168. An Act for the Prevention and Suppression of Combinations Formed in Restraint of Trade, R.S.C., ch. 41 (1889) (Can.).

169. This was one of the more polite characterizations of the 1889 Act. At best, it has been characterized as a "well-intended but ineffectual gesture." It was also labeled as a "political sham." See Bliss 1973, *quoted in* Carman D. Baggaley, *Tariffs, Combines and Politics: The Beginning of Canadian Competition Policy, 1888-1900*, in HISTORICAL PERSPECTIVES ON CANADIAN COMPETITION POLICY 1 (R.S. Khemani & W.T. Stanbury eds., 1991).

170. Criminal Code, R.S.C., ch. 29, (1892) (Can.).

171. An Act to Provide for the Investigation of Combines, Monopolies, Trusts and Mergers, S.C., ch. 9 (1910) (Can.). See generally Paul K. Gorecki & W.T. Stanbury, *The Administration and Enforcement of Competition Policy in Canada, 1889 to 1952*, in HISTORICAL PERSPECTIVES ON CANADIAN COMPETITION POLICY, *supra* note 169, at 65-72.

172. For a succinct analysis of the federal government's bungling of the proposed legislative reforms, see Brian R. Cheffins, *One Step Forward, Two Steps Back, One Step Forward: Canadian Competition Law Reform, 1919 and 1935*, in HISTORICAL PERSPECTIVES ON CANADIAN COMPETITION POLICY, *supra* note 169, at 162-74.

173. An Act to Amend the Combines Investigation Act and the Bank Act and to repeal an Act to amend an Act to amend the Combines Investigation Act and the Criminal Code, S.C., ch. 76 (1975) (Can.).

174. An Act to Provide for the Investigation of Combines, Monopolies, Trusts and Mergers, R.S.C., ch. 34 (1985) (Can.).

175. Competition Act, R.S.C., ch. C-34 (1985) (Can.).

176. C.J. MICHAEL FLAVELL & CHRISTOPHER J. KENT, THE CANADIAN COMPETITION LAW HANDBOOK 9 (1997). Flavell and Kent write: "How can one at the same time promote efficiency and adaptability of the Canadian economy and ensure that small and medium sized (but not necessarily efficient and adaptable) enterprises have an 'equitable opportunity to participate in the Canadian economy'?" How can consumers truly be provided with competitive price and product choices when the focus of the Act is the promotion of efficiency and adaptability of the Canadian (and not the global) economy?"

The purpose of this Act is to maintain and encourage competition in Canada in order to promote the efficiency and adaptability of the Canadian economy, in order to expand opportunities for Canadian participation in world markets while at the same time recognizing the role of foreign competition in Canada, in order to ensure that small and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy and in order to provide consumers with competitive prices and product choices.¹⁷⁷

In its 1992 *Hillsdown Holdings* decision, the Competition Tribunal, a specialist quasi-judicial agency charged with civil jurisdiction over reviewable matters, recognized the conflicting nature of the Act's objectives.¹⁷⁸ To the surprise of most observers, the Tribunal declared the final purpose listed in Section 1.1, "to provide consumers with competitive prices and product choices," as the Competition Act's paramount objective, even though this particular purpose appears last in the statute without any preferential or ranking language.

Currently, the Competition Act is a comprehensive statute with over one hundred sections regarding the regulation of civil and criminal anticompetitive behaviors, merger reviews and approvals, and misleading representations or deceptive marketing practices. Jurisdiction over consumer protection law is shared with the ten provinces under the Canadian Constitution.¹⁷⁹

Specific provisions of the Competition Act identify the occasions on which the Competition Bureau, under the direction of the Competition Commissioner, may investigate a business arrangement, including those involving IPRs. As indicated, these cases may involve criminal offenses or civil matters. In many cases, the Bureau must establish that the conduct in question either "substantially" or "unduly" lessens or prevents competition.

The act identifies the following commercial behaviors as criminal offenses: conspiracy,¹⁸⁰ bid rigging,¹⁸¹ price maintenance,¹⁸² price discrimination and predatory pricing,¹⁸³ and some kinds of misleading

177. Competition Act § 1.1.

178. *Director of Investigation & Research v. Hillsdown Holdings Ltd.*, [1992] 41 C.P.R. (3d) 289, 336-37.

179. See William A.W. Neilson, *Reflections on Recent Federal Proposals for the Rationalization of Trade Practices Regulation in Canada* (1992), 21 CAN. BUS. L.J. 70 (1993).

180. Competition Act § 45.

181. *Id.* § 47.

182. *Id.* § 61.

183. *Id.* § 50.

advertising and related deceptive marketing practices.¹⁸⁴ Civil matters, on the other hand, involve conduct that generally is interpreted as pro-competitive, but that may, in certain situations, yield anticompetitive effects. Thus, reviewable matters include some misleading advertising and related deceptive marketing practices,¹⁸⁵ refusals to deal,¹⁸⁶ exclusive dealing, tied selling and market restrictions,¹⁸⁷ and abuses of a dominant position.¹⁸⁸

The remedial authority of the Competition Tribunal, in the case of reviewable (civil) matters, has restricted private property rights. In *Director of Investigation and Research v. Southam, Inc.*,¹⁸⁹ the Tribunal ordered merging firms to divest themselves of assets, including IPRs, after concluding that the newspapers' proposed merger was likely to lessen or prevent competition substantially. In a later case, remedies under the abuse-of-dominant-position provisions of the Competition Act involved Tribunal orders restricting the exercise of IPRs.¹⁹⁰ A more detailed examination of the interface between IPRs and the Competition Act follows.

B. Section 32—Powers of the Federal Court to Impair IPRs

On its face, Section 32 appears to provide the Attorney General with strong statutory authority to intervene in a broad range of circumstances to remedy an undue lessening or prevention of competition involving the exercise of statutory IPRs. The IPRs include patents, trademarks, copyright, or registered integrated circuit topography. The provisions bear repeating here:

§ 32(1) In any case where use has been made of the exclusive rights and privileges conferred by one or more patents for intervention, 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,

184. *Id.* § 52-55.

185. *Id.* §§ 74.01-74.19.

186. *Id.* § 75.

187. *Id.* § 77.

188. *Id.* § 79.

189. *Director of Investigation & Research v. Southam, Inc. et al.*, [1992] 47 C.P.R. (3d) 240.

190. *Director of Investigation & Research v. D & B Companies of Canada, Ltd.*, [1996] 64 C.P.R. (3d) 216.

(b) restrain or injure, unduly, trade or commerce in relation to any such article or commodity,

(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.

(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, trademarks, copyrights or registered integrated circuit topographies relating to or affecting the manufacture, use or sale of any article or commodity that may be a subject of trade or commerce, make one or more of the following orders:

(a) declaring void, in whole or in part, any agreement, arrangement or license relating to that use;

(b) restraining any person from carrying out or exercising any or all of the terms or provisions of the agreement, arrangement or license;

(c) directing the grant of licenses 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.

(3) No order shall be made under this section that is at variance with any treaty, convention, arrangement or engagement with any other

country respecting patents, trademarks, copyrights or integrated circuit topographies to which Canada is a party.¹⁹¹

If the Federal Court finds that the IPR holder has used its IPRs and privileges to unduly restrain trade or lessen competition, then the court may issue a remedial order declaring any agreement or license relating to the anticompetitive use void, ordering licensing of the IPR (except for trademarks), and/or revoking the right or directing that other things be done to prevent anticompetitive use. In practice, only the Attorney General at the explicit request of the Competition Bureau would bring a case under Section 32.¹⁹²

Earlier in this Article we noted recent trends in the European Union concerning the exercise of an IPR that gives rise to a monopoly interest beyond the exclusivity normally encompassed within the particular IPR.¹⁹³ We suggested that, if such an additional monopoly were the consequence of the exercise of an IPR, then such “mere exercise” could require some limitation, and Section 32 might be an appropriate vehicle. To date, no case in Canada has presented such a situation. In other words, there has not been a scenario similar to that presented in the European cases. The cases that have occurred in Canada have involved consequences, or *something more*, that have breached one or more of the general or specifically stipulated provisions of the Competition Act. They have not presented any issues involving when the *mere existence* of an IPR might be remedial under Section 32. Accordingly, we consider these cases later, in the specific context of the Intellectual Property Enforcement Guidelines (IPEGs).¹⁹⁴

In the meantime, it is important to put Section 32 into its historical and strategic context. Section 32 predates the 1986 amendments. The origins of Section 32 may be placed at the feet, so to speak, of *United Shoe Machinery Company*. By the early 1900s, United Shoe had acquired a dominant position through mergers and acquisitions and amassing patents “covering every ‘shadow of a shade’ of variation in the parts of the many machines used in the manufacture of shoes.”¹⁹⁵

In addition to its accumulation of patents, United Shoe reinforced its market presence through restrictive leasing practices, including tying provisions and the automatic renewal of long-term leases. Following an invitation by the Judicial Committee of the Privy Council to “cure by

191. Competition Act, R.S.C., ch. C-34, § 32 (1985) (Can.).

192. IPEGs, *supra* note 3, § 2.2.

193. *See supra* text accompanying notes 31-38.

194. *See infra* notes 287-366 and accompanying text.

195. *United States v. United Shoe Machinery Co. of New Jersey*, 247 U.S. 32, 87 (1918).

legislation” the “evil” of anticompetitive IPR practices,¹⁹⁶ Parliament included, for the first time in Canadian legislation, provisions in the 1910 Act for dealing with combines of persons holding patents who exercise their exclusive rights and privileges to restrict competition.¹⁹⁷ In those cases where patents were used so as “unduly to prevent or limit competition,” the Minister, armed with a report of the Board of Investigation that established the patent abuse, could take the necessary steps to have the patent revoked.¹⁹⁸

In 1935, the Report of the Royal Commission on Price Spreads sparked considerable parliamentary debate over proposed amendments to the Act. The amendments would have replaced the competition tests in the patent remedy provisions with a broad public interest requirement, creating the possibility that the mere existence of IPRs would be subject to the Act. Instead, the Act was amended to recognize the exclusivity of IPRs under the monopoly and combines provisions of the Act.

The 1935 amendments (accompanied by strengthened abuse provisions in the Patent Act) established the basis for the present Section 32 provisions. The proviso stated that the Act’s monopoly and combines provisions “shall not be construed or applied so as to limit or impair any right or interest derived under the Patent Act, 1935 or under any other statute of Canada.”¹⁹⁹ As a result, the ‘mere exercise’ of IPRs would not attract criminal liability.

In the postwar period, and certainly until the early 1980s, the provisions prohibiting IPR abuse produced very little case law. Many of the cases involved prosecutions against companies whose conduct or actions allegedly contravened the Act’s antimonopoly provisions. The provisions carried a very high standard of proof that required control over a market *and* detriment to the public interest. Rarely could the prosecution meet the standard.

It was not until 1986 that an abuse-of-dominance provision was put into the civilly reviewable part of the Act.²⁰⁰ Meanwhile, the criminal law characterization of monopolization was dropped.²⁰¹ In addition, the IPR remedy provisions (the precursors to Section 32), while not technically criminal, embodied a similar threshold of anticompetitive effects. The similarity of approaches carries through to the present criminal conspiracy provisions.²⁰²

196. *United Shoe Machinery Company of Canada v. Brunet*, [1909] A.C. 330, 344 (Can.).

197. *An Act to Provide for the Investigation of Combines, Monopolies, Trusts and Mergers*, S.C., ch. 9, §22 (1910) (Can.).

198. *Id.*

199. *The Combines Investigation Act Amendment Act, 1935*, S.C., ch. 54 § 2(A) (1935) (Can.).

200. *See Competition Act*, R.S.C., ch. C-34, § 79 (1985) (Can.).

201. *See id.*

202. *See id.* § 45.

This brief legislative history places the present Section 32 in its historical context and clarifies why the Bureau only will take a case under Section 32 if “the alleged competitive harm stems directly from the refusal [to license the complainant] and nothing else” and “no appropriate remedy is available under the relevant IP statute.”²⁰³

The evidentiary threshold under Section 32 (“undue restraint of trade or lessening of competition”) is important to the Bureau’s consideration of possible enforcement actions. The Bureau has determined that the threshold will be assessed in two steps.

In the first step, the Bureau establishes that the mere refusal (typically, the refusal to license IP) has adversely affected competition to a degree that would be considered substantial in a relevant market that is different or significantly larger than the subject matter of the IP or the products or services which result directly from the exercise of the IP. This step is satisfied only by the combination of the following factors: (a) the holder of the IP is dominant in the relevant market; and (b) the IP is an essential input or resource for firms participating in the relevant market, that is, the refusal to allow others to use the IP prevents other firms from effectively competing in the relevant market.

In the second step, the Bureau establishes that invoking a special remedy against the IP right holder would not adversely alter the incentives to invest in research and development in the economy. This step is satisfied if the refusal to license the IP is stifling further innovation.²⁰⁴

After working through this analysis, the Bureau declared “that only in very rare circumstances would all these factors be satisfied.”²⁰⁵

C. Other Key Provisions in the Competition Act

1. Abuse of a Dominant Position

Sections 78 and 79 of the Competition Act govern the evaluation of restrictive practices engaged in by dominant firms. The Act requires three specific elements of proof: (1) that the firm(s) involved completely or substantially control a class or species of business; (2) that the firm(s) have

203. IPEGs, *supra* note 3, § 4.2.2.

204. *Id.*

205. *Id.* For an example of such a case, see *infra* Case No. 10.

engaged in a practice of anticompetitive acts; and (3) that the practice of anticompetitive acts has had the effect of substantially lessening competition.²⁰⁶

Section 79(4) directs the Competition Tribunal to consider whether an anticompetitive practice is the result of superior performance.²⁰⁷ Section 78 provides a non-exhaustive list of possible anticompetitive acts that may be considered when applying Section 79.²⁰⁸ For example, the list includes “requiring or inducing a supplier to sell primarily to certain customers.”²⁰⁹ Given the fact that the list is not exhaustive, Section 79 potentially is applicable to a broad range of IPR licensing practices such as exclusive purchasing restrictions, field-of-use restrictions, and tie-ins.

At the same time, Section 79(5) contains a limited exception for the exercise of IPRs, stipulating that acts engaged in “pursuant only to the exercise of any right or the enjoyment of any interest” derived under intellectual property statutes are not anticompetitive acts for the purpose of the abuse provisions.²¹⁰ Note, however, that the text of the exception does not provide a blanket exception for intellectual property holders from the application of Section 79.²¹¹ Thus, the interpretation is left open that the Act will apply to practices that are shown to amount to the abuse of an IPR, not just an IPR’s mere exercise.

In *NutraSweet*, the Competition Tribunal found that NutraSweet’s protection of its trademark (the swirl logo), its exclusive supply and use clauses, its meet-or-release clauses, its cooperative marketing allowances and its most-favored-nation clauses constituted “anticompetitive acts” under Section 79.²¹² The Tribunal found that trademark allowances and advertising discounts created an all-or-nothing choice for customers and were essentially inducements to exclusivity.²¹³ The Tribunal also decided that the use of NutraSweet’s U.S. patent to secure a competitive advantage in Canada was an anticompetitive act. The Tribunal viewed NutraSweet’s marketing strategy as an attempt to extend the life of its Canadian patent beyond its statutory term of protection. Specifically, the Tribunal refused to accept that NutraSweet “is entitled to any more protection against competition than it was able to obtain through patent grants that provided it with a considerable

206. Competition Act, R.S.C., ch. C-34, § 79(1) (1985) (Can.).

207. *Id.* § 79(4).

208. *Id.* § 78.

209. *Id.* § 78(h).

210. *Id.* § 79(5).

211. *See id.*

212. Director of Investigation & Research v. NutraSweet Co., [1990] 32 C.P.R. (3d) 1.

213. *Id.* at 41-42.

head start on potential competitors.”²¹⁴ This observation, in the words of a former Competition Commissioner,²¹⁵ suggests that “the Tribunal is prepared to address attempts to artificially extend the duration or scope of patent rights through contractual or like means, in cases under the abuse provisions.”²¹⁶

Foreign IPRs and the use of such rights to lever the position of a dominant firm in the Canadian market are open to review under Section 79. NutraSweet, for example, offered rebates on exports of its artificial sweetener from the United States in an effort to persuade importers to exclusively use its sweetener in products produced by them in Canada. The Tribunal’s remedial orders prohibited NutraSweet from agreeing to or enforcing contractual terms relating to exclusivity of supply or use of financial inducements for trademark display or other allowances, meet-or-release clauses, and most-favored-nation clauses, unless such clauses also were found in supply contracts between NutraSweet and any competitor. *NutraSweet* confirms that the Tribunal will treat IPRs in the same way as any other type of property right when dominant firms promote their abuse.²¹⁷

In *Tele-Direct*, the same Tribunal held that the selective refusal to license a trademark did not constitute an anticompetitive act.²¹⁸ Section 79(5) makes it clear that something more than the mere exercise of statutory rights, even if exclusionary in effect, must be present before there will be a finding of misuse of a statutory IPR.

In *Tele-Direct*, the Director (now called the Competition Commissioner) alleged that Tele-Direct, a telephone directory publisher, had breached Section 79 by refusing to license its yellow pages and walking fingers logo to competing suppliers of telephone directory advertising services.²¹⁹ The Tribunal recognized the implications of the Trade-Marks Act, which allows trademark holders to decide to whom and under what terms they will license their trademarks.²²⁰ The Tribunal also acknowledged that a trademark might be misused by tying a trademarked product to another product.²²¹ However, in a rather unsatisfactory decision, the Tribunal failed to identify the criteria that must be satisfied before it would find that conduct extends beyond the

214. *Id.* at 52.

215. The Competition Commissioner is the new title given to the office formerly known as the Director of Investigation and Research.

216. Wetston, *supra* note 2, at 309, 315.

217. See Donald N. Thompson, *NutraSweet: The Evolution of Law on Abuse of Dominant Position*, 18 CAN. BUS. L.J. 17 (1991) (further discussing the *NutraSweet* decision).

218. Director of Investigation & Research v. Tele-Direct (Publications), Inc., [1997] 73 C.P.R. (3d) 1, 32.

219. *Id.* at 30.

220. *Id.* at 30-31.

221. *Id.* at 31.

mere exercise of statutory rights exempted under subsection 79(5). Rather, the Tribunal found that Tele-Direct's "refusal to license their trademarks falls squarely within [their] prerogative . . . to determine whether or not, and to whom, to grant a license; selectivity in licensing is fundamental to the rationale behind protecting trademarks."²²²

However, in two consent order cases, the Tribunal dealt differently with trademark licensing by dominant firms. In the *Interac* case,²²³ the Tribunal did order the licensing of trademarks held by charter members of an electronic banking network upon "commercially reasonable terms without charge upon request to any member participating in the shared services that used the trademarks." The bankers' network refused network membership to financial institutions, including credit unions, thereby maintaining control of shared electronic financial services.²²⁴ Similarly, in the *AGT Directory* case,²²⁵ the Tribunal's consent order prohibited the trademark holders from refusing to license their 'Yellow Pages' trademarks to other companies for use in the sale of advertising and telephone directories "provided that these companies enter into and maintain a commercially reasonable standard form of trademark licensing agreement."²²⁶

2. Price Maintenance

Price maintenance is a criminal offense under the Competition Act. Section 61 contains a "no exemption" clause for IPR holders, so that if they attempt to influence prices in the downstream market they may be held criminally liable.²²⁷ Under this provision, no person having such rights and privileges may "attempt to influence upward, or discourage the reduction of, the price at which" products are sold in Canada.²²⁸ Section 61 also prohibits these persons from "refus[ing] to supply a product to or otherwise discriminat[ing] against any other person engaged in business in Canada because of the low pricing policy of that other person."²²⁹ The result of this provision is to prohibit the use of price maintenance clauses in patent or other licensing agreements.²³⁰

222. *Id.* at 32.

223. Director of Investigation and Research v. Bank of Montreal, [1996] 68 C.P.R. (3d) 527.

224. *Id.*

225. *Id.* at 535-36.

226. Director of Investigation & Research v. AGT Directory Ltd., [1994] Can. Comp. Trib. Dec. No. 24, Trib. Dec. No. CT9402/19.

227. Competition Act, R.S.C., ch. C-34, § 61(9) (1985) (Can.).

228. *Id.* § 61(1)(a).

229. *Id.* § 61(1)(b).

230. See Wetston, *supra* note 2 (discussing whether the strict treatment of price maintenance from

3. Restrictive Licensing Practices

Section 77 deals specifically with the practices of tied selling, exclusive dealing, and territorial market restrictions.²³¹ Although it does not refer specifically to IPRs, the provision is applicable to anticompetitive licensing practices. These are not per se offenses, as they are in price maintenance situations.²³² Instead, Section 77 applies only where the practices in question are likely to result in a substantial lessening of competition.²³³ Thus, Section 77 recognizes the now familiar argument that vertical market restraints are not always anticompetitive.

Tying occurs when a seller offers one product or service (the tying product) on the condition that the buyer also purchases one or more other products or services (the tied product). Such cases raise two issues for competition policy. First, tying leverages the tying product's market power onto the tied product. Second, tying can increase barriers to entry to the supply of the tied product. The open question for interpretation under Section 77 is whether IPRs lead to a presumption of market power. Section 77(2) provides:

Where, on application by the Director, the Tribunal finds that exclusive dealing or tied selling because it is engaged in by *a major supplier of a product in a market* or *because it is widespread in a market*, is likely to

- (a) impede entry into or expansion of a firm in the market,
- (b) impede introduction of a product into or expansion of sales of a product in the market, or
- (c) have any other exclusionary effect in the market,

with the result that competition is or is likely to be *lessened substantially*, the Tribunal may make an order . . .²³⁴

Assuming that the Tribunal will not follow the U.S. Supreme Court's decision in *U.S. v. Loew's*, which presumed that an IPR holder is automatically "a major supplier of a product in a market,"²³⁵ it will be up to

an economics point of view is appropriate). Although Section 61 was amended in 1999, its language in this respect has not been altered.

231. Competition Act § 77(2).

232. *See id.* § 61.

233. *Id.* § 77(2).

234. *Id.* (emphasis added).

235. *U.S. v. Loew's, Inc.*, 371 U.S. 38 (1962).

the prosecutor to show that the protected product has no close substitutes and therefore occupies a market unto itself.²³⁶

Finally, Section 77 has several important objections uniquely relating to tying arrangements, particularly its exemption of arrangements between affiliated parties (the so-called ‘Canadian Tire Franchise stores amendment’), preventing the application of Tribunal orders with respect to exclusive dealing, market restrictions, or tied selling to multiple product ‘franchise operations.’²³⁷

4. *Specialization Agreements*

Section 86(4) deals with specialization agreements.

[It] provides for a specific exemption from scrutiny under section 45 (conspiracies) and section 77 (exclusive dealing) for agreements which, for example, ration output so that firms may meet international competition more effectively, or that involve cross-licensing or pooling of patents. The latter agreements must receive the approval of the Tribunal, which may require wide-spread licensing of the patents throughout the industry as a condition for the registration of a specialisation agreement.²³⁸

5. *Refusal to Deal*

A successful application under Section 75 requires that the Bureau show that a firm is substantially affected in its business because it is denied supply

236. S. Gliberman & R. Schwindt, *Intellectual Property Rights: Anticompetitive Abuses and Competition Policy Antidotes*, in CANADIAN COMPETITION LAW AND POLICY AT THE CENTENARY 489 (R.S. Khemani & W.T. Stanbury eds., 1991).

237. Competition Act § 77(4). It provides, *inter alia*, that “no order made under this section applies in respect of exclusive dealing, market restriction or tied selling between or among companies, partnerships and sole proprietorships that are *affiliated*.” *Id.* (emphasis added). By Section 77(5), “a company . . . is *affiliated* with another company . . . in respect of any agreement between them whereby one party grants to the other party the right to use a trade-mark or trade-name to identify the business of the grantee, if

(i) the business is related to the sale or distribution, pursuant to a marketing plan or system prescribed substantially by the grantor, of a multiplicity of products obtained from competing sources of supply and a multiplicity of suppliers, and

(ii) no one product dominates the business.

Id. § 77(5) (emphasis added).

238. See Gallini & Trebilcock, *supra* note 54, at 333.

of a product, “the product is in ample supply,” and it is willing “to meet the usual trade terms.”²³⁹ Section 75 provides the following defense:

For the purposes of this section, an article is not a separate product in a market only because it is differentiated from other articles in its class by a trademark, proprietary name or the like, unless the article so differentiated occupies such a dominant position in the market as to substantially affect the ability of a person to carry on business . . .²⁴⁰

On the face of the Competition Act, it appears that a trademark article itself cannot be the market unless it holds a dominant position. Following the *Chrysler* decision,²⁴¹ in matters of trademark, the Tribunal will not accept a presumption of market power for the purposes of the refusal to deal provisions of the Act. The appropriate test, in the Tribunal’s view, is the availability of acceptable substitutes.²⁴² In its more recent decision in *Warner Music Canada*, the Tribunal concluded that copyright licenses are not “products” within the meaning of the refusal to deal provisions of the Act.²⁴³ This surprised some observers because it had been thought that IP, as a species of personal property, would be considered a “product” within the meaning of the Act, and therefore subject in the same way that U.S. authorities consider intellectual property to be subject to U.S. antitrust law.²⁴⁴

The Canadian Guidelines, which were released post-*Warner*, declared that “the Competition Act generally applies to conduct involving IP as it applies to conduct involving other forms of *property*.”²⁴⁵ It defines “IP rights” as, *inter alia*, including “rights granted under the Copyright Act.”²⁴⁶ Interestingly, the Guidelines make no reference to *Warner’s* treatment of copyright as a property issue. Nor are copyright IPRs cited in any of the ten “Hypothetical Examples” found in Part 7 of the Canadian Guidelines.

6. Price Discrimination

Canada has long recognized the potential use of IPRs to strengthen international price discrimination. In its 1971 Report on Intellectual and

239. Competition Act § 75(1).

240. *Id.* § 75(2).

241. Director of Investigation & Research v. Chrysler Canada Ltd., [1989] 27 C.P.R. (3d) 1 (defining the product market as “Chrysler autoparts.”).

242. Globerman & Schwindt, *supra* note 236, at 491.

243. Director of Investigation & Research v. Warner Music Canada Ltd., [1997] 78 C.P.R. (3d) 321.

244. U.S. Guidelines, *supra* note 5, § 2.0.

245. IPEGs, *supra* note 3, pt. 1 (emphasis added).

246. *Id.* § 2.1.

Industrial Property, the Economic Council declared,

The patent right should be so defined that neither the holder of a Canadian patent nor any licensee thereunder should have the right to prevent the importation into Canada by any person of the patented article, or an article made by the patented process, from other countries where the article or process enjoys patent protection. The main purpose of this recommendation would be to prevent a patentee from using the Canadian patent system as a means of assisting any international price discrimination to Canada's disadvantage²⁴⁷

The same report made similar suggestions with respect to industrial design, trademark, and, to a lesser extent, copyright. However, these recommendations have not, for the most part, been acted upon.²⁴⁸

While in certain circumstances IPRs can be used to support the IPR holder's international price discrimination strategy,

[i]t is unlikely that the property right commonly plays a critical role in such a strategy for the simple reason that the discriminator usually has better strategic alternatives. The best of these is the use of vertical restraints in the distribution system.²⁴⁹

As a result, multinationals usually place territorial restrictions on sales by their foreign subsidiaries. In those relatively rare cases where such restrictions are evaded (by a variety of means and persons), Canadian jurisprudence must be considered.

7. Mergers

Sections 91 through 104 deal exclusively with the merger of intellectual property assets. To date, there are no reported cases that have been brought under the merger provisions. Nevertheless, two cases confirm that the merger provisions will be applied to IPRs involved in corporate takeovers or mergers.

In *Southam*,²⁵⁰ the Competition Bureau alleged that Southam's acquisitions of community newspapers in the Lower Mainland of British Columbia substantially lessened competition.²⁵¹ The Tribunal's order called

247. ECONOMIC COUNCIL OF CANADA, REPORT ON INTELLECTUAL AND INDUSTRIAL PROPERTY 90 (1971).

248. Gliberman & Schwindt, *supra* note 236, at 473.

249. *Id.* at 477.

250. *Southam*, 47 C.P.R. 240.

251. *Id.*

for the divestiture, at Southam's option, of either one suburban weekly newspaper or the specialist Real Estate Weekly newspapers.²⁵² The order in this case involved assets of a newspaper business that included the copyrights in the newspapers as well as the trademarks associated with the newspapers' operations.

Divestiture remedy in most cases must involve the transfer, sale, or other release of IP assets owned by one or both of the merging companies. Armed with this authority, the Bureau negotiated significant amendments to IP licensing agreements as the price of approving the takeover of Carnaud Metalbox, S.A. by Crown Cork & Seal Inc.²⁵³ The 1996 merger "integrated the only two significant suppliers for Canadian manufacturers of food and drinks that use metal vacuum closures as an input."²⁵⁴ The closures were so unique that no substitute was considered available.²⁵⁵ Thus, the closures became the relevant product market. In the Director's opinion, the merger would lock up the Canadian market by "about 99%."²⁵⁶ The only possible U.S.-based competitor, White Cap, was barred from the Canadian market by reason of its exclusive IP licensing agreement with Crown. In the Director's view, "the likely effects of the exclusivity clause contained in the licensing agreement combined with Crown's continued use of White Cap closure technology, trade secrets, patents and trademarks resulted in a substantial lessening of competition."²⁵⁷

After several months of negotiation, Crown agreed to make the license non-exclusive, thereby removing the barrier to White Cap's ability to compete in the Canadian market.²⁵⁸ For its part, Crown settled the issue of remaining rights under the licensing agreement through a paid-up non-exclusive license to use existing White Cap technology pending its adoption of another proprietary metal vacuum closure technology.²⁵⁹ Crown also waived its rights to use White Cap's future technology, trade secrets, and other IPRs.²⁶⁰

252. *Id.*

253. Competition Bureau Staff, *Amendment to Licensing Agreement Resolves Competition Concerns on Intellectual Property Rights and Ancillary Rights following Merger between Carnaud Metalbox, S.A. and Crown Cork and Seal, Inc.*, 8 CAN. COMPETITION RECORD 26-27 (1997).

254. *Id.* at 26.

255. *Id.*

256. *Id.* at 27.

257. *Id.*

258. *Id.*

259. *Id.*

260. *Id.*

This case is consistent with the approach taken by the Competition Commissioner in the Merger Enforcement Guidelines (MEGs), which state that IP assets are to be treated in the same manner as other assets.²⁶¹

8. *Complaints and Challenges*

A licensee choosing to challenge a potential abuse of IPRs can do so directly under the Patent Act. Under the Competition Act, complaints in most cases are made directly to the Competition Bureau. Section 36 of the Competition Act grants a private right of action for violations of the criminal provisions. Criminal offenses, as noted, include conspiracy, bid rigging, price maintenance, price discrimination, predatory pricing, and some types of misleading advertising and related deceptive marketing practices.²⁶²

IV. JAPANESE COMPETITION LAW

The Antimonopoly Act is the principal statutory instrument of Japanese competition law. Its enforcement is entrusted to an independent governmental agency, the Fair Trade Commission. The Antimonopoly Act regulates anticompetitive acts and market concentration. It prohibits three kinds of anticompetitive acts: private monopolization, unreasonable restraints of trade, and unfair trade practices.

Private monopolization is an act that “excludes or controls the business activities of other entrepreneurs, thereby causing . . . a substantial restraint of competition in any particular field of trade.”²⁶³ If a company engages in this type of anticompetitive act, the Fair Trade Commission will issue a cease and desist order²⁶⁴ and those engaged will be subject to penal sanctions.²⁶⁵ Infringement of this provision constitutes a tort, and the enterprise shall compensate for the resulting damage.²⁶⁶ When the cease and desist order becomes conclusive, the enterprise cannot be exempted, even by proving it has never been negligent.²⁶⁷

An unreasonable restraint of trade is a concerted action such as a cartel that causes “a substantial restraint of competition in any particular field of

261. Canada Competition Bureau, Merger Enforcement Guidelines § 1 (Mar. 1991), available at <http://strategis.ic.gc.ca/SSG/ct01026e.html> [hereinafter MEGs].

262. Competition Act, R.S.C., ch. C-34, pt. VI (1985) (Can.).

263. Antimonopoly Act § 2(5).

264. *Id.* § 7(1).

265. *Id.* § 89.

266. *Id.* § 25.

267. *Id.* § 26.

trade.”²⁶⁸ When an enterprise commits an unreasonable restraint of trade, it shall be subject to an order of the Fair Trade Commission to pay a “surcharge” to the Treasury, as a kind of disgorgement, in addition to the normal cease and desist order and civil liability.²⁶⁹ The amount of the surcharge is 6% of the sales that the enterprise has earned while engaging in the unreasonable restraint of trade (if this period exceeds three years, then it is 6% of the sales amount for the last three years).²⁷⁰ Those engaged are, as in the case of the private monopolization, subject to penal sanctions.²⁷¹

Categories of unfair trade practices are to be articulated by the Fair Trade Commission.²⁷² To date, the Commission has designated sixteen kinds of acts in its Notification of 1982.²⁷³ They are:

- concerted refusals to deal;
- other types of refusals to deal;
- discriminatory pricing;
- discriminatory treatment on transaction terms or the like;
- discriminatory treatment in a trade association;
- sales at unfairly low prices;
- purchases at unjustly high prices;
- deceptive customer inducement;
- customer inducement by unjust benefits;
- tie-in sales;
- dealing on exclusive terms;
- resale price restrictions;
- dealing on restrictive terms;
- abuse of a dominant bargaining position;
- interference with a competitor’s transaction;

268. *Id.* § 2(6).

269. *Id.* § 7-2.

270. *Id.*

271. *Id.* § 89.

272. *Id.* § 2(9).

273. Unfair Trade Practices, Fair Trade Commission Notification No. 15 (June 18, 1982) (Japan), available at <http://www.jftc.go.jp/e-page/acts/gd.htm>.

- interference with the internal operation of a competing company.²⁷⁴

Against any one of these acts, the Fair Trade Commission will issue a cease and desist order. No penal sanction is provided, however, for unfair trade practices. Regarding its civil procedure, a party that suffers or is threatened to suffer damages from an unfair trade practice can require an injunction,²⁷⁵ in addition to compensation for any damage.

Regulation of concentration consists of the regulation of mergers, inclusive of acquisition of stocks or businesses, and that of “general concentration.”²⁷⁶ The latter is related to the holding of shares and has no relevance to intellectual property.²⁷⁷

Section 21 of the Antimonopoly Act provides an exemption for the exercise of IPRs.²⁷⁸ It reads:

The provisions of this Act shall not apply to such acts recognizable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act or the Trademark Act.

This provision, which seems to exempt all anticompetitive acts as long as they relate to IPRs, has come to be considered inconsistent with the aim of the Act itself, since many anticompetitive actions often are supported by the existence of intellectual property. Therefore, commentators have attempted to limit the exemption in various ways. One approach, which was adopted by the Fair Trade Commission in 1999, is to distinguish actions that deviate from the IPR system’s aim to provide appropriate incentives to innovation from the “acts recognizable as the exercise of [IP] rights.”²⁷⁹ According to this view, such actions, even though they may take the form of the exercise of IPRs, are regarded as the abuse of them and should not escape regulation by the Antimonopoly Act.

274. *Id.*

275. *See* Antimonopoly Act § 24.

276. *Id.* §§ 9-18.

277. The regulation of “general concentration” includes a prohibition of holding companies that may cause excessive concentration of economic power, *id.* § 9, restrictions on the total amount of stockholding by huge, non-financial companies, *id.* § 9-2, as well as a prohibition against financial institutions holding more than 5% of the shares of any company, *id.* § 11.

278. Prior to 2000, this provision was found in Section 23.

279. *See infra* text accompanying notes 389-91.

The differences between the various approaches proposed by commentators are of a theoretical nature. In other words, commentators do not differ much in their analyses of conceivable anticompetitive actions.

A. History of the Guidelines on Enforcement of IPRs

In 1968, Japan's Fair Trade Commission (JFTC) published its first guidelines on the IPR-competition law interface. These guidelines, called the "Antimonopoly Act Guidelines for International Licensing Agreements," aimed to regulate "unfair" provisions in license agreements.²⁸⁰ In most license agreements before 1968, the licensor was an American or European company and the licensee was a Japanese counterpart. As a result, the guidelines worked to protect Japanese business, which was still in its infancy.

In 1989, the JFTC published entirely new guidelines entitled the "Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-how Licensing Agreements."²⁸¹ These guidelines reflected Japan's technological development during the 1970s and 1980s, and posed a more balanced standard. However, the guidelines were confined to an analysis of unfair trade practices. Furthermore, under the influence of European regulation of technology transfer, the guidelines evaluated every conceivable provision of license agreements as "white," "gray," or "black."

The most recent guidelines, published in 1998,²⁸² further improved on the 1989 guidelines. Specifically, the 1998 guidelines do not limit their scope of analysis to unfair trade practices. In addition, they provide for private monopolization²⁸³ and unreasonable restraints of trade.²⁸⁴ Furthermore, they now appear to adopt the rule of reason approach completely. Instead of categorizing contractual provisions into "black," "gray," and "white," provisions violate the Antimonopoly Act if "the obligation may have an adverse effect on competition in a market."²⁸⁵

The scope of the guidelines is still limited in that, at least on their face, they only discuss license agreements for patent and know-how. Considering

280. Kokusaiteki Gijutsu Dōnyū Keiyaku ni kansuru Nintei Kijun [Antimonopoly Act Guidelines for International Licensing Agreements] (May 24, 1968), reprinted in YOSHIKAZU KAWAI, KOKUSAITEKI KEIYAKU TO DOKUSENKINSHIHO [INTERNATIONAL AGREEMENTS AND THE ANTIMONOPOLY ACT] 254 (1978).

281. Japan Fair Trade Comm'n, Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-How Licensing Agreements (Feb. 15, 1989).

282. GPLAs, *supra* note 4.

283. *See id.* pt. 3.3.

284. *See id.* pt. 3.2.

285. *Id.* pt. 4.3(2)a(a).

the importance of copyright, especially in relation to computer software, the JTFC reportedly is preparing guidelines on copyright enforcement as well.²⁸⁶

V. COMPARISON OF THE IPR/COMPETITION LAW GUIDELINES

A. *The Canadian Intellectual Property Enforcement Guidelines*

1. *Preparation of the Guidelines*

The Canadian Competition Bureau issued its first draft of the IPEGs in June 1999. After a further round of cross-country consultations it issued a second draft in April 2000. Finally, in September 2000, the Competition Bureau released the final version.²⁸⁷

Three Competition Bureau staff members had made the case some nine years earlier that Canada should follow “the example of the U.S., EC and Japan by developing its own set of IPR licensing guidelines.”²⁸⁸ In developing the IPEGs, the Bureau was influenced significantly by the 1995 U.S. Antitrust Guidelines for the Licensing of Intellectual Property and by the experience of other jurisdictions, including the European Union. As a result, the approach taken in the IPEGs is “based on the premise that the Competition Act generally applies to conduct involving IP as it applies to conduct involving other forms of *property*.”²⁸⁹

Prior to creating the IPEGs, the Competition Bureau prepared other guidelines, including the Price Discrimination Guidelines²⁹⁰ and the MEGs.²⁹¹ Guidelines may not have a binding effect, but they do provide significant practical assistance to firms and their lawyers in determining the accepted limits of regulatory discretion. They lend transparency and accountability to regulatory activities and provide guidance on how that discretion will be applied to specific cases involving the handling of IPRs in commercial transactions. Guidelines are even more important where, as in the Canadian example, the great majority of cases are dealt with at the Bureau level and not before the courts. Also, given the transborder traffic in IPRs, it was incumbent on the Bureau to join their foreign regulatory

286. NIHON KEIZAI SHINBUN, Apr. 8, 2001.

287. IPEGs, *supra* note 3.

288. R. Anderson et al., *The Competition Policy Treatment of Intellectual Property Rights in Canada: Retrospect and Prospect*, in CANADIAN COMPETITION LAW AND POLICY AT THE CENTENARY, *supra* note 236, at 532.

289. IPEGs, *supra* note 3, pt. 1 (emphasis added).

290. Canada Competition Bureau, Price Discrimination Enforcement Guidelines (1992), available at <http://strategis.ic.gc.ca/SSG/ct01140e.html>.

291. See MEGs, *supra* note 261.

counterparts in issuing guidelines. In this context, the IPEGs embraced the principle, common to the other jurisdictions, that “[t]he role of competition law . . . is to maintain competitive markets that promote innovation competition and the diffusion of technological advances, while at the same time guarding against attempts to exercise market power above and beyond statutory IP rights.”²⁹²

The four characteristics of the Bureau’s approach to application of the Act to intellectual property are:

- 1) The circumstances in which the Bureau may apply the Act to conduct involving IP or IP rights fall into two broad categories: those involving something more than the mere exercise of the IP right, and those involving the mere exercise of the IP right and nothing else. The Bureau will use the general provisions of the Act to address the former circumstances and Section 32 (Special Remedies) to address the latter cases;
- 2) In either case, the Bureau does not *presume* that the conduct is anticompetitive, violates the general provisions of the Competition Act, or should be remedied under Section 32;
- 3) The analytical framework that the Bureau uses to determine the presence of anticompetitive effects stemming from the exercise of rights to other forms of property is sufficiently flexible to apply to conduct involving IP, even though IP has important characteristics that distinguish it from other forms of property; [and]
- 4) When conduct involving an IP right warrants a special remedy under Section 32, the Bureau will act only in the very rare circumstances described in the Guidelines and when the relevant IP statute cannot remedy the conduct.²⁹³

Intellectual property rights, for purposes of the IPEGs, include those rights granted under the Copyright Act,²⁹⁴ the Patent Act,²⁹⁵ the Trademark Act,²⁹⁶ the Industrial Design Act,²⁹⁷ the Integrated Circuits Topography

292. A. Neil Campbell, *The Application of Competition Laws to Intellectual Property in Canada 5* (June 1, 2001) (paper presented to the International Antitrust Conference in Vancouver), *available at* <http://www.mcbinch.com/Inprint/Files/print-321.pdf>, *citing* IPEGs, *supra* note 3, pts. 3.3-3.4.

293. IPEGs, *supra* note 3, pt. 1 (emphasis added).

294. Copyright Act, R.S.C., ch. C-42 (1985) (Can.).

295. Patent Act, R.S.C., ch. P-4 (2001) (Can.).

296. Trademark Act, R.S.C., ch. T-13 (1985) (Can.).

297. Industrial Design Act, R.S.C., ch. I-9 (1985) (Can.).

Act,²⁹⁸ and the Plant Breeders' Rights Act.²⁹⁹ Finally, the term "IP rights," as covered by the Guidelines, also includes "the protection afforded IP under common law and the Quebec Civil Code, including that given to trade secrets and unregistered trademarks."³⁰⁰

As the first part of this Article argues, the character and extent of IPRs vary significantly between copyrights, patents, and trademarks, not to mention common law trade secrets and other specialized IPRs. Thus, the definition and protection of trade secrets rests upon non-statutory law. Copyrights, on the other hand, have a very long statutory monopoly period. In the case of patents, compulsory licensing remedies are available in certain situations under the Patent Act. In other words, it is difficult to have a common analytical framework that is based on the "property is property" rationale if one takes into account the variations in property rights that are so prevalent with IPRs.

The IPEGs do not fully comprehend the implications of such variations in their analytical framework. The organization and development of the IP-technology economy have devilish implications for a host of analytical issues including market definitions, anticompetitive effects, efficiencies, and ease of entry factors.

2. *The "Mere Exercise" of an IP Right*

The IPEGs define the "mere exercise" of an IP right "as the exercise of the owner's right to unilaterally exclude others from using the IP."³⁰¹ Refusal to license cases are an example. The IP owner's use or non-use of the IP is, for enforcement purposes, the mere exercise of an IP right. However, the Act will be applied 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 just from the mere exercise of the IP right and nothing else.*³⁰²

In these cases, the presence of IP "should not be a mitigating factor" where the joint conduct of two or more firms lessens or prevents

298. Integrated Circuit Topography Act, S.C., ch. 37 (1993) (Can.).

299. Plant Breeders' Rights Act, S.C., ch. 20 (1990) (Can.).

300. IPEGs, *supra* note 3, pt. 1.

301. *Id.* pt. 4.2.1.

302. *Id.* (emphasis added).

competition.³⁰³ Proscribed anticompetitive conduct includes “conspiracy, bid rigging, joint abuse of market dominance, market allocation agreements and [anticompetitive] mergers restrict[ing] competition among firms actually or potentially producing substitute products or services.”³⁰⁴

Refusal to deal cases will attract the Bureau’s interest if the “refusal to license or to grant others access to a firm’s IP rights turns out to have included conduct which goes beyond such a refusal.”³⁰⁵ An example is where a firm systematically acquires “a controlling collection of IP rights and then refuses to license the rights to others, thereby substantially lessening or preventing competition in markets associated with the IP rights.”³⁰⁶

Two other refusal to license situations may attract the enforcement interest of the Bureau. The first occurs “when a licensor ties a non-proprietary product to a product covered by its IP right.”³⁰⁷ The second possibility arises “when a firm effectively extends its market power beyond the term of its patent through an exclusive contract.”³⁰⁸ As the Bureau sees it, “if the conduct leads to the creation, enhancement or maintenance of market power so as to substantially lessen or prevent competition,” the licensing conduct may be investigated.³⁰⁹

Section 79 of the Competition Act is the abuse of dominance provision. It states that the “mere exercise” of an IPR cannot be considered anticompetitive.³¹⁰ In removing the “mere exercise” cases from the proscribed competitive injury provisions, the Act tells the IPR holder that its conduct will be examined only when the competitive harm stems from something more than the refusal itself. A practical problem, however, is that “it may well be difficult to distinguish whether competitive harm arises exclusively from the refusal or from some other practice.”³¹¹

303. *Id.*

304. *Id.*

305. *Id.*

306. *Id.*

307. *Id.*

308. *Id.*

309. *Id.*

310. Competition Act, R.S.C., ch. C-34, § 79 (1985) (Can.).

311. Chantale LaCasse & Brian Rivard, *The Intellectual Property Enforcement Guidelines and the Treatment of Innovation: Assessment and Comparison with the U.S. Approach*, 20 CAN. COMPETITION RECORD 90, 102 (2001). The authors cite the “disappearing” IPEGs hypothetical case example (from a previous draft of the IPEGs) that “purported to illustrate the distinction between ‘mere exercise’ and ‘further investigation’ cases” in which “a firm initially licenses technical specifications to encourage software producers to develop products for its hardware. Although the firm had promised to continue licensing its technical specifications, it decides at a certain point to renege on its promise. The previous draft argued that the competitive harm in this example stemmed from the breach of the firm’s promise rather than the refusal per se. Interestingly, this example was dropped from the final version of the IPEGs. No explanation for its removal was given, therefore it is unclear whether the Bureau would

3. *The Section 32 Possibilities*

In removing the “mere exercise” of IPRs from the ambit of the Competition Act, it is evident that “[t]he main enforcement principle of the IPEGs . . . again reflects a view that the intellectual property laws are the main instruments to promote innovation. Antitrust enforcement should not weaken basic property rights because doing so would damage the incentives that intellectual property laws create for innovation and creative endeavours.”³¹²

Section 32, as we saw earlier,³¹³ provides for “special remedies.”³¹⁴ The provision deals specifically with anticompetitive conduct involving IPRs. Conduct must be shown to lead to an undue restraint of trade or lessened competition. The remedies available include modifying the rights held by the IP owner, revoking those rights, and compulsory licensing. There is no counterpart to Section 32 in U.S. law. The IPEGs Section 32 hypothetical example involves only the case of a refusal to license,³¹⁵ suggesting, if nothing else, that this conduct would come under Section 32 attack.

Under its two-step enforcement procedure, the Bureau, in the first instance, will look for evidence that “the refusal is a significant factor in restricting competition by firms that could add new value to the economy.”³¹⁶ The second enforcement step “requires the Bureau to conduct an explicit examination of the incentives to innovate once the remedy is in place.”³¹⁷ Evaluating innovation incentives in a given market is a daunting task, made more difficult by the fact that Section 32 analysis requires an assessment of whether a special remedy would “adversely alter the incentives to invest in research and development in the *economy*.”³¹⁸ The Bureau considers this step

consider reviewing such conduct under the general provisions.” *Id.*

312. *Id.* at 103.

313. *See supra* text accompanying notes 198-205.

314. Competition Act, R.S.C., ch. C-34, § 32 (1985) (Can.).

315. *See infra* text p. 157, Case No. 10.

316. LaCasse & Rivard, *supra* note 311, at 103. This could happen, for example, if the would-be competitor firms entered the market by introducing differentiated or improved versions of the intellectual property, or if the intellectual property becomes an essential component in the production of a downstream product. The essential component situation is similar to the type of case the U.S.’s “essential facilities” doctrine is meant to address.

317. *Id.* at 103.

318. Competition Act § 32 (emphasis added).

satisfied “if the refusal to license the IP is stifling further innovation.”³¹⁹ This rationale has not been accepted favorably.³²⁰

4. *Relevant Markets*

The IPEGs state that “[r]elevant markets provide a practical tool for assessing market power.”³²¹ Where the transaction or conduct under scrutiny involves the exercise of IPRs, defining the relevant market still involves determination of the availability of sufficiently close substitutes in the same market. Thus, the relevant market is defined on the basis of one of the following determinations: “the intangible knowledge or know-how that constitutes the IP, processes that are based on the IP rights, or the final or intermediate goods resulting from, or incorporating, the IP.”³²²

Where a case involves IP licensing, the Bureau advises that it “generally treats the license as the terms of trade under which the licensee is entitled to use the IP.”³²³ More particularly, the Bureau will look very closely at “what the legal rights granted to the licensee actually protect.”³²⁴ In other words, the Bureau does not define a relevant market around a license. Nor are markets defined on the basis of research and development activity or the U.S. concept of innovative markets. Instead,

[t]he Bureau usually concentrates on price or output effects. Conduct that directly reduces the innovation effort of the firms under scrutiny or restricts or prevents the innovation efforts of others may be anticompetitive. The appropriate relevant market definition or definitions will depend specifically on the knowledge or know-how, process, or final or any intermediate good toward which the innovation effort is directed.³²⁵

This approach is unclear. How will market definition actually work in intellectual property situations? For example, how would a “know-how” market actually be defined when using the hypothetical monopolist

319. IPEGs, *supra* note 3, § 4.2.2.

320. LaCasse & Rivard, *supra* note 311 at 104: “[I]t is hard to see how from the fact that a conduct harms innovation at a point in time in a given market, it must readily follow that intervention will not harm the incentives to innovate of other firms, in other markets in the economy, at any other point in the future. This easier test does not logically seem to be sufficient to establish that the second step of the analysis under Section 32 is satisfied.”

321. IPEGs, *supra* note 3, § 5.1.

322. *Id.*

323. *Id.*

324. *Id.*

325. *Id.*

methodology? This methodology is difficult to operationalize at the best of times and does not seem well suited for analyzing intangible IPRs.

What analytical techniques will the Bureau apply in retrospective situations where there is a concern that market power was already exercised? Will markets really not be defined around licenses (which appears to have been the approach taken in *Warner*)? And, finally, how will the Bureau focus alternatively on know-how, on processes, and on goods resulting from the IPR?³²⁶

5. Market Power and Concentration

After identifying the relevant market, the next question is whether a transaction or conduct involving IP has resulted in an increase in market power that calls for further inquiry by the Bureau.³²⁷ Consideration depends on a number of factors with weight and relevance that likely will vary in each case. Such factors include “the level of concentration, the entry conditions, the rate of technological change, the ability of firms to ‘leap-frog over’ seemingly entrenched positions, and the horizontal effects, if any, on the market.”³²⁸

Obviously, any increased market power in the relevant market must be assessed against market concentration, if only to become more informed about the competitiveness of the relevant market. Thus, for example, “the more firms there are in the relevant market, the less likely it is that any one firm acting unilaterally, or . . . cooperatively [with others], could enhance or maintain market power through the transaction or conduct [under review].”³²⁹ On the other hand, the presence of a high degree of market concentration is not sufficient in itself to justify the determination that the same “transaction or conduct will create, enhance, or maintain market power.”³³⁰

Market concentration typically is measured by calculating the market shares of the firms identified as actual participants in the relevant market.³³¹ These include

firms identified as offering products that are demand substitutes as well as those that represent potential supply substitutes (i.e., firms that

326. Campbell, *supra* note 292, at 253.

327. IPEGs, *supra* note 3, § 5.2.

328. *Id.* § 5.2.1.

329. *Id.*

330. *Id.*

331. *Id.*

are likely to respond to a price increase in the relevant market within one year with minimal investment).³³²

In general, market shares under 35% held by one firm or a group of firms acting together are not likely to attract the Bureau's attention.³³³ A higher market share may attract the Bureau's interest, but only if other anticompetitive considerations are also in play. When all is said and done, the assessment of market power and concentration poses significant measurement challenges for any enforcement authority. As the Bureau puts it, "the Bureau's assessment of market power is likely to focus on qualitative factors, such as conditions of entry into the relevant market, whether IP development is resulting in a rapid pace of technological change, the views of buyers and market participants, and industry and technology experts."³³⁴

6. *Markets and Ease of Entry*

Conditions of entry are "often more important than market concentration" in assessing effects in markets involving IP.³³⁵ The reason is the volatility and pace of technological change in product or service markets where IPRs are an important part of entrepreneurial assets. In these circumstances, using IPRs, firms are able "to innovate around" or "leap-frog over" apparently entrenched market leaders.³³⁶ Hence, the ease with which firms can enter the relevant market is an important determination in assessing the capacity of IP-related transactions or conduct to maintain or enhance market power. Similarly, the Bureau will investigate the extent to which the transaction or conduct itself erects barriers to entry or induces competitors to exit the market. Entry into the pharmaceuticals market, for example, may be difficult because of the sunk costs associated with developing patentable medicines.³³⁷

7. *Horizontal Anticompetitive Effects*

The Bureau will focus on whether conduct that involves an IPR right, "whether it is a merger transaction, licensing arrangement or other form of contractual arrangement," will result in "horizontal anticompetitive effects

332. *Id.*

333. *Id.*

334. *Id.*

335. *Id.* § 5.2.2.

336. *Id.*

337. *See id.*

for firms producing substitutes or firms potentially producing substitutes.”³³⁸ The effects are manifested in the exercise of market power in areas such as pricing and outputs. Consider one example cited by the Bureau involving IP licensing arrangements where one firm sold the right to use its IP to another firm.³³⁹ This appears to be a vertical arrangement. However, it still can have significant horizontal effects, particularly if the licensor and licensee would have been competitors in the absence of the licensing arrangement. Similarly, an IP-related transaction or conduct may reduce innovative activity with anticompetitive results “if it prevents future competition in a *prospective* product or process market.”³⁴⁰

8. *Efficiency Considerations*

Under Section 96, where the Bureau concludes that a merger is likely to substantially lessen or prevent competition in a relevant market, it then will consider whether the merger generates efficiencies that offset the anticompetitive effects.³⁴¹ The assessment criteria are described more fully in the Bureau’s MEGs.³⁴²

The availability of the Section 96 merger efficiency gains defense distinguishes Canadian merger law from its U.S. counterpart. The burden is on the party invoking the efficiency defense to establish that any alleged efficiency gains would not likely be realized in the absence of the merger, or “put another way, that such efficiency gains would not likely be realized if the Competition Commissioner obtains an order preventing the merger from occurring.”³⁴³ Before the *Hillsdown* decision of the Competition Tribunal,³⁴⁴ the Bureau believed that “the only loss against which efficiency gains should be compared is ‘deadweight loss,’” defined as “the negative allocation effect on the sum of producer and consumer surplus within Canada.”³⁴⁵ In everyday language, “deadweight loss” is “the total amount of wealth lost by society as a whole as a result of the merger.”³⁴⁶ *Hillsdown* recognized a wider definition of the relevant loss against which efficiency gains should be measured.

The result, if the Bureau adopts it in future cases, will diminish the force

338. *Id.* § 5.2.3.

339. *See id.* § 7, ex. 4.

340. *Id.* § 5.3 (emphasis added).

341. *Id.* § 5.4.

342. *Id.*; *see also* MEGs, *supra* note 261.

343. FLAVELL & KENT, *supra* note 176, at 108.

344. Director of Investigation and Research v. Hillsdown Holdings (Canada) Ltd., [1992] 41 C.P.R. (3d) 289.

345. FLAVELL & KENT, *supra* note 176, at 109.

346. *Id.*

of the efficiency defense. It is interesting to note that the IPEGs do *not* provide a hypothetical example of the Bureau's treatment of efficiency considerations, even though the discussion of efficiencies is longer than the IPEGs' treatment of anticompetitive effects.

Efficiency rationales and business justifications also are relevant to the Bureau's determination of whether conduct is anticompetitive in Section 79 abuse of dominant position cases, and in Section 77 exclusive dealing, tied selling, and market restriction cases.³⁴⁷ The consideration of pro-competitive effects in these cases is more noteworthy given that these practices do not contain formal efficiency defenses.

B. Application of the Guidelines to Hypothetical Cases

In this part of the Article, we reproduce the essence of the ten Hypothetical Examples in Part 7 of the Canadian IPEGs. The hypothetical cases were developed by the Bureau to illustrate the Bureau's enforcement approach. Apparently, none of the cases has been replicated in an actual proceeding brought by the Bureau against a Canadian IPR holder.

It is fruitful to review the hypothetical cases to predict how Canadian competition authorities will approach similar situations under the IPEGs. Our assessment illustrates the similarities and differences of approach and coverage taken by the Japanese and Canadian competition regimes against the creation, maintenance, and enhancement of IPRs.

*1. Case 1—Alleged Infringement of an IP Right*³⁴⁸

a. Facts

TAX, a software company, produces and distributes household tax planning programs. It is the leading producer of tax management software. Its programs are sophisticated and complex. Registered customers may purchase software upgrades for low prices. Each copy of each distributed program carries a serial number. The serial numbers do not prevent duplication, but they indicated that if the number has been used more than once then its software has been reproduced illegally.

Two years ago, a key member of TAX's software engineering team left the company to start her own software business, UPSTART. Recently, UPSTART started marketing its own tax management program, to be used in

347. See IPEGs, *supra* note 3, § 7.

348. *Id.* § 7, ex. 1.

conjunction with TAX's product. UPSTART's program operates as a graphical user interface, and minor tax code changes can be incorporated into it as well. TAX is selling fewer upgrades because UPSTART's product is sold for a much lower price. TAX alleges that UPSTART must have infringed on TAX's copyright because UPSTART's programs could not have been created without copying TAX's source code. TAX formally complains to the Bureau.

b. Issue

Is this a competition case for the Bureau?

c. The Bureau's Proposed Enforcement Approach

No. The real issue is one of alleged copyright infringement. Any remedy should be sought under the Copyright Act.

2. *Case 2—Price Fixing*³⁴⁹

a. Facts

Three firms offer competing cosmetic surgical procedures to treat a particular condition. Each firm owns its own patented technique. Their results are remarkably similar, in terms of cost and patient success rates. The only existing alternative to the three procedures is an expensive medication, which has undesirable side effects in some patients.

The three firms agree on a minimum price per procedure and a minimum fee to license each procedure to third parties. Before this agreement, the procedures cost approximately \$5,000 each. After the agreement, they cost about \$8,000 each.

b. Issue

Is this a Section 45 conspiracy case?

c. The Bureau's Proposed Enforcement Approach

Yes. The Bureau likely would refer the matter to the Attorney General for a Section 45 prosecution.

349. *Id.* § 7, ex. 2.

d. Rationale

Analysis of the relevant market and direct evidence of market power exploitation indicate that we are dealing with the same relevant market and the parties' collective market power. Thus, the Bureau will look for evidence that the parties knew or should have known the agreement would "unduly lessen competition." Together, the parties appear to account for 100% of the relevant market. Their separate patents together provide effective entry barriers to present or potential competitors.

3. *Case 3—Exclusive Licensing—Enhancing Competition*³⁵⁰

a. Facts

SHIFT has developed a new gear system for mountain bikes. Two other companies manufacture competing gear systems. All three firms manufacture other kinds of gear systems as well, and each has an active research and development program to improve gear system technology.

SHIFT does not make entire mountain bikes. Instead, it licenses its patented gear system technology to bike manufacturers. ADVENTURE, the largest mountain bike maker, supplies 30% of the mountain bike market. Two other manufacturers together account for 50% of sales. Six smaller firms account for the rest. ADVENTURE only manufactures bikes. It does not own or have the ability to develop gear system technology. The demand for the adventure mountain bikes equipped with SHIFT's new gear technology is uncertain. There will be, as a result, significant promotional expenses to position the new bikes in the market. SHIFT has refused to license its new technology to the other mountain bike manufacturers. However, given the active research and development in the industry, alternative gear system technologies are likely to come on stream in the future.

b. Issue

Does SHIFT's exclusive licensing to ADVENTURE amount to an abuse of a dominant position under Section 79?

350. *Id.* § 7, ex. 3.1.

c. The Bureau's Proposed Enforcement Approach

On the facts, the exclusive licensing arrangement does not raise competition concerns for the Bureau.

d. Rationale

(1) SHIFT and ADVENTURE are supplier and customer, respectively; they are neither actual nor potential competitors.

(2) As non-competitors, the exclusive license likely would not lessen competition between them.

(3) However, it is necessary to examine the markets for gear systems and mountain bikes to determine whether the exclusive license has or is likely to lessen or prevent competition in either or both of these markets.

(4) It is true that the markets for gear systems and mountain bikes are concentrated. However, SHIFT's two competitor firms still may sell to ADVENTURE, and other gear systems are still available in the market.

(5) ADVENTURE's heavy promotional expenses suggest that the exclusive license may have been granted partly in consideration for ADVENTURE's agreement to incur these expenses in the development and promotion of bikes that use SHIFT's technology.

(6) The exclusive license in no way limits the ability of other mountain bike makers to access or use competing technologies.

*4. Case 4—Exclusive Licensing—Foreclosure by Purchaser*³⁵¹

a. Facts

Building on the facts in Case 3, assume that ADVENTURE now has 70% of the mountain bike sales market. With this share of the market, it is able to independently negotiate long term exclusive licensing and supply arrangements with the three competing suppliers of mountain bike gear systems. Several competing manufacturers, unable to obtain suitable gear system technology, go out of business. The price of ADVENTURE's mountain bikes rises by 25%. Alternative gear system technologies are being developed, but nothing is likely to enter the market for at least thirty-six months.

351. *Id.* § 7, ex. 3.2.

b. Issue

Is this an abuse of dominant position case?

c. The Bureau's Proposed Enforcement Approach

Yes. In this case, the Bureau likely would seek to have the exclusive licenses voluntarily terminated. Failing that, the Bureau likely would apply to the Competition Tribunal, seeking to terminate licenses.

d. Rationale

(1) The relevant product market is mountain bikes. ADVENTURE is the dominant supplier in that market. The apparent lack of good substitutes, ADVENTURE's 70% market share, and its ability to impose a 25% price hike provide evidence of substantial control.

(2) Some exclusive licensing arrangements may enhance competition, but the use of such an arrangement to control the supply of an essential product part may be anticompetitive. Here, for example, the execution of a long-term exclusive license with each supplier prevents competitors from obtaining the necessary gear systems.

(3) There is no compelling evidence of efficiency benefits or business justifications.

5. *Case 5—Exclusive Licensing—Foreclosure by Suppliers*³⁵²

a. Facts

In this case, another variation on Case 3, the gear system suppliers, concerned about ADVENTURE's growing purchasing power, agree to subdivide the market for mountain bike systems among themselves. To monitor compliance, the firms agree to enter into exclusive license agreements, at premium prices, with ADVENTURE. The result of this arrangement is the same as that described in Case 4.

b. Issue

Does this case raise questions under the conspiracy provisions of Section 45 and/or the joint abuse-of-dominance provision of Section 79?

352. *Id.* § 7, ex. 3.3.

c. The Bureau's Proposed Enforcement Approach

This case likely would be referred to the Attorney General for a Section 45 prosecution. Alternatively, the Bureau may seek to terminate the market allocation agreement and the exclusive licenses under the Section 79 abuse-of-dominance provision.

d. Rationale

(1) If the agreement was a blatant market allocation scheme implemented in a covert manner, the Bureau likely will proceed under Section 45.

(2) On the other hand, a specialization arrangement, under which each supplier publicly agrees to focus on a particular gear system technology that the parties disclosed to and discussed with ADVENTURE, likely would be investigated as a Section 79 joint abuse-of-dominance case.

(3) The gear systems comprise the relevant market. Given the apparent lack of good substitutes, the suppliers' and ADVENTURE's shares of high sales, and their ability to impose price increases, it appears that the gear system suppliers have market power or substantially control the gear system business.

*6. Case 6—Exclusive Contracts*³⁵³

a. Facts

Thanks to its international patents, SPICE is the sole supplier of Megasalt, a unique salt substitute created for certain prepared foods and available in most countries. SPICE's Canadian patent recently expired, but it still has valid patent protection in most of the rest of the world. Just before its Canadian patent expired, SPICE signed five-year exclusive supply contracts with the two biggest Canadian buyers who use Megasalt in specially prepared foods for hospitals and other health care institutions. The exclusive supply contracts prevent the two buyers from combining Megasalt with any other salt substitute on the same product line. These are SPICE's only long-term exclusive supply contracts anywhere.

NUsalt just developed a potential substitute for Megasalt. NUsalt complains to the Bureau that SPICE's exclusive supply contracts make it unprofitable for NUsalt to enter the Canadian market.

353. *Id.* § 7, ex. 4.

b. Issue

Is this a case for Bureau investigation under Section 77 (exclusive dealing) and/or Section 79 (abuse-of-dominant position)?

c. The Bureau's Proposed Enforcement Approach

If SPICE has no compelling efficiency rationale or business justification for the exclusivity provisions, the Bureau likely would seek to have SPICE's exclusive licenses voluntarily terminated. If this did not work, the Bureau would apply to the Competition Tribunal, seeking to terminate the licenses.

d. Rationale

(1) Salt substitutes constitute the relevant market and SPICE substantially controls that market.

(2) The exclusive supply contracts constitute exclusive dealing. The formation of these contracts constitutes an anticompetitive act if the contracts were intended to remove demand from potential entrants like NUsalt, such that the remaining demand "would provide an insufficient volume of sales to cover the cost of entry and future operating costs in Canada."³⁵⁴

(3) If the exclusive supply contracts are determined to be the principal barrier to new entry by close substitutes for Megasalt, then a finding that SPICE's actions could substantially lessen competition is likely.

(4) The possibility of an efficiency defense is possible but unlikely. SPICE might argue that it signed exclusive contracts in order to ensure that it would have sufficient sales to justify investing in enough productive capacity to realize economies of scale. In addition, the restriction preventing buyers from combining Megasalt with other salt substitutes may have a safety or quality rationale. If such justification were strong enough, the Bureau could set aside its challenge under Sections 77 or 79.

*7. Case 7–Output Royalties*³⁵⁵

a. Facts

MEMEX holds a design patent (due to expire within the year) on a memory component it manufactures for use in personal home computers

354. *Id.*

355. *Id.* § 7, ex. 5.

(PCs). MEMEX sells its memory components and licenses the use of its technology to PC makers who pay MEMEX every time its component is installed in a PC. MEMEX recently introduced a new license agreement under which MEMEX grants non-exclusive licenses for the use of its technology and memory components to all PC makers for a royalty on every PC shipped, regardless of whether the PC includes a MEMEX memory component, plus a further fee for every MEMEX memory component the PC maker installs. Why two fees? Because, according to MEMEX, PC makers previously did not use enough MEMEX memory components, detracting from PC performance. MEMEX claims the new license makes it cheaper for PC makers to install a more appropriate quantity of memory in their PCs—so MEMEX offsets its loss in revenue by charging a royalty on every PC sold.

b. Issue

Are MEMEX's output royalties reviewable under Section 79 as an abuse of a dominant position?

c. The Bureau's Proposed Enforcement Approach

In the absence of offsetting efficiency benefits or business justifications, the Bureau likely would seek to have the new license voluntarily terminated. If that did not work, it would apply to the Competition Tribunal, seeking to terminate the practice. Much depends on the definition of "relevant market."

d. Rationale

(1) If the Bureau concludes that non-MEMEX memory components are good substitutes for MEMEX components and that there are few barriers to entry, then the investigation may be dropped. However, if non-MEMEX components are not considered good substitutes, then MEMEX technology will define the relevant market and MEMEX substantially controls that market.

(2) The new licensing contracts may not expressly prohibit PC makers from using non-MEMEX components, but they do impose a tax on the PC makers in such cases. The Bureau would determine whether the contracts are in widespread use, their duration, and their deterrence effect.

(3) If the result of the contracts is to give MEMEX greater market power after its patent expired than otherwise would have been the case, then the Bureau will look at efficiency rationales and any other business justifications.

8. *Case 8—A Patent Pooling Arrangement*³⁵⁶

a. *Facts*

ABC and ZENIX each produce X-ray imaging machines to help diagnose cancer. Each firm has a series of patents on certain components of their respective machines. The machines are functionally interchangeable. The design of one of ZENIX's machine components may infringe on one of ABC's patents. ABC threatens to sue ZENIX for patent infringement if ZENIX markets its machine without first getting a license from ABC to use the patented component. To avoid litigation, ZENIX and ABC place their various patents in a patent pool which has a \$500 licensing fee—to be paid to the pool each time an X-ray imaging machine produced by either firm is used in a medical diagnosis. Proceeds from the fees are to be split between the firms according to a predetermined formula. The amount of the fee means that neither firm is likely to charge medical practitioners less than \$500 per procedure.

b. *Issue*

Does the patent pooling arrangement contravene the conspiracy provisions of Section 45?

c. *The Bureau's Proposed Enforcement Approach*

It is possible that the Bureau will challenge the patent pooling arrangement under Section 45 as an agreement to prevent price competition between ZENIX and ABC.

d. *Rationale*

(1) The terms of the patent pooling arrangement must be studied carefully. Some are pro-competitive because they clear blocking patents, avoid expensive litigation, reduce transaction costs, or integrate complementary technologies. If ZENIX is blocked from using its technology because it infringes on ABC's patent, and if ZENIX cannot "invent around" the blocking patent, then "these firms cannot be considered to be horizontal competitors."³⁵⁷

356. *Id.* § 7, ex. 6.

357. *Id.*

(2) Here, the blocking is one-way. ABC is free to use its machine with or without reaching an agreement with ZENIX. In other words, the patent pooling arrangement is not necessary for the new X-ray imaging machine to enter the marketplace.

(3) The Bureau would be more impressed if ABC simply licensed the use of its infringed patent to ZENIX. It would be good for ZENIX and profitable for ABC, also eliminating the possibility that its patent could be found by the court to be invalid and therefore of zero value. On this analysis, the patent pool likely would be viewed as unnecessary and an anticompetitive commercial arrangement “which was not required in order for the new technology to enter the market.”³⁵⁸ The validity of the patent infringement claim would have to be assessed. If the patent claim had merit and if ZENIX could not easily “invent around” ABC’s patent, then the Bureau would be unlikely to challenge the patent pooling arrangement because it would not lessen competition.

(4) If the claim is baseless or if ZENIX could easily invent around ABC’s patent, then the Bureau would challenge the patent pooling arrangement under Section 45 as an agreement to prevent price competition between ZENIX and ABC.

9. Case 9—*Agreement to Foreclose Complementary Products*³⁵⁹

a. *Facts*

ROCKCO and POPCO are the two largest record labels in the U.S. Three other companies are also major record labels. ROCKCO and POPCO account for two-thirds of total sales and 70% of all major label artists. They form a joint venture, DISCO, to develop, produce, and market a new generation of digital playback devices, a technology of sound quality and other features far superior to other existing technologies.

Another company, DATCO, has developed a digital sound technology with similar high fidelity qualities. However, DATCO’s technology is also portable and allows users to record. The technologies’ costs are similar, but the technologies themselves are incompatible—music digitally encoded in DISCO format must be recoded for playback on DATCO’s player.

ROCKCO and POPCO’s joint venture agreement states that they agree not to release or license any other person to release their copyrighted recordings in a digital format other than the DISCO format. They have

358. *Id.*

359. *Id.* § 7, ex. 7.

declined DATCO's request for a license to convert and release ROCKCO and POPCO recordings in the DATCO format. Obviously, consumers will be reluctant to purchase the DATCO technology if they are unable to use ROCKCO or POPCO music in that format. The other three record labels know this. They are willing to release their recordings in the DATCO format, but they find there is no market for them. They are forced by popular demand to license the DISCO technology in order to release their recordings in DISCO format. In effect, DATCO's technology, which reviewers generally view as superior to DISCO's technology, is being withdrawn, and DISCO is increasing substantially both the price of the playback equipment that it sells and the royalties charged to the other record companies for use of the DISCO technology.

b. Issue

How will the Bureau examine this case under the merger provision (Section 92) and/or the abuse-of-dominance provision (Section 79)?

c. The Bureau's Proposed Enforcement Approach

The Bureau likely would seek an order from the Tribunal requiring that ROCKCO and POPCO divest themselves of DISCO, or that ROCKCO and POPCO license their works for release in alternative formats.

d. Rationale

(1) If the joint venture was, in substance, a merger of the musical recording assets of ROCKCO and POPCO, then the Bureau's review would be carried out in accordance with the Merger Enforcement Guidelines.

(2) If, on the other hand, the Bureau chose to review the joint venture agreement under the abuse-of-dominance provision, then we have a Section 79 review. The choice is for the Bureau to make.

(3) In either case, questions to be addressed include the relevant market, barriers to entry, evidence of market power or dominance, substantial prevention or lessening of competition, and the relevance of any business justification or efficiency defense.

(4) Under a Section 79 review, the Bureau would have to establish that the joint venture had substantial market power in either the market for digital sound technology or digital playback equipment. It also would have to find that the DISCO joint venture had engaged in anticompetitive conduct that substantially lessens or prevents competition. Here, the anticompetitive acts are the acquisition and foreclosure of DISCO's competitors' access to the

music in ROCKCO and POPCO's library. This foreclosure prevents alternative sound recording technologies from acquiring the critical mass of desirable music content required for them to achieve market viability. Therefore, this conduct may prevent or lessen competition and lead to the creation of dominance in the markets for digital sound technology and/or digital playback equipment sound reproduction. This reduces consumer choice, leads to an increase in the royalties paid by the record companies to use DISCO technology, and increases the price of playback devices.

e. Comment

Neil Campbell is critical of the IPEGs commentary accompanying Case 9. In his view, it

does not explain what conduct extended beyond a mere refusal to license IP, does not attempt to reconcile this approach with relevant Competition Tribunal jurisprudence, and does not discuss the IP rights defense which would protect the exercise of rights under the Copyright Act from being attacked as an abuse of dominance.³⁶⁰

Far from providing appropriate guidance, Campbell sharply criticizes the Bureau for putting forth "an illustration that suggests little hesitation about re-engineering markets *ex post* to improve locative efficiency."³⁶¹

*10. Case 10—Bare Refusal to License IP Rights Which Protect a de facto Industry Standard: Section 32 Possibilities?*³⁶²

a. Facts

ABACUS and two other firms were the first to market spreadsheet software for personal computers. In the first five years of its business, ABACUS' market share grew to 50%. By the end of the seventh year, its annual market share grew to more than 75%. One of the other two original firms left the market. Meanwhile, after three years of programming, CALCULATOR introduced more innovative spreadsheet software but it ran into financial difficulties.

CALCULATOR approached ABACUS to request a license to copy the words and layouts of its menu command hierarchy. With the license,

360. Campbell, *supra* note 292, at 7.

361. *Id.*

362. IPEGs, *supra* note 3, § 7, ex. 8.

CALCULATOR could relaunch its product with the ability to read ABACUS files and guarantee compatibility between the two products. ABACUS refused. ABACUS then announced that it would enforce its IP rights against CALCULATOR if it copied the ABACUS hierarchy. Soon after this announcement, several other software makers announced that they were discontinuing their spreadsheet development programs.

Spreadsheets have a network effect. That is, the value of the software increases with the number of others who purchase compatible spreadsheets. The greater the size of the network, the greater the number of individuals with whom files can be shared, the greater the variety of complementary products, and the greater the number of compatible data files.

b. Issue

Is ABACUS' refusal to license its IP a "mere exercise" of its IP rights? If so, is ABACUS subject to review under Section 32 of the Act?

c. The Bureau's Proposed Enforcement Approach

The Bureau could conclude that a special remedy invoked under Section 32 would restore incentives for other firms to engage in the research and development of competing compatible spreadsheet programs. The special remedy would allow these firms to gain access to the words and layout of ABACUS' menu hierarchy.

d. Rationale

(1) If the relevant market is ABACUS-compatible spreadsheets, if the Bureau concludes that the relevant market is significantly larger than the subject matter of ABACUS' IP, and if the products result directly from the exercise of such IPRs, then the Bureau likely would conclude that ABACUS is dominant in the relevant market and that the IP is an essential input for firms participating in the relevant market.

(2) On this basis, ABACUS' refusal satisfies the first step of the Bureau's two-step analysis to determine whether it would seek to bring an application under Section 32.

(3) In the second step, the Bureau determines whether ABACUS' refusal to license its IP would adversely affect other firms' incentives to invest in research and development and the economy. In this case, the facts suggest that it is possible that ABACUS' ability to impose incompatibility may have a chilling effect on the development of more advanced spreadsheets.

(4) In addition, ABACUS' choice of the words and layout of its menu

hierarchy likely was arbitrary, involved little innovative effort, and had little value relative to other substitutes. In the absence of an installed base and switching costs, ABACUS' terms and menu hierarchy would be no better or worse than CALCULATOR's.

(5) It is only after consumers make sunk investments, and adoption creates an installed base, that ABACUS' spreadsheets become the market standard, and its choice of words and menu interface are required for compatibility with the ABACUS network. All of this creates unintended and unwarranted market power, a situation that can be corrected through enforcement action under Section 32. On this basis, the Bureau likely would conclude that a special remedy invoked under Section 32 would restore incentives for other firms to engage in research and development of competing compatible spreadsheet programs.

e. Comment

LaCasse and Rivard are less than satisfied with the Bureau's handling of the ABACUS case.³⁶³ Their questions are compelling and add weight to the fact that Section 32's "special remedies" have yet to be tested in a Bureau enforcement proceeding. In summary, they argue that the proposed resolution to Case 10 raises more questions than answers. For example,

(1) Could the firms that initially entered the market have recognized the possibility that network effects would lead to "tipping" (i.e., to one firm dominating the market)? If they did, it is more than conceivable that the profits from being dominant in the market encouraged firms to make their costly initial investments. Should not the Bureau take this into consideration when evaluating whether the remedy is likely to chill incentives to innovate?;

(2) The Bureau's rationale does not articulate why the defined market (ABACUS-compatible spreadsheets) differs or is significantly larger than its IP. Is this an arbitrary or measured distinction? How do other firms interpret the Bureau's finding that ABACUS' choice of its words and layout hierarchy was "arbitrary"?

(3) "Using the seemingly arbitrary nature of firms' choices to justify intervention could introduce uncertainty that would discourage future innovation *unless* the criteria used to determine when certain aspects of the intellectual property are arbitrary were *made plain*."³⁶⁴

363. LaCasse & Rivard, *supra* note 311, at 105.

364. *Id.* (emphasis added).

C. Some Observations on Licensing

Eight of the ten ‘Hypothetical Examples’ posed by the Competition Bureau in the IPEGs involve the licensing of IPRs.

The Competition Bureau acknowledges in the IPEGs that licensing is “pro-competitive . . . in the vast majority of cases . . . because it facilitates the broader use of a valuable IP rights by additional parties.”³⁶⁵ The same IPEGs acknowledge that licensing agreements “enhance [the IP’s] value and increase the incentive for its creation and use . . . [and] promote the efficient use of IP by facilitating the integration of IP with other components of production, such as manufacturing and distribution.”³⁶⁶

Under the Canadian Competition Act, IP licensing agreements are subject to review under at least six general provisions. Except for price maintenance, the other provisions require a competitive effects test, usually a determination of “substantial prevention or lessening of competition.” The difficulty, even with the assistance of the IPEGs and Hypothetical Examples (which are non-binding and often phrased tentatively) is that the central issues of market definition, market power, entry barriers, and deficiencies are difficult to apply to IPR cases. The question left by the IPEGs is whether they provide sufficient guidance regarding the application of these tests and concepts to specific IP licensing practices.

VI. THE JAPANESE GUIDELINES FOR PATENT AND KNOW-HOW LICENSING AGREEMENTS UNDER THE ANTIMONOPOLY ACT

A. Historical Background

1. The 1968 Guidelines

In 1968, the JFTC published its first guidelines on the application of the Antimonopoly Act to IPRs.³⁶⁷ They constituted one of two sets of guidelines implementing Section 6 of the Antimonopoly Act,³⁶⁸ which provides: “No firm shall enter into an international agreement or an international contract that contains such matters as constitute unreasonable restraint of trade or

365. IPEGs, *supra* note 3, § 4.1.

366. *Id.* § 2.3.

367. Antimonopoly Act Guidelines for International Licensing Agreements, *supra* note 280.

368. The other set was the Antimonopoly Act Guidelines for Sole Import Distributorship Agreements (Yunyū Sōdairiten Keiyaku tō ni okeru Fukouseina Torihikihōhō ni kansuru Nintei Kijun) (1972), *reprinted in* KAWAI, *supra* note 280, at 262.

unfair trade practices.”³⁶⁹

Until it was repealed in 1997, Section 6, Paragraph 2 required that all international agreements that included license agreements of IPRs between Japanese and foreign firms be reported to, and be reviewed, by the JFTC. The Guidelines were meant to indicate standards of review under this article, not the general treatment of IPRs under the Antimonopoly Act. A commentary to the Guidelines states that their aim is “to protect Japanese licensees that had little bargaining power against foreign (American or European) licensors and were more often than not forced to accept disadvantaged terms of agreement.”³⁷⁰ After discontinuing advance examination of international technology transfer agreements under the Act on Foreign Investment (*Gaishi ni kansuru Hôritsu*) in 1968, the review by the JFTC was expected to screen terms that were unfairly advantageous to foreign licensors.³⁷¹ The concept was understandable, considering that Japan still was importing technology more than exporting it at the end of the 1960s.

The scope of the Guidelines was limited in order to be suitable for this purpose. First, the Guidelines were to be applied only to agreements that import technologies into Japan; that is, where the licensor was a foreign firm and the licensee was a Japanese one.³⁷² Second, the Guidelines concerned only unfair trade practices and not unreasonable restraints of trade, although both of these belonged to the subject of regulation under Section 6 of the Antimonopoly Act. This difference was because the main concern of the Guidelines lay in correcting disparities between the parties’ bargaining power.³⁷³ Third, not every kind of enforcement of IPRs was covered. The Guidelines confined themselves to license agreements of patents, utility models³⁷⁴ or know-how, which were the main subjects of technology transfer agreements at that time.

The 1968 Guidelines listed nine types of clauses that were “liable to come under unfair trade practices” and five that were “regarded as the exercise of rights under the Patent Act or the Utility Model Act” and, therefore, exempt from the Antimonopoly Act. The former nine, although claimed not to be

369. Antimonopoly Act § 6.

370. KAWAI, *supra* note 280, at 7.

371. *Id.* at 69-73 (describing the background of publication of the 1968 Guidelines).

372. This limitation was indicated in the Japanese title of the Guidelines, which referred to *gijutsu dōnyū keiyaku*, or agreements to import technologies, though the English translation was not clear on this point, employing a term “international licensing agreements.”

373. See KAWAI, *supra* note 280, at 44 (arguing that the most relevant type of unfair trade practice is the abuse of a dominant bargaining position).

374. The Japanese Guidelines use the term “patent” to include utility models.

illegal per se, very rarely passed the review by JFTC.³⁷⁵ Two of the most important of them were the grant back clause and the restriction on trading competing goods.

2. *The 1989 Guidelines*

The JFTC's policies toward the interface between IPRs and the Antimonopoly Act changed radically in 1989. In 1989, the JFTC replaced the old guidelines with entirely new guidelines called the Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-how Licensing Arrangements.³⁷⁶ Reflecting the growth of Japanese industry during the 1970s and 1980s, the review under Section 6(2) of the Antimonopoly Act had lost much of its meaning. The 1982 amendment to that provision lifted the reporting obligations on international agreements except for a few types of agreements listed in the JFTC rules. As a result of these developments, the new guidelines aimed at giving guidance concerning the application of Section 19 of the Antimonopoly Act (prohibition of unfair trade practices) rather than that of Section 6. They now covered license agreements of IPRs in general, regardless of the nationalities of the parties to the agreement.

More impressive was the change in the substance of the Guidelines. The Guidelines pronounced that technology transfer agreements should be promoted as long as they have a positive effect on competition.

[T]echnology transactions could have a procompetitive effect when, as a result of technology transactions, new business entities can enter a market, when the number of competing entities increases, or when the technology can be utilized more efficiently. Therefore, transfer of technology should be promoted, and it is expected that transfer of technology could be promoted through clarification of examining standards by way of guidelines.³⁷⁷

375. See KAWAI, *supra* note 280, at 172-73 (though claiming that the Guidelines did not intend to be rules of illegal conduct per se, Kawai argues that those terms that are liable to come under the unfair trade practices in the Guidelines have little prospect to be justified because the Guidelines have taken into consideration most of the possible justifications).

376. Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-How Licensing Agreements (Feb. 15, 1989), reprinted in Roger D. Taylor et al., *A Comparison of International Intellectual Property Licensing Guidelines in the United States and Japan*, 9 UCLA PAC. BASIN L.J. 104 app. 2, at 145 (1991).

377. *Id.*, pmb1., para. 3.

This passage implied, according to the commentary to 1989 Guidelines written by officials of JFTC, that the JFTC was prepared to admit such restrictive clauses as would provide appropriate incentives to licensors to enter license agreements, instead of regarding every restriction as harmful.³⁷⁸ Put another way, the 1989 Guidelines, unlike their predecessors, did not presume that a licensor had stronger bargaining power than a licensee. It was now recognized that the relationship between a licensor and a licensee should be analyzed on a case-by-case basis.³⁷⁹

Case-by-case analysis, however, can be rather formalistic. Apparently influenced by European regulation on license agreements at that time,³⁸⁰ the 1989 Guidelines listed conceivable terms of license agreements and categorized them into “white,” “gray” and “black,” or, more precisely, “restrictions which are considered, in principle, not to fall under unfair trade practices,” “restrictions which may fall under unfair trade practices,” and “restrictions which are highly likely to fall under unfair trade practices.”

The shift of policy was substantive and not merely a change of wording. In 1995, the JFTC took action against Japanese licensors, alleging that they committed unfair trade practices by urging a licensee in Taiwan not to export products to Japan after the termination of know-how license agreements. The cases resulted in *Kankoku Shinketsu* (a kind of consent decree),³⁸¹ exhibiting that the use of IPRs would be attacked under the Antimonopoly Act even in cases where the licensors were Japanese firms.

B. The Present Guidelines

In 1999, the JFTC published the most recent guidelines, the “Guidelines for Patent and Know-how Licensing Agreements Under the Antimonopoly Act” (GPLAs),³⁸² taking into consideration all recent developments. Since the reporting obligations and the review of international agreements were repealed entirely in 1997, the instrument is no longer a reference regarding Section 6 of the Antimonopoly Act. On the other hand, the aims of the

378. AKINORI UESUGI, Q & A TOKKYO/KNOW-HOW LICENSE KEIYAKU TO KYODOKENKYU KAIHATSU [Q & A ON PATENT AND KNOW-HOW LICENSING AGREEMENTS AND JOINT RESEARCH AND DEVELOPMENT] 68 (1993).

379. *Id.* at 78.

380. Commission Regulation (EEC) No. 2349/84 of 23 July 1984 on the application of Article 85 (3) of the Treaty to certain categories of patent licensing agreements, [1984] O.J. L219/15; Commission Regulation (EEC) No. 556/89 of 30 November 1988 on the application of Article 85 (3) of the Treaty to certain categories of know-how licensing agreements, [1989] O.J. L161/1.

381. *In re Asahi Denka Kogyo KK*, 42 SHINKETSUSHŪ 163 (JFTC, 13 Oct. 1997); *In re Oxylen Kagaku KK*, 42 SHINKETSUSHŪ 166 (JFTC, 13 Oct. 1997).

382. GPLAs, *supra* note 4.

GPLAs were extended to include providing guidance under Section 3 of the Antimonopoly Act (prohibition of private monopolization and unreasonable restraint of trade) in addition to Section 19 (prohibition of unfair trade practices), which was addressed by its predecessors.

The GPLAs no longer confine themselves to the analysis of restrictive terms that are likely to accompany license agreements.³⁸³ In addition, they refer to the exercise of other IPRs, recognizing that “problematic conduct from the viewpoint of the Antimonopoly Act is not necessarily limited to [restrictive terms of license agreements], but may arise from any situation that restricts the business activities of the other party through artificial means or methods.”³⁸⁴

At first glance, the GPLAs appear to retain the approach of the 1989 Guidelines, categorizing typical contractual terms into “white,” “gray” or “black.” They list conceivable clauses in license agreements and conclude analysis of each of them with one of the following three phases: (1) “will in principle fall within the category of unfair trade practices and be in violation;” (2) “in certain circumstances will fall within the category of unfair trade practices and be in violation;” or (3) “will not, in principle, fall within the category of unfair trade practices.”³⁸⁵ Thorough examination reveals that most of the clauses fall into the second category, which requires an analysis under the rule of reason. The 1999 GPLAs depart from the formalistic approach of the 1989 version and adopt the rule of reason approach in the true sense, just as their counterparts did in the United States³⁸⁶ and Canada.³⁸⁷

Notwithstanding these signs of convergence toward globally recognized rules on the IPR/competition law interface, the GPLAs still retain one limitation on their scope of application: they are confined to analysis of patents, utility models, and know-how. They do not include copyrights or any other kind of IPRs, although the GPLAs will be applied *mutatis mutandis* to the latter.³⁸⁸

383. *See id.* pts. 2(1), 3.

384. *Id.* pts. 1, 3(1).

385. *Id.* pts. 1, 2(1). Under the category, there is a subcategory with the remark “highly likely to fall within the category of unfair trade practices and be in violation,” which is sometimes called “gray-black.” *Id.*

386. U.S. Guidelines, *supra* note 5.

387. IPEGs, *supra* note 3.

388. GPLAs, *supra* note 4, pts. 1, 3(1).

1. Exemption for the Exercise of IPRs

As noted above,³⁸⁹ the Antimonopoly Act provides that “[t]he provisions of this Act shall not apply to such acts recognizable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act or the Trademark Act.”³⁹⁰ Following the attempts of commentators to limit this provision to conduct involving IPRs and the Antimonopoly Act, the GPLAs adopt a functional test similar to the deviation theory.³⁹¹ The GPLAs now state:

Section 23 [renumbered as 21 in 2000] is viewed as having been enacted for the purpose of confirming that (1) “Acts recognizable as the exercise of rights” under the Patent Act, etc., are not subject to the Antimonopoly Act and shall not constitute a violation of the Antimonopoly Act; but that (2), on the other hand, even if acts are considered to be the “exercise of rights” under the Patent Act, etc., if the said acts are considered to deviate from or run counter to the purposes of the IPR system to, among other things, encourage innovation, the said acts are . . . no longer be deemed “acts recognizable as the exercise of rights” and the Antimonopoly Act shall be applicable to them.³⁹²

In this passage, the GPLAs provide that conduct involving an IPR must satisfy two requirements in order to be granted an exemption. First, the conduct in question must be an “act considered to be the exercise of an IP right.” This is to be determined formalistically, that is, according to the types of conduct. Second, the conduct must not deviate from or run counter to the purposes of the IPR system. Because a principal purpose of the IPR system is to encourage innovation, the second part of the test may be restated as a determination of whether or not the conduct will stifle, rather than promote, technological innovation.

2. Unreasonable Restraints of Trade

Having confirmed that license agreements of patents are not particularly suspicious under the Antimonopoly Act, the GPLAs mention two primary cases that constitute an unreasonable restraint of trade prohibited by

389. See *supra* text accompanying notes 278-79.

390. Antimonopoly Act § 21.

391. See *supra* text accompanying note 279.

392. GPLAs, *supra* note 4, pt. 2.

Section 3 of the Act.³⁹³ One is the case in which “a licensing agreement for patents, etc., imposes mutual restrictions [on the parties to the agreement] regarding the sales price, manufacturing volume, sales volume, sales outlets, sales territories, etc., of the patented products, etc., and substantially restricts competition in a market for particular products.”³⁹⁴ The other case is where “restrictions are mutually imposed regarding the fields of research and development, the parties to whom the license may be granted, the technology used, etc., and these restrictions substantially restrict competition in a market for particular products or particular technologies.”³⁹⁵

Although these situations may arise in any ordinary license agreement between two parties, the GPLAs identify three types of conduct that “particularly” must be explored.³⁹⁶ These are: cross-licensing among several patent holders, multiple licensing between a patent holder and many licensees, and organizing a patent pool into which several patent holders contribute their patents.³⁹⁷

3. *Private Monopolization*

The GPLAs identify three circumstances under which the exercise of a patent can constitute private monopolization.³⁹⁸ These are: a patent pool, concentration of many patents in one firm’s hands, and monopolization through restrictive terms of a license.³⁹⁹

According to the GPLAs, anticompetitive effects may occur where there exists a patent pool and “if the right holders [that are members of it] refuse to grant licenses to new entrants or to particular existing entrepreneurs without justifiable reasons, or take other measures that have the effect of impeding the entry of other firms or of making it difficult for existing firms to conduct business.”⁴⁰⁰ Virtually the same situation may arise

if right holders competing in a market for particular products cross-license among themselves the patents, etc., that are essential to business activities in the particular field of trade, as well as all existing and future improvements to the technology, etc., and refuse to grant

393. *Id.* pt. 3.2(1).

394. *Id.*

395. *Id.*

396. *Id.* pt. 3.2(2).

397. *Id.*

398. *Id.* pt. 3.3. Though not stated explicitly, the examples probably are intended only as illustrations.

399. *Id.* pt. 3.3(1).

400. *Id.*

licenses without justifiable reasons to new entrants or particular existing firms, or take other measures that have the effect of impeding the entry of other firms or of making it difficult for existing firms to conduct business.⁴⁰¹

Regarding the concentration of patents in one firm's hand, the GPLAs are concerned with a situation where a firm has "concentrate[d] patents, etc. relevant to a particular product field by acquiring the patents, etc. from other firms even when they are not particularly necessary for the firm's own use" and refuses to license an acquired patent or enforces its patent by infringement suit with the aim of impeding new entrance into the market.⁴⁰²

The terms of a license agreement, which were the sole subject of analysis in the 1968 and 1989 Guidelines, are still discussed mainly in relation to the prohibition of unfair trade practices.⁴⁰³ However, the GPLAs say that terms also can constitute private monopolization in some cases. Specifically, it refers to the situation where a de facto standard combined with a tie-in arrangement has the effect of excluding competing firms.⁴⁰⁴

[T]here may be situations in [which] because a patent, etc. has become a de facto standard for the particular products and therefore has become essential to business activities in the field, it becomes difficult to conduct business activities in a particular product field without obtaining licenses under the relevant patents, etc. In this case, it will be illegal under the Antimonopoly Act as private monopolization where a licensor excludes or controls the business activities of other firms, including licensees, by imposing restrictions, such as making it obligatory for the licensee to procure products and technology designated by the licensor and thereby excluding the business activities of firms which manufacture products competing with the said designated products, if these acts substantially restrict competition in a market for particular products or particular technologies.⁴⁰⁵

401. *Id.* pt. 3.3(1).

402. *Id.* pt. 3.3(2).

403. *Id.* pt. 3.3(3).

404. *Id.*

405. *Id.*

4. *Unfair Trade Practices*

Part 4 of the GPLAs is a successor to the 1989 Guidelines because it comments on some of the conceivable license agreement covenants.⁴⁰⁶ The covenants are divided into four groups: restrictions on the scope of license, obligations of the licensee that directly relate to the license of patents and know-how,⁴⁰⁷ obligations of the licensee with regard to the manufacture of patented goods, and obligations of the licensee regarding the sale of patented goods.

Covenants in the first group, including restrictions on the permitted types of conduct (manufacture, use or sale), term, territory or field of technology, are not regarded as unfair trade practices. This is because they fall under “acts considered to be exercises of IP rights” and they usually have only negligible effects on competition.⁴⁰⁸ It is not clear why the GPLAs so easily disregard the possibility that the exercise of these IPRs deviates from or runs counter to the purposes of IPR systems by asserting (without any basis) that a possible anticompetitive effect is “negligible.”⁴⁰⁹

As to covenants on grant-back obligations, which were a focus of the JFTC’s enforcement in the 1970s, those restricting the licensee’s use of the licensed technology, imposing an obligation on the licensee to pay royalties after the expiration of a licensed patent,⁴¹⁰ or restricting the licensee’s research and development activities⁴¹¹ are regarded as “highly likely to fall within the category of unfair trade practices and be a violation of the Antimonopoly Act.” In contrast, an obligation on the licensee to inform the licensor about acquired knowledge and experience,⁴¹² to use best efforts for exploitation,⁴¹³ or to maintain confidentiality in the case of know-how licenses⁴¹⁴ “will not, in principle, fall within the category of unfair trade practices.”

As to covenants on grant-back obligations, which are one of the focuses of the JFTC’s enforcement, the GPLAs distinguish between an obligation to assign, or grant the exclusive license of the licensor’s innovations on the one hand, and an obligation to grant a non-exclusive license on the other.

406. *See id.* pt. 4.

407. Part 4.3 of the GPLAs describes them as “restrictions and obligations accompanying licensing.”

408. *Id.* pt. 4.2(1).

409. The original Japanese for “negligible” in the English version is “*chiisai*,” or “small.”

410. *Id.* pt. 4.3(2)b.

411. *Id.* pt. 4.3(5)a.

412. *Id.* pt. 4.3(5)b(c).

413. *Id.* pt. 4.3(7)a.

414. *Id.* pt. 4.3(7)b.

According to the GPLAs, only the former type of a grant-back covenant “is highly likely to fall within the category of unfair trade practices and be in violation of the Antimonopoly Act,”⁴¹⁵ whereas the latter joins those covenants subject to rule of reason analysis.⁴¹⁶

Other types of covenants, including royalties calculated on the basis of production volume,⁴¹⁷ packaged licenses of multiple patents,⁴¹⁸ no-contest clauses,⁴¹⁹ and clauses that entitle the licensor to terminate the license agreement unilaterally⁴²⁰ will, in most cases, be analyzed under the rule of reason approach, or, in the words of the GPLAs, “constitute unfair trade practices if they have adverse effects on competition.”

Most of the licensee’s obligations belong in the third group, including restrictions on production volume and frequency of use, competing goods and technologies, purchase of inputs such as materials or components, as well as the quality of the patented goods and/or inputs. These are analyzed under the rule-of-reason, except for clauses providing for a minimum production volume, which do not constitute unfair trade practices,⁴²¹ and restrictions on competing goods or technologies after the termination of the license agreements, which are likely to constitute unfair trade practices.⁴²²

Regarding the covenants included in the fourth group, the GPLAs rely on a policy similar to that indicated in Part 2 of the Guidelines Concerning Distribution Systems and Business Practices.⁴²³ In principle, restrictions on sale prices, including resale prices, constitute unfair trade practices.⁴²⁴ Non-price restrictions, on the other hand, like restrictions on sales volume, customers, sales of competing goods, and obligations to use certain trademarks, are analyzed under the rule of reason approach.⁴²⁵

415. *Id.* pt. 4.3(5)b(a).

416. *Id.* pt. 4.3(5)b(b)a.

417. *Id.* pt. 4.3(2)a.

418. *Id.* pt. 4.3(3).

419. *Id.* pt. 4.3(4).

420. *Id.* pt. 4.3(7)c.

421. *Id.* pt. 4.4(2)a.

422. *Id.* pt. 4.4(3)a.

423. Japan Fair Trade Comm’n, Ryūtsū Torihiki kanko ni Kansuru Dokusenkinshihōjō no Shishin [Guidelines Concerning Distribution Systems and Business Practices] (July 11, 1991), available at <http://www.jftc.go.jp>.

424. GPLAs, *supra* note 4, pt. 4.5(2).

425. *Id.* pt. 4.5(3).

VII. A COMPARATIVE SUMMARY OF THE CANADIAN AND JAPANESE GUIDELINES

A. *Convergence of Basic Policy*

The Japanese and Canadian guidelines regarding the exercise of IPRs share a common philosophy and approach.

On a philosophical level, both countries' guidelines take for granted that competition law and IPRs are complementary rather than antagonistic. Almost every advanced economy now recognizes this.⁴²⁶ As the Japanese GPLAs state:

The legal framework to protect intellectual property rights such as patents (hereinafter referred to as the "IPR system") is considered to have procompetitive effects, since it encourages firms to conduct research and development and can thus become an impetus for the development of new technologies and products using such technology. Moreover, transfers of technology, whether through licensing or otherwise (hereinafter referred to as "technology transactions"), by promoting the efficient use of technology through the combination of different technologies, creating new markets for new technologies or products using such technologies and promoting an increase in the number of competing entities, are also basically considered to have procompetitive effects.⁴²⁷

Likewise, the Canadian IPEGs emphasize:

IP laws and competition laws are two complementary instruments of government policy that promote an efficient economy. IP laws provide incentives for innovation and technological diffusion by establishing enforceable property rights for the creators of new and useful products, technologies and original works of expression. Competition laws may be invoked to protect these same incentives from anticompetitive conduct that creates, enhances or maintains market power or otherwise harms vigorous rivalry among firms.⁴²⁸

Licensing is the usual method by which the owner of IP authorizes others to use it. In the vast majority of cases, licensing is pro-

426. *See supra* text accompanying notes 49-52.

427. GPLAs, *supra* note 4, pt. 1.1.

428. IPEGs, *supra* note 3, pt. 1.

competitive because it facilitates the broader use of a valuable IP right by additional parties.⁴²⁹

Concerning their practical approaches, the guidelines of both countries again follow almost the same path by admitting that IPRs do not necessarily require unusual treatment in their application to competition law. This approach originated in the U.S. Department of Justice/Federal Trade Commission Guidelines of 1995.⁴³⁰ As the Canadian guidelines state, “[t]he approach elaborated in this document is based on the premise that the Competition Act generally applies to conduct involving IP as it applies to conduct involving other forms of property.”⁴³¹

The Japanese situation is more complex, because Section 21 of the Antimonopoly Act grants an exemption to “acts recognizable as the exercise of IP rights.”⁴³² However, the GPLAs, by adopting the functional test discussed above,⁴³³ provide a way to apply the Antimonopoly Act to IPRs in the same manner as ordinary property.

B. Scope of Analysis

While the Canadian Guidelines deal with all kinds of IPRs protected in Canada⁴³⁴ and discuss every type of exercise of them, the Japanese Guidelines confine their scope of analysis to license agreements of patents, utility models, and know-how. This is mainly because of Japan’s historical background explained above.⁴³⁵ However, note that the Japanese Guidelines claim that other kinds of IPRs will be treated similarly to patents and know-how:

These guidelines are not directly applicable as they are to the licensing of other forms of IPRs. However, since the nature of exclusivity of patents or know-how can be seen to differ from that of other forms of IPRs, the views stated in these guidelines will be applied *mutatis*

429. *Id.* pt. 4.1.

430. The U.S. Guidelines state that, “[a]s with other forms of private property, certain types of conduct with respect to intellectual property may have anticompetitive effects against which the antitrust laws can and do protect. Intellectual property is thus neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them.” U.S. Guidelines, *supra* note 5, § 2.1.

431. IPEGs, *supra* note 3, pt. 1.

432. *See supra* text accompanying notes 278-79.

433. *See supra* text accompanying notes 389-413.

434. The Canadian Guidelines state, “[i]n the Guidelines, IP rights include rights granted under the Copyright Act, the Patent Act, the Trade-Marks Act, the Industrial Design Act, the Integrated Circuit Topography Act and the Plant Breeders’ Rights Act.” IPEGs, *supra* note 4, pt. 2.1.

435. *See supra* text accompanying notes 387-88.

mutandis to the extent possible depending on the nature of such other IPR rights.⁴³⁶

It is difficult to justify the exclusion of copyrights from the scope of the Japanese Guidelines, considering the present importance of copyrights, especially with regard to computer software. Quite understandably, the JFTC is preparing another set of guidelines for the exercise of copyrights.⁴³⁷ Yet, trademarks and other kinds of protected signs are so different from patents and other IPRs aimed at protecting inventions that it is doubtful whether they can be regulated as one. Competition policy on trademarks, as contrasted with that on patents, may need further exploration in another jurisdiction.⁴³⁸

It is noteworthy that the Japanese Guidelines refer to the exhaustion doctrine of IPRs:

[I]t is also necessary to take into account whether the rights have been exhausted . . . when the patented products are distributed lawfully according to the wishes of the patent holder, as far as the said patented products are concerned, in the domestic context, this is interpreted to mean that the patent rights have already achieved their objective and that the patent rights for the products have been exhausted. Consequently, restrictions on the sale of patented products that were once lawfully distributed according to the wishes of the patent rights holder are handled in the same manner as restrictions on the sale of products in general under the Antimonopoly Act.⁴³⁹

These statements imply that competition policy, *lato sensu*, is achieved not only through the application of antitrust statutes, but also should be considered from a broader perspective,⁴⁴⁰ including doctrines of IPRs. What is important in this regard is the exhaustion of IPRs in the international context, on which the Japanese Guidelines, in the paragraph cited above, fail to address.

The same considerations are relevant to any jurisdiction, including Canada. However, the Canadian guidelines do not mention any statute other than the Competition Act.

436. GPLAs, *supra* note 3, pt. 1.3(1).

437. See NIHON KEIZAI SHINBUN Apr. 8, 2001.

438. Some attempts to clarify the unique features of trademarks, as opposed to patents, are made in SOUCHIROU KOZUKA, BRAND KANRI TO HÔ NO KISEI [REGULATION OF TRADEMARK LICENSING THROUGH NON-TRADEMARK LAW] 17-37 (2001).

439. GPLAs, *supra* note 4, pt. 2.4.

440. See, e.g., Tadashi Shiraishi, *Unfair Competition Law to be Adjusted by Competition Policy*, in OECD ROUNDTABLE REPORT, *supra* note 7, at 289-93 (arguing that competition policy can be woven into interpretation of the Unfair Competition Act).

C. The “Mere Exercise” of IPRs

The Canadian Guidelines distinguish between “the mere exercise of the IP right” and conduct that involves something more. For example,

The circumstances in which the Bureau may apply the Competition Act to anticompetitive conduct involving IP or IP rights fall into two broad categories: those involving anticompetitive conduct that is something more than the mere exercise of the IP right, and those involving the mere exercise of the IP right and nothing else. The general provisions of the Competition Act address the former, while section 32 (special remedies) addresses the latter.⁴⁴¹

“The mere exercise of the IP right” is defined as the exercise of the owner’s right to unilaterally exclude others from using the IP. The mere exercise escapes from the Competition Act’s general provisions and is subject only to the special remedy provided in Section 32. The Guidelines, as discussed above,⁴⁴² require a two step test to be met before enforcing the special remedy.⁴⁴³ First, there must be a substantial adverse effect on competition in a relevant market. This is satisfied by fulfilling the following two elements: “(i) the holder of the IP is dominant in the relevant market, and (ii) the IP is an essential input or resource for firms participating in the relevant market.”⁴⁴⁴ Second, invoking a special remedy against the IPR holder must not adversely alter incentives to invest in research and development. It is expected to be “the very rare circumstances” that this two-step test is satisfied and a special remedy is invoked.⁴⁴⁵

A question arises whether such special treatment of “the mere exercise of an IP right” conforms with the fundamental position that intellectual property is no different than other types of property, at least as regards the application of competition law. The possible reason for this is implicit in the last part of the two step test—incentives to invest in research and development. In order to avoid killing the incentives, the Canadian Guidelines require caution in applying the Competition Act to “the mere exercise of an IP right.”

This accords with the Japanese Guidelines’ adoption of a functional test in Section 21 of the Antimonopoly Act—the provision granting an exemption to “the acts recognizable as the exercise of rights” under IP

441. IPEGs, *supra* note 3, pt. 4.2.

442. *See supra* text accompanying notes 312-20.

443. IPEGs, *supra* note 3, pt. 4.2.2.

444. *Id.*

445. *Id.* pt. 4.2.

statutes.⁴⁴⁶ The Japanese Guidelines, as discussed above,⁴⁴⁷ provide that the conduct at issue must meet the following two tests in order to qualify as an act recognizable as the exercise of an IPR. First, it must be “an act considered to be an exercise of an IP right,” and second, it must be an act that does not deviate from or run counter to the purposes of the IPR system.⁴⁴⁸ Among the purposes of the IPR system, encouraging innovation is referred to specifically in the Guidelines, implying that it should be the principal consideration.

There are some minor points that may require further examination. First, the definition of the “act considered to be an exercise of an IP right” in the first test of the Japanese Guidelines seems to be wider in scope, including “restrictions on territory, duration or field of use of the license” besides “decisions to license or not to license a patent, or filing a suit demanding a suspension of violation of the licensor’s rights.”⁴⁴⁹ The former types of conduct are considered to be a partial license of the IPR and, therefore, are treated as an exercise of an IPR. However, it is not clear whether Canada’s competition law enforcement authority shares this idea. Second, the Canadian Guidelines state that the two-step test for invoking the special remedy will be satisfied in “the very rare case.” In contrast, the Japanese counterparts declare that “whether the patent holder, etc., exercises one’s own patent, etc., or licenses or does not license it (including granting an exclusive license) to another person, does not, *in principle*, pose a problem in itself under the Antimonopoly Act.”⁴⁵⁰ It is yet to be seen how actively the competition laws of both countries will be enforced against “the mere exercise of IP rights.”

D. Anticompetitive Effects

The Canadian Guidelines clearly state that “[a] transaction or conduct must create horizontal effects for the Bureau to conclude that it is anticompetitive.”⁴⁵¹ The term “horizontal effects” is used in the Canadian Guidelines to indicate “consequences for firms producing substitutes or firms potentially producing substitutes.”⁴⁵²

446. Antimonopoly Act § 21.

447. *See supra* text accompanying notes 389-91.

448. GPLAs, *supra* note 4, pt. 2.2.

449. *Id.* pt. 2.1.

450. *Id.* pt. 3.1 (in relation to the application of unreasonable restraint of trade or private monopolization) (emphasis added).

451. IPEGs, *supra* note 3, pt. 5.3.

452. *Id.* pt. 5.2.3.

Horizontal competitive effects are, of course, also a main concern to the JFTC in enforcing the Antimonopoly Act. However, the Japanese Guidelines touch upon a different kind of consideration when they examine restrictions that are likely to accompany license agreements of patents or know-how:

Regarding [such] restrictions, it is also necessary to examine them from the perspective of the abuse of dominant bargaining position (Item 14 of the General Designation), in addition to the perspectives stated [in Part 4 of GPLAs].

It is in principle possible that the restrictions [analyzed in Part 4 of GPLAs] can become problematic from the perspective of abuse of dominant bargaining position. In addition to these restrictions, other restrictions can be problematic from the perspective of abuse of dominant bargaining position. In these cases, Item 14 of the General Designation may be applicable in addition to each of the provisions of the General Designation mentioned in the views concerning particular restrictions below.⁴⁵³

The phrase “in addition to” indicates that anticompetitive effects are regarded in this passage as different in nature from those discussed in other parts of the Guidelines. Though not explicitly stated, the Guidelines probably are referring to the need to correct disparities between the licensor and the licensee. It is clear that elements of the old Guidelines still remain, the principal purpose of which was to address these kinds of disparities. However, under the present Guidelines the rules are no longer protective of Japanese interests alone, and apply no matter what the nationalities of the relevant parties are.

E. The Process of Analysis

The Canadian Guidelines clearly state the process of analyzing the anticompetitive effects of the conduct at issue. The basic framework is described as follows:

In general, the Bureau’s analysis for determining whether competitive harm would result from a particular transaction or type of business conduct comprises five steps:

453. GPLAs, *supra* note 4, pt. 4.1(2).

- identifying the transaction or conduct;
- defining the relevant market(s);
- determining if the firm(s) under scrutiny possess market power by examining the level of concentration and entry conditions in the relevant market(s), as well as other factors;
- determining if the transaction or conduct would unduly or substantially lessen or prevent competition in the relevant market(s); and,
- considering, when appropriate, any relevant efficiency rationales.⁴⁵⁴

The Japanese Guidelines, on the other hand, do not provide sufficient information about the process of analysis, as indicated by the following passage.

[I]n the event that a licensing agreement for patents, etc., imposes mutual restrictions regarding the sales price, manufacturing volume, sales volume, sales outlets, sales territories, etc., of the patented products, etc., and substantially restricts competition in a market for particular products, it will be illegal under the Antimonopoly Act as an unreasonable restraint of trade.⁴⁵⁵

This passage seems tautological because no information is available about the process of determining whether or not the agreement in question “substantially restricts competition.”

The same comment applies to each step to be followed in applying the competition law. For example, regarding the definition of the relevant market, the Canadian Guidelines are sufficiently informative:

When the anticompetitive concern is prospective (that is, the conduct is likely to have a future anticompetitive effect), relevant markets are normally defined using the hypothetical monopolist test.

When the anticompetitive concern is retrospective (that is, the conduct has already had an anticompetitive effect), applying the hypothetical monopolist test could lead to erroneous conclusions about the availability of substitutes and the presence of market power. Accordingly, the Bureau takes into account the impact of any alleged

454. IPEGs, *supra* note 3, pt. 4.1.

455. GPLAs, *supra* note 4, pt. 3.2(1).

anticompetitive conduct that may have preceded the investigation when determining the relevant market.⁴⁵⁶

The relevant part of the Japanese Guidelines, though quite lengthy, provides less predictability than the Canadian counterparts, because of phrases like “there could be,” “sometimes also,” and “can be defined.”

The method for defining a relevant technology transaction market does not differ from the method for defining a relevant product or service market. The product market is considered to be defined for each patented product and includes those other products which have a similar type of function or utility as such patented product. Since, depending on the content of the restrictions in a patent or know-how license, it is possible that there could be an effect on competition in the market for components and raw materials, etc., of the patented products, etc., or in the market for products that use the patented products, etc., the market for these components and raw materials, etc., of the patented products, etc., or the market for products that use the patented products, etc., is sometimes also identified. In addition, the technology market can be defined for each relevant licensed patent or know-how and includes those other technologies which have a similar function or utility.⁴⁵⁷

The Japanese Guidelines are useful for finding the list of “dubious” conduct that is likely to be taken up in the context of IPR/competition interface. The predictability regarding such conduct is so great that firms can rely upon it as a kind of safe harbor rule.⁴⁵⁸ If previously unimagined conduct arose, however, the list would lose much of its significance, since lack of the analytical framework might make the conclusion unpredictable. On the other hand, the Canadian Guidelines mainly are focused on explaining the steps of analysis. Although this rendered the description less concrete and invited criticism by not providing “appropriate guidance,”⁴⁵⁹ it appears to have the flexibility to be applied to any kind of conduct, even that which was previously unimagined.

456. IPEGs, *supra* note 3, pt. 5.1.

457. GPLAs, *supra* note 4, pt. 1.2(2).

458. This seems to be the intent of the JFTC itself, judging from the official commentary to the GPLAs. See YASUTAKA YAMAKI, Q & A TOKKYO LICENSE TO DOKUSENKINSHIHÔ [Q & A ON PATENT LICENSING AGREEMENTS AND THE ANTIMONOPOLY ACT] 20 (Special Issue No. 59 of NBL, 2000) (emphasizing that “no problem arises” as long as the firms comply with the Guidelines, since the JFTC will enforce the Antimonopoly Act in accordance with the Guidelines).

459. See *supra* text accompanying note 360.

VIII. CONCLUSION

The emergence of IPRs as the major form of wealth in the information-based economies of developed countries requires reconciliation between IPRs and competition law. Today's global economy and the convergences effected by digitization further necessitate that such reconciliation be accomplished intra-jurisdictionally, perhaps as a step toward international regulation, harmonization, and comity. This study of IPRs and competition law attempts to recognize both of these features by comparing the ways in which Japan and Canada reconcile them.

Theoretically, IPRs and competition law are complementary, each enhancing competition. The IPRs promote research, innovation and development, while competition law provides oversight of all economic activities. Canada and Japan's respective regulatory agencies have formulated guidelines that seek to explain and, in some instances, illustrate with hypothetical situations, uses of IPRs that may infringe upon the limits of anticompetitive conduct designated by competition law. We analyze the situations in both countries in the context of their published guidelines and reported decisions. The conceptual reconciliation of IPRs and competition principles is achieved by distinguishing the mere use of the IPR from the way in which a business is operated with respect to that IPR. In effect, the business activity involving the IPR is an infringement of a category of anticompetitive conduct. It is described as involving "something more than the mere exercise" of an IPR.

It is more difficult to determine the circumstances when a "mere exercise" of an IPR might, in itself, be anticompetitive. Such scenarios are unlikely, and indeed, are extraordinary. The Japanese Antimonopoly Act does not address this situation specifically. Canadian competition law, however, does, in Section 32, at least in a procedurally controlled manner. Nevertheless, this provision has not been utilized to date.

Case 10 of the Canadian Guidelines illustrates a circumstance under which this provision may be invoked. It involves an IPR becoming a monopoly over a subject matter (or relevant market), this being broader than the exclusivity ordinarily encompassed within the IPR. This might occur when, for example, a "mere use" of an IPR (a refusal to license) establishes an "industry standard" that allows the IPR holder to control a relevant market in a product or process beyond the subject matter of the IPR itself. The European Union recognizes this potential and this Article refers to developments in the European courts and Commission that look to a remedial resolution under competition law when this situation occurs. These decisions provide useful examples in contexts that have yet to occur in both

Canada and Japan.

This Article also discusses the nature and scope of IPRs in Canada and Japan. This is of considerable importance. Each category of IPR presents features that differ from those of other categories. Each includes limitations or boundaries that balance exclusivity and competition. Hence, IPRs are inherently limited, but arguably, only to an extent that encourages and ensures competitiveness through innovation, research and development. Therefore, if a particular IPR is anticompetitive, a more effective solution may be to amend the scope and application of the IPR rather than to invoke principles of competition law. This Article considers aspects of this dimension in the context of the 1998 OECD Roundtable Report.

Finally, this Article discusses the importance of interpreting IPRs within confines appropriate to their existing nature and scope. This ought to be the very first step in any analysis of IPRs and competition law. An inappropriately extended IPR will almost certainly be anticompetitive, even apart from the principles of competition law.