

When an Intellectual Property Right Becomes an
Intellectual Property Wrong:
Re-examining the Role of Section 32 of the *Competition Act*

by

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Master's Degree in Private Law, Islamic Azad University of Tehran, 2007

LL.B., University of Shahid Beheshti, 2002

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Supervisory Committee

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Abstract

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Intellectual property rights (IPRs) are becoming increasingly important due to their inevitable link to technology and economic development. This highlighted role has resulted in the emergence and development of over-protections that are beyond the ideal scope of IPRs. As the scope of IPRs expands, competition concerns are also intensifying and, as a result, the interface between IP and competition law is expanding in new directions. To address these new developments, trans-Atlantic jurisdictions have developed new policies based on the general provisions of their competition laws. Canada's current policy toward the IP/competition law interface is affected by the existence of a unique section in its *Competition Act*, section 32, which directly refers to the anti-competitive usage of IPRs. Despite section 32's long presence in the *Act* and its role as a basis of the Competition Bureau's analysis of the IP/competition law interface in Canada, this section has not been judicially considered to date. This thesis re-examines the role of section 32 and explores some of the reasons behind its current obsolescence. The main claim of this thesis is that the current interpretations of the role of section 32 are not as broad as envisaged in the statute. On the one hand, the Competition Bureau's interpretation in the *Intellectual Property Enforcement Guidelines (IPEGs)* limits the

scope of section 32 to the unilateral refusal to license IPRs. The approach that the Bureau has adopted toward the unilateral refusal to license is more in line with the American restrictive approach, which allows very limited scope for competition law interventions in the IP realm. From the author's point of view, such a restrictive approach is not consistent with the underlying principles of Canadian competition policies. On the other hand, section 32 has not been amended since 1935. This has led to the generation of some procedural restrictions in the application of this section. The author claims that the procedural requirements of section 32 need to be amended in order to parallel the modernization of the *Competition Act* that has occurred over the last few decades.

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Dedication

I dedicate this thesis to my beloved husband, Reza, for his priceless support from the very first moment he entered into my life and for inspiring me and giving me hope and enthusiasm whenever I feel I cannot go any further.

Introduction

The main characteristic of an intellectual property right (IPR)¹ is that it provides its owner with exclusivity over intellectual products. Competition law, on the other hand, seeks to diminish market monopolies for the sake of the public interest. The monopoly-granting characteristic of intellectual property law and the monopoly-fighting objectives of competition law make the intersection of these two areas an interesting subject for academic study.

Nowadays, it is widely accepted that Intellectual Property (IP) law has not been designed only to consider the short-term benefits of IP owners, but also to have a broader view of the long-term side effects that IPRs bring to other individuals and society. The side effects may appear in a positive form by improving the motivation of other individuals to create new forms of IP products, or in a negative form by preventing them from entering the IP-related market or threatening their survival in the market. It has always been crucial to define a scope for IPRs that minimizes the negative effects and maximizes the positive ones.

However, determining the optimal situation in which the above balance is maintained is not an easy task. In fact, both law makers and decision makers have been challenged in trying to keep IPRs inside their appropriate boundaries. Various tools, both from inside IP law (internal elements) and outside of it (external elements), have been employed to play this boundary-keeping role. “Internal elements” may be seen as: (1) definitional elements limiting the scope of boundaries of IPRs to achieve a balance between granting

¹ Here in after IPR will be used to refer to intellectual property right and IPRs to refer to intellectual property rights.

exclusivity to the holder yet making available to the public a new or original creation that may be utilized fairly after the expiry of the exclusivity; and (2) a recognition of measures of more overt supervision of IPRs by judicial or quasi-judicial interventions in defined circumstances of perceived misuse of an IPR. These interventions are not within any definitional framework of an IPR, yet because they are within a context of a particular IPR, as opposed to being an application of general competition law, they may be seen as an internal - although not definitional - limitation of IPR in a context of promoting competition. Examples of the internal elements include “originality” for copyrightable work, “novelty,” “non-obviousness” and “utility” for patentable inventions, and “distinctiveness” for protectable trade-marks as well as section 65 of the *Patent Act* (Patent Abuse) and sections 29, 29.1 and 29.2 of the *Copyright Act* (fair dealing defence).

These internal safeguards play a significant role in changing the negative attitude toward the monopoly granted to an IP owner. However, the internal elements are not enough to control the scope and application of IPRs and to confine them within appropriate limits. That is why various external tools are also employed to keep IPRs inside their optimal margins. “External elements” may be seen as those limitations that are imposed from other fields of law, such as competition law, or from other fields of study, such as economics. The study of the interface between IP and competition law finds its origin here.

The interface between intellectual property law and competition law, at its very beginning stage, was seen as a space for serious conflict between what was framed as statutory monopoly and what was created to fight monopoly in the market. Such conflict led to the consideration of the relationship between intellectual property law and

competition law as contradictory. Gradually, this understanding was replaced by one considering them as two complementary tools for promoting incentives to innovate and ultimately to improve social welfare.

Nowadays, there is no doubt about the role of competition law in providing a balance between owners' rights over their intellectual products and society's right to benefit from the same products. Almost all jurisdictions have designed policies to facilitate this balance. Although there is a general consensus about the role of competition law in determining the scope of IPRs, when it comes to the application of the competition rules to intellectual property this consensus encounters strong challenges and sometimes totally disappears. It is also a common trend that general provisions in competition regulations preventing any kind of restrictive agreements or practices are also applicable to arrangements or conduct involving IPRs. Sections 1 and 2 of the U.S. *Sherman Act*² of 1890 and their European counterparts, articles 101 and 102 of the *Treaty on the Functioning of the European Union (TFEU)*,³ are considered to be the general provisions applicable to the anti-competitive effects of IPRs in the U.S. and the E.U.

Canada's status in this regard is different. For a very long time, Canada's *Competition Act*⁴ has contained a unique provision which directly addresses any abusive, or significantly non-competitive, conduct derived from the use of IPRs. Section 32 of the *Act* provides the Federal Court of Canada with broad remedial powers (on information exhibited by the Attorney General) to prevent the owners of IPRs from making use of their rights in a manner that unduly restrains or lessens competition. Despite its long

² *The Sherman Anti-trust Act*, United States Congress, 1890.

³ EC, *Treaty on the Functioning of the European Union*, 9.5.2008, O. J.L. C 115/47, online: Europa <<http://eur-lex.europa.eu/JOHtml.do?uri=OJ:C:2010:083:SOM:EN:HTML>>.

⁴ R.S.C., 1985, c. C-34.

presence in the *Act* and its recognition as “an extraordinary remedy,”⁵ section 32 has not been applied to any case to date. In 2000, the Competition Bureau (the body responsible for enforcement of the *Competition Act*), in an attempt to clarify the potential enforcement grounds for the application of competition law to cases involving IPRs, issued a set of guidelines: *Intellectual Property Enforcement Guidelines (IPEGs)*.⁶ This document conveys the most substantive discussion about this “little-known provision,”⁷ i.e. section 32 of the *Competition Act*.⁸ However, the approach that the Bureau adopted has not been helpful in providing enough clarification regarding the barriers that prevent this section from being invoked. While both restrictive substantive interpretations and unique procedural processes may limit the application of this section, the Bureau just focuses on a very narrow substantive interpretation in a deficient way.

This thesis examines the role of section 32 of Canada’s *Competition Act* in more detail and investigates both substantive and procedural limitations that have been imposed on this section. The first chapter argues for the special characteristics of IPRs, which require ongoing help from inside and outside IP law in order to shape their boundaries. The second chapter puts the interface between IPRs and competition law in its historical context and portrays the changes that have occurred in their relationship to

⁵ Robert G. Howell, “IPRs and Competition Law in Canada: Some Reflections” (Paper submitted to the International Intellectual Property Summer Program, Victoria, Canada, July-August 2002) [unpublished] at 28 [Howell, “IPRs and Competition”].

⁶ Canada, Competition Bureau, *Intellectual Property Enforcement Guidelines* (Ottawa: Industry Canada, 2000), online: Competition Bureau <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/h_02855.html> [IPEGs].

⁷ Howard I. Wetston, “The Treatment of Intellectual Property Rights under Canadian Competition Law” in Gordon F. Henderson, ed., *Patent Law of Canada* (Scarborough: Carswell, 1994) at 313 [Wetston, “The Treatment”].

⁸ D. Jeffrey Brown & Patrizia Martino, “Intellectual Property Licensing by the Dominant Firm: Issues and Problems - A Canadian Perspective” (2006) 55:4 DePaul L. Rev. 1247 at 1259.

date. This chapter provides readers with an overall understanding of the current relationship between IPRs and competition law in three jurisdictions: the U.S., the E.U. and Canada. Finally, the last chapter focuses specifically on the role that section 32 of Canada's *Competition Act* may play in the broader zone of interface between IPR and competition law in Canada. The last chapter examines the most dominant interpretations that have been suggested for section 32 in the hope of clarifying situations that invoke the application of section 32.

Chapter One: The Importance of Determining an Appropriate Scope for IPRs

The concept of property is not a description of an item, whether tangible or intangible. It is only in relation to individuals that a piece of property may be defined. “Individuals” refers to both the owner of the object and other individuals in society. If no one existed and if no claim were made for ownership of an object, demarcating the limits and boundaries of proprietary rights would not be necessary. In other words, it is in relation to the owner that an object becomes important and in need of protection; and it is in relation to society that such protection finds its limits. Intellectual property rights, as relatively new forms of property rights, follow the same rule: they have to be protected to benefit the owners and should not be so over-protected as to harm the public. As Vaver points out, “the decision to protect, once taken, must be matched by an equally careful decision on how far to protect.”⁹

The first two parts of this chapter discuss two of the most significant features of IPRs that justify the on-going necessity for determining their appropriate scope: IPRs’ inherent incompleteness and their social objectives. After discussing the above features, the last part of this chapter provides a description of some of the internal and external instruments that either existed from the moment IPRs were recognized or have been created over time to determine the boundaries of IPRs.

⁹ David Vaver, *Intellectual Property Law: Copyright, Patents, Trade-marks* (Toronto: Irwin Law, 2011) at 23.

1. Inherent Incompleteness of IPRs

Intellectual property rights have an important characteristic that separates them from other kinds of property rights. In non-IPRs, there is a link between a tangible piece of property and individuals; in IPRs, the ownership is not necessarily of a tangible subject which exists somewhere in nature. Rather, the IPR owner receives ownership by expending effort to create an intangible intellectual product. As soon as one puts effort (physical or intellectual) to extract an object (tangible or intangible) from what has been held in nature for common use, that item comes out from its original place and is linked to its extractor.

This analysis is based to some degree on John Locke's theory of property rights. Locke's theory will be discussed in more detail in the next part of this chapter; for now, it is important to emphasize that labour is the main factor in his analysis of property rights. Locke claims that "every one has a 'property' in his own 'person,' [...] the labor of his body and the work of his hand."¹⁰ Individuals find ownership over what they extract from nature because they have to expend effort to remove something from the state of nature. That labour or effort is what makes the new mixture entitled to proprietary protection.

Locke's theory of property was initiated to justify rights over physical properties but, since labour is the key element of this analysis, the same justification is applicable to intellectual products.¹¹ According to Locke's theory, property rights are naturally created whenever an individual produces something using the labour of her/his body and the

¹⁰ John Locke, *Second Treatise (Treatises of Civil Government)* (London: Everyman, 1924), section 32, cited in Herman T. Tavani, "Locke, Intellectual Property, and the Information Commons" (2005) 7 *Eth. & Info. Tech.* 87 at 88.

¹¹ *Ibid.*, at 91-92.

work of her/his hands. What an individual produces may be a tangible (physical) product or a non-tangible (intellectual) one. The product itself is not the basis of Locke's analysis; rather it is the effort that an individual exerts to create the product that plays the main role. Thus, when one spends time, energy and effort to create, innovate, or design an intellectual product, that product no longer belongs to the body of knowledge and information that is available in nature for everyone to use.¹² The creator, innovator or designer has used that information as a base and created something on top of it, and this new product is what is protectable under the intellectual property law.¹³

The intellectual product may vary in a number of ways: copyright covering original literary, artistic, dramatic or musical works; patents covering new, non-obvious and useful inventions; trade-secrets covering undisclosed information; industrial design covering eye-appealing designs that are applied to useful items; or in the reputation that a business has achieved over time for its products or services. Although it has been suggested that knowledge or information is the subject of IP law in general,¹⁴ due to

¹² The body of knowledge and information is used in the definition that Buchanan and Campbell suggest for the information commons: "A body of knowledge and information that is available to anyone to use without the need to ask for or receive permission from another, providing any conditions placed on its use are respected." E.A. Buchanan & J. Campbell, "New Threats to Intellectual Freedom: The Loss of the Information Commons through Law and Technology in the US" in R.A. Spinello & H.T. Tavani, eds., *Intellectual Property Rights in a Networked World: Theory and Practice* (Hershey, PA: Idea Group, 2005) at 229.

¹³ In fact, no one can claim ownership over commonly held information. The jurisprudence in the law of copyright supports this argument, as courts avoid recognizing copyright protection of ideas, concepts, information and facts belonging to the public domain, routine forms of expression, routine arrangements or classifications, and ideas merged with the form of their expression or ideas (due to limited ways of expression). See *Delrina Corp. v. Triolet Systems Inc.* 1993 CarswellOnt 174, 9 B.L.R. (2d) 140, 47 C.P.R. (3d) 1; *Cuisenaire v. South West Imports Ltd.*, 1968 CarswellNat 56, 40 Fox Pat. C. 81, [1969] S.C.R. 208, 57 C.P.R. 76; *Baker v. Selden*, 101 U.S. 99, 1879 WL 16689; *Boutin v. Bilodeau*, 1992 CarswellQue 345, 56 Q.A.C. 206, 46 C.P.R. (3d) 395; *Fletcher v. Polka Dot Fabrics Ltd*, 1993 CarswellOnt 3882, 51 C.P.R. (3d) 241 [*Fletcher* cited to CarswellOnt].

¹⁴ United Nations Conference on Trade and Development, Commission on Investment, Technology and Related Financial Issues, "Competition Policy and the Exercise of Intellectual Property Rights"

differences that exist in the nature of each intellectual product, the protection which is afforded varies from one group of products to another. Each distinct area of protection has its unique characteristics and requires its own system and level of protection.¹⁵ Inventions protected under patent law benefit from strong, relatively short-term, protection, while copyrighted works receive weak long-term protection. This partly explains the reluctance of IP scholars to define the subject of protection in IP law. In fact, instead of defining the common subject of protection in IP law, the focus of the IP literature is on categorizing various forms of products and articulating the common characteristics of the related rights.

One of the main characteristics of IPRs, as Gold concisely points out, is their inherent incompleteness. Gold portrays intellectual property law and policies as an imperfect system of regulations that are sometimes based on unexamined assumptions.¹⁶ He argues that the incompleteness of the IP system is not due to imperfection of the underlying principles of IP law, but because of the inherent uncertainties that exist in the IPR itself.

Gold argues that “intellectual property rights are inherently incomplete and require a variety of tools [...] to ensure that they best meet our economic and social

TD/B/COM.2/CLP/68, (Geneva, July 2008) at 4, online:
<http://www.unctad.org/en/docs/c2clpd68_en.pdf>.

¹⁵ Teresa Scassa, “Extension of Intellectual Property Rights” in Marcel Boyer, Michael Trebilcock & David Vaver, eds., *Competition Policy and Intellectual Property* (Toronto: Irwin Law, 2009) at 24 [Scassa, “Extension of IPRs”].

¹⁶ E. Richard Gold *et al.* “The Unexamined Assumptions of Intellectual Property, Adopting an Evaluative Approach to Patenting Biotechnological Innovation” (2004) 18:4 Pub. Aff. Quart. 273 [Gold, “Unexamined Assumptions”]. This paper discusses four unexamined assumptions that exist in relation to patent protection and argues that these “deep-rooted assumptions” underlie patent law and policy without having either “conceptual clarity” or “empirical foundation.”

goals.”¹⁷ He articulates three characteristics of IPRs that prove the inherent incompleteness of IPRs. First, he calls IPRs inherently vague. Intellectual property rights are essentially conceptual, as opposed to tangible goods that have material dimensions.¹⁸ Referring to the impossibility of determining the legal boundaries of knowledge, as opposed to boundaries of tangible assets like tables, Gold argues that, at the time of granting IPRs, neither the owner of the right nor the granter are able to precisely know the “edges” of rights.¹⁹

The effects of uncertainty regarding the boundaries of protectable products under IP law has further resulted in the formation of some expansive interpretations of the scope of IPRs. One of the most important areas of dispute in the law of copyright, for instance, is courts’ attempts to protect the three-dimensional objects that are made from other three-dimensional objects, even though the copyright law protects only the basic drawings of the objects, and not the actual objects themselves.²⁰ Regarding patents, recent trends toward a high number of patent grants and expansive interpretation of the

¹⁷ E. Richard Gold, “Commentary - Mending the Gap: Intellectual Property, Competition Law, and Compulsory Licensing” in Marcel Boyer, Michael Trebilcock & David Vaver, eds., *Competition Policy and Intellectual Property* (Toronto: Irwin Law, 2009) at 396 [Gold, “Mending the Gap”].

¹⁸ Ivan R. Feltham, “The Interface between Intellectual Property Law and Competition Law in Canada” (1987) 12 Can.U.S.L.J. 149 at 150.

¹⁹ Gold, “Mending the Gap” *supra* note 17 at 396, 397.

²⁰ *George Hensher Ltd. v. Restawile Upholstery (LANCS.)* (1973), [1973] 3 WLR 453 at 458; *LB (Plastics) Ltd. v. Swish Products Ltd.* (1977), [1979] F.S.R. 145; [1979] R.P.C. 551. In 1988, sections 64 and 64.1 were added to Canada’s *Copyright Act* to prevent the expansion of copyright to the functional and utilitarian features of three-dimensional objects. Section 64 makes a distinction between the “utilitarian function” of a useful article and the “function that merely serves as a substrate or carrier for artistic or literary matter.” Subsection (a) of section 64.1 considers no infringement of the copyright or moral rights in copying the features of the useful article which are dictated solely by the utilitarian function of the article. Subsection (b) of section 64.1 refers to the process of reverse engineering. According to this subsection, “reference solely to a useful article, making a drawing or other reproduction in any material form of any features of the article that are dictated solely by a utilitarian function of the article” does not constitute infringement. R.S.C. 1985, c. C-10 (4th Supp.), section 11. For an analysis of this section and the relevant case law, see Robert G. Howell, Linda Vincent & Michael D. Manson, *Intellectual Property Law: Cases and Materials* (Toronto: Emond Montgomery, 1999).

scope of patent has resulted in naming this era a “pro-patent” era.²¹ In the first place, the impossibility of determining the boundaries of patentable invention by statute may result in considering “anything under the sun that is made by man” patentable, as the U.S. Supreme Court did.²² Patent protection is currently expanding to cover even “business methods” such as the “one-click” order system that Amazon Inc. has implemented for its online business.²³

The problem of ambiguity of the edges of IPRs worsens when one takes into account the role that technology plays in this field of law and its unpredictable rapid changes. These rapid changes are not limited to the technology itself but are also expanded to “the technology that mediates the uses of technology – the Internet, nanotechnology, biotechnology breakthroughs, and so on.”²⁴

Therefore, as our understanding of the edges of the subject of IPRs is ambiguous at the time of granting the right, the right itself will also be obscure. In fact, IP law provides some imaginary boundaries for intellectual products and provides a protective net around them in an abstract world, in the hope that this conceptualization, in the real world, will lead to the creation of an efficient system of protection which benefits both owners and society. Thus, in intellectual property law, we are not dealing with certainties; rather, we are in an adventure-filled land of rebuttable presumptions.

According to Gold, the second characteristic of IPRs that contributes to their inherent incompleteness is the role of politics and other non-economic factors in shaping

²¹ Richard A. Spinello, “Intellectual Property Rights” (2007) 25:1 Library Hi Tech. 12 at 17.

²² *Diamond v. Diehr*, 450 U.S. 175 (1981); *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).

²³ *.Amazon.com, Inc. v. Canada (Attorney General)* 86 C.P.R. (4th) 321; Spinello, *supra* note 21 at 17.

²⁴ Gold, “Mending the Gap” *supra* note 17 at 397.

their boundaries. He maintains that, although economics have played an important role in intellectual property, it is not only economics that determine the boundaries of IPRs. Looking back in history, Gold points out that “intellectual property rights have been more often shaped by political battles or bureaucratic dictate than economic sense.”²⁵

In this regard, one can consider the trend of patent protection in the U.S. following World War II. In the late 1960s, the U.S. government used IP law and increasing patent protections as tools to limit the commercial and industrial goods that were imported into the country. A strong intellectual property protection for U.S. industries was recognized as the best strategy for promoting export and diminishing foreign competition in the U.S. market. During the 1980s, the U.S. government went one step further in bilateral negotiations with developing and newly industrialized nations, by threatening that they had to obey the U.S. standard of IP protection or receive sanctions.²⁶ Even today, strengthening the powers of the domestic holders of intellectual property in the international marketplace is one of the most important guidelines for determining the scope of the IPRs of giant U.S. corporations. This shows a strong link between the

²⁵ *Ibid.*

²⁶ In 1974, in reaction to the economic crisis in the U.S. during the 1970s, the *Trade Act of 1974* (19 U.S.C. 2411) was passed. Section 301 of the *Act* authorized the president to take all necessary economic actions including sanctions against countries whose policies or practices burdened or restricted U.S. commerce. In 1984, the *Act* was amended in order to create statutory grounds for investigation and sanctions against foreign countries' IP law and policies. Amendments in 1988 introduced a new IP-related program known as “Special 301”. Under Special 301, the United States Trade Representative (USTR) is required to publish an annual list of foreign countries that “deny adequate and effective protection of intellectual property rights” or “deny fair and equitable market access to United States person that rely upon intellectual property protections” (19 U.S.C. 2242). “Problematic” foreign countries receive a 30-day period during which they must either enter “into good faith negotiations” or make a “significant progress in bilateral or multilateral negotiations to provide adequate and effective protection of intellectual property rights” (19 U.S.C. 2242) Otherwise, they will undergo sanctions determined under section 301. Sean M. Flynn, “Special 301 of the Trade Act of 1974 and Global Access to Medicines” (2010) 7:4 J. Gen. Med. 309 at 310-311. The *Trade Act* of 1974 is accessible online: Cornell University Law School <http://www.law.cornell.edu/uscode/19/usc_sup_01_19_10_12.html>.

boundaries of IPRs and politics not only in the U.S., but also in the IP regimes of the countries wishing to trade with the U.S.²⁷

Even if one claims that intellectual property regimes have been shaped mainly by the arguments of economists, the role of politics in accepting new economic theories should not be ignored. Economic theories do not have any chance of being adopted if they are not supported by government policies. In other words, “economic paradigms change when political paradigms shift.”²⁸ In this regard, it is worth noting the effect of joining international or regional IP-related agreements aiming to harmonize intellectual property law at levels well beyond national IP law and policies. Again, as Gold notes “[s]tates appear willing to forego a certain amount of autonomy over domestic legal affairs in order to participate in an increasingly liberalized international trade regime.”²⁹ At an international level, for instance, pursuant to accepting the World Trade Organization’s (WTO) *Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)*,³⁰ intellectual property regimes of the accepting member states have faced changes which are not necessarily based on new economic findings or empirical statistics, but are mainly based on the necessity of joining the WTO as an overall national policy.³¹ For example, Canada’s *Patent Act*,³² especially in regard to compulsory licensing, has encountered serious changes upon joining the *North American Free Trade*

²⁷ Michael Perelman, “The Weakness in Strong Intellectual Property Rights” (2003) 46:6 *Challenge* 32 at 38-43.

²⁸ Giorgio Monti, *EC Competition Law* (Cambridge: Cambridge Uni. Press, 2007) at 54.

²⁹ Gold, “Unexamined Assumptions” *supra* note 16 at 328.

³⁰ *Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)* 1869 U.N.T.S. 299, online: WTO <http://www.wto.org/english/docs_e/legal_e/27-trips_03_e.htm>.

³¹ Gold, “Unexamined Assumptions” *supra* note 16 at 328.

³² *Patent Act*, R.S.C. 1985, c. P-4.

*Agreement*³³ and, later, the *Agreement on Trade-Related Aspects of Intellectual Property Rights*.³⁴ Another example is the recent amendments to Australia's IP regime pursuant to entering into the *Australia-United States Free Trade Agreement* in 2004.³⁵ Both copyright law, in relation to infringements in the online context, and patent law, in relation to pharmaceutical products, went through serious changes.³⁶ Thus, it is not only short-term national policies or mere economic criteria that shape the boundaries of IPRs. In fact, it is also long-term international and trans-national government policies that play a significant role in shaping IPRs.

There is another justification for the role of politics in shaping the scope of IPRs.

Bohannon and Hovenkamp emphasize the role of IPR holders in drafting IP law and

³³ *North American Free Trade Agreement (NAFTA)* [1994] Can. T.S. No. 2, online: NAFTA <<http://www.nafta-sec-alena.org/en/view.aspx?conID=590>>. Compulsory licensing provisions of the Canada's *Patent Act* date back to 1923. In 1969, the government amended the Canadian *Patent Act* in order to make its compulsory licensing provisions more efficient. Following the Amendments of 1969, Canada's pharmaceutical and food patents experienced a "period of aggressive compulsory licensing" for more than a decade. In the mid-1980s, Bill C-22 introduced new amendments to the compulsory licensing provisions of the *Patent Act*. The amendments provided the patent holders with a 10-year period of exclusivity before issuing any compulsory licence. The amendments of the *Patent Act*, through Bill C-22, coincided with the Government of Canada's negotiations with the U.S. and Mexico regarding the free trade agreement. Also, in the early 1990s, the Reagan Administration put more pressure on the Canadian government to adopt a more restrictive approach toward compulsory licensing. It is argued that these regional trade negotiations and policies have been the basic grounds for the formation of the current Canadian compulsory licensing regime. Jerome H. Reichman, *Non-voluntary Licensing of Patented Inventions* (Geneva: International Center for Trade and Sustainable Development (ICTSD) and United Nations Conference on Trade and Development (UNCTAD), 2003) at 19. See also: Abraham Hollander, "Compulsory Licensing" in Marcel Boyer, Michael Trebilcock & David Vaver, eds., *Competition Policy and Intellectual Property* (Toronto: Irwin Law, 2009) at 319; V. Kuek, K. Phillips & J.C. Kohler, "Access to Medicines and Domestic Compulsory Licensing: Learning from Canada and Thailand" (2011) 6:2 *Glob. Pub. Health* 111.

³⁴ Article 1709(10) of the intellectual property chapter of *NAFTA*, which later formally imposed prohibitions on the Canadian compulsory licensing approach, was used as a blueprint for article 31 of the *TRIPS Agreement*. Jerome H. Reichman, "Comment: Compulsory Licensing of Patented Pharmaceutical Inventions: Evaluating the Options" (2009) 37:2 *J.L. Med. & Ethics* 247 at 252.

³⁵ *Australia-United States Free Trade Agreement* (2004), online: Australian Government, Department of Foreign Affairs and Trade <<http://www.dfat.gov.au/fta/ausfta/final-text/index.html>>.

³⁶ *Ibid.*, articles 17.4 and 17.10. See: John Fairbairn & S. Stuart Clark, "Intellectual Property Litigation in Australia" (2008) 75 *Def. Counsel J.* 142; Rhonda Chesmond, "Patent Evergreening in Australia after the Australia-United States Free Trade Agreement: Floodgates or Fallacy" (2006) 9 *FJLR* 51.

designing statutory boundaries of IPRs. They state that when it comes to imposing a change on IP law, the role of IP holders is significant in designing and applying the change. This is so because IP law is an extremely professionalized field and law-makers experience more uncertainty and less confidence about it. In order to fill this gap, law-makers need professional commentaries. Since IP holders have more influential lobbying power, due to holding greater stakes and more homogenous interests, “they are better organized than IP users and, therefore, are able to communicate their wishes to [law-makers] more effectively.”³⁷ Therefore, in such situations, it is the “persuasive voices”³⁸ of the holders of special interests that shape the boundaries of IPRs, not economic or social theories.

Finally, the last factor that Gold names as an important element in making IPRs inherently incomplete is our inability to investigate empirically the effects of IPRs in their social contexts. He questions our ability to gain adequate evidence of the actual effects of IPRs in the real world. Since the stories of businesses that never started or were not able to flourish or were perhaps ruined after the grant of rights have never been empirically recorded, we have little knowledge about the real overall function of IPRs.³⁹ Gold argues that our inability to gain adequate empirical supports regarding the effects of IPRs on society is partly due to “deep-rooted assumptions about the working of [IPRs] that have little grounding in either fact [...] or theory.”⁴⁰ Examining four of these

³⁷ Christina Bohannon & Herbert Hovenkamp, “IP and Antitrust: Reformation and Harm” (2010) 51:4 B.C. L. Rev. 905 at 926.

³⁸ *Ibid.*

³⁹ Gold, “Unexamined Assumptions” *supra* note 16 at 328.

⁴⁰ *Ibid.*, at 299.

assumptions in the field of biotechnology,⁴¹ he encourages scholars and decision-makers to review their starting points in evaluating the effects of granting protection, using a “conceptual framework that focuses more on trans-disciplinary evaluation” rather than focusing on “discipline-specific preconceptions.”⁴²

In fact, each type of IPR is distinct in its nature and application and, therefore, is required to be evaluated in its own context. It is also important to note that for particular types of IPRs, especially patents, the process of evaluating the quality of IP products prior to granting the rights is a “herculean task.”⁴³ It is claimed that the process of selecting qualified patents is a deficient process leading to the granting of strong exclusivity to the owners for innovations that do not merit protection at all. One of the reasons for this deficiency is the lack of human resources, both professional and non-professional. Patent officers are overwhelmed with huge numbers of applications filed annually. In the U.S., for instance, approximately 450,000 applications are investigated every year.⁴⁴ This means that in order to investigate all of them, the average time spent processing each application is less than a day. Patent offices barely have adequate human resources to implement detailed and professional evaluations. It also costs a great deal for patent authorities to hire professional consultants. However, regardless of the cost, for

⁴¹ These assumptions are as follows: (1) Patents improve economic efficiency by encouraging invention and disclosure of new inventions; (2) patents represent the optimal public policy tool to stimulate research and development; (3) patents create “equity gradients” between those with and those without patent rights, and; (4) patents are ethically neutral in the sense that they do not significantly create, magnify or diminish ethical concerns that already exist. Gold, “Unexamined Assumptions” *supra* note 16 at 300.

⁴² *Ibid.*

⁴³ Douglas G. Lichtman & Mark A. Lemley, “Presume Nothing: Rethinking Patent law’s Presumption of Validity” in Geoffrey A. Manne & Joshua D. Wright, eds., *Competition Policy and Patent Law under Uncertainty* (New York: Cambridge University Press, 2011) at 300.

⁴⁴ Invention Statistics, online:
<http://www.inventionstatistics.com/patent_Backlog_Patent_Office_Backlog.html>.

many technical and scientific innovations, patent examiners cannot consult with outsiders because, at this early stage, patent evaluation is confidential and only a limited number of individuals (the applicant and the examiner) can have access to the details.⁴⁵ Thus, when it comes to deciding on the limits and breadth of IPRs, one should take into account this deficient process of evaluation and the fact that patent offices may have made mistakes in the initial steps of the patent-granting process. Given this high probability of error, it is the responsibility of legal decision-makers to correct the failure by adopting more realistic and occasionally narrower interpretations of the scope of IPRs.

The impossibility of empirically determining the effects of IPRs has even raised concerns regarding the term of protection for different categories of products under a given area of IP protection, such as patent protection. In fact, there is no absolute answer regarding the appropriate period in which patent holders' exclusive entitlements surpass their investment expenses. Each patent category has its unique characteristics that require a specific term of protection. For instance, the general rule of twenty years of protection may be considered too long for innovations that develop faster and are relatively more cheap, such as high technologies, because they become obsolete in just a couple of years.⁴⁶ The same period of protection may be considered too short for pharmaceutical innovations that are created and examined through a much longer and more expensive process.⁴⁷ Thus, no one can claim that they have found a set of criteria for the most

⁴⁵ Lichtman, *supra* note 43 at 301.

⁴⁶ Perelman, *supra* note 27 at 42.

⁴⁷ "Patent Medicine" *the Economist*, August 20th 2011. The process of reviewing a patent application may itself take a long time. For instance, in 2009, the estimated time for review of a patent application in the U.S. was between two and eight years. As the volume of the application files increases in some areas, such as software design and biotechnology, the processing time increases because it takes at least a year or two for the process to begin. This period of waiting in the line before the actual process starts and the time spent during the patent office's examination process are all included in the patent length, because

appropriate period of protection for IPRs that fits the necessities of all forms of IP products. This is because no one is able to examine all different aspects of IPRs' effects or to predict their effects in different societies with various values and concerns.⁴⁸

Therefore, intellectual property law, as one of the most complicated areas of legal study, suffers from an inherent incompleteness and needs tools from outside of IP law in order to determine the scope of rights. Put another way, although the scope of IPRs can be determined by using various internal tools, what is determined is just a preliminary draft which needs further revisions. In order to develop a more effective IP regime, one needs to not only reconsider the role of the IP related internal safeguards, but also to employ independent external tools such as competition law. It is not an over statement to claim that IPRs are the most important form of property rights in the new era. The inevitable overlaps between IP and IT in the twenty-first century bring about new concerns that have to be addressed specifically. IP regulations can no longer be treated as a solid form of secluded regulations. Any move to reform the field of IP law should significantly benefit from the multi-disciplinary character of IPRs and their proximate social, political and economic effects in the real world.

The role of competition law as a demarcating tool in shaping IP law becomes clearer when one takes into account the ultimate objectives of IPRs. The next part of this chapter discusses two of the main schools of thought that have been suggested for justifying

once the patent is granted, its term begins from the date of application. In such a case, the real length of patent protection is reduced to less than what is reflected in the statutes (generally 20 years). Considering the time that is lost during the application process, these kinds of innovations may need a longer periods of protection. Invention Statistics, online:
<http://www.inventionstatistics.com/Patent_Approval_Time.html>.

⁴⁸ For a detailed analysis of the problem of determining the value of patents, see Ruth M. Corbin, *Intellectual Property in the 21st Century* (Canada: The Conference Board of Canada, 2010).

IPRs. It presents the main theme of each school and its critiques, and chooses the one which favours the principles of limiting the expansion of IPRs for the sake of the larger public interest in competitive markets.

2. The Public Policy Objectives of the IP Protection Regime

Scholars have spent a substantial amount of time and energy to explain what IPRs are and how they have gained their legitimacy. With help from a range of thinkers from John Locke to Friedrich Hegel, scholars have employed various legal and non-legal theories to justify the exclusivity that IPRs bring to their owners.⁴⁹ Two main schools of thought in this area are the “natural law theory” (the libertarian approach) and the “incentive to create theory” (the utilitarian approach).⁵⁰ In the next part, this thesis discusses these two main approaches briefly and examines their weaknesses and strengths, in the hope of finding an avenue for justifying the need for competition policies to intervene in IP law.

a) Natural Law Theory or the Libertarian Approach

⁴⁹ See e.g. Carys J. Craig, “Locke, Labour and Limiting the Author’s Right: A Warning against a Lockean Approach to Copyright Law” (2002) 28 *Queen’s L. J.* 1; Edwin C. Hettinger, “Justifying Intellectual Property” (1989) 18:1 *Phil. & Pub. Aff.* 31; Wendy J. Gordon, “A Property Right in Self-Expression: Equality and Individualism in the Natural Law of Intellectual Property” (1993) 102 *Yale L.J.* 1533; and D.B. Resnik, “A Pluralistic Account of Intellectual Property” (2003) 46:4 *J. Bus. Ethics* 319.

⁵⁰ The justificatory theories with respect to intellectual property are divided into two broader categories: deontological and consequentialist. “The latter category embraces all theories that purport to justify property rights on the basis of the *good consequences* of their legal recognition, as distinct from their *moral rightness*.” Two of the main deontological arguments for IPRs are: (1) John Locke’s “labour theory”; and (2) the “personality theory” generally associated with Kant’s discussion of the nature of authorship and publication and Hegel’s theory of cultural evolution. See Dale A. Nance, “Foreword: Owing Ideas” (1990) 13:3 *Harv. J. L. & Pub. Pol’y* 757 at 763. The labour theory will be discussed in more detail below. The personality theory considers property as a necessity for humankind to be able to autonomously express itself in the world. According to this theory, “[a] person exercises his or her freedom (or autonomy) by controlling physical objects as well as information.” Resnik, *supra* note 49 at 326.

The natural law account of intellectual property is derived from John Locke's justification of the notion of property. Locke's natural law of property has its roots in English natural law, which was heavily influenced in the Eighteenth century by Roman natural law.⁵¹ However, in contrast to Roman natural law, which "was the construction of the rules which simply *reflected* the way things were," English natural law "became the construction of rules which *prescribed* the way things were."⁵² It was through this change that the natural law of property began to develop. Natural law that simply reflected the natural status of property was transformed into natural rights that revealed the legal relationships between properties and individuals.⁵³

John Locke relied on natural law to justify the legitimacy of property rights. There are two underlying premises behind the Lockean approach to property acquisition. The first premise is that God created the natural world with its natural resources for humans, to be used in common. These commonly held goods (the commons) are capable of being used freely by all individuals for their comfort and enjoyment.⁵⁴ Secondly, it is assumed that each individual has natural rights of property in her/his body. Each person is thus the owner of the labour of her/his body, and the work of her/his hands. Although the commons are created for the use of all people, since each person has a right of property in her/his own body, whenever a portion of her/his labour or intelligence is used to acquire

⁵¹ The Romans divided law into three main categories: natural law (*jus naturale*) that contained principles common to all humankind because it reflected the true nature of things; the law of nations (*jus gentium*) including principles shared by all civilized societies; and civil law (*jus civile*) which encompassed principles that were strictly Roman in nature. Alfred C. Yen, "Restoring the Natural Law: Copyright as Labor and Possession" (1990) 51:2 Ohio St. L. J. 517 at 522.

⁵² *Ibid.*, at 523 [emphasis in original].

⁵³ *Ibid.*

⁵⁴ Rebecca P. Judge, "Restoring the Commons: Toward a New Interpretation of Locke's Theory of Property" (2002) 78:3 L. & Eco. 331 at 331 [Judge, "Restoring the Commons"].

something and is mixed with something from the commons, that something becomes her/his property.⁵⁵ As Judge illustrated, “[p]rior to the addition of human labor, the natural world belongs ‘to the children of men in common’; it is labor that provides the means by which these commonly held goods become private property.”⁵⁶

The owner’s right, however, is limited to the area of the commons that other individuals have not already acquired legitimately by using their labour. In other words, only original acquisition is accepted within the natural law theory.⁵⁷ Locke’s labour-to-property equation will also apply when two important conditions are satisfied. Based on the first condition, which is known as the “enough and as good proviso”⁵⁸ or the “no loss to others precondition,”⁵⁹ after the labourer acquires her/his portion from the commons, there must be enough and as good left in the commons for others. In other words, the labourer’s property right over a portion of commons must not worsen others’ positions.⁶⁰ The second condition, known as the “no-spoilage proviso” limits the acquisition by individuals of the commons to what they can use. This provision is rooted in the notion that “God made things for people to enjoy, and not to spoil or destroy.”⁶¹ The

⁵⁵ Craig, *supra* note 49 at 10.

⁵⁶ Judge, “Restoring the Commons” *supra* note 54 at 331. Lands are an example of objects that exist in the commons and are capable of acquisition. Locke explained the process of appropriation of a piece of land as private property as follows: “As much land as a man tills, plants, improves, cultivates, and can use the product of, so much is his property. He by his labor does, as it were, enclose it from the common.” John Locke, *Second Treatise (Treatises of Civil Government)* (London: Everyman, 1924), Section 32, cited in Herman T. Tavani, *supra* note 10 at 88.

⁵⁷ Tom G. Palmer, “Are Patents and Copyrights Morally Justified? The Philosophy of Property Rights and Ideal Objects” (1990) 13:3 Harv. J. L. & Pub. Pol’y 817 at 827.

⁵⁸ Craig, *supra* note 49 at 23.

⁵⁹ Hettinger, *supra* note 49 at 44.

⁶⁰ Craig, *supra* note 49 at 23.

⁶¹ *Ibid.*, at 11.

applicability of the above conditions to the various forms of IPRs will be discussed momentarily.

According to the libertarian approach, IPRs are naturally created by the mere use of people's intellectual efforts, derived from their own initiative, intelligence and industry.⁶² Creators of intellectual products deserve to own the fruits of their labours. An exclusive right is the reward that they deserve for what they have devoted to create such products.⁶³ For a long time, the libertarian approach has been the prominent approach for justifying some branches of IPRs, such as copyright. In *Wheaton v. Peters*,⁶⁴ for example, a U.S. court stated in its judgment that: “[t]he great principle on which the author's right rests, is that it is the fruit or production of his own labor, and which may, by the labor of the faculties of the mind, establish a right of property [...]”

Critiques of the libertarian approach

The Lockean justification of intellectual property has been criticized vigorously for ignoring the public interest in theorizing owners' entitlements. The negative result of such an approach is to create a system that prefers private over public interests and individuals over community. As Craig has stated, focusing on authors' rights as natural property rights prevents us from taking into account the political and social contexts in which rights are created. This approach leads to the generation of a system of protection

⁶² *Ibid.*, at 9.

⁶³ J. Thomas McCarthy, *Intellectual Property: McCarthy on Trademarks and Unfair Competition*, Vol.1, 1996-2010 (New York: Clark Boardman Callaghan, 2010) at 1-12 and 1-13.

⁶⁴ 33 U.S. (8 Pet.) 591 (1834) at 669-670.

that is disconnected from its policy foundations and, therefore, has questionable legitimacy.⁶⁵

The labour-based approach is also criticized on the grounds that it cannot be applied to all forms of IPRs. In the case of patents, for instance, if two individuals invent the same form of patentable invention, patent protection will be granted to the one who submits her/his creation soonest to the patent office, because only the first submitted work will satisfy the novelty criterion required for protection.⁶⁶ Therefore, in such a situation, although each of the inventors has spent energy, time and labour to create an intellectual product, reward (in the form of protection) will only be provided to the one who submits the product first. The second inventor will lose this reward and her/his labour will be useless, at least in this case. Thus, the labour-based justification is not an exhaustive theory to be relied on for all forms of IPRs.⁶⁷

The imperfect applicability of the Lockean provisos to various forms of intellectual property protection is another weakness of the libertarian approach. Hettinger has argued that current patent protection does not satisfy the “enough and as good proviso.” As discussed earlier,⁶⁸ appropriating an object from the commons is legitimate under the Lockean approach, as long as it does not worsen others’ positions. In patent protection, an independent inventor of an already patented invention cannot even personally use the product of her/his labour and “suffer[s] a great and unfair loss because

⁶⁵ Craig, *supra* note 49 at 40-44.

⁶⁶ This rule is known as the “first-to-file” rule and applies in all countries except in the U.S. and Philippines. In these two countries, the “first-to-invent” rule is applied. This rule states that a patent will be granted to the first inventor who has documented the date of the invention. Alexandra Zaby, *The Decision to Patent* (Berlin: Springer, 2010) at 9; Marin J. Adelman, *et al. Global Issues in Patent Law* (St. Paul: Thomson Reuters, 2011) at 91.

⁶⁷ Resnik, *supra* note 49 at 323.

⁶⁸ *Supra* note 60 and accompanying text.

of the original patent grant.” In such a situation, the second labourer’s position is worsened by the acquisition by the first labourer from the commons.⁶⁹ The application of Locke’s second proviso (the “no-spoilage proviso”) is also problematic for some forms of IPRs. Based on the second condition, spoilage is prohibited. No one can acquire more than what she/he really needs. Individuals’ rights are limited to the extent that they are not wasteful. Expansive exclusivity that the owners of intellectual property have over their expressions, inventions and business techniques provides them with a wasteful use of what could be beneficial for others. According to Hettinger, “[w]hen owners of intellectual property charge fees for the use of their expressions or inventions, or conceal their business techniques from others, certain beneficial uses of these intellectual products are prevented. This is clearly wasteful, since everyone could use and benefit from intellectual products concurrently.”⁷⁰

Regardless of their inapplicability, the theoretical framework of the above provisos has also been forgotten over time. Even natural law theorists could use the “enough and as good proviso” to limit the scope of IPRs in favour of the public. Based on this proviso, the labourer’s exclusive IPR is limited and the boundaries of limitation are determined by the rights of other individuals to benefit from the “commonly held goods” (the commons).⁷¹ The entitlement of the IPR holder should not worsen the situation of

⁶⁹ Hettinger, *supra* note 49 at 44. However, it may be argued that the “enough and as good proviso” applies more adequately to intellectual properties in comparison to tangible properties. For example, once one acquires a piece of land using her/his labour, that piece of land is gone. Generally, no further acquisition is possible for others for an unlimited period of time. In patents, conversely, although the direct subject of a patent cannot be used by others for the period of protection, there is plenty of room for others to innovate around the subject of the right. In other words, in contrast to land, with patents what is removed from the commons is narrower and the requirement of Locke’s first proviso is better met.

⁷⁰ *Ibid.*, at 45.

⁷¹ The word “commons” in this analysis refers to one of the underlying premises behind the Lockean approach to property acquisition. Based on this premise, the natural world with its natural resources was

other individuals. Therefore, it is not only the owner who is in the centre of attention in this justification, but other individuals also must be able to benefit from what is left. In other words, although social concerns are not the underlying objective of the natural law account of IPRs, the primitive conditions of the theory convey some social concerns by stating that the exclusivity which IPRs bring to their owners at least is not unlimited.

The social concern that the Lockean proviso imposed on the limits of IPRs is, however, barely comparable to what the “incentive to create” theory has offered. In the utilitarian approach, the analysis is entirely built on the social effects of rights. In fact, the basis of the analysis itself is deeply engaged in social concerns: not only is the entitlement of the owners determined by taking into account social concerns, but also the scope of their rights. By contrast, in the libertarian account, the basis of the analysis is individuals, and social concerns are imposed in the further steps for limiting the boundaries of IPRs.

b) The “Incentive to Create” Theory, or the Utilitarian Approach

The utilitarian account is another well-discussed theory for justifying IPRs. In England, this approach was adopted as early as 1709 when the “Statute of Anne”⁷² was enacted. The statute aimed to abolish the privileges that had been granted to a limited number of individuals in favour of another more crucial purpose which was the “Encouragement of

created to be used in common by all individuals for their comfort and enjoyment. “[I]t is labor that provides the means by which these commonly held goods become private property.” See Judge, “Restoring the Commons” *supra* note 54 at 331.

⁷² 8 Ann. C. 19 (1709, effective April 10, 1710).

Learning.”⁷³ In 1774, the *Donaldson v. Becket*⁷⁴ decision acknowledged that copyright was granted by legislators (and not created through a natural process), and that the main goal of its granting was to encourage learning (not to give exclusive privileges to authors). The effect of the above movement formed the basis for clause 8 of the *U.S. Constitution* (1787), which states: “Congress shall have the power [...]. To promote the progress of science⁷⁵ and the useful arts, by securing for limited times to authors and inventors the exclusive rights to their respective discoveries.”⁷⁶

According to the utilitarian approach, granting property rights in valuable intellectual works increases the incentives for creating new forms of products. Intellectual property rights “maximize social utility by providing authors and inventors (and

⁷³ The full title of the act was *A Bill for the Encouragement of Learning and for Securing the Property of Copies of Books to the Rightful Owners Thereof*. As its name suggests, this act was designed to create a balance between the rights of the authors and the public interest. See Carla Hesse, “The Rise of Intellectual Property, 700 B.C.-A.D. 2000: An Idea in the Balance” (2002) 131:2 *Daedalus on Intellectual Property* 26 at 37.

⁷⁴(1774) 2 Bro PC 129; Paul Jones, “The Rise and Fall of American Antitrust? An International Perspective on Trinko and the Regulation of the Knowledge Economy” (2005) 50 *Antitrust Bull.* 687 at 11; Hesse, *supra* note 73 at 37.

⁷⁵ The Supreme Court of Canada emphasized this point in the *Theberge* case in 2002. The court pointed out that the underlying theory for copyright protection in Canada is “promoting the public interest in the encouragement and dissemination of works of the arts and intellect.” *Theberge v. Galerie D’Art du Petit Champlain Inc.* 2002 SCC 34, [2002] 2 S.C.R. 336 at para. 30. [*Theberge* cited to S.C.C.] This issue has also been reflected in the underlying theory behind patent protection. Being granted a patent, the owner of an innovation enters into a bargain known as the “social contract” theory: the owners of the patent are granted the right to reproduce, sell, and use their invention exclusively in return for disclosing the required information after the expiration of a patent so that others can make use of the innovation. See Shubba Ghosh, “Patents and the Regulatory State: Rethinking the Patent Bargain Metaphor after Eldred” (2004) 19:4 *Berkeley Tech. L.J.* 1315 at 1321.

⁷⁶ U.S. Const. (1787) art. I Sec. 8, cl. 8. The trend of recognizing limited exclusivity for creators of new products dates back to the *English Statute of Monopolies of 1623*. In that statute, patents were considered as an exception to the general rule that declared “utterly void and of none effect” any privileges or monopolies. Part 6 of the documents stated that “(a) [...] any declaration before mentioned shall not be extend to any letters patent, and grants of privilege for the term of fourteen years or under, hereafter to be made, of the sole working or making of any manner of new manufactures within this realm (c) to the true and first inventor (d) and inventors of such manufactures, which others at the time of making such letters patent and grants shall not use.” *English Statute of Monopolies of 1623*, 21 Jac. 1, c. 3, online: <<http://www.legislation.gov.uk/aep/Ja1/21/3/contents>>.

entrepreneurs and investors) with incentives and rewards, which encourage the development of science, technology, industry and the arts.”⁷⁷ If anyone can benefit from the result of another’s intellectual effort without statutory limitation, no one will have further motivation to spend money, time and energy to create new products. This would lessen the level of development and consequently destroy intellectual and commercial growth in society. States grant a form of property right to individuals who provide society with their intellectual efforts, in order to prevent such a disastrous result.⁷⁸

The utilitarian argument focuses more heavily on the consequences of granting rights to the owners of intellectual production. It is due to the positive effects of protection on the overall utility of societies that legislators grant exclusive rights to creators.⁷⁹ Therefore, IPRs are justifiable as long as they guarantee benefits to society and cease to have legitimacy as soon as they bring more loss than gain.

The utilitarian justification of IPRs has been expressed in various courts decisions. For example, in *Graham v. John Deere Co.* the U.S. Supreme Court emphasizes that “[s]table ownership is the gift of social law, and is given late in the progress of society [...] Society may give an exclusive right to the profits arising from (inventions) as an encouragement to men to pursue ideas which may produce utility.”⁸⁰

The utilitarian justification of IPRs may particularly be relevant in a context of so-called ‘patent trolling’ that recently originated in the U.S. “Patent trolling” is a

⁷⁷ Resnik, *supra* note 49 at 324.

⁷⁸ Hettinger, *supra* note 49 at 47-48.

⁷⁹ See the judgment of Estey J. in *Campo Co. Ltd. v. Blue Crest Music et al.* [1980] 1 S.C.R. 357 in which the copyright law is described as “neither tort law nor property law in classification.” Copyright law is simply a creation of the state: “Copyright legislation simply creates rights and obligations upon the terms and in the circumstances set out in the statute.”

⁸⁰ *Graham v. John Deere Co.* (1966), 383 U.S. 1, 15 L. Ed. 2d 545, 86 S. Ct. 684, 148 U.S.P.Q. 459 (1966).

description of a practice involving the pooling by sale or licence of patent rights within one entity or a limited number of entities.⁸¹ This practice presents dimensions of a legal and economic nature that go beyond simply any non-competitive feature of an exercise of an IPR. It raises questions as to whether competitiveness is served by having patent rights relevant to many patents collected within one source.

The collection of patents often flows from bankrupt companies, individual inventors, small corporations, or inventors whose patents cover technologies of a related nature.⁸² From the utilitarian perspective this accumulation could result in an efficiency that enhances competitiveness. For example, an accumulation of process patents for components of an integrated overall process might facilitate the enhancement of that overall process and the greater availability to the public of an improved methodology or product. An accumulation of an ownership may also encourage an owner of this accumulation to engage in research and development to an extent that might not be so readily achieved if licences had to be required from the multitude of patent holders. Thus, an accumulation might be seen as pro-innovation and pro-competitive and within a utilitarian theory of patent law.

On the other hand, if an accumulation of patent rights is for the purpose of or has the effect of restricting usage or development, then the practice might be seen as being non-competitive. While this practice has been examined by the English Patents County

⁸¹ William L. Lafuze & Richard R. Ruble, "Patent Trolls" (2007) 13.2 IP Litigant 31 at 31-33.

⁸² Anna Mayergoyz, "Lessons from Europe on How to Tame U.S. Patent Trolls" (2009) 42:2 Cornell Int'l L. J. 241 at 242-245. One of the most controversial patent troll cases in the U.S. is the *NTP Inc. v. Research In Motion Inc.* case. 418 F. 3d 1282, 1291 (Fed. Cir. 2005). NTP was a small company whose only asset was a number of patents involving mobile email technology and Research In Motion (RIM) was the manufacturer of the BlackBerry. NTP first sent letters to RIM asking for licensing fees. RIM ignored the requests and NTP sued the company for patent infringement. The court awarded NTP damages of \$23 million, an amount which was increased to \$50 million by the district court. Finally, RIM ended up settling and buying the licence from NTP for \$612.5 million.

Court in *Media CAT Limited v. Adams & Others*⁸³ it is beyond the scope of this thesis to examine, both legally and economically, the benefits or otherwise of the practice and, therefore, whether the utilitarian theory is met or is not met by such practices. For present purposes, so-called ‘patent trolling’ is raised to show that this thesis is cognizant of the practice and that the recommendations that the thesis will make as to structuring of oversight of IPRs and competition law can accommodate such broader issues as presented by trolling. In this respect, the matter is dealt with in part three of chapter three as well as the recommending part of this thesis when an infrastructure for the future is suggested.

Critiques of the utilitarian approach

The utilitarian approach supports IPRs insofar as they promote the progress of science. The main criticism of this approach is that it is not always easy or possible to predict the consequences of an action or policy.⁸⁴ How could one reliably examine all positive and negative effects of granting a particular right to an individual? Based on how many factors can one evaluate harms and benefits of a policy or legal entitlement?

The utilitarian view’s supporters have used evidence from various sciences including economics, psychology and the social sciences to find answers to the above questions. To support an exclusive right from the utilitarian perspective, “one must be able to show that the good consequences of granting people exclusive control over information outweigh the bad consequences.”⁸⁵ From the utilitarian point of view, since

⁸³ [2011] EWPC 6. The Media CAT brought an action against a number of individuals alleging that they have infringed its copyrights, which were accumulated in a troll-like practice. See Gary Moss, “*Media CAT v Adams: the CAT that Did Not Get the Cream*” (2011) 6:11 J. I. P. L. & P. 813.

⁸⁴ Resnik, *supra* note 49 at 324.

⁸⁵ *Ibid.*

the ultimate goal of granting rights is maximizing social utility, all bodies involved in granting IPRs have to take into account the benefits and harms whenever a decision is made. The same form of assessment is also necessary when a court is dealing with determining the scope of IPRs. However, as stated earlier,⁸⁶ estimating the precise effects of granting rights is not possible and, thus, creating appropriate limits to owners' exclusive rights, so as to best guarantee their social utility, is not at all easy.

Generally speaking, it may be questioned whether judges have a broad view of the context in which they are deciding or even whether the litigation system provides them with all the information they need to evaluate the benefits and harms of their decisions regarding the effects of granting or denying IPRs. While, ideally, judges are a group of well-educated legal professionals, they make decisions based on acceptable legal assumptions as opposed to recognized economic and social theories. They implement statutory provisions and follow previous courts' decisions, but pay less attention to the overall social consequences of their decisions. In other words, it is unrealistic to expect judges to consider all non-legal matters that surround an issue before they reach their decisions.⁸⁷

⁸⁶ See *supra* note 19 and accompanying text.

⁸⁷ The OECD's documents emphasize the use of professional agencies and experts in providing a more acceptable and effective IP-granting process. For instance, in 2006, in response to the concerns regarding the increases in the number of patents granted over the last two decades and the expansion of the scope of IPRs, the OECD asked the patent agencies to develop new methods and strategies. In relation to patents, the 2006 document names different methods such as: (1) improving patent quality, which requires that "patent applications become subjected to more rigorous scrutiny at patent offices;" and (2) taking advantage of the expertise of professionals and private researchers. It also suggests that competition authorities can assist IP-agencies to improve their IP granting process. The competition authorities are also encouraged to open interdisciplinary dialogues with patent agencies, to commission "expert reports that study a country's patenting system to determine whether and how it is causing any undue problems," and to hold "seminars or hearings in which academics, public and private sector practitioner, and industry participants come together to discuss problems and possible improvements to IP policies." OECD, *Policy Roundtables, Competition, Patents and Innovation* (2006) at 36, online: OECD <<http://www.oecd.org/dataoecd/26/10/39888509.pdf>> [OECD, "Innovation Roundtable, 2006"].

Another significant problem with the utilitarian account of IPRs is that this approach is not applicable to particular forms of IPRs such as trade secrets. For patent protection, the utilitarian approach supports the exclusive right granted to the owner for a period of time, such that the incentive to create similar products is preserved. After this period of time, the incentive to create will be preserved by when the owner discloses the inventive knowledge available to the public. Thus, the exclusive right which is granted in patent is aimed at preserving the incentive in both periods: before and after disclosure of the invention.

For trade secrets,⁸⁸ on the other hand, despite utilitarian principles, exclusivity will exist until the secrets are disclosed.⁸⁹ The owners of trade secrets may have solid legal protection for an unspecified period of time regardless of harms that such protection will bring to society. The utilitarian approach requires the owners of trade secrets to disclose their secrets when such disclosure promotes social utility. Owners of trade secrets, however, avoid sharing their secrets by putting more emphasis on their individual rights of voluntary disclosure, regardless of the result of such avoidance.⁹⁰

⁸⁸ The *TRIPS* agreement describes three characteristics of trade secrets or “undisclosed information.” The undisclosed information is protectable if (1) it is secret in the sense that it is not generally known or readily accessible; (2) it has commercial value because it is secret; (3) the person lawfully responsible for the information has been taken reasonable steps to keep the information secret. *TRIPS*, *supra* note 30 part 7, article 39. There are also more restrictive definitions of the trade secrets, which define them as “patentable inventions that have not been patented in order to avoid making them public and limiting their rights to the statutory life of a patent.” Gordon v. Smith & Russell L. Parr, *Intellectual Property, Valuation, Exploitation, and Infringement Damages* (Hoboken, NJ: John Wiley & Sons, 2005) at 22. Two of the main legal theories supporting the protection of trade secrets are: (1) the general concept of protection against unfair competition (Germany and Japan); and (2) the general concept of the laws of confidentiality (U.K. and Australia). See Katarzyna Czapracka, *Intellectual Property and the Limits of Antitrust*, (Cheltenham, UK: Edward Elgar, 2009) at 113-117 [Czapracka, “IP”].

⁸⁹ Howell, “IPRs and Competition” *supra* note 5 at 21.

⁹⁰ . Resnik, *supra* note 49 at 325.

In contrast to patents, rights to trade secrets are not based on the social contract theory that compels owners to disclose all information related to the innovation after benefiting from strong protection for a particular period of time. In fact, for trade secrets, no implied contract between society and the owner exists. The period of protection varies from one day to one hundred years, depending on an owner's ability to keep her/his secrets concealed. Therefore, because of the nature of some forms of IPRs, such as trade secrets, the utilitarian approach cannot be helpful in providing adequate justification.

The above two main justifications of IPRs have not developed at the same time. The "natural law" theory has been mainly replaced by the "incentive to create" theory in order to help IPRs survive attacks on their legitimacy.⁹¹ Also, as soon as one retreats from considering a natural relationship between intellectual products and their owners, the role of governmental intervention is clarified. According to the utilitarian approach, it is not the owners who naturally gain exclusivity over a product; rather, "IP rights are a creation of the state"⁹² and are granted to the owners to achieve special social goals: "enhancing consumer welfare and promoting innovation."⁹³ As McCarthy argues "[w]hen [IP] rights are granted by the State, this is done to further certain social ends and not per se to recognize any natural rights that the inventor or business person already possesses."⁹⁴ Government, as the grantor of IPRs, in the hopes of achieving certain social goals, can intervene in the application of IPRs; it can limit the expansive exercise of

⁹¹ McCarthy, *supra* note 63 at 1-10.

⁹² Czapracka, IP, *supra* note 88 at 20.

⁹³ United States Department of Justice and the Federal Trade Commission, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007), online: OECD <<http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf>>.

⁹⁴ McCarthy, *supra* note 63 at 1-13.

rights that contradict the underlying policies and ultimate purposes of granting. According to this approach, any further intervention by the courts or governmental bodies to determine the scope of IPRs is justified as long as it protects public interests.

As discussed above, both the libertarian and utilitarian accounts of IP, despite their essential differences, impose some degree of limitations on IPRs. They both accept that the exclusivity that IPRs bring to their owners is not unlimited. The boundaries may be determined through the application of various conditions, theories or analyses. Libertarian thinkers limit the entitlements of IP owners by applying Locke's "enough and as good proviso" and "no-spoilage proviso." Advocates of utilitarianism reach the same goal through the objectives of protection: to promote the progress of science.

The role of the economic analysis of intellectual property law in limiting the scope of rights, however, should not be ignored.⁹⁵ The emergence of welfare economics,⁹⁶ in general, and the economic analysis of law, in particular, have played significant roles in establishing a set of social concerns for analyzing legal concepts, including IPRs. The result of questioning the effect of granting rights (or changing their scope) on the welfare status of other individuals, who may be close to or remote from IPR owners, has directed the analysis to larger public interest. In a recent example, the

⁹⁵ The economic analysis of law (known as "law and economics") started as a legal theory through a serious attempt toward integrating law and economics by group of legal and economics scholars at the University of Chicago in the early 1970s. One of the main claims of the law and economics analysis of legal subjects has been that law's missing authority and legitimacy can be discovered outside the borders of law and in light of social sciences such as economics. Gary Minda, *Postmodern Legal Movements, Law and Jurisprudence at Century's End* (New York: New York University Press, 1995) at 83.

⁹⁶ As defined in *A Dictionary of Economics*, "welfare economics is the part of economics concerned with the effects of economic activity on welfare. This includes the modeling of individual or household behaviour by utility functions; criteria for efficiency, including Pareto efficiency and theories of the second-best; criteria for judging whether changes in the economy are beneficial; consideration of how income distribution affects social welfare; and cost-benefit analysis." It also has both positive and normative components. John Black, Nigar Hashimzade, & Gareth Myles, *A Dictionary of Economics* (Oxford: Oxford University Press, 2009).

Supreme Court of Canada stated that the granting of rights would be efficient only if it balanced between rewarding the owner of the IPRs and utilizing the product in an appropriate manner:

In crassly economic terms it would be as *inefficient* to overcompensate artists and authors for the right of reproduction as it would be self-defeating to undercompensate them [...] Excessive control by holder of copyrights and other forms of intellectual property may unduly limit the ability of the public domain to incorporate and embellish creative innovation in the long-term *interests of society as a whole*, or create practical obstacles to proper *utilization*.⁹⁷

3. Internal and External Tools for Limiting the Scope of IPRs

The inherent incompleteness of IPRs and the theoretical framework within which they are justifiable (as discussed in the two previous parts) clarify the reason for on-going concerns about the boundaries of rights in IP law. For a long time, both law-makers and adjudicators have used various tools to determine the frontiers of IPRs. These determinative elements can be categorized into two main groups: (1) internal elements, which are imposed from inside IP law; and (2) external elements, which intervene from outside of IP law. Internal determinative elements are both conceptual factors that have been recognized through IP-related regulations and judge-made doctrines, and exceptions that courts have applied based on the public policy behind the protection of IPRs. External determinative factors are limitations that are imposed based on concerns derived from other fields of law, such as competition law, or other areas of study, such as

⁹⁷ *Theberge*, *supra* note 75 at 31, 32. [emphases added].

economics. This part of chapter one brings attention to the importance of some of the internal elements that are imposed from inside IP-related regulations. In fact, each form of IPRs must have particular characteristics in order to be eligible for protection. Characteristics of a copyrightable work are recognized in copyright law and are interpreted by the courts. Also, to be patentable, an invention must meet certain criteria, which are defined by the law and interpreted by the Patent Office and by the courts in subsequent proceedings as to the validity of patents.

It is not an overstatement to claim that the first step toward shaping an appropriate and effective IP regime takes place within the IP law, by either law-makers or decision-makers. In fact, by defining and interpreting the boundaries of IPRs properly, IP law-makers and decision-makers set the boundaries of the rights from a very early stage. Thus, the primary responsibility for defining an appropriate IP regime is on the shoulders of entities that draft the IP law or interpret it. To gain exclusivity for the specific period of time,⁹⁸ the IPR should, as part of the utilitarian theory, also comply with definitional and subject-matter limitations.

In the case of copyright, for instance, one of the long-standing difficulties that courts have faced regards the distinction between ideas, which are not protectable, and expression, which is a suitable subject of copyright protection. The idea/expression dichotomy is rooted in the argument that “ideas belong in the public domain and no one can have a monopoly in them, no matter how novel or different they are”.⁹⁹ Copyright

⁹⁸ For instance, in Canada, copyright subsists for the life of the author, plus the remainder of the calendar year in which the author dies, plus a period of 50 years following the end of that calendar year (*Copyright Act*, R.S.C. 1985, c. C-42, section 6). For patents, the term is limited for twenty years from the filing date. (*Patent Act*, *supra* note 32, section 44).

⁹⁹ *Fletcher*, *supra* note 13 at para 10.

protection subsists in a work that has been “expressed to some extent at least in some material form, capable of identification and having a more or less permanent endurance.”¹⁰⁰ The ideas, information and facts, as “the common property of the whole world,”¹⁰¹ are not an issue of protection by IP law because protecting them as a form of individual rights will prevent others from using and benefiting from those public assets.

Also, the form of expression will be qualified for copyright protection only if it is original.¹⁰² Over the years, various standards have been suggested by courts for determining the meaning of an original work. Historically, courts tended to apply a very loose standard for determining the originality of a work: “what is worth copying is prima facie worth protecting.”¹⁰³ This approach to the meaning of originality was based on the British “sweat of the brow” test which historically applied in Commonwealth countries under the authority of *Walter v. Lane* (1900).¹⁰⁴ In order to limit the boundaries of copyrightable works, further jurisprudence¹⁰⁵ has modified this test and replaced it by new tests, such as the “modicum of creativity” test in the U.S.,¹⁰⁶ and the “skill and judgment” test which was introduced to Canadian copyright law in *CCH Canadian Ltd.*

¹⁰⁰ *Canadian Admiral Corp. v. Rediffusion Inc.*, 1954 CarswellNat 5; 20 C.P.R. 75; 14 Fox Pat. C. 114; [Canadian Admiral cited to CarswellNat] at para. 28.

¹⁰¹ *Baker*, *supra* note 13 at 100.

¹⁰² *Copyright Act*, *supra* note 95, section 5(1).

¹⁰³ *University of London Press Ltd v University Tutorial Press Ltd.* [1916] 2 Ch. 601; 32 TLR 698 [University of London cited to 2 Ch] at 610.

¹⁰⁴ *Walter v. Lane* [1900] AC 539; [1900-3] All ER Rep Ext 1666.

¹⁰⁵ *Feist Publications, Inc., Petitioner v. Rural Telephone Service Company* (1991) 499 U.S. 340; 121 P.U.R.4th 1; 59 USLW 4251 [Feist Publication]; *Tele-Direct (Publication) Inc. v. American Business Information Inc.* (1997), CarswellNat 2111; 154 D.L.R. (4th) 328, 76 C.P.R. (3d) 296.

¹⁰⁶ *Feist Publication*, *ibid.*

v. Law Society of Upper Canada (2004).¹⁰⁷ In this decision, “skill” was defined as “the use of one’s knowledge, developed aptitude or practised ability in producing the work” and “judgment” as “the use of one’s capacity for discernment or ability to form an opinion or evaluation by comparing different possible options in producing the work”.¹⁰⁸ The court emphasized that the “skill and judgment” test, while necessitating a minimum intellectual effort for a work, does not limit the scope of copyright to works that are “novel or unique.”¹⁰⁹

Canada’s *Copyright Act* also contains an important exceptional defence for the infringement of copyright known as “fair dealing.”¹¹⁰ Based on sections 29, 29.1 and 29.2 of the *Act*, alleged infringers of copyright can benefit from the exception if they prove that the infringement has occurred for the purposes of research, private study, criticism or review, or news reporting. However, fair dealing as “an exceptional defence” has been challenged by the Supreme Court of Canada in *CCH*.¹¹¹ In that case, the court considered fair dealing as a “user’s right” with “the objective to maintain the proper balance between the rights of a copyright owner and user’s interests.”¹¹² Considering fair dealing as a right

¹⁰⁷ *CCH Canadian Ltd. v. Law Society of Upper Canada*, 2004 CarswellNat 446; 2004 SCC 13, 236 D.L.R. (4th) 395, 317 N.R. 107, 30 C.P.R. (4th) 1, [2004] 1 S.C.R. 339 [*CCH* cited to CarswellNat]

¹⁰⁸ *Ibid.*, at para. 16.

¹⁰⁹ *Ibid.*

¹¹⁰ The fair dealing defence (and its American counterpart, fair use) originates in the British common law and gradually developed over the hundred years between 1740 and 1840. *The Statute of Anne* (1710) did not contain such an exception. Starting in 1740 in *Gyles v. Wilcox* (1740) and in order to protect other publishers and the public interest, courts refused to recognize copyright infringement for uses of a work which seemed only a “real and fair abridgement of prior work.” Carys J. Craig, *Copyright, Communication and Culture* (Cheltenham, UK: Edward Elgar, 2011) at 157.

¹¹¹ *Ibid.*

¹¹² Robert G. Howell, “Reformulation of Copyright by the Supreme Court of Canada: *Theberge*, *CCH* and *Tariff 22*” Paper submitted to the Intellectual Property Summer Program, Vancouver, B.C. (July, 2004) at para. 29 [unpublished].

of the public to benefit from otherwise copyrightable work is a remarkable step toward maintaining the public interest from within IP law and keeping IPRs within their margins.

With respect to patents, Canada's *Patent Act*¹¹³ articulates that "any art, process, machine, manufacture or composition of matter" or "any improvement in any art, process, machine, manufacture or composition of matter"¹¹⁴ that is new (novel),¹¹⁵ useful,¹¹⁶ and non-obvious¹¹⁷ merits protection. According to the *Act*, the subject-matter of patents will be considered novel if it has not been "disclosed" or has not become "available to the public" in Canada or elsewhere.¹¹⁸ It is primarily the responsibility of the patent examiners to determine whether the claimed invention has become previously available to the public or not. The significance of this criterion is the form and degree of disclosure. Section 28(2) of the *Act* illustrates that the disclosure may occur by the applicant, or any person who obtained knowledge, directly or indirectly, from the applicant or by any other person by any means and in any manner. This disclosure

¹¹³ *Patent Act*, *supra* note 32.

¹¹⁴ *Ibid.*, section 2, def. "invention."

¹¹⁵ *Ibid.*, section 2, def. "invention" & s. 28.2 (1).

¹¹⁶ *Ibid.*, section 2, def. "invention."

¹¹⁷ *Ibid.*, section 28.3.

¹¹⁸ *Ibid.*, section 28.2. Canada's *Patent Act* gives the applicant or a person who obtained knowledge, directly or indirectly, from the applicant a one-year period during which he can disclose the invention without this being considered as public disclosure. *Ibid.*, s. 28.2(1) (a). The grace period is recognized in very limited jurisdictions mainly for a six-month period and occasionally for up to a one-year period (Canada, U.S. and Australia). Vaver, *supra* note 9 at 320; Adelman, *supra* note 66 at 92. The European Patent Convention recognizes a six-month grace period preceding the filing of the European patent application only if the disclosure has been due to "(a) an evident abuse in relation to the applicant or his legal predecessor, or (b) the fact that the applicant or his legal predecessor has displayed the invention at an official, or officially recognised, international exhibition." Convention on the Grant of European Patents (*European Patent Convention*) 1973 as revised in 2000, article 55. Online: European Patent Office <<http://www.epo.org/law-practice/legal-texts/html/epec/2010/e/index.html>>.

includes written or oral description, use, or even posts on the Internet.¹¹⁹ The prior disclosure “must contain so clear a direction that a skilled person reading and following it would in every case and without possibility of error be led to the claimed invention.”¹²⁰ In spite of the plain language of the regulations, deciding the novelty of an invention and investigating its previous accessibility to the public somewhere in the world is extremely hard and controversial.

A non-disclosed invention may still not be considered patentable if it is “obvious on the claim date to a person skilled in the art or science.”¹²¹ The serious difficulty regarding this criterion is the determination of obviousness. Entities dealing with the obviousness of inventions have to apply an “expansive and flexible”¹²² analysis of numerous factors based on the circumstances of each case and opinion of the experts in the relevant field.¹²³ Here again the decision is related to “how a skilled worker would have acted in the light of the prior art.”¹²⁴ It has to be asked whether someone skilled in the art “in the light of the state of the art and of common general knowledge as at the claimed date of invention, have come directly and without difficulty to the solution taught by the patent.”¹²⁵

¹¹⁹ *Ibid.*, article 54; Vaver, *supra* note 9 at 322.

¹²⁰ *Beloit Canada Ltd. v. Valmet OY* (1986), 8 C.P.R. (3d) 289 at 297 [*Beloit* cited to C.P.R.]. See *Free World Trust v. Électro Santé Inc.* [2000] 2 S.C.R. 1024, 2000 SCC 66, 194 D.L.R. (4th) at para. 26; *General Tire & Rubber Co. v. Firestone Tyre & Rubber Co.*, [1972] R.P.C. 457 at 486.

¹²¹ *Patent Act*, *supra* note 32, section 28.3.

¹²² *KSR International Co. v. Teleflex Inc.* 550 U.S. 398 (2007) at 1739.

¹²³ *Janssen-Ortho Inc. v. Novopharm Ltd.* (2006) 57 C.P.R. (4th) 116 at 113.

¹²⁴ *Apotex Inc. v. Sanofi-Synthelabo Canada Inc.*, [2008] 3 S.C.R. 265; 69 C.P.R. (4th) 251 at 252. A four-step test is required: “[t]aking into consideration the relevant factors, the invention was not self-evident from the prior art and common general knowledge.” *Ibid.*

¹²⁵ *Beloit*, *supra* note 120 at 294.

Recent jurisprudence in Canada tends to adopt a four-step test as an analytical framework for obviousness inquiry. One has to identify the following: (1) the notional “person skilled in the art” and the relevant common general knowledge of that person; (2) the inventive concept of the claim; (3) the differences, if any, which exist between the matter cited as forming part of the “state of the art” and the inventive concept of the claim; (4) and if those differences constitute steps which would have been obvious to the person skilled in the art or if they require any degree of invention.¹²⁶

Even if a subject-matter satisfies the novelty and non-obviousness tests, it still has to be useful according to section 2 of the *Patent Act*. This requirement is met if an invention is operable, controllable and reproducible. The invention has to have a specific, practical, and credible utility in order to be patentable.¹²⁷ Notwithstanding all the developments in this area, uncertainties regarding the eligibility of the subject-matter to benefit from twenty years of exclusivity still exist. In fact, despite all clarifications the final decision is nothing more than a value judgement based on a balance of probabilities.¹²⁸ There are always new grey areas for discussion.

The patentability of “business methods” is one of these new emerging controversial areas. In the E.U., the European Patent Convention explicitly excludes “schemes, rules and methods for performing mental acts, playing games or doing business” from the

¹²⁶ *Windsurfing International Inc. v. Tabur Marine (Great Britain) Ltd.* [1985] R.P.C. 59; *Pozzoli SPA v. BDMO SA*, [2007] F.S.R. 37, [2007] EWCA Civ 588, at para. 23; *Apotex Inc. v. Sanofi-Synthelabo Canada Inc.*, [2008] 3 S.C.R. 265, 69 C.P.R. (4th) 251 at 272. See Vaver, *supra* note 9 at 331.

¹²⁷ Canadian Intellectual Property Office, *Manual of Patent Office Practice* (MOPOP) 1998 as updated in 2009 at 12-22, online: CIPO < http://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/h_wr00720.html>.

¹²⁸ Vaver, *supra* note 9 at 328-330.

scope of patentable inventions.¹²⁹ Interpretation is left to the member states and their patent offices.¹³⁰ In the U.S., for almost a decade, starting from the *State Street Bank & Trust Co. v. Signature Financial Group* decision, businesses methods were often included in the category of patentable processes. In the *State Street Bank* case, a computerized system of administering mutual funds for maximum tax advantage was recognized as a patentable process.¹³¹ In 2010, this ruling underwent further scrutiny by the U.S. Supreme Court when the court denied the patentability of a method of hedging trades in energy markets.¹³²

In deciding the case, while the majority considered some “processes” patentable as “useful arts,” the minority found that the word “process” does not include any form of business methods. The court, while rejecting the broad exclusion sought by the minority, concluded that the “concept of hedging is an unpatentable abstract idea” and concluded that granting patent for this concept “would pre-empt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.”¹³³ In refusing the patentability of the business method before the court, the Supreme Court referred to the clause 8 of the U.S. Constitution¹³⁴ that “is both a grant of power and a limitation.”¹³⁵ This means that any decision regarding the patentability of a new concept has to reflect a balance between the need to encourage innovation and the avoidance of monopolies

¹²⁹ European Patent Convention, *supra* note 118, section 52(2) (c).

¹³⁰ John Cross, *et al.*, *Global Issues in Intellectual Property Law* (St. Paul: Thomson Reuters, 2010) at 47.

¹³¹ *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998).

¹³² *Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

¹³³ *Ibid.*, at 3231.

¹³⁴ *Supra* note 76 and accompanying text.

¹³⁵ *Ibid.*, at 3252.

which stifle competition without any concomitant advance in the “Progress of Science and Useful Arts.”¹³⁶ A patent has to be granted for protecting and promoting advances in science and technology and not ideas about how to structure commercial transactions. The court concluded that although in some limited circumstances a business method may encourage innovation, it is more likely that they “prohibit a wide swath of legitimate competition and innovation.”¹³⁷ In its decision, the Supreme Court expressed that beyond the solely legal issues in relation to the interpretation of the word “process,” other factors such as the breadth of business methods, their omnipresence in U.S. society, and their potential vagueness, requires a more cautious approach.¹³⁸ In fact, by refusing to recognize the business method patent and by limiting the application of patent law in this context, the court limited the scope of the patent and prevented IP protection from harming the competition and business.

In Canada, the approach of the Commissioner of Patents is different from the Federal Court. In *Amazon.com, Inc. v. Canada (Attorney General)*¹³⁹ the Commissioner denied the patent application by Amazon Inc. (relating to purchasing an item online with a single click). The Commissioner found that the subject-matter did not satisfy a four-step test required for patentability: (1) analysing the contribution of the both form and substance of the claimed subject-matter to human knowledge; (2) fitting the subject-matter in one of the five categories listed in the definition of invention in section 2 of the *Patent Act*; (3)

¹³⁶ *Ibid.*, at 3252.

¹³⁷ *Ibid.*, at 3255.

¹³⁸ *Ibid.*, at 3256.

¹³⁹ 2010 FC 1011; 86 C.P.R. (4th) 321.

considering what is excluded either explicitly by the *Act* or by jurisprudence; and (4) identifying whether the invention has a technological nature.¹⁴⁰

In an appeal of the Commissioner's decision to the Federal Court, the Commissioner's finding was overturned and the logic behind the adoption of the above four-step test was found to be unsupported by law.¹⁴¹ In particular, the last test was found to be new and unnecessary to the Canadian patent regime. The exclusion of the "business method" from patentable subject-matters, as a general rule, was also rejected by the court. The court argued for a more expansive definition for the word "art." The patentable art: (1) must not be a disembodied idea but must have a method of practical application, (2) it must be a new and inventive method of applying skill and knowledge and (3) it must have a commercially useful result.¹⁴² Referring to the jurisprudence of the Supreme Court of Canada,¹⁴³ the court emphasized that the validity of the claimed invention must be assessed based on the "purposive construction" approach other than the "form and substance" approach.¹⁴⁴ The court concluded that a business method can be patented in appropriate circumstances, and that the *Amazon* case was one of those circumstances.¹⁴⁵

¹⁴⁰ *Ibid.*, at 322. The Commissioner found the "business methods" were out of the definition of patentable invention in the *Act* and within the exclusion because they add nothing to human knowledge other than retailing concepts or rules for ordering, and have no technical effect upon human knowledge.

¹⁴¹ *Ibid.*, at 321.

¹⁴² *Ibid.*, at 340.

¹⁴³ *Free World Trust v. Electro Sante Inc.*, [2000] 2 S.C.R. 1024; *Whirlpool Corp. v. Camco Inc.*, [2000] 2 S.C.R. 1067.

¹⁴⁴ *Ibid.*, at 336. It was stated that "[a] subjective examination of the 'substance' of the claims leads to uncertainty [and therefore, it would not be wrong] to speak of 'what has been invented' so long as this is determined with reference to the essential elements as disclosed through purposive construction of the claims, rather than through a subjective, secondary consideration by the Patent Office as to the 'substance of the invention.'" *Ibid.*

¹⁴⁵ *Ibid.*, at 326.

The Federal Court allowed Amazon's appeal, quashed the Commissioner's decision, and ordered an expedited re-examination of the patentability of the subject-matter in a manner consistent with the reasons of the court. The Commissioner did not grant the patent and appealed the judgement of the Federal Court.

The Federal Court of Appeal agreed with the trial judge that the "purposive construction" approach is a significant test to assess the validity of patent claims in Canada.¹⁴⁶ The court stated that the "literal reading of the patent claim" did not suffice to describe what the actual subject-matter of patent would be "on a proper construction."¹⁴⁷ The court also agreed substantially to the three-step test that the trial judge articulated for the definition of the patentable "art."¹⁴⁸

Confirming the trial judge's rejection of the "blanket exclusion of business methods"¹⁴⁹ from patentable subject-matter, the Federal Court of Appeal stated that "no Canadian jurisprudence determines conclusively that a business method cannot be patentable subject matter."¹⁵⁰ However, the test the Federal Court suggested determining the patentability of business methods (when the subject-matter has a practical embodiment or a practical application) was not considered as a distinguishing test.¹⁵¹ The Federal Court of Appeal also found that the purposive construction that the trial judge

¹⁴⁶ *Canada (Attorney General) v. Amazon.com Inc.* 2011 FCA 328 at para. 43.

¹⁴⁷ *Ibid.*, at para. 43-44.

¹⁴⁸ *Ibid.*, at para. 52.

¹⁴⁹ Keith K. Chung, *et al.* "Federal Court of Appeal Rules on Amazon.com's "One-Click" Patent – Business Methods Remain Patentable in Canada" (November 28, 2011) McCarthy Tetrault, online "McCarthy Tetrault <http://mccarthy.ca/article_detail.aspx?id=5651>.

¹⁵⁰ Amazon, *supra* note 146 at para. 60.

¹⁵¹ *Ibid.*, at para. 61.

undertook based on the available records was not appropriate. The court stated that the Commissioner, who has “the foundation of knowledge about the relevant art, and in particular about the state of the relevant art at the relevant time,” is better equipped to undertake a purposive construction in comparison to courts that generally require the expert evidence of persons skilled in the art.¹⁵² The Federal Court of Appeal directed the Commissioner to re-examine the patent application again on an expedited basis in accordance with the court’s reasons. Thus, although Canada’s approach to patentability of business methods is still not completely clear, the decision of the Federal Courts (both the trial and the appeal judgements) seem to be more supportive of patentability of some forms of business methods in Canada.¹⁵³

Therefore, boundaries of IPRs are primarily designed and implemented within the IP law territory by applying definitional elements. It is the ambiguity surrounding these definitional elements that makes the boundaries of IPRs uncertain in the first place. Courts not only interpret the laws but also apply different doctrines made over time by judges to define proper boundaries of IPRs. In fact, a “purposive judicial interpretation” is an effective tool “to bring the application of the law more into line with the underlying public policy.”¹⁵⁴

Case law encompasses numerous cases in which judges have prevented the expansive interpretation of IPRs by adopting exceptions or applying doctrines. The *British Leyland* case¹⁵⁵ was one of the key cases in the history of copyright containing a unique judge-

¹⁵² *Ibid.*, at para. 73.

¹⁵³ Chung, *supra* note 149.

¹⁵⁴ Scassa, “Extension of IPRs” *supra* note 15 at 142.

¹⁵⁵ *British Leyland Motor Corp. Ltd. et al. v. Armstrong Patents Co. Ltd. et al.*, [1986] AC 577; [1986] 2 WLR 400; [1986] 1 All ER 850 [*British Leyland* cited to AC].

made exception. This case will be discussed in detail in chapter three of this thesis. For now, it is worth noting that the decision of the House of Lords in this case reflects the court's endeavours to balance between what was considered the IP owners' exclusive right to produce exhaust parts and the users' right to repair their cars by replacing the exhaust whenever necessary in the most economical way possible.¹⁵⁶ What happened in the *British Leyland* case was the introduction of the "spare parts exception" in the law of copyright to prevent the plaintiff from benefiting unduly from its monopoly over the spare parts market.¹⁵⁷

Another crucial judge-made tool for determining the boundaries of IPRs is the doctrine of misuse of IP. The last part of this chapter will discuss this doctrine in more detail. It will also explain the role of different entities that are partly responsible for keeping some forms of IPRs, such as patents and copyrights, in check.

4. The Doctrine of Misuse of IPRs and the Role of Other Existing Entities

a) The Doctrine of Misuse of IPRs

The doctrine of misuse is another judge-made tool to prevent the abuse of exclusivity of IPRs by their owners. This doctrine is an equitable defence that has primarily applied in the U.S. to patent cases, and most recently to copyright.¹⁵⁸ Based on this doctrine, the infringer of an IPR can ask for relief from an infringement claim by proving "as a

¹⁵⁶ *Ibid.*, at 627.

¹⁵⁷ *Ibid.*, at 591-595.

¹⁵⁸ William L. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law*, (Cambridge, MA: The Belknap Press of Harvard University Press, 2003) at 372.

defence” that the owner of the right is not entitled to legal protection due to abuse of the IPR.

Kathryn Judge suggests that IP abuse can be recognized in two situations: (1) when IP owners use the rights granted to them under IP laws in a manner that violates competition law; and (2) when IP owners attempt to extend their rights beyond the scope of the exclusive rights granted to them in a manner that violates the public policy embodied in granting rights. There is no certainty regarding the relationship between these two different situations, and “the degree to which competition policy underlies the public policy approach.”¹⁵⁹ However, one may argue that the second category of cases involving the misuse of IPRs (when the use violates the public policy behind the IP protection) basically covers a greater number of circumstances because the requirement of anti-competitiveness need not be met.¹⁶⁰

The doctrine of misuse of IPRs is rooted in the old English doctrine of “unclean hands.” Based on this doctrine, “one who comes to equity must come with clean hands.”¹⁶¹ Historically, English Courts denied ordering equitable relief in favour of plaintiffs “who [could] not establish [their] cause of action without relying upon an illegal transaction.”¹⁶² The defendant can benefit from this defence if he can prove that

¹⁵⁹ Kathryn Judge, “Rethinking Copyright Misuse” (2004) 57:3 Stan. L. Rev. 901 at 902 [Judge, “Rethinking”].

¹⁶⁰ Judge argues that the first explanation has an advantage: it “enables the party to allege misuse based upon an antitrust violation even if that party would not meet the standing requirements to bring a private antitrust claim.” However, she states that this may bring about an inappropriate integration of competition law and IP law. This may result in courts deciding misuse cases on competition concerns without getting involved in necessary competition analysis. *Ibid.*, at 925.

¹⁶¹ Jeffrey Berryman, *The Law of Equitable Remedies* (Toronto: Irwin Law, 2007) at 112 & 214.

¹⁶² *Gordon v. Chief Commissioner of Metropolitan Police*, [1910] 2 K.B. 1080, at 1098.

“the depravity, the dirt in question on the hand, has an immediate and necessary relation to the equity sued for.”¹⁶³

In the first quarter of the twentieth century, the “unclean hands” defence entered patent law in the form of the doctrine of patent misuse:

A patent owner may exploit a patent in an improper manner by violating the antitrust laws or extending the patent beyond its lawful scope. If such misuse is found, the courts will withhold any remedy for infringement or breach of a license agreement even against an infringer who is not harmed by the abusive practice.¹⁶⁴

The early cases in which this doctrine was raised were regarding patent tying arrangements. In *Morton Salt Co. v. G.S. Suppiger Co.*¹⁶⁵ the U.S. Supreme Court held that the patent holder misused its patent by tying the sale of a patented good to the sale of a non-patented good.¹⁶⁶ In further developments, courts expanded the scope of the IP holder’s act of misuse to improper royalty arrangements and other improper licence restrictions.¹⁶⁷ Later, and through the end of the twentieth century, the doctrine of misuse of patent experienced two dramatic changes in the U.S. First, the U.S. Congress narrowed the application of the misuse doctrine by excluding specified situations from being deemed a misuse of patent rights.¹⁶⁸ Yet, on the other hand, courts expanded the doctrine

¹⁶³ *Hongkong Bank of Canada v. Wheeler Holdings Ltd.*, [1993] 1 S.C.R. 167 at 188. *Toronto (City of) v. Polai* (1969), [1970] 1 O.R. 483 (C.A.) affd (1972), [1973] S.C.R. 38.

¹⁶⁴ Donald S. Chisum, *Chisum on Patents* (New York: Matthew Bender, 2003) at 19.04.

¹⁶⁵ 314 U.S. 488 (1942).

¹⁶⁶ David Bender, “Interface of Intellectual Property and Competition Law: The U.S. Experience” in Gordon F. Henderson, ed., *Patent Law of Canada* (Scarborough: Carswell, 1994) at 330.

¹⁶⁷ Daniel J. Gifford, “Government Policy towards Innovation in the United States, Canada, and the European Union as Manifested in Patent, Copyright, and Competition Law” (2004) 57:4 S.M.U. L. Rev. 1339 at 1340.

¹⁶⁸ Act of Nov. 19, 1988, Pub. L. No. 100-703, s. 201, 102 Stat. 4676 (codified as amended at 35 U.S.C. s. 271(d)). Section 271(d) articulates that “[n]o patent owner otherwise entitled to relief for infringement or

of misuse to copyright in a series of cases known as “block booking” cases.¹⁶⁹ In those cases, the licensor conditioned the licensing of its popular copyrighted films on the licensee’s acceptance of other less popular films. The practice of the licensor in the “block booking” cases was found to be a violation of the anti-trust law and a misuse of copyright. The courts did not refer to the underlying public policy behind copyright protection.

The leading copyright misuse case, in which the court referred to the public policy embodied in the grant of copyright, was the *Lasercomb America, Inc. v. Reynolds* (1990) case.¹⁷⁰ In that case, the U.S. Federal Court of Appeals for the Fourth Circuit found the 99-year non-competition clause in the software licence agreement a misuse of copyright.¹⁷¹ The court considered the misuse defence as an inseparable part of the IP law, stating that “a misuse of copyright defense is inherent in the law of copyright just as a misuse of patent defense is inherent in patent law.”¹⁷² The court also indicated that in constituting a misuse the act “need not be a violation of antitrust law.” Rather it must be

contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.”

¹⁶⁹ *United States v. Loews Inc.*, 371 U.S. 38 (1962); *United States v. Paramount Pictures Inc.*, 334 U.S. 131 (1948).

¹⁷⁰ *Lasercomb America, Inc. v. Reynolds* 911 F.2d 970 (4th Cir. 1990).

¹⁷¹ *Ibid.*, at 973.

¹⁷² *Ibid.*

asked “whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright.”¹⁷³

Kathryn Judge argues that the public policy embodied in copyright protection will be threatened in at least two situations: when a copyright holder expands the scope of her/his right to either (1) gain control over an idea (as opposed to expression which is the proper subject-matter of copyright protection) or (2) deter the fair use of a copyrighted work.¹⁷⁴ The above situations are only two of the current circumstances in which the copyright holders attempt to expand the scope of their rights. In fact, the list of the IP holders’ abusive conduct is not exhaustive. Abusive conduct may expand over time as copyright protection expands and as new methods and forms of exploitation of IPRs emerge. It is the responsibility of the decision-makers to investigate those emerging situations and to prevent them from being propagated.

Despite the relatively broad acceptance of the doctrine of misuse in the U.S. patent law, the applicability of the doctrine to other forms of IPRs such as copyrights, trademarks and trade secrets, especially in other jurisdictions, is still controversial.¹⁷⁵ In Canada, although the doctrine of “unclean hands” as an equitable defence is generally recognized,¹⁷⁶ it has not been applied widely to IP law. Canada’s courts have been reluctant to adopt the doctrine of misuse of patent¹⁷⁷ or recognize explicitly the doctrine

¹⁷³ *Ibid.*, at 978.

¹⁷⁴ Judge, “Rethinking” *supra* note 159 at 905.

¹⁷⁵ Bender, *supra* note 166 at 336-339.

¹⁷⁶ Berryman, *supra* note 161 at 112 & 214.

¹⁷⁷ *Philco Products Ltd. v. Thermionics Ltd.* [1943] 3 C.P.R. 17. The court stated that “the statutory rights granted to the patentee under the *Patent Act* are not affected by the fact that the patentee is a party to an illegal combine.” *Ibid.*, at sec. II – p. 19.

of misuse of copyright.¹⁷⁸ Most of the recent cases have been discussed on the grounds of section 36 of the *Competition Act* and based on anti-competitive analysis.¹⁷⁹ Canada's *Patent Act*, however, contains a unique provision, section 65, respecting the abuses of patent rights. This section will be discussed in more detail momentarily.

The doctrine of misuse of IPRs, as an adequate potential in limiting the scope of the rights to their underlying public policy, is not “a panacea that can cure all of the [IPR] woes.” Rather, the doctrine of misuse, as a tool which has grown to solve some of the problems that have resulted from on-going changes to the nature and scope of IPRs, “is one of the only [IPR-limiting] doctrines that arises from actions taken by the [IPR] holders.”¹⁸⁰

Also, Canada's IP statutes expressly entitle the IP holders to request equitable injunctions as a relief.¹⁸¹ In contrast to permanent injunctions, courts have been more restrictive in granting interlocutory injunctions. A person who seeks an interlocutory injunction has to undergo a three-step test: (1) there must be a serious question to be tried; (2) it must be determined that the applicant would suffer irreparable harm if the application were refused; and (3) an assessment must be made on the effects of refusal or

¹⁷⁸ *Massie & Renwick v. Underwriters' Survey Bureau* [1937] S.C.R. 218; 3 C.P.R. 184. Without referring to the doctrine of misuse, the court questioned the eligibility of a plaintiff whose copyright was upon engagement in a criminal conspiracy, stating that “If the plaintiffs in an action for the infringement of copyright are obliged, for the purpose of establishing the existence of, and their title to, the copyright to rely upon an agreement, and that agreement constitutes a criminal conspiracy, and their title rests upon such agreement and upon acts which are criminal acts by reason of their connection with such an agreement, then I have on general principles great difficulty in understanding how such an action could succeed.” *Ibid.*, at sec. II – p. 207.

¹⁷⁹ Davies, Ward & Beck (Firm), *Competition Law of Canada* (New York: Matthew Bender, 1988) at (12-36)-(12-42).

¹⁸⁰ Judge, “Rethinking” *supra* note 159 at 915.

¹⁸¹ Section 57.(1) of the *Patent Act*, *supra* note 32, section 53.(2) of the *Trade-marks Act*, R.S.C. 1985, c. T-13; section 34.(1) of the *Copyright Act*, *supra* note 98.

grant of the injunction (if the harm that would be suffered by the right holder in case of refusal outweighs the harm that would be suffered by the defendant in the case of the grant).¹⁸² These restrictive requirements in some forms of IPRs, such as patents and copyrights, are very difficult to prove.¹⁸³

Courts also may refuse to grant injunctions on various general and specific circumstances.¹⁸⁴ Vaver argues that since, as an equitable remedy, the main goal of injunctions is “to do justice between individuals,” when granting the injunction is unjust, it must not be granted.¹⁸⁵ Examples of these unjust circumstances include: when the grant of injunction is useless,¹⁸⁶ results in oppression,¹⁸⁷ is against the public interest,¹⁸⁸ or

¹⁸² *RJR-Macdonald Inc. v. Canada (Attorney General)* (1994) 54 C.P.R. (3d). The three-step test was initially recognized by the House of Lords in *American Cyanamid Co. v. Ethicon Ltd.*, [1975] 1 All E.R. 504 (U.K. H.L.).

¹⁸³ Ronald E. Dimock, ed., *Intellectual Property Disputes: Resolutions and Remedies* (Toronto: Carswell, 2004) at 15.3(b) & 15.7(b).

¹⁸⁴ As a general rule an injunction will be refused if: (1) the right being asserted by the plaintiff has been obtained unlawfully, (2) if the plaintiff has been guilty of equitable fraud in her dealings with either the defendant or a third-party regarding the matter in dispute, or (3) where the injunction would further a deception by the plaintiff on the defendant or a third-party. Berryman, *supra* note 161 at 113.

¹⁸⁵ Vaver, *supra* note 9 at 619.

¹⁸⁶ *A.-G. v. Guardian Newspapers Ltd.* (No. 2), [1990] 1 A.C. 109 at 173, [1988] UKHL 6.

¹⁸⁷ *Co-operative Union Ltd. v. Kilmore, Aughrim & Killucan Dairy Society Ltd.* (1912), 47 Irish L.T. Rep. 7 at 8 (Ch.).

¹⁸⁸ *Interstate Parcel Express Co. Pty Ltd. v. Time-life International (Nederlands) BV* (1977), 138 C.L.R. 534 at 560–62 (Austl. H.C.). In the U.S., the Supreme Court’s decision in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) emphasized that the traditional four-factor test, applied by courts of equity when considering whether to award permanent injunctive relief, also applies to disputes arising under the *Patent Act*. Based on the traditional four-factor test, the plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be rendered a disservice by a permanent injunction. Therefore, in the American context, considering the impact of the permanent injunction on the public interest is regarded as equally serious to other factors. This approach may be influential in the Canadian context of the denial of injunctions.

when an activity is built on deceit or other wrongs.¹⁸⁹ The refusal of injunction may also occur in other circumstances. In *Cadbury Schweppes Inc. v. FBI Foods Ltd*, the Supreme Court of Canada affirmed the trial judge's refusal to grant permanent injunction on the grounds that such a grant "would have inflicted damage on the appellants disproportionate to the legitimate interest of the respondents."¹⁹⁰ Thus, although the doctrine of misuse of IPRs has not been adopted in Canada widely, there is still room for application of other equitable tools, as mentioned above, for shaping the boundaries of the rights. The various forms of these equitable tools may be powerful internal elements in shaping the boundaries of Canada's IP law, provided that they find more avenues for their application.

b) Other Internal Tools

As discussed in the last part, the role of IP law in controlling the scope of IPRs is both immediate and crucial. IP-related regulations, judicial considerations, and judge-made equitable doctrines are all different pieces of the same puzzle. In Canada, the *Patent Act* contains another tool, section 65,¹⁹¹ to control the potential abusive conduct of the patent holders. Section 65.(1) states that the Attorney General of Canada or any other interested person, after three years from the date of the grant of a patent, may apply for relief alleging that the exclusive rights under a patent have been abused.¹⁹² Section 65.(2)

¹⁸⁹ *Bile Bean Mfg. Co. v. Davidson* (1905), 22 R.P.C. 560, aff'd (1906), 23 R.P.C. 725.

¹⁹⁰ *Cadbury Schweppes Inc. v. FBI Foods Ltd*. [1999] 1 S.C.R. 142; 83 C.P.R. (3d) 289 at 326.

¹⁹¹ See Appendix I at 156.

¹⁹² *Patent Act*, *supra* note 32, section 65.(1).

provides four circumstances under which the exclusive rights under a patent shall be deemed to have been abused:

- 1) If the demand for the patented article is not being met to an adequate extent and on reasonable terms;
- 2) If the trade or industry of Canada, 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 licence or licences be granted;
- 3) 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 to the purchase, hire, licence or use of the patented article or to the using or working of the patent process; or
- 4) If it is shown that the patent has been utilized by the patentee so as unfairly to prejudice in Canada the manufacture, use or sale of any materials.¹⁹³

The significance of this section is its explicit attempt to provide a balance between the exclusive rights of the IP holders and the rights of other individuals who may be affected by the IP holders' manner of exploitation. Thus, Canada's *Patent Act* has attempted to balance between the exclusivity that IPRs bring for their holders and the public policy embodied in the patent. The responsibility of deciding on abusive conduct and ordering a suitable relief is with the Commissioner of Patents. The *Act* asks the Commissioner "to

¹⁹³ *Patent Act, supra* note 32, section 65.(2). It is worth noting that two of the circumstances of abuse (sections 65.(2)(a) and (b) regarding not working an invention locally within Canada) were repealed in 1993 as a consequence of NAFTA requirements.

secure the widest possible use of the invention in Canada consistent with the patentee deriving a reasonable advantage from his patent rights.”¹⁹⁴

Under section 66.(1) of the *Act*, the Commissioner has power to (1) order the grant to the applicant of a licence on such terms as the Commissioner may think expedient; (2) order the grant of licences to the applicant and to such of his customers, and containing such terms, as the Commissioner may think expedient where the patent has prejudiced the manufacture, use or sale of any materials; (3) order the patent to be revoked; or (4) refuse the application in relation to sections 65 and 66 of the *Act* (and dispose of any question as to costs).¹⁹⁵

There have not been many cases dealing with this section.¹⁹⁶ However, in one of the recent cases, *Torpharm, Inc. v. Canada (Commissioner of Patents)*¹⁹⁷ the Federal Court of Canada disagreed with the Commissioner’s decision on refusing the application for relief based on alleged abuse of exclusive rights under a patent. The appellant (Torpharm) sought a licence to acquire lisinopril in bulk for the purpose of manufacturing tablets in Canada for export. The patent holder for lisinopril (Merck) refused to grant the appellant a voluntary licence. The appellant therefore brought an application before the Commissioner alleging that Merck had abused its patent rights with respect to the bulk chemical lisinopril.

¹⁹⁴ *Ibid.*, section 66.(4)(a).

¹⁹⁵ *Ibid.*, section 66.(1).

¹⁹⁶ For jurisprudence prior to the 1993 amendments see: *Sarco Co. Inc. v. Sarco Canada Ltd.*, [1969] 2 Ex. C.R. 190; *Re E.C. Walker & Sons Ltd.* (1953), 13 Fox. Pat. C. 190; *Rodi v. Wienberger AG v. Metalliflex Ltd.*, [1963] Ex. C.R. 232; *Mackay Specialities Inc. v. Proctor & Gamble Co.* (1981), 60 C.P.R. (2d) 96. For a case after the 1993 amendments see *Puckhandler Inc. v. BADS Industries* (1998) 81 C.P.R. (3d) 261.

¹⁹⁷ [2004] F.C. 673; [2004] 4 F.C.R. 29.

The Commissioner of Patents refused to grant the appellant a licence on the grounds that there was “no evidence that Torpharm ever requested that Merck supply it with bulk lisinopril” nor “that Merck refused to supply the patented article to Torpharm.” The Commissioner also “was not satisfied that the demand for lisinopril in Canada is “not being met to an adequate extent and on reasonable terms.”¹⁹⁸ More importantly, the Commissioner refused to consider the third ground of abuse, asserted by the appellant, namely, the exercise of monopoly rights for no *bona fide* purpose. The Commissioner argued that the circumstances of abuse are set out in the several paragraphs of subsection 65.(2) of the *Act* and since the circumstances relied upon by Torpharm were not within one of these circumstances, no relief could be made under section 65.¹⁹⁹

The Federal Court found that the Commissioner of Patents erred in his assessment with respect to Torpharm’s request for the patented article and Merck’s refusal to supply. The court reasoned that although there was no specific request or refusal, “no assessment [had been] made whether the repeated request by Torpharm for a voluntary licence could constitute a request for the product in the situation here with Torpharm requiring a licence from the patentee to use the desired product in Canada.”²⁰⁰

From doctrinal point of view, the most important aspect of the Federal Court’s decision in Torpharm is that it found that section 65.(2) is only “a deeming provision listing particular circumstances set out therein which are to be considered to constitute abuse whether or not those circumstances would appear to fall within the general terms of

¹⁹⁸ *Ibid.*, at para. 9.

¹⁹⁹ *Ibid.*, at para. 11.

²⁰⁰ *Ibid.*, at para. 27.

subsection 65(1).”²⁰¹ The court, therefore, concluded that the list of the grounds of abuse set out in section 65(2) is not exhaustive.²⁰²

Based on the *Torpharm* ruling, in cases involving abuse of patents the *Patent Act* permits the Commissioner of Patents to take into consideration all relevant elements, including the public policy embodied in patent law, the public interest, and competition law as long as they are consistent with the general frameworks of the provision. The power that the sections 65 and 66 of the *Patent Act* grant to the Commissioner of Patents and the open-ended list of abusive circumstances that the *Torpharm* decision provides to the Commissioner, can play an effective internal role for determining the scope of the exclusive rights that patent holders own in Canada. But one must note that the scope of this section and the jurisdiction of the Commissioner of Patents are limited within the relevant provisions.

Also, a limited jurisdiction is recognized for the Copyright Board of Canada under the *Copyright Act*. Part VII of Canada’s *Copyright Act*, sections 66-69, establishes the administration and jurisdiction of the Board. The Copyright Board reviews and must approve all tariffs and fees proposed by collectives for cable retransmission performing, broadcast, and blank audio media levy rights for music. It can also set royalties when asked to do so by either a collective or a user of a collective's repertoire. The Board has authority to grant licences for use of works when the copyright owner cannot be

²⁰¹ *Ibid.*, at para. 37.

²⁰² One may question whether the Commissioner of Patents, who does not necessarily have knowledge of competition matters, is the right individual to decide whether there has been an abuse of exclusive rights, especially in cases involving unfair prejudice to the trade and industry in Canada, which require a comprehensive competition analysis.

located.²⁰³ Even such a subject-limited jurisdiction plays a role in shaping the scope of copyright because in many cases it is the Board's decision on the rates for public performances which determines who can benefit from its copyrighted work, how, and to what extent.²⁰⁴

These various elements, discussed in previous parts of this thesis, are simply important pieces of the IPR boundaries puzzle. However, since the optimal framework of IPRs is not predictable or even easy to design at the time of legislation (due to the inherent incompleteness of IPRs) the puzzle will not be completed unless other external elements get involved in the game. Intellectual property law needs help from outside IP law in order to stay inside its appropriate boundaries. In fact, the integration of different fields of law and policies is not limited to IP and competition law. Law itself has evolved into an inter-disciplinary field of study which is deeply integrated with other branches of study such as economics and sociology. Competition law and policies have transformed into an inseparable part of the equilibrium in determining the scope of IPRs. In fact, on-

²⁰³ A Guide to Copyrights, Appendix II, Glossary, online: CIPO <<http://www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr02408.html#c>>. See Vaver, *supra* note 9 at 695.

²⁰⁴ A further subject-limited entity that indirectly affects the impact of an IPR (pharmaceutical patent) is the Patented Medicine Prices Review Board (PMPRB). The PMPRB is an independent quasi-judicial body established by Parliament in 1987 under the *Patent Act* to protect *the* interests of Canadian consumers by ensuring that the prices of patented medicines sold in Canada are not excessive. The Board reviews the prices that patentees charge for each individual patented drug product in Canadian markets and holds public hearings and orders price reductions and/or the offset of excess revenues, if it finds the prices to be excessive. Patented Medicine Prices Review Board, online: PMPRB <<http://www.pmprb-cepmb.gc.ca/english/View.asp?x=1433>>. The PMPRB was introduced to Canada's patent regime as a trade-off when the government of the time brought forward changes to limit the use of the compulsory licensing provisions of the *Patent Act*. For a historical review of the Federal regulation of patented medicines see Chapter 17th of the *1998 September Report of the Auditor General of Canada*, online: Office of the Auditor General of Canada <http://www.oagbvg.gc.ca/internet/English/parl_oag_199809_17_e_9323.html>.

going concerns over expansive interpretation of owners' rights require on-going complementary interventions by competition law and policy.²⁰⁵

In other words, as Ejan Mackaay points out, as the first step, the structural correction to the extensive interpretation of IPRs is better applied from inside intellectual property law. These structural corrections may be brought about by the courts by more cautious interpretations or through legislative actions. The behavioural corrections in relation to interpretation and application of the rights can be made through competition law and policies.²⁰⁶ An example of the former can be seen in the recent decision of the Supreme Court of Canada in *Kraft Canada Inc. v. Euro Excellence* (2004).²⁰⁷ In this case, the plaintiffs used copyright infringement in the design of chocolate bars as a tool to prevent the parallel importation of non-copyright chocolate bars. The court was heavily divided into five factions in the analysis of the case, especially with regard to the interpretation of the statute.²⁰⁸ The court rejected the plaintiffs' attempt to block the importation of chocolate bars to Canada by relying on an expansive interpretation of the scope of

²⁰⁵ Robert D. Anderson & Nancy T. Gallini, "Competition Policy, Intellectual Property Rights, and Efficiency: An Introduction to the Issues," in Robert D. Anderson, ed., *Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy* (Calgary: University of Calgary Press, 1998) at 3.

²⁰⁶ Ejan Mackaay, "Commentary on 'Extension of Intellectual Property Rights'" in Marcel Boyer, Michael Trebilcock & David Vaver, eds., *Competition Policy and Intellectual Property* (Toronto: Irwin Law, 2009) at 154-155.

²⁰⁷ *Kraft Canada Inc. v. Euro Excellence Inc.* (2007) 59 C.P.R. (4th) 35; (2005) 47 C.P.R. (4th) 113; (2004) 33 C.P.R. (4th) 246 [*Euro Excellence*].

²⁰⁸ Six of the judges (Rothstein, Binnie, Fish, Abella and McLachlin) recognized labels and packaging as being copyrightable. The rest of the judges (Bastarache, LeBel and Charron), while they did not necessarily disagree with the above argument, found that the *Copyright Act* was not applicable to the context of parallel importation. The latter group (in addition to Fish J. who showed some sympathy for the policy-based arguments of Bastarache J.) found that an expansive interpretation of copyright, which led to controlling the trade in the market, was beyond the scope and purpose of the *Copyright Act*. Bastarache J. held (in dissent) that "s. 27(2) (e) is meant to protect copyright holders from the unauthorized importation of works which are the result of their skill and judgment. It is not meant to protect manufacturers from the unauthorized importation of consumer goods on the basis of their having a copyrighted work affixed to their wrapper." *Ibid.*, at para 86 at 385.

copyright.²⁰⁹ The Organization for Economic Co-operation and Development (OECD) has referred to behavioural corrections in the application of IP laws on various occasions. It asks the competition agencies to take steps toward investigating the application of IP laws and to assist IP agencies in evaluating the appropriateness of their procedures.²¹⁰

²⁰⁹ It is claimed that the court's decision in this case is not a result of the judges' agreement on the underlying principles of IP protection and purposive interpretation of the language of the *Copyright Act*. Scassa states that "this result seems to be only because of a combination of the split on the court and the manner in which Kraft Canada formulated its strategy." Scassa, "Extension of IPRs" *supra* note 15 at 65.

²¹⁰ OECD, *Policy Roundtables, Competition, Patents and Innovation II* (2009) online: OECD <<http://www.oecd.org/dataoecd/26/33/45019987.pdf>>.

Chapter Two: The Role of Competition Law in Demarcating the Scope of IPRs

Nowadays, it is widely accepted that IP law and competition law have no substantial conflicts in their objectives. It is also undisputed that these two fields of law are complementary tools for economic growth and public welfare enhancement. However, the relationship between them has not been depicted this way from the beginning. In fact, for a long time, IP law and competition law were considered as two contradictory bodies of regulations which had either inherent conflicts in their goals or superficial conflicts in the methods they employed to reach their common objectives.²¹¹ This chapter will put the interface between IP and competition law in its historical context. The first part will provide an overview of the roots of their relationship; the second part will explore the current approaches toward the interface of IP and competition law; and the last part will focus on Canada's old and new situation in this regard.

1. History of the Interface of IP and Competition Law: A Contradictory Relationship

In the early 20th century, the relationship between IP and competition law was mainly described as “contradictory”. Scholars perceived a fundamental tension between the objectives of IPRs and competition law: one was providing individuals with a monopolistic power; and the other was preventing them from monopolistic conduct. It was argued that IP law resulted in “the very same market conditions” that competition

²¹¹ Dina Kallay, *The Law and Economics of Antitrust and Intellectual Property* (Cheltenham, UK: Edward Elgar, 2004) at 6.

law “was created to eliminate, or at least to control.”²¹² Courts widely referred to IPRs as “special privileges” and “monopoly power.”²¹³ The very objective of IPRs was regarded as granting variations of the monopoly power:

[T]he general rule is absolute freedom in the use or sale of rights under the patent laws [...]. The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.²¹⁴

The fundamental tension between the objectives of IPRs and competition law was partly due to negative approaches toward IPRs themselves, which were treated as monopolistic powers created and protected by the state. The negative approach toward IPRs, and any other kind of power or privilege, was a legacy of Americans’ unsatisfactory experience with the monopolistic entitlement and power of the British Empire back in the late 18th century. The hardship that particular classes of Americans then went through in the early 19th century and in the post-Civil War era as a result of overly broad expansion of a few big businesses such as railroad companies throughout the country was another reason for Americans’ skepticism toward IPRs.²¹⁵ Also, at that time, the prominent theoretical

²¹² *Ibid.*, at 7.

²¹³ *Morton Salt Co. v. GS Suppiger Co.* (1942) 314 U.S. 488 at 492.

²¹⁴ *Bement v. National Harrow Company*, 186 U.S. 70 (1902) at 91.

²¹⁵ McCarthy, *supra* note 63 at 1-11. Rapid growth of the U.S. economy in the early 19th century, in addition to geographic scale of the country, led to the creation of firms that had power in some areas of industry, beginning with railroads and expanding to steel-making, petroleum refining, farm machinery manufacturing, flour-milling, meat packaging, sewing machinery manufacturing, and department store

framework for justifying IPRs derived from the theories of private property and natural law which, themselves encompassed many questions and uncertainties.²¹⁶ The result was that any form of intellectual property privilege was considered as “antithetical to a free and robust economy as policed by the [competition] laws.”²¹⁷

One can argue that applications of both IP law and competition law in a direction far from (and sometimes even opposite to) their underlying objectives in the mid-nineties strengthened the tension. Bohannon and Hovenkamp maintain that, following World War II, both competition law and IP law were driven into wrong directions:

In both areas the legal policy became disconnected from its articulated goals and began pursuing other ends. Antitrust shielded small businesses from competition that would have benefitted consumers. Similarly, IP law expanded entitlements for the benefit of patent and copyright holders, often at the expense of innovation, which always relies on the work of predecessors as well as a robust public domain.²¹⁸

McCarthy points out that, prior to the 1980s there were two distinct usages for the term “monopoly”. From the economics point of view, “a ‘monopoly’ [was] merely a state of affairs in which a seller [had] some degree of control over price: it [was] a ‘price maker’

retailing by the end of the century. The losers in this growth period were initially small businesses and ultimately the growing consumer population of the cities. It was the unhappiness of the losers of the industrial revolution, mainly farmers, small business owners, urban employees, and consumers, that recalled the traditional hostility of the Americans to concentration of power and provided grounds for statutory interventions and formation of the U.S. *Sherman Act* in 1890. See Paul Collins, Michael Trebilcock & Ralph A. Winter, *The Law and Economics of Canadian Competition Policy* (Toronto: University of Toronto Press, 2003) at 4-6 [Trebilcock, “Law and Economics”].

²¹⁶ Craig, *supra* note 49 at 1.

²¹⁷ McCarthy, *supra* note 63 at 1-73.

²¹⁸ Bohannon, *supra* note 37 at 909.

rather than a ‘price taker’.”²¹⁹ From this perspective, “monopoly” was a neutral term. However, from the lawyers’ and judges’ perspective, the same term contained negative implications: “it connote[d] that intellectual property rights like patents, trademarks and copyrights [were] somehow anti-competitive and anti-social.”²²⁰ In the legal literature, therefore, monopoly was not broadly tolerated and needed further justifications to be accepted. As the next part will explain in more detail, prior to the 1980s, no clear distinctions were made between the short-term disadvantages of granting monopoly rights, and the long-term advantages they brought to economic growth and consumer welfare. The emphasis was on the restrictive disadvantages, which were generally short-term effects of the restrictions.

Some scholars adopted a more generous approach toward the relationship between IPRs and competition law. In the new approach, IPRs and competition law were not treated as being inherently at odds with each other; rather, IP law was considered as “an exception to the general rule against monopolies, and to the right to access to a free and open market.”²²¹ This more intellectual approach, although it did not focus on the inherent conflict in the theories underlying IPRs and competition law, implied the same notion.²²² One cannot make an exemption to a general rule unless one finds concurrent application of the rule and its exemption impossible. In fact, this new approach was built based on the premise that IPRs and competition law lead to contradictory results. In other words, it called IPRs an exception to competition law on the grounds that anti-monopoly

²¹⁹ McCarthy, *supra* note 63 at 1-72.

²²⁰ *Ibid.*

²²¹ *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.* (1945) 324 U.S. 806 at 813.

²²² Kallay, *supra* note 211 at 8-9; Feltham, *supra* note 18 at 150.

objectives of competition law could not be served by granting monopolistic IPRs. However, in some limited circumstances and in order to appreciate the labour of IP owners, the objectives of competition law were ignored by accepting some undesirable monopolistic rights in the form of IPRs.

In the late 1970s, the negative approach toward IPRs and licensing of IPRs reached its highest level in the U.S. when the Anti-trust Division of the Justice Department introduced a list of suspicious anti-competitive licensing practices known as the “nine no-nos.”²²³ Practices such as tying of patented and unpatented inputs, mandatory grant-backs, post-sale restrictions on the resale of patented products, and mandatory package licensing were among the “no-nos” listed and were presumed to convey anti-competitive effects in the first place.

In the 1980s, economics scholars found more room for delivering economic interpretations of legal concepts such as the anti-competitiveness of suspicious patent practices. Economic thinkers, followed by lawyers, started to attack the approaches that were based on presuming particular kinds of behaviour as *per se* anti-competitive and illegal. They argued for application of case-by-case evaluations. The first signs of change emerged by using the old terminology in a new, more positive form of analysis. As Kaplow stated “[a] practice is typically deemed to violate the antitrust laws because it is anticompetitive. But the very purpose of a patent grant is to reward the patentee by

²²³ The “nine no-nos” list was first introduced by Bruce Wilson, then Deputy Assistant Attorney General in the Antitrust Division of the U.S. Department of Justice, in his speech: “Patent and Know-How License Arrangements: Filed of Use, Territorial, Price and Quality Restrictions” delivered in Boston on November 6, 1970 and Washington D.C. in August 1973. Excerpts of the speech can be found in: 2 APLA Quart J. 87. See also Robert D. Anderson, “The Interface between Competition Policy and Intellectual Property in the Context of the International Trading System” (1998) 1:4 J. Int’l Econ. L. 655 at 664; Richard Gilbert & Carl Shapiro, “Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No’s Meet the Nineties” Brookings Papers: Microeconomics, 1997 at 284.

limiting competition, in full recognition that *monopolistic evils are the price society will pay*.”²²⁴

The role of public policy, beyond the granting of IPRs, was emphasized by both scholars and decision makers. It was argued that “[s]ince patents are privileges restrictive of a free economy, the rights which Congress has attached to them must be strictly construed so as not to derogate from the general law beyond the necessary requirements of the patent statute.”²²⁵ Intellectual property rights were considered as privilege but “a privilege which is conditioned by a public purpose.”²²⁶ It was the social objectives of granting the IPRs which were replaced by the individualistic approaches toward the owners’ proprietary entitlements:

[t]he patent laws, authorized by the Constitution, were enacted by Congress to stimulate invention and reward innovation by granting the patentee a 17-year monopoly of the making, using, and selling of the patented invention. Such a grant is in inevitable tension with the general hostility against monopoly expressed in the antitrust laws. Therefore, courts normally construe patent rights narrowly in deference to the public interest in competition.²²⁷

Gradually, the old words “monopoly” and “evil” were replaced by terminologies which conveyed a less negative burden. Intellectual property rights were no longer addressed as

²²⁴ Louis Kaplow, “The Patent-Antitrust Intersection: A Reappraisal” (1984) 97:8 Harv. L. Rev. 1813 at 1817 [emphasis added].

²²⁵ *United States v. Masonite Corp.* 316 U.S. 265 (1942) at 280.

²²⁶ *Mercoïd Corp. v. Mid-Continent Investment Co.* (1944), 320 U.S. 661 at 666.

²²⁷ *United States v. Studiengesellschaft Kohle, M.B.H.*, 670 F.2d 1122, 1127 (D.C. Cir. 1981).

“statutory monopolies” or “individualistic privileges”; rather, they were generally referred to as “exclusive rights” or “exclusionary powers.”²²⁸

In the early 1990s, a new approach toward the relationship between IP law and competition law, known as the “illusionary conflict school,” emerged. This new approach denied any fundamental contradiction in the goals of these two bodies of regulations and policies and brought more attention to their overall long-term mutual goals, which include fostering competition and efficiency in a dynamic market.²²⁹ Both scholars and courts emphasized that “on the goal level, there is no contradiction between IP and antitrust since both doctrines share mutual goals and complement each other.”²³⁰

The 1980s popularity of the Chicago School of Law and Economics played a significant role in emergence of the new approach. It also resulted in a dramatic change in the U.S. Department of Justice’s approach with regard to the “nine no-nos” and other assumptions about anti-competitive effects of IPRs. The *Anti-trust Guidelines for the Licensing of Intellectual Property Rights* issued in 1995²³¹ not only officially announced this new understanding of IP law and competition law interface, but also explicitly reflected the new approach of anti-trust agencies toward IPRs. The new approach requires investigation of practices involving IPRs based on the efficiency test of economics.

²²⁸ *SCM Corporation v. Xerox Corporation*, 645 F.2d 1195, 1203 (2d Cir. 1981).

²²⁹ Anderson, *supra* note 223 at 658.

²³⁰ Kallay, *supra* note 211 at 10.

²³¹ U.S. Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property*, April 6, 1995, online: U.S. Department of Justice <<http://www.justice.gov/atr/public/guidelines/0558.htm>>.

The contribution of the concept of efficiency to legal analysis is that it considers the effects of a legal grant or change of policy on individuals' welfare as they perceive it. A law or a practice is efficient if it makes individuals affected by it better off in terms of how they perceive their own welfare.²³² There are two main notions of efficiency: Pareto efficiency and Kaldor-Hicks efficiency. A law is Pareto efficient if applying it makes somebody better off while making no one worse off (somebody gains and nobody loses.) A law is Kaldor-Hicks efficient if the beneficiaries of the change gain enough to compensate those who are made worse off by the change (gainers can afford to compensate the losers.) Based on this analysis, a practice involving IPRs is illegal not only because it is presumed to have anti-competitive effects, but because it does not meet the efficiency test requirements.

Although the general trend of change in the area of interface between IP and competition law has been largely the same in the trans-Atlantic regions, Europeans have not followed the North American approach at the same pace. Most importantly, the economic analysis of law did not grow as strongly and as quickly in the E.U. as it did in the U.S. From a legal perspective, this was partly due to the civil law basis of most of the E.U. member states' legal systems. Civil law countries put more emphasis on the literal interpretations of the statutes and consequently leave less room for imposing social or economical evaluations. Economic analysis goes beyond the literal meaning of statutes and evaluates the economic effects of applying a new set of regulations or deciding a new case. This best fits the case-by-case analysis of the common law system. Thus, the

²³² Michael J. Trebilcock, "Economic Analysis of Law" in Richard F. Devlin, ed., *Canadian Perspectives on Legal Theory* (Toronto: Emond Montgomery, 1991) at 108.

economic analysis of law, which was a legacy of the Chicago School, did not find a suitable ground for growth in the E.U. as early as it did in the U.S.²³³

There was also a political perspective which prevented a purely economic interpretation of the intellectual property law and competition law of the E.U. Economics has never been the only area of concern in E.U. policies. In fact, several different elements, such as social policy, fairness, peace and liberty have played roles as significant as, if not superior to, efficiency in analyzing law. This reflects the effects of the School of Ordo-liberals in the construction of the European Community laws. From the Ordo-liberal point of view, market freedom and the European Community's concerns are more important than efficiency and market integration.²³⁴ In the European approach, it was the freedom of all firms to enter the market that was important, not necessarily the efficiency of their entrance.²³⁵ Thus, the effects of the Ordo-liberal School, which dated back to the 1930s, made the penetration of the Chicago School's thoughts into E.U. legal analysis more problematic.

In the mid-1990s, this resistance was broken. Various factors, such as the European Commission's actual experience in the market, pressures from businesses and advocates of economic analysis (mainly from the U.S.), and increase in the number of economists who participated in the law-making process, provided more room for developing the notion of efficiency and the economic analysis of law in the E.U.²³⁶ However, since the underlying policies of the Europeans and the Americans were

²³³ Monti, *supra* note 28 at 79-80.

²³⁴ *Ibid.*, at 81.

²³⁵ Valentine Korah, *An Introductory Guide to EC Competition Law and Practices* (Portland: Hart, 2007) at 104.

²³⁶ Monti, *supra* note 28 at 81- 82.

different, the extent to which the efficiency test was applied varied in the trans-Atlantic regions.

Different approaches toward the economic analysis of law only partially explains the divergent paths that the U.S. and the E.U. have pursued in the interface between IP law and competition law. Another equally important issue is the actual environment in which the interface of IP law and competition law occurs. The existence of the state action doctrine in the U.S. limits the application of the anti-trust rules to the failures in the market that result from the actions that the state takes in applying its regulatory powers. The U.S. Supreme Court has prevented the application of the *Sherman Act* to the market distortions that were permitted by state legislatures and Congress.²³⁷ Thus, in the U.S., there is an immunity zone for those anti-competitive actions that are the result of or requirements of state regulations. Such immunity has not been recognized in the E.U. In this region, it is the European Community's competition rules that are given priority over the member states' laws, regulations and policies.²³⁸ Therefore, in contrast to the U.S., in the E.U., competition law is an efficient tool by which the European Commission fixes the failures that result from the national IP systems of its member states. In other words, the role of competition law in the E.U. is to shape the IP systems of the member states in a way that is more convergent with the E.U.'s regional policies. The importance of the above-mentioned differences in trans-Atlantic approaches toward the IP/competition law interface will be clearer when the divergent approaches of the E.U and U.S. courts toward unilateral refusal to license is discussed in chapter three.

²³⁷ *Parker v. Brown*, 317 U.S. 341, 351 (1943); *Verizon Communications Inc. v. Law Offices of Curtis v. Trinko, LLP*, 540 U.S. 398 (2004) [*Trinko*]; *LLC v. Billing*, 127 S. Ct. 2383 (2007).

²³⁸ Czapracka, "IP" *supra* note 88 at 20-24.

2. Current Approaches to the Interface of IP and Competition Law: Complementary Instruments

It is now widely accepted that intellectual property and competition law do not have contradictory objectives in the sense that one (IP law) grants monopoly and the other (competition law) fights to diminish monopoly. Rather, they share a common broad goal that has both an economic nature and a non-economic welfare aspect. On the one hand, IPRs, as discussed in the first chapter, are treated as a set of regulations created for the purpose of serving the social good. Although in the short term they limit the access of the public to intellectual products, by granting exclusive rights to IP owners they also increase incentives to develop the quality of current products and to create more innovative products. The creation of innovative products is a key factor for economic growth, which enhances the public welfare in the long term.

On the other hand, the goal of competition law, even in the U.S., is no longer based on merely maximizing economic efficiency. The post-Chicago School of Law and Economics, which has been embraced since the 1990s, re-emphasized the role of non-economic factors such as social fairness in evaluating the anti-competitiveness of practices, including practices concerning IPRs. Also, as discussed in the previous part, the European authorities were reluctant to endorse interpretations that considered the sheer economic goals of competition law. Thus, competition law prevents the anti-competitive practices of firms in order to maintain a healthy competitive market for the sake of the public welfare.

Referring to IP and competition law as “two blades of the same scissors,” Bohannon and Hovenkamp argue that the economic philosophy of IP law is to advance

public welfare through granting limited exclusivities. This is the very same goal that competition law pursues by promoting competition.²³⁹ Bohannon and Hoverkamp maintain that the conflict between IP and competition law happens as a result of ignoring purposive interpretations of the nature and scope of IPRs. When deciding the scope of IPRs, courts have to “keep in mind that [these rights] have explicit authorization in the Constitution and that this authorization expressly ties the IPRs created to the incentive to create.”²⁴⁰ In other words, this is all about “a trade-off between different kinds of competition” when it comes to the interface of IPRs and competition law: IPRs limit competition among current competitors for the sake of nourishing future competition in innovative products.²⁴¹

The Supreme Court of Canada emphasized the link between the appropriate scope of IPR protection and encouragement of the further creation of IP products in its recent jurisprudence: the *Theberge* case.²⁴² In that case, the court was faced with a request to determine the extent to which an artist can control the eventual use or display of an authorized reproduction of his or her work in the hands of a third-party purchaser.²⁴³ In an attempt to control the expansive interpretation of the reproduction requirement of the

²³⁹ Bohannon, *supra* note 37 at 914.

²⁴⁰ *Ibid.*

²⁴¹ Rachel Brandenburger & Alicia Van Cauwelaert, “The Interface between IP Rights and European Antitrust Law” (2008) 25:7 *Comp. & Inter. L.* 21 at 21.

²⁴² *Theberge*, *supra* note 75.

²⁴³ The respondent Claude Theberge, a painter with a well-established international reputation, assigned to a publisher reproductions, cards and other stationery products representing certain of his works. The appellant, Galerie D’Art, purchased cards, photographs and posters embodying several of the artist’s works from the publisher, and then transferred one of the images to canvas. The question before the court was whether the process of lifting the ink that was used in printing a paper poster from the paper (leaving it blank) and transferring it onto a canvas was an infringement of copyright.

Copyright Act,²⁴⁴ the majority of the Supreme Court argued that mere transfer from one medium or substrate to another was not “reproduction,” and did not infringe the respondent’s copyright.²⁴⁵ From the majority’s point of view, the *Copyright Act* does not convey any general principle that entitles copyright holders to retain any control over the subsequent uses made of authorized copies of their works by third-party purchasers.²⁴⁶ The court limited such an expansive interpretation by emphasizing that “promoting the public interest in the encouragement and dissemination of works of the arts and intellect” is the underlying theory of copyright in Canada.²⁴⁷ The court reasoned that the over-protection of IPRs “may unduly limit the ability of the public domain to incorporate and embellish creative innovation in the long-term interests of society as a whole, or create practical obstacles to proper utilization.”²⁴⁸

Dina Kallay argues that the theoretical coherence in the ultimate goals of IPRs and competition law does not prevent them from having methodological conflicts in practice. From her point of view, these methodological contradictions occur as a result of either the nature of IPRs or the way these rights have been interpreted by market participants.²⁴⁹ One may argue that the latter is also the result of the nature of IPRs. As reflected in the discussion of Gold’s analysis of IPRs in previous chapter, these rights, by

²⁴⁴ Section 3(1) of the *Copyright Act* recognizes copyright (economic right) in relation to the work as “the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public or, if the work is unpublished to publish the work or any substantial part thereof...” *supra* note 98, at section 3.

²⁴⁵ *Theberge*, *supra* note 75 at 48-50.

²⁴⁶ *Ibid.*, at 65.

²⁴⁷ *Ibid.*, at 30.

²⁴⁸ *Ibid.*, at 32. See: *CCH*, *supra* note 107 at 32.

²⁴⁹ Kallay, *supra* note 211 at 10.

their very nature, are incomplete.²⁵⁰ At the time of granting rights, no one knows clearly how far the scope of the rights will reach, and that also leaves the door open for abusive interpretations. Therefore, predictions about the scope of IPRs, at the time of granting and in the framework of IP law, are inherently imperfect. Also, instruments that have been recognized inside IP regulations, although necessary to remediate this imperfection, are not sufficient. In such situations, competition law works as a complementary tool to help IPRs to become complete.

Gold refers to IPRs as “embryonic” creations of the state that will transform into a “mature and well-functioning asset” only if competition law is involved in shaping them.²⁵¹ In his opinion, IPRs are nothing more than *a priori* decisions to grant rights to owners, in the hopes that they will fit within proper boundaries. It is competition law as an *ex post* supervisory tool that may be utilized to place IPRs within their appropriate social and economic boundaries.²⁵² Gold’s analysis of the role of IP law and competition law, in providing a competition-friendly IP regime best serving the public interest, nicely situates each element of the equilibrium in its correct position. Intellectual property rights would be a threat to economic growth and social welfare without a counter-balancing containment from competition law. Competition law has an absolutely crucial role in bringing the IP system into reality and guiding it in the direction that best reflects its potential.

To date, the complementary relationship between IP law and competition law is reflected in most of the relevant national and international documents. Although an

²⁵⁰ As discussed in the previous chapter at 7.

²⁵¹ *Ibid.*, at 399.

²⁵² *Ibid.*, at 398-399.

international treaty with particular focus on competition law, which addresses the issue of interface of IP and competition law, has not been issued yet, some international organizations such as the WTO and the OECD have reflected on the issue. The WTO's *Agreement on Trade Related Intellectual Property Rights (TRIPS)* in various articles implies the role of competition policies in complementing the application of IP policies. Article 8 (2) states that:

[a]ppropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of IPRs by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.²⁵³

Also, article 30 of the TRIPS agreement asks the member states to limit the scope of the exclusive rights conferred by a patent and to create a balance between the legitimate interests of the patent holder and third-parties. Moreover, article 40(2) prevents anti-competitive practices involving the licence of IPRs by stating that: “[n]othing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market.” Practices such as exclusive grant-back conditions, conditions preventing challenges to the validity of IPRs, and coercive package licensing are examples of such anti-competitive practices. The TRIPS agreement did not provide a direct and detailed clarification in relation to the

²⁵³ TRIPS, *supra* note 30, article (8). For a detailed analysis of the TRIPS agreement, see Daniel Gervais, *The TRIPS Agreement: Drafting History and Analysis* (London: Sweet and Maxwell, 2003); Annette Kur, *Intellectual Property Rights in a Fair World Trade System: Proposals for Reform of TRIPS* (Cheltenham, UK: Edward Elgar, 2011); WIPO, *WIPO Intellectual Property Handbook: Policy, Law and Use* (Geneva: WIPO, 2001).

complementary relationship between IP and competition law and the extent to which the competition policies may intervene in the realm of IP law.

The Organization for Economic Co-operation and Development (OECD), however, has clearly acknowledged the complementary relationship between IP and competition law by indicating that “patent policy and competition policy share the same goal, to improve consumer welfare, and should be considered complementary instruments in the pursuit of that goal.”²⁵⁴ The common objectives of IPRs and competition law were addressed in OECD documents as far back as the late 1980s. In its 1989 *Competition Policy and Intellectual Property Rights* document, the OECD pointed out that the objective of IPRs is “to promote the creation of innovations and thus to promote economic advance and consumer welfare.”²⁵⁵ It also emphasized that competition policy “seeks to promote consumer welfare by removing impediments to the efficient functioning of the markets.”²⁵⁶

Almost a decade later, in October 1997, the OECD held a roundtable for debating issues in relation to IPRs and competition policy. The result of the meeting was a document that was issued a month later recognizing the complementary relationship between IPRs and competition law at the highest level of analysis, and emphasizing possible conflicts in the methodological level of practices. The document states that:

²⁵⁴ OECD, “*Innovation Roundtable, 2006*” *supra* note 87 at 7.

²⁵⁵ OECD, *Competition Policy and Intellectual Property Rights* (1989) at 10, online: OECD <<http://www.oecd.org/dataoecd/8/44/2376247.pdf>>.

²⁵⁶ *Ibid.*

At the highest level of analysis IPR and competition policies are complementary because they share a concern to promote technical progress to the ultimate benefit of consumers. [...] The problem is that even completely legitimate use of IPR can restrict competition at least in the short run. [...] Firms [may also] use IPRs in anticompetitive ways that go beyond what was contemplated in the rights themselves.²⁵⁷

The roundtable also asked the competition authorities of the member states to keep in mind the following policies when they are dealing with IPRs: (1) it should not be presumed that an IPR creates or increases market power; (2) competition policy should acknowledge and respect the basic rights granted under patent law; and (3) a licence restriction should not be prohibited under competition law if it leads to a situation that is less anti-competitive than would occur if there were no licence at all.²⁵⁸

The United Nations Conference on Trade and Development (UNCTAD) also acknowledged the complementary relationship between IPRs and competition law in its secretariat's recent report in 2008. It is stated in the report that "competition law and policy and IP law and policy are often generally regarded as complements because both seek to promote innovation and the development of new technologies and products for the benefit of consumers."²⁵⁹ The report, however, held that in some situations

²⁵⁷ OECD, *Roundtable Policies Competition Policy and Intellectual Property Rights* (1997) at 8, online: OECD <<http://www.oecd.org/dataoecd/34/57/1920398.pdf>>.

²⁵⁸ Although these three principles were agreed upon in general, the degree of members' agreements varies from one member to another. The first principle seemed to be the most popular and the last one seemed to encounter the highest degree of skepticism by the members. *Ibid.*, at 9.

²⁵⁹ UNCTAD Secretariat, "Competition Policy and the Exercise of Intellectual Property Rights" TD/B/COM.2/CLP/68 (2008) at para. 6, online: UNCTAD <http://www.unctad.org/en/docs/c2clpd68_en.pdf>.

determining the relationship between the two regimes at an international level is not an easy task for two important reasons. The first reason is that there is no general consensus regarding the relationship between competition and innovation in economic theory; some economists argue that monopolies can better generate funds for innovation while others claim that competition provides more incentives to innovate.²⁶⁰ The second reason is the diversity of national competition standards, which prevents any possibility for a global harmonization of the interface in the near term.²⁶¹

In the U.S., the Department of Justice (DJ) and the Federal Trade Commission (FTC) issued their newest *Report on Antitrust Enforcement and Intellectual Property Rights* (the “Report”) in 2007. The Report clearly emphasized the modern notion of a relationship between IPRs and competition law. It recognized that the goal of IPRs is to provide incentives for innovation, by allowing intellectual property owners to prevent others from appropriating much of the value derived from their inventions or original expressions.²⁶² The role of competition law is to guarantee that new technologies, products and services are bought, sold, traded and licensed in a healthy competitive environment. The Report concluded that

antitrust and intellectual property are properly perceived as complementary bodies of law that work together to bring innovation to consumers: antitrust laws protect

²⁶⁰ The Former view is often associated with Joseph Schumpeter and the latter view is often associated with the Kenneth Arrow. See Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York, NY: Harper & Brothers, 1950); Thomas K. McCraw, “Joseph Schumpeter on Competition” (2008) 4 *Competition Pol’y Int’l* 310; Kenneth J. Arrow, “Economic Welfare and the Allocation of Resources to Invention” in R.R. Nelson ed., *The Rate and Directions of Inventive Activity* (Princeton, NJ: Princeton University Press, 1962).

²⁶¹ UNCTAD, *supra* note 259 at paras. 6-8.

²⁶² *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007), *supra* note 93 at 1.

robust competition in the market place, while intellectual property laws protect the ability to earn a return on the investments necessary to innovate.²⁶³

Admitting the difficulties that arise when anti-trust policies are applied to specific IPR-related practices, the Report reconfirmed the three general principles that the *Antitrust Guidelines for the Licensing of Intellectual Property* recognized in 1995. The three principles are as follows: (1) intellectual property can be analyzed using the same anti-trust rules applied to agreements involving any other property; (2) IPRs should not be presumed to create market power in the anti-trust context; and (3) intellectual property licensing is recognized as having potentially pro-competitive effects because it allows firms to combine IPRs with other complementary factors of production such as manufacturing and production facilities and workforces.²⁶⁴

The European Commission (E.C.) has addressed the relationship between IP and competition law in various documents. In one of its recent reports, issued in 2007, the E.C. set the promotion of innovation, growth, and consumer welfare as the core objectives of its policies. It argued that “innovation is best pursued within a system of innovation, i.e. the economic, social, political, organization, institutional and other factors that influence the development, diffusion and use of innovation.”²⁶⁵ All applicable policies, including IP law and competition law, are “necessary and complementary

²⁶³ *Ibid.*, at 2.

²⁶⁴ The U.S. Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (1995) at 2, online: U.S. Federal Trade Commission <<http://www.ftc.gov/bc/0558.pdf>>.

²⁶⁵ European Commission, *Competition Policy and the Exercise of Intellectual Property Rights*, Intergovernmental Group of Experts on Competition Law and Policies, at 2, online: UNCTAD <http://www.unctad.org/sections/wcmu/docs/c2clp_ige8p08EC_en.pdf>.

components of a policy strategy aimed at promoting innovation, growth and consumer welfare.”²⁶⁶

The focal point in the E.C. analysis is innovation. In relation to the effects of competition on innovation, the E.C. adopted a view closer to the Arrowian view: “Competition Policy, by defending competition and open markets, will in general have a positive impact on both static and dynamic efficiency.”²⁶⁷ This choice is made because the empirical research on the relationship between market structure and innovation tends to support the view of Arrow, who argues that competition provides more incentives for innovation than monopoly.

IP laws also serve to defend the incentives to innovate by providing property rights for innovators. Innovators can use their exclusive rights to reap the benefits of their inventions by either using the rights themselves or by licensing them to others. As a general rule, licensing of IPRs is mostly pro-competitive because it facilitates a broader use of rights. However, no empirical study supports the direct relationship between the high level of protection of IPRs and the increase in innovation. Both under-protection and over-protection of IPRs may destroy the incentives to innovate. IP law and competition law have to co-operate in order to create “an environment in which the rewards for innovation are sufficient to encourage it, but make sure there are also sufficient competitive pressures that encourage firms to create, use and disseminate innovations.”²⁶⁸

In summary, although the approaches of the U.S. and the E.U. generally seem to be the same, when it comes to detail some differences are detectable. The American

²⁶⁶ *Ibid.*

²⁶⁷ *Ibid.*, at 3-4.

²⁶⁸ *Ibid.*, at 4-6.

approach puts more emphasis on efficiency, while the European approach focuses more seriously on competitive and fair markets which better serve the conditions and tastes of consumers. The previous two parts of this chapter have provided a picture of the general environment in which the interface between IP law and competition law emerged and evolved. The last part of this chapter looks at Canada's changing trend to see how the interface was once envisaged in Canada, and how it is described today.

3. Tracking Canada's Changing Trend

The development of Canada's depiction of the relationship between IP and competition law has been similar to that in the rest of the developed world. Prior to the 1980s, in Canada, as in the U.S., competition authorities were skeptical about the monopoly-granting aspects of IPRs. However, a significant difference can be detected between Canadian and American skepticism: in Canada this skepticism was mostly reflected in the relevant statutes and regulations, rather than in jurisprudence. Anderson argues that the enactment of a harsh regime of compulsory licensing in the pharmaceutical sector in the late 1960s is an example of the robust concerns of the Canadian authorities regarding the anti-competitive effects of patents.²⁶⁹

As in the U.S. and the E.U., by the 1980s negative attitudes in Canada toward the effects of IPRs were replaced by more positive ones. This was partly related to the transformation of the traditional economy to the new economy throughout the developed world, including Canada. Players in the traditional economy (e.g. manufacturers, retailers and marketers) were joined by the elements of the new economy (innovation and

²⁶⁹ Anderson, *supra* note 223 at 667.

technology created through research and development).²⁷⁰ It was widely recognized that IPRs were an important element of Canada's economic growth and ability to compete in world markets.²⁷¹ Both Canada's competition policy and IP policy (particularly in the areas of patent and copyright) went through serious legislative reforms in order to become modern and strong enough for the new Canadian economy.²⁷² Both the *Competition Act*²⁷³ and the *Patent Act*²⁷⁴ reflected the new approach by containing sections that directly referred to the abuse of IPRs.

Moreover, Part I of Canada's *Competition Act* illustrated the purpose of the *Act* as being to maintain and encourage competition in Canada: (1) in order to promote "efficiency" and adaptability of the economy; (2) in order to ensure that small and medium-sized enterprises have an "equitable" opportunity to participate in the market; and (3) in order to provide consumers with "competitive prices and product choices."²⁷⁵ Canada's *Patent Act* also declared its objective as encouraging innovation and invention. The objective would be achieved not only by granting temporary exclusive rights to

²⁷⁰ Ted Levalliant, *Capitalizing on Innovation: Licensing and Transfer Pricing Strategies for Canada's New Economy* (Ottawa: Ditronix Press, 2003) at 6.

²⁷¹ Trebilcock, "Law and Economics" *supra* note 215 at 588.

²⁷² Wetston, "The Treatment" *supra* note 7 at 310.

²⁷³ *Supra* note 4.

²⁷⁴ *Supra* note 32. Different objectives of the *Competition Act* may conflict in some situations. For instance, a practice may be efficient for a dominant firm while harmful for small businesses. Also, providing competitive prices for consumers may minimize the efficiency of firms and contradict the efficiency maximization goal of the *Act*. In *Canada (Commissioner of Competition) v. Superior Propane Inc.* (2000) the Competition Tribunal gave priority to the efficiency goal. See *Canada (Commissioner of Competition) v. Superior Propane Inc.* (2000) 7 C.P.R. (4th) 385 (Comp Trib).

²⁷⁵ *Competition Act*, *supra* note 4 at part 1, section 1.1.

innovators, but also by disclosing an invention in detail after the expiration of the protection period.²⁷⁶

In addition to the above documents, in 2000, Canada's Competition Bureau issued a set of guidelines, the *Intellectual Property Enforcement Guidelines (IPEGs)*, in which the complementary relationship between IP and competition law is expressly emphasized:

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 products, technology and original works of expression. Competition laws may be invoked to protect these same incentives from anti-competitive conduct that creates, enhances or maintains market power or otherwise harms vigorous rivalry among firms.²⁷⁷

The *IPEGs* conveyed three main premises in relation to the IP/competition law interface: (1) the *Competition Act* is applicable to conduct involving IP, just as it applies to conduct involving other forms of property;²⁷⁸ (2) the right to exclude others from using the product or process does not necessarily grant the owner market power;²⁷⁹ and (3) in the vast majority of cases, licensing is pro-competitive because it facilitates the broader use of a valuable IPR by additional parties.²⁸⁰

The common trend in most of the industrialized regions is that general provisions in competition regulations preventing any kind of restrictive agreements or practices are

²⁷⁶ Richard F.D. Corley, *et al.* "The Competition/Intellectual Property Interface, Present Concerns and Future Challenges: The Interface between Competition Law and Intellectual Property Law" (2006) at 4, online: Competition Bureau <<http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/02285.html>>.

²⁷⁷ *IPEGs*, *supra* note 6 at part 1, para 3.

²⁷⁸ *Ibid.*, part 1, para 5.

²⁷⁹ *Ibid.*, part 4, para 2.

²⁸⁰ *Ibid.*, part 4, para. 5.

also applicable to arrangements or conduct that are related to IPRs. Sections 1 and 2 of the U.S. *Sherman Act*²⁸¹ of 1890 and their European counterparts, articles 101 and 102 of the *Treaty on the Functioning of European Union (TFEU)*,²⁸² are considered to be the general provisions applicable to anti-competitive effects of IPRs in the U.S. and the E.U. respectively.

Canada's status in this regard is different. The *Competition Act* of Canada contains both general provisions that refer to any form of anti-competitive conduct (including conduct involving IPRs) and provisions that specifically refer to IPRs.²⁸³ Therefore, as stated by the *IPEGs*, the owner of an IPR may engage in activities that have negative effects on competition in two distinct situations. In the first situation, "mere exercise" of the IPR may either "substantially" or "unduly" lessen or prevent competition. The second situation, referred to as "something more" in the *IPEGs*, encompasses circumstances in which a form of arrangement involving IPR between independent entities, whether in the form of a transfer, licensing arrangement, or agreement to use or enforce IPRs, conveys anti-competitive effects.²⁸⁴

The significance of this division is that different sets of provisions may govern each situation. The Canadian Competition Bureau will use the general provisions of the *Competition Act* to address the anti-competitive effects of bilateral or multilateral arrangements and will use section 32 of the *Competition Act* to address the unilateral

²⁸¹ *The Sherman Anti-trust Act*, United States Congress, 1890. See Appendix I at 156.

²⁸² EC, *Treaty on the Functioning of the European Union*, 9.5.2008, O. J.L. C 115/47. See Appendix I at 156.

²⁸³ *Competition Act*, *supra* note 4, sections 32, 77, 79 and 86. See Appendix I at 156.

²⁸⁴ *Ibid.*

exercise of IPRs in, for example, cases of refusal to license.²⁸⁵ Despite its long presence in the *Act* and its recognition as “an extraordinary remedy,”²⁸⁶ which has no equivalent either in the U.S. *Sherman Act*²⁸⁷ or relevant E.U. regulations,²⁸⁸ section 32 has not been applied in any case to date. The following chapter re-examines the role of section 32 of Canada’s *Competition Act*. After providing an introduction to the *Competition Act* of Canada, the next chapter reviews the historical evolution of section 32 and evaluates the few interpretations that have been suggested for this section.

²⁸⁵ *Ibid.*, at 1 para 6.

²⁸⁶ Howell, “IPRs and Competition” *supra* note 5 at 28.

²⁸⁷ *Supra* note 2.

²⁸⁸ Howell, “IPRs and Competition” *supra* note 5 at 28.

Chapter Three: The Role of Section 32 of Canada's *Competition Act* in Demarcating the Scope of IPRs

1. History of the *Competition Act* of Canada

As discussed earlier,²⁸⁹ in the U.S., various social and geographic reasons paved the way for statutory interventions in the market, in the form of the *Sherman Act* of 1890. These reasons include the traditional hostility of Americans toward the concentration of power in the hands of a limited number of individuals or firms in the late 18th century, and the geographic vastness of the country which resulted in monopolistic expansion of some industries in the mid-19th century.

Canada's situation was, in these respects, similar to that of the U.S. at that time. Large firms monopolized some of the main sectors of the market, such as railroad construction, meat packing, agricultural machinery manufacturing, and flour milling. Protective government tariff policies in the late 19th century added to the concentration of power, as it improved the situation of a few firms and worsened the situation of the rest, which were in the majority. The most significant difference in the Canadian context, however, was the reaction of Canadians to the concentration of power, which was itself embedded in their deferential attitude toward authority in general.²⁹⁰ Large Crown-chartered companies, like the Hudson's Bay Company and the national railways, were considered an important part of Canadian development and a necessary sector of the

²⁸⁹ Part one of chapter two at 61.

²⁹⁰ Trebilcock, *et al.* suggest two main reasons for Canadians' different approach: (1) Canada's colonial past; and (2) what they call the defence of necessity: in comparison to the U.S., as an even vaster country, Canada had a more diffused population barely linked together. This was a barrier to having a nation-wide powerful economy and this barrier could only be removed with the help of powerful, dominant organizations. See Trebilcock, "Law and Economics" *supra* note 215 at 7.

country's economy. Therefore, the existence of quasi-monopolistic or monopolistic firms was not viewed with concern by Canada's national government in the country's early years. Rather, there were more concerns about the unfair and unreasonable behaviour of firms in the market. Thus, while in the U.S. big firms were unacceptable merely because of their size, in Canada big firms could be accepted if they were able to manage their behaviour in a fair and reasonable way. The country's first movements in the area of competition, therefore, were more concerned with policing the behaviour of owners of monopolies in order to prevent them from unfairly and unreasonably using their power.²⁹¹

Canada's first legislative action against the abusive behaviour of dominant firms took place in 1889, when *An Act for the Prevention and Suppression of Combinations Formed in Restraint of Trade*²⁹² ("1889 Act") was passed. As its name suggests, that Act contained prohibitions against unlawful²⁹³ combinations in the form of agreements or conspiracies that discriminated against third-parties, restricted competition, enhanced prices, or restrained trade.²⁹⁴

²⁹¹ *Ibid.*, at 7-8.

²⁹² S.C. 1889, c. 41.

²⁹³ The basis for evaluating the unlawfulness of a combination was the common law of restraints of trade and not the Act itself. However, the common law of restraints of trade was not restrictive at all toward most combinations and this made the Act almost entirely ineffective. Sandra Walker, "Institutional Overview and Statutory History" in James B. Musgrove, ed., *Fundamentals of Canadian Competition Law 2007*, (Toronto: Carswell, 2007) at 15.

²⁹⁴ Section 1 of the Act stated that: "Every person who conspires, combines, agrees or arranges with any other person or with any railway, steamship, steamboat or transportation company, unlawfully,

- a) To unduly limit the facilities for transporting, producing, manufacturing, storing or dealing in any article or commodity which may be the subject of trade or commerce;
- b) To restrain or injure trade or commerce in relation to any such article or commodity;
- c) To unduly prevent, limit or lessen the manufacture or production of any such article or commodity, or to unreasonably enhance the price thereof; or
- d) To unduly prevent or lessen competition in the production, manufacture, purchase, barter, sale, transportation or supply of any such article or commodity, or in the price of insurance upon person

Prohibited conduct under the 1889 *Act*, such as price fixing or market sharing by competitors, was considered criminal in nature and had to be enforced by Attorneys General of the provinces. In 1892, the substantial provisions of the 1889 *Act* were incorporated into the *Criminal Code*.²⁹⁵ However, the anti-combination provisions of the *Act* differed from traditional criminal provisions, because the actions in question were not “prohibited outright.” Rather, only undue and unreasonable arrangements that obstructed competition were problematic.²⁹⁶ The enactment of the *Combines Investigation Act*²⁹⁷ of 1910 was another serious move in the development of Canada’s anti-competition legislation. The *Combines Investigation Act* was mainly designed to regulate mergers that had grown prominent by 1909 and had led to an increase in prices significantly to the detriment of consumers.²⁹⁸ The expression “to the detriment of the public” was one of the key tests for evaluating the criminality of suspicious economic behaviour. Since litigants had difficulty meeting the tests of being “undue, unreasonable, and to the detriment of the public” in the criminal context, efforts were made to change the nature of some of the prohibitions from criminal to civil and to recognize a professional body that would investigate and adjudicate cases as well as enforce the *Act*.²⁹⁹

or property is guilty of a misdemeanor and liable, on conviction, to a fine not exceeding four thousand dollars and not less than two hundred dollars, or to imprisonment for any term not exceeding two years; and if a corporation, is liable on conviction to a penalty not exceeding ten thousand dollars and not less than one thousand dollars.” S.C. 1889, c. 41.

²⁹⁵ *The Criminal Code*, 1892, S.C. 1892, c. 29 (sections 516, 517 and 520).

²⁹⁶ C.J. Michael Flavell & Christopher J. Kent, *The Canadian Competition Law Handbook* (Scarborough: Carswell, 1997) at 3.

²⁹⁷ S.C. 1910, c. 9.

²⁹⁸ Trebilcock, “Law and Economics” *supra* note 215 at 11.

²⁹⁹ Trebilcock, *et al.* argue that amendments took place because of the inefficiency of the 1910 *Act*, which was used only in one case: *The United Shoe Machinery Corporation* in November 1910. They argue that one of the main reasons for the inefficiency was the requirement for initiating a case, which was that six

From 1910 to the 1950s, various efforts were made to decriminalize the *Combines Investigation Act* but those efforts failed mainly on constitutional grounds.³⁰⁰ In various reforms that were made to the *Combines Investigation Act* during the 1930s and 1950s, anti-competitive offences were expanded to include price-related restrictions on trade (such as discriminatory discounts, territorial price discrimination, and predatory pricing); and new professional bodies were created to administer and investigate such cases and to enforce the *Act*. From 1960 to 1975, the *Combines Investigation Act* did not go through fundamental legislative amendment and was used by the courts in very inefficient ways.³⁰¹ The inefficiency of the *Act* and the restrictive interpretations that were adopted by criminal courts in applying illegality tests were among the main initiatives for suggesting new amendments in competition policy and its enforcement by the late 1960s.

The Economic Council of Canada was asked to study the weaknesses of the *Act* and to draft a report suggesting possible solutions. In 1969, the Economic Council of Canada issued the Interim Report on Competition Policy in which the notion of economic efficiency was introduced to the evaluation of anti-competitive conduct. The report

or more British subjects resident in Canada had to establish a *prima facie* case that an offence had been committed. *Ibid.*

³⁰⁰ The most significant difficulty regarding introducing civil reviewable matters to the *Act* was whether those civil provisions were under federal jurisdiction with respect to “the regulation of trade and commerce” or beyond federal jurisdiction and within the provincial power to make laws in relation to “property and civil rights in province.” (*Constitution Act*, 1867, (U.K.) 30 & 31 Vict. C. 3. at sections 91(2) and 92(13). Two of the early cases in which the Federal regulatory legislation was found justifiable under the federal trade and commerce power were: *MacDonald v. Vapor Canada Ltd.* (1976), 66 D.L.R. (3d) 1 (S.C.C.) and *Canadian National Transportation v. Canada (Attorney General)*, [1983] 2 S.C.R. 206. In relation to the federal jurisdiction to enact legislation in the competition law area, see *City National Leasing Ltd. v. General Motors of Canada Ltd.* [1989] in which the Supreme Court of Canada acknowledged the validity of the civil provisions of the competition regulations. For more detailed discussion see Flavell, *supra* note 296 at 14 and Trebilcock, “Law and Economics” *supra* note 215 at 14.

³⁰¹ *R. v. British Columbia Sugar Refining Co.* (1960) CarswellMan 27, 129 C.C.C. 7; *Attorney-General of Canada et al. v. Law Society of British Columbia et al.* [1982] CarswellBC 133, 37 B.C.L.R. 145; *R. v. K.C. Irving*, 1976 CarswellNB 23, [1978] 1 S.C.R. 408; *Aetna Insurance Co. v. R.* (1977) CarswellNS 54, [1978] 1 S.C.R. 731.

recognized both maximizing economic efficiency and diffusing economic power as primary goals of competition policy. In case of conflict, however, maximizing economic efficiency assumed priority and became the sole objective. If the elimination of a firm from the market were due to the predatory or exclusionary tactics practised by its competitors, then competition law intervened, but “if the squeezing out of competitors appears to be part of a process likely to produce increased efficiency and lower costs and prices [...then the] economic efficiency goal might well suggest letting the process work itself.”³⁰² The Council also emphasized that the competition policy of Canada lacked clarity and was discriminatory. While it asked for harsher penalties for some discriminatory arrangements, such as price-related arrangements and misleading advertising, the Council recognized that most of the conducts could be regulated under an efficient non-criminal process. Thus, the Council suggested a “hybrid approach” for Canadian competition policy that included both civil and criminal remedies.³⁰³

In the early 1970s, these concerns were reflected in the government’s release of its proposed *Competition Act* (Bill C-256), which would have imposed two significant changes to Canada’s competition policies: (1) changing the nature of some anti-competitive conduct from criminal to civil; and (2) introducing a professional body to deal with allegations concerning civil reviewable matters. Bill C-256 eventually was withdrawn and, in its place, significant amendments came in to effect in 1975³⁰⁴ and 1986,³⁰⁵ replacing the previous legislation with the *Competition Act*. The new *Act*

³⁰² The Economic Council of Canada, *Interim Report on Competition Policy* (Ottawa: Information Canada, 1967) at 20.

³⁰³ Trebilcock, “Law and Economics” *supra* note 215 at 19.

³⁰⁴ S.C. 1974-76, c. 76.

³⁰⁵ R.S.C. 1985, c. C-34.

encompassed both criminal offences and reviewable civil matters,³⁰⁶ as well as creating a new adjudicative body, the Competition Tribunal, to adjudicate mergers, the abuse of dominant positions, and other civil reviewable matters.

The structure of Canada's *Competition Act* has remained almost the same to date. It contains both provisions regulating anti-competitive criminal offences, and provisions referring to civil reviewable matters. However, the 2009 amendments of the *Act* have decriminalized some of the oldest forms of restrictive practices and added them to the category of civil reviewable matters. The changed provisions include those concerning price discrimination, predatory pricing and price maintenance, now reviewable under civil abuse of dominance provisions of the *Competition Act*. The amendments of 2009 also created a more effective criminal enforcement regime for some serious criminal offences, such as cartel agreements.³⁰⁷ The application of the Canadian *Competition Act* to the cases involving IPRs in Canada will be discussed in the next part.

2. The Application of Canada's *Competition Act* to Anti-competitive Conduct Involving IPRs

Generally, there is no difference between the application of the *Competition Act* to conduct involving IPRs and to conduct involving other forms of property. The same analytical framework that is used for investigating the anti-competitive effects of any

³⁰⁶ Prohibited criminal conduct included agreements to limit competition unduly, resale price maintenance, bid-rigging, price discrimination, promotional allowances, and predatory pricing. Abuse of dominant position, mergers that substantially lessened competition, registration of specialization agreements, refusal to deal, consignment selling, tied selling, exclusive dealing, exclusive territories, and delivered pricing were all recognized as civil reviewable matters.

³⁰⁷ For more detailed explanation of the 2009 amendments see online: Competition Bureau <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/h_03036.html>.

form of property right can also be used for IPRs.³⁰⁸ According to the Competition Bureau (the Bureau), the circumstances in which the *Competition Act* is applied to conduct involving IPRs can be divided into two broad categories. If the anti-competitive results stem from something more than mere exercise of an IPR, it is the general provisions of the *Act* that are applicable. However, if the anti-competitive effects stem from mere exercise of an IPR and nothing more, then remedies available under section 32 of the *Act* can be used.³⁰⁹ The criminal offence most applicable to conduct involving IPRs is conspiracy (section 45).³¹⁰ IP owners' anti-competitive acts can also be reviewed as civil matters under provisions dealing with price maintenance (section 76);³¹¹ exclusive dealing, tied selling and market restrictions (section 77);³¹² abuse of dominant position (sections 78 and 79);³¹³ agreements amongst competitors which substantially lessen competition (section 90.1);³¹⁴ and mergers (section 92).³¹⁵

³⁰⁸ *IPEGs*, *supra* note 6, part 1 at 1- 2.

³⁰⁹ *Ibid.*, part 1 at 1 & part 4.2 at 7.

³¹⁰ *Ibid.*, part 7, example 6 at 22. See also *Eli Lilly & Co. v. Apotex Inc.* (2005), 44 C.P.R. (4th) 1 (F.C.A.); *Thermionics Ltd. v. Philco Products Ltd.*, [1943] 3 C.P.R. 17 (S.C.C.).

³¹¹ *R. v. Must de Cartier Canada, Inc. (Les)* (1989), 27 C.P.R. (3d) 37 (Ont. Dist. Ct.); *R. v. Grange* (1978), 40 C.P.R. (2d) 214 (B.C. Co. Ct.).

³¹² *Canada (Director of Investigation & Research) v. NutraSweet Co.* (1990), 32 C.P.R. (3d) 1 (Competition Trib.); *IPEGs*, *supra* note 6, example 4 at 19.

³¹³ *Canada (Director of Investigation and Research) v. Tele-Direct (Publications) Inc.* (1997) 73 C.P.R. (3d) 1. [Tele-Direct]; *IPEGs*, *supra* note 6, example 3.1 and 3.2 at 17-18. Wetston, the former Director of Investigation and Research, has pointed out that the abuse of dominant position provisions of the *Act* are potentially applicable to licensing of IPRs in cases such as tie-ins, filed-of-use or exclusive purchasing restrictions. Howard I. Wetston, "Competition Policy and Intellectual Property Rights: Complementary Framework Policies for a Market Economy," paper presented to a conference entitled "Global Rivalry and Intellectual Property: Developing Canadian Strategies" Sponsored by the Institute for Research on Public Property, Toronto, April 1990) online: Competition Bureau <<http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/01083.html>>.

³¹⁴ This section includes those collaborations among actual or potential competitors that are likely to prevent or lessen competition substantially. In 2009, the Bureau issued another set of guidelines, *Competitor Collaboration Guidelines*, to simplify the application of section 90(1) to the agreements

When an anti-competitive effect stems from the mere exercise of IPRs, it is section 32 of the *Act* that can be used in “rare” circumstances. The Bureau has mentioned the rarity of these circumstances on various occasions in the *Intellectual Property Enforcement Guidelines* (IPEG),³¹⁶ without making clear the origins of this rarity.³¹⁷ This approach may be based on either reference to the topic of Part 4 of the *Act*, “Special Remedies,” under which section 32 is presented; or on an exception provided in subsection 79(5) of the *Act*, which acknowledges that the mere exercise of IPRs is not an anti-competitive act.³¹⁸ It might be argued that even the E.U. courts, which have applied an open approach to ordering compulsory licensing in cases involving unilateral refusal to license, and the OECD’s documents, have emphasized the exceptional nature of anti-competitiveness of conduct involving the mere exercise of IPRs. However, the Canadian

among competitors. The original electronic copy of the *Competitors Collaboration Guidelines* can be found online: Competition Bureau <www.competitionbureau.gc.ca>.

³¹⁵ *IPEGs*, *supra* note 6, part 5.1 at 11, part 5.4 at 14; and, examples 3.3 & 7 at 19, 23. Canada, Competition Bureau, *Merger Enforcement Guidelines*, 2004, parts 1, 4 & 5, online: Competition Bureau <<http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/01245.html>>. For more detailed analysis regarding the application of general provisions of the *Competition Act* to conduct involving IPRs see Donald N. Plumley & Alison J. Hayman, “The Intellectual Property and Regulated Conduct Interface with Competition Law” in James B. Musgrove, eds., *Fundamentals of Canadian Competition Law* (Toronto: Carswell, 2010) at 285-310.

³¹⁶ *IPEGs*, *supra* note 6, part 4.2.1. at 8.

³¹⁷ The Bureau has not explained why section 32 has not been used in any case or why it is only to be used in very rare circumstances. Additionally, despite an extensive search in the available records, the author could not find any reference to policy statements that clarify why section 32 was enacted in the first place, in 1910. However, it has been suggested that there was a link between the 1910 enactment and the Judicial Committee of the Privy Council’s request for a legislative cure for the anti-competitive practices of patent owners in 1909. *United Shoe Machinery Company of Canada v. Brunet* [1909] A.C. 330, 344 (Can.) is named as one of the motivations for devoting a section of the *Combines Investigation Act* of 1910 (section 22) to the abuse of IPRs. See also William A.W. Neilson, Robert G. Howell & Souichirou Kozuka, “Intellectual Property Rights and Competition Law and Policy: Attempting in Canada and Japan to Achieve a Reconciliation” (2002) 1:323 *Washington Uni. Glob. St. L. Rev.* 323 at 356-357 [Neilson].

³¹⁸ Subsection 79(5) indicates that “For the purpose of this section, an act engaged in pursuant only to the exercise of any right or enjoyment of any interest derived under the *Copyright Act*, *Industrial Design Act*, *Integrated Circuit Topography Act*, *Patent Act*, *Trade-marks Act* or any other Act of Parliament pertaining to intellectual or industrial property is not an anti-competitive act.”

approach seems to aim for something more than mere exception; it refers to the occurrence of some “very rare” and “very unlikely” situations.³¹⁹ Canada’s approach will be discussed in more detail in the next part of this chapter. For now, it is important to note that the OECD’s IP report of 2004³²⁰ has suggested two reasons for the unique approach of the Canadian Competition Bureau toward conduct involving the refusal to license: the existence of section 32 of the *Act*, and the jurisprudence in two IP cases before the Competition Tribunal. The following paragraphs first discuss these two important early cases and then move to the analysis of section 32 of the *Competition Act* in more detail.

In the *Warner* case,³²¹ the Director of Investigation and Research (now the Commissioner and referred to hereafter as the “Director”) brought an action to the Competition Tribunal against three respondents (Warner), alleging that by refusing to license their copyrighted materials to BMG, they prevented this company from being able to compete in the mail-order club business in Canada. The respondents’ business included contracting with a wide variety of artists to record their performances on Warner master recordings, which were then used to manufacture various forms of sound recordings. BMG’s business was a national mail-order club business offering sound recordings in most music categories. The Tribunal was asked by the Director to order that a compulsory licence be granted to BMG to manufacture, distribute and sell sound recordings of performances on Warner master recordings.

³¹⁹ *IPEGs*, *supra* note 6, part 4.2.1. at 8.

³²⁰ OECD, *Policy Roundtables, Intellectual Property Rights* (2004) at 108.

³²¹ *Canada (Director of Investigation & Research) v. Warner Music Ltd.* (1997), 78 C.P.R. (3d) 321 (Competition Tribunal) at 333 [*Warner*].

The Tribunal accepted the respondents' argument that nowhere in the *Competition Act* is the Tribunal "given the power to override the simple exercise of intellectual property rights and that, for this reason, any grant of such a power must be based on clear and unequivocal language."³²² The Tribunal stated in its reasoning that "the right granted by Parliament to exclude others is fundamental to IPRs and cannot be considered to be anti-competitive, and there is nothing in the legislative history of section 75 of the *Act* which would reveal an intention to have section 75 operate as a compulsory licensing provision for intellectual property."³²³ The Tribunal accepted Warner's argument that a clear language that implies parliament's intention to override the exercise of IPRs can only be found in section 32 of the *Act*, in which the Federal Court of Canada is given jurisdiction to make various orders for "situations in which the use of exclusive [rights] prevents, or lessens, unduly competition in the manufacture or sale of an article."³²⁴

The Tribunal, therefore, confirmed the emphasis that the respondents put on an important difference between sections 75 and 32 of the *Competition Act*, which is the requirement to satisfy the "competition impact test" before the Federal Court of Canada.³²⁵ Therefore, for an exclusive right to be investigated under section 32, the Director had to pursue another line of reasoning (proving the anti-competitiveness of the refusal) in another judicial body (the Federal Court of Canada). Based on the above rationales, the Tribunal concluded that unilateral refusal to license IPRs is excluded from

³²² *Ibid.*, at 331.

³²³ *Ibid.*, at 333.

³²⁴ *Ibid.*

³²⁵ "The respondents argue that, in the absence of clear language, it would be wrong to conclude that the Tribunal, as an inferior tribunal, has been given the power to ignore IPRs and order the respondents to grant what are, in effect, compulsory licences in favour of BMG (Canada) when the Federal Court can make such an order only after the applicant meets a competition impact test." *Ibid.*, at 332.

the application of general provisions of the *Act*, including section 75, which deals with refusal to deal in general.

In *Tele-Direct*,³²⁶ the Director brought applications to the Tribunal regarding violation of various sections of the *Competition Act* including section 79 by *Tele-Direct*, the provider of a telephone directory in Canada. The Director claimed that *Tele-Direct* engaged in anti-competitive conduct by refusing to license its trade-marks (such as the words “Yellow Pages” and “Pages Jaunes” and the walking fingers logo) to some of its competitors or, in other words, by “selective licensing” of its right to use the trade-marks.³²⁷ Although the Director recognized the validity of the IP owners’ conduct in using their rights, he stated that legitimate use of the rights does not prevent anti-competitive abuses of the rights. In order to impose limits on the right of IP owners to use their exclusive rights, the Director relied upon the case law “which has defined ‘use’ not to include activities which are for purposes other than distinguishing wares or services of the owner from the wares or services of others.”³²⁸

³²⁶ *Tele-Direct*, *supra* note 313.

³²⁷ *Ibid.*, at 30.

³²⁸ *Ibid.*, at 31. Canada’s *Trade-marks Act* (R.S.C., 1985, c. T-13) defines a “trade-mark” as “a mark that is used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others.” Also, under section 2 of the *Trade-marks Act*, an acceptable “use” is the use which is associated with wares or services. Section 4.(1) of the *Act* articulates that “trade-mark is deemed to be used in association with wares if, at the time of the transfer of the property in or possession of the wares, in the normal course of trade, it is marked on the wares themselves or on the packages in which they are distributed or it is in any other manner so associated with the wares that notice of the association is then given to the person to whom the property or possession is transferred.” According to section 4(2) “[a] trade-mark is deemed to be used in association with services if it is used or displayed in the performance or advertising of those services.” For case law on the definition of the word “trade-mark” in the *Act* see *Clairol International Corp. v. Thomas Supply & Equipment Co.*, [1968] 2 Ex. C.R. 552, 55 C.P.R. 176; *Syntex Inc. v. Apotex Inc.* (1984), 1 C.P.R. (3d) 145 (F.C.A).

The Tribunal rejected the Director's allegation that *Tele-Direct* abused the exclusive rights which were granted to it by the *Trade-marks Act*.³²⁹ Referring to subsection 79(5) of the *Competition Act*, the Tribunal considered the refusal to license an IPR as an example of the owners' legitimate exercise of their rights.³³⁰ In order to be regarded as an abuse of the right, "something more than the mere exercise of statutory rights, even if exclusionary in effect, must be present."³³¹ The Tribunal stated that the essential right of the owners of trade-marks to grant licences is closely linked to their naturally inherent right to decide whether, and to whom, to grant licences. The Tribunal concluded that a licence and a mere refusal to license an IPR cannot be investigated under the general provisions of the *Competition Act*, unless they are accompanied by some forms of anti-competitive provisions.³³²

The analysis of the Tribunal contained a significant feature in the last part. It stated that the motivations of trade-mark owners in deciding not to grant licences were irrelevant to the investigation of the effects of their refusal. Since the right to license trade-marks was unlimited in the *Trade-marks Act*, the fact that the owner had some anti-competitive motivations in refusing to grant its rights did not strengthen the position of the Director. In other words, the Tribunal concluded that the right of the owners of IPRs to refuse to license their rights was strong and vast enough to overcome even the anti-competitive motivations of the owners. Put another way, as a general rule, under the analysis of the Tribunal in the *Tele-Direct*, the right of the owners to grant their IPRs is

³²⁹ R.S.C., 1985, c. T-13.

³³⁰ *Tele-Direct*, *supra* note 313 at 30.

³³¹ *Ibid.*, at 32.

³³² *Ibid.*

both unlimited under the relevant IP regulations and excluded from scrutiny by competition law's general provisions by virtue of subsection 79(5) of the *Competition Act*.

This is the same reasoning that the Competition Bureau used in the *Intellectual Property Enforcement Guidelines (IPEGs)* in 2000. The same terminology is even used by the Bureau in the *IPEGs* when it distinguishes between “mere exercise” of an IPR and “something more.”³³³ Part 4.2 of the *IPEGs* indicates that section 32 of the *Competition Act* addresses the former and general provisions of the *Act* address the latter. The Bureau described this approach as one which is consistent with subsection 79(5) of the *Act* and the Competition Tribunal's decisions in both *Tele-Direct* and *Warner*.

Therefore, three important elements play a role in determining the manner and extent of the application of Canada's *Competition Act* to conduct involving IPRs: the Tribunal's early jurisprudence, subsection 79(5), and section 32. The role of section 32 of the *Competition Act* must now be examined in more detail. This section can be found among the special remedies provided in Part IV of the *Competition Act* and articulates that:

32.(1) In any case where use has been made of the exclusive rights and privileges conferred by one or more patents for invention, by one or more trade-marks, by a copyright or by a registered integrated circuit topography, so as to

(a) limit unduly the facilities for transporting, producing, manufacturing, supplying, storing or dealing in any article or commodity that may be a subject of trade or commerce,

³³³ *IPEGs*, *supra* note 6, part 4.2 at 7.

(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, trade-marks, copyrights or registered integrated circuit topographies relating to or affecting the manufacture, use or sale of any article or commodity that may be 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 licence relating to that use,

(b) restraining any person from carrying out or exercise any or all of the terms or provisions of the agreement, arrangement or licence,

(c) directing the grant of licences under any such patent, copyright or registered integrated circuit topography to such persons and on such terms and conditions as the court may deem proper or, if the grant and other

remedies under this section would appear insufficient to prevent that use, revoking the patent;

(d) directing that the registration of the 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, trade-marks, copyrights or integrated circuit topographies to which Canada is a party.

The historical initiatives for devoting a section of the *Competition Act* to the issue of the abuse of exclusive IPRs date back to the early 1900s. During that period, for the first time, courts encountered cases in which holders of patents engaged in abusive practices through mergers and by enforcing tying provisions in arrangements related to their patents.³³⁴ In 1910, the first *Combines Investigation Act*³³⁵ introduced a provision (section 22) requiring some competition tests for dealing with restrictive practices resulting from the abuses of patents in combine processes. Under section 22, the Minister, at the request of the Board of Investigation, could ask that the patent be revoked if it was proved that

³³⁴ *United Shoe Machinery Co. of Canada v. Brunet*, [1909] A.C. 330, 344 (Can.); *United States v. United Shoe Machinery Co. of New Jersey*, 247 U.S. 32, 87 (1918).

³³⁵ *An Act to Provide for the Investigation of Combines, Monopolies, Trusts and Mergers*, S.C., ch. 9, (1910) (Can.).

exercise of patent unduly lessened or prevented competition.³³⁶ In 1935, section 22 was replaced by section 29, which can be viewed as the foundation of the current section 32 of the *Competition Act*.³³⁷ In addition, section 2 of the 1935 amendments sought to secure the IP owners' exercise of exclusive rights from the scope of the criminal liability recognizable under the monopoly and combines provisions of the *Act*. This section stated that the monopoly and combines provisions of the *Act* "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."³³⁸

Despite its long presence in the *Act*, to date section 32 of the *Competition Act* has yet to be the subject of judicial consideration. The only two situations in which this section was invoked were settled prior to adjudication. In the late 1960s and early 1970s, two orders were sought against Union Carbide, a patent holder of machines that extracted polyethylene film from resin.³³⁹ In the first case, the Attorney General brought an application against Union Carbide for its patent licences which contained discriminatory provisions against those licensees who did not buy their resin from Union Carbide or its nominated seller. According to those provisions, as long as a licensee purchased its necessary resin from either Union Carbide or its nominated companies, the use of the patented process was free of charge. Any licensee who received its resin from other sources had to pay a royalty fee for the use of the patented process. This licensing

³³⁶ *Ibid.*, section 22.

³³⁷ Neilson, *supra* note 317 at 356.

³³⁸ *The Combines Investigation Act Amendment Act*, 1935, S.C., ch. 54, s. 2 (A) (1935) (Can.).

³³⁹ *R. v. Union Carbide Canada Limited*, Exchequer Court of Canada, Court No. B-1979. Information filed October 12, 1967; Minutes of Settlement filed December 12, 1969. See also Reports of the Director of Investigation and Research, *Combines Investigation Act*, for the years ended March 31, 1970 at 54-56.

practice was claimed to be a case of tied selling - tying a free grant of patent licence to the purchase of another product³⁴⁰ - and thus a violation of the *Combines Investigation Act*.

The Attorney General sought to order all licences that contained the discriminatory provisions void on the grounds that these restrictions unduly lessened competition in the resin market in Canada. On the basis of the settlement reached in this proceeding, Union Carbide agreed to stop its discriminatory licensing provisions. Howell argues that today, a case similar to Union Carbide is more likely to be litigated under the “tied selling” provisions of the *Act* because it does not convey “any ‘exceptional’ feature for which section 32 ought to be invoked.”³⁴¹ One may wonder why the litigants in the Union Carbide case did not use the tied selling provisions of the *Act*. In this regard, it is worth noting that practices reviewable under section 77 (exclusive dealing, tied selling and market restrictions) were first included in the legislation in 1976 and, at the time of the filing of the first Union Carbide case in 1967, tied selling practices were not addressed in any of the provisions of the *Act*.³⁴² Thus, taking into account that the subject of suspicious anti-competitive conduct involved the licensing of a patent and, considering

³⁴⁰ Section 77(1) of the *Competition Act* (section 39 of the previous *Combines Investigation Act*) defines “tied selling” as “(a) any practice whereby a supplier of a product, as a condition of supplying the product (the ‘tying’ product) to a customer, requires that customer to (i) acquire any other product from the supplier or the supplier’s nominee, or (ii) refrain from using or distributing, in conjunction with the tying product, another product that is not of a brand or manufacture designated by the supplier or the nominee, and (b) any practice whereby a supplier of a product induces a customer to meet a condition set out in subparagraph (a)(i) or (ii) by offering to supply the tying product to the customer on more favourable terms or conditions if the customer agrees to meet the condition set out in either of those subparagraphs.”

³⁴¹ Howell, “IPRs and Competition” *supra* note 5 at 3.

³⁴² Omar Wakil, *The 2011 Annotated Competition Act*, (Toronto: Carswell, 2011) at 192. Even after the enactment of section 77 in 1976, there has been only one case (*Tele-Direct*, *supra* note 313) in which the Tribunal characterized the practice of the respondent as tied selling and ordered the unbundling of the tying product from the tied product. Lack of jurisprudence is partly due to the very strict requirements of section 77.

the absence of provisions against tied selling in the *Act*, it seems that section 32 of the *Act* would have been a reasonable choice by the Attorney General as a basis for an application against Union Carbide.

In the second case,³⁴³ the Attorney General alleged that Union Carbide, along with a group of other defendants, engaged in granting licences for a patented process of treating polyethylene film for processing. These licences contained provisions that excluded small purchasers from engaging in a substantial part of the film sheet market. The accusation involved four provisions: (1) prohibiting use of the patent process with particular products; (2) granting back to the licensor any further development in the patenting process by the licensees; (3) prohibiting the licensee from disputing the licensors' patent; and (4) requiring the licensee to recognize the licensors' patent beyond the period of the patent grant.³⁴⁴ The action was brought regarding violation of section 32 of the *Act*, but no proceeding was followed because the defendants settled, agreeing to cease their abusive conduct and revise their licence provisions. Therefore, the two cases in which judicial interpretation of the role and scope of section 32 might have been presented were settled in the early stages of the proceedings.

The lack of judicial consideration of section 32 has created uncertainty surrounding the situations in which this section may be invoked. The Bureau's issuance of a set of guidelines, which clarify different situations in which this section is applicable, has been the most serious attempt to diminish this ambiguity. The Bureau's approach,

³⁴³ *R. v. Union Carbide Canada Limited, Atinco Paper Products Limited, Gait Paper Products, Subob Paper Products Limited and Atlantic Packaging Company*, Court No. B03495. Information filed December 15, 1969; Minutes of Settlement filed June 19, 1971. See also Reports of the Director of Investigation and Research, *Combines Investigation Act*, for the years ending March 31, 1972, at 29-30.

³⁴⁴ Davies, *supra* note 179 at 12-10.

however, needs more clarification in the original context of the *Act*.³⁴⁵ Moreover, section 32 itself has not been amended or changed since 1935. All the changes and amendments of the *Combines Investigation Act* have been mainly related to changing the nature of general provisions of the *Act* from criminal to civil and strengthening the enforcement process. In fact, pursuing this apparent dormancy further, one may claim that even the terminology used in the section, such as the words “privileges,” “unduly,” and “unreasonably,” in addition to the role of the Attorney General in commencing a proceeding, are remnants of the former competition policy of Canada, which has gone through several substantial amendments in recent years. Considering this, one may argue that the current version of section 32 is not consistent with the rest of the provisions and the policy of the current *Act*. This may also explain the lack of case law and judicial consideration of this section.

3. Interpretation of Section 32 in Light of the Competition Bureau’s Guidelines

According to the Intellectual Property Enforcement Guidelines (*IPEGs*), section 32 of the *Competition Act* applies to anti-competitive conduct that has resulted from “the mere exercise of IP right and nothing else.”³⁴⁶ The document considers two meanings for the “mere exercise of an IP right”:

- 1) The IP owner’s right to unilaterally exclude others from using the IP; and
- 2) The IP owner’s use or non-use of the IP.

³⁴⁵ It may be questioned whether remedies available under section 32 are applicable to cases involving the anticipated or predicted abuse of IPRs that has not actually lessened competition but will likely have such an effect in future. A detailed analysis of this matter is beyond the scope of this thesis.

³⁴⁶ *IPEGs*, *supra* note 6, part 4.2, at 7.

The scope of these categories will now be evaluated in the context of examples from the relevant E.U. and U.S. decisions in order to clarify the Canadian guidelines.

a) Unilateral Refusal to License

The first meaning of “mere exercise” of an IPR in the guidelines is the unilateral refusal to license. Unilateral refusal to license an IPR refers to one of the most controversial aspects of the IP/competition law interface in recent years. As a general rule, it is currently widely accepted that the owners of IPRs have an inherent right to choose whether or not and to whom to license their property.³⁴⁷ It is also undisputed that refusal to license an IPR cannot, in and of itself, be considered anti-competitive except in particular circumstances.³⁴⁸ But when it comes to determining the conditions of the exceptional circumstances in which the refusal gains an anti-competitive character, there are significant challenges. In fact, some jurisdictions have adopted policies that are more in favour of the owners’ right to refuse to license their IP, whereas other jurisdictions have recognized a duty to license for IPR holders in various cases.

³⁴⁷ The inherent right of IP owners to license their work, however, has been substantially modified in copyright law. In fact, exceptionally, individuals are able to have free access (or access upon paying a fixed royalty fee) to use of the works in which copyright subsists. Fair dealing, recognized in section 29 of Canada’s *Copyright Act*, is an example of a permission to make free use of copyrighted work. (See *supra* note 110 and accompanying text.) In addition, sections 77(1) to 78(1) of Canada’s *Copyright Act* clarify situations in which users can use a copyrighted work by paying royalty fees or tariffs to collecting societies. For instance, the Society of Composers, Authors and Music Publishers of Canada (SOCAN) determines an annually fixed fee to be paid by any individual who wishes to perform a musical work in public or to communicate it to the public by telecommunication. Also, the Canadian Musical Reproduction Rights Agency Ltd. (CMRRA) has fixed a standard negotiated rate for licensing sound recordings of the agency’s repertoire to record producers who need to use the copyrighted materials. For more information, see Vaver, *supra* note 9, at 97-108.

³⁴⁸ Beatriz Conde Gallego, “Unilateral Refusal to License Indispensable Intellectual Property Rights - US and EU Approaches” in Josef Drexler, ed., *Handbook on Intellectual Property and Competition Law* (Munich: Max Planck Institute for Intellectual Property Research in Competition and Tax Law, 2008) at 215.

The OECD has referred to the disagreements among different jurisdictions on this topic in its 2004 *Policy Roundtable on Intellectual Property Rights*. The document draws a line between the approaches of several jurisdictions, such as the E.U., in which “it is possible for a unilateral refusal to license IP to violate competition laws” and the approach of other countries, including the U.S., in which “there are very few examples of liability stemming from unilateral refusals to license IP.”³⁴⁹ The OECD’s document also draws attention to the common analytical process that the former group of jurisdictions employs to determine whether a refusal to license IP violates competition laws: (1) performing the dominance test; and (2) determining the role of the IPR in obtaining and retaining that dominant power.³⁵⁰

i) The E.U. Approach to the Refusal to License IPRs

The E.U. is among jurisdictions in which refusal to license IPRs has been treated as anti-competitive conduct in various cases. In the first two cases, *Volvo*³⁵¹ and *Renault*,³⁵² the issue was the conduct of dominant car manufacturers in preventing independent mechanics from importing and selling the spare car parts. In *Volvo*, the defendant was an importer of the replacement body panels of cars that were manufactured in another country without authority from Volvo. The Court of Justice of the European Communities (ECJ) faced an important question: whether a manufacturer’s conduct in refusing to license others to supply body panels, even when others are willing to pay a

³⁴⁹ OECD, *Policy Roundtable, Intellectual Property* (2004) at 9, online: OECD <<http://www.oecd.org/dataoecd/61/48/34306055.pdf>> [OECD, “*IP Roundtable, 2004*”].

³⁵⁰ *Ibid.*

³⁵¹ Case 238/87, *Volvo AB v. Erik Veng (IK) Ltd.* [1988] E.C.R. 6211 at para. 4 [*Volvo*].

³⁵² Case 53/87, *Conorzio italiano della componentistica di ricambio per autoveicoli and Maxicar v. Regie nationale des usines Renault*, [1988] E.C.R. 6039 [*Renault*].

reasonable royalty for all articles sold under the licence, is *prima facie* an abuse of dominant position.³⁵³ The ECJ emphasized that the right of IP owners to prevent third-parties from manufacturing, selling and importing products incorporating their rights, “constitutes the very subject-matter of [their] exclusive right.”³⁵⁴ Therefore, the dominant firm’s refusal to license, even in return for reasonable royalties, is simply an exercise of its right and cannot in itself be regarded as an abuse of dominant position.³⁵⁵ The court, however, pointed out that the dominant firm could engage in an abusive practice reviewable under article 82 of the European Union Treaty (now 102 of the *Treaty on the Functioning of the European Union [TFEU]*) if it decided to arbitrarily refuse to deliver spare parts to independent repairers, fix the prices for spare parts at an unfair level, or, stop producing spare parts for a particular model of car, many of which were still in circulation.³⁵⁶ In the *Renault* case,³⁵⁷ the court added that even if the dominant firm charged a higher price for the parts than the independent producers are offering, it did not “necessarily constitute an abuse, since the proprietor of protective rights in respect of an ornamental design may lawfully call for a return of the amount which he has invested in order to perfect the protected design.”³⁵⁸

In 1995 the ECJ had the opportunity to clarify the elements of an abusive refusal to license in *Radio Telefis Eireann v. Commission of the European Communities* (1995),

³⁵³ *Volvo*, *supra* note 351.

³⁵⁴ *Ibid.*, at para 8.

³⁵⁵ *Ibid.*, at para 11.

³⁵⁶ *Ibid.*, at para 9.

³⁵⁷ *Renault*, *supra* note 352.

³⁵⁸ *Ibid.*, at para 17.

known as the *Magill* case.³⁵⁹ Magill TV Guides Ltd. (Magill) started to publish weekly television program guides containing information about entire programs broadcasted by three television stations (RTE, BBC, ITV) that were each separately publishing their own weekly programs.³⁶⁰ The three television stations sued Magill for infringing their copyright on their own weekly program listings. The subject of protection in *Magill* was the information necessary to compile TV listings and not the listings themselves. As stated in chapter one of this thesis,³⁶¹ the idea/expression dichotomy has been one of the most important issues in defining elements of a copyrightable work. Copyright protection is not intended to protect information and ideas, because these belong to the public for exploitation. It is only different forms of expression of an idea or information that may benefit from copyright protection. In this case, what the defendant was really trying to achieve was access to the information about the weekly program schedules and not the scheduled weekly listings themselves. Therefore, the argument that there was “no breach of any copyright held by the television entities, whose dominant position related to the information itself, rather than any schedules,” seems rational from the IP law perspective.³⁶² However, this issue was not what the *Magill* case focused on in the proceedings; rather, it claimed that the major TV stations abused their dominant position by refusing to grant licences for the publication of their respective weekly listings.

³⁵⁹ *Radio Telefis Eireann v. Commission of the European Communities* [1995] All R (EC) 416; [1995] 1 CEG (CCH, ECC) 400, online: European Union < <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:61991J0241:EN:HTML>>. [*Magill*].

³⁶⁰ *Ibid.*, paras. 1-11.

³⁶¹ *Supra* note 98 and accompanying text.

³⁶² Neilson, *supra* note 317 at 326.

The ECJ held that, although mere ownership of an IPR could not confer a dominant position,³⁶³ in the case before the court, the TV stations stood in the dominant position because they owned the basic information, which was the indispensable raw material necessary to publish a compiled weekly program listing.³⁶⁴ After recognizing that the IP owners were in a dominant position, the next step was determining whether, by refusing to license, they abused their dominant position. The ECJ found that it was abusive when the TV stations refused to license their listings because: (1) it prevented the appearance of a new product, a comprehensive weekly television program guide which the stations did not offer, and for which there was a potential consumer demand; (2) there was no justification for such refusal; and (3) the conduct of the TV stations in refusal to license reserved the “secondary market” of weekly television guides and excluded all the competition from that market.³⁶⁵

The ECJ’s decision in *Magill* attracted considerable controversy. It was not clear, to one critic, what exact circumstances made a refusal to license abusive or whether the court’s list of conditions was exhaustive.³⁶⁶ There were also uncertainties regarding the ECJ’s intentions and policies behind recognizing the duty to license an IPR. One interpretation suggests that the *Magill* case is the pioneer in revolutionizing old approaches toward the anti-competitive effects of the refusal to license cases in the

³⁶³ *Magill*, *supra* note 359 at para 46.

³⁶⁴ *Ibid.*, at paras. 46-53.

³⁶⁵ *Ibid.*, at paras. 54-56.

³⁶⁶ Katarzyna A. Czapracka, “Where Antitrust Ends and IP Begins: On the Roots of the Transatlantic Clashes” (2006) *Int’l. J. Com. L. & Pol.* 1 at 30.

E.U.³⁶⁷ Another equally strong suggestion is that cases such as *Magill* have been used as policy tools by the ECJ in order to limit the expansive scope that the national courts envisage for IPRs at the national level.³⁶⁸ The latter argument may make more sense, given that the IP law is still under the jurisdiction of the member, whereas competition law is under the jurisdiction of the European Community. Competition regulations of the EC Treaty (current articles 101 and 102 of the *TFEU*), therefore, are the most effective tools by which the competition authorities can challenge the IP law of the member states. It is also important to note that, although the competition laws of the member states are mostly regulated by the Community, when it comes to enforce the regulations national courts use their own analysis, which might diverge from the Community's standards. In such situations, E.U. competition law has been used to rebalance the analyses of the courts at the national level.³⁶⁹

The *Magill* case, therefore, opened the door for suggesting exceptional circumstances that facilitate intervention in the scope of the exclusive rights granted to an IP owner. However, the case itself did not specify precisely the facts that were exceptional.³⁷⁰ That clarification was made in the *IMS Health* case,³⁷¹ one of the most comprehensive decisions with regard to refusal to license. The plaintiff, IMS, was the

³⁶⁷ John Temple-Lang, "European Community Antitrust Law: Innovation Markets and High Technology Industries" (1997) 20:3 *Fordham Int'l L.J.* 717 at 730.

³⁶⁸ Valentine Korah, "The Interface between IP and Antitrust: The European Experience" (2002) 69:3 *Antitrust L.J.* 801 at 810-813.

³⁶⁹ Czapracka, "IP" *supra* note 88 at Introduction x.

³⁷⁰ Daryl Lim Tze Wei, "Regulating Access to Databases through Antitrust Law: A Missing Perspective in the Database Debate" (2006) *STLR* 7 at para. 14.

³⁷¹ Case C-418/01, *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG (IMS)*, [2004] E.C.R. I-5039. [*IMS*].

main provider of data on regional sales of pharmaceutical products in Germany to pharmaceutical laboratories; this data was formatted according to a regional sales data method known in Germany as the “1860 brick structure.”³⁷² The rivals of the IMS, including Pharma Intranet Information AG (PII) and NDC, found it impossible to enter the market without using a structure similar to the standard structure that IMS created, and so they proceeded to use it. IMS then filed a lawsuit in the German national court alleging an infringement of its copyright.³⁷³

The national court found “that *IMS* not only marketed its brick structures, but also distributed them free of charge to pharmacies and doctors’ surgeries.” This practice, in the view of the national court, “helped those structures to become the normal industry standard to which its clients adapted their information and distribution system.”³⁷⁴ Although these structures were considered as industry standards, the court found them to be a form of database protectable under German copyright law. Therefore, in 2000, the court granted an interlocutory order prohibiting the defendants from using IMS’ brick structure standard or any brick structure similar to IMS’ standard. Meanwhile, the rivals asked for the licence of the copyrighted structure but IMS denied the request. The denial was a ground for the rivals to bring an action against IMS before the Commission of European Communities (the “Commission”) for abuse of dominant position.

³⁷² This name is given to the structure because it divides the German pharmaceutical market into 1,860 regional districts (bricks) for the purpose of collecting pharmaceutical sales data in each region, online: European Union <<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/01/365&format=HTML&aged=1&language=EN&guiLanguage=en>>.

³⁷³ The national court viewed the IMS structures as data bank (or parts thereof), which are protected by German copyright law. For more details regarding the factual and procedural history of the case see online: European Union <<http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=en&newform>>.

³⁷⁴ *IMS*, *supra* note 371 at para 6.

In 2001, the Commission heard the case and concluded that “the 1860 brick structure created by IMS has become the industry standard for the relevant market” and, “by refusing to provide its competitors with access to that structure without any objective justification, IMS was eliminating all competition on the market.”³⁷⁵ These conditions, according to the Commission, satisfied the conditions set in the *Magill* case for “exceptional circumstances” which justified the duty to license an IPR. The ECJ set four cumulative factual conditions³⁷⁶ that, if met, would constitute abuse by a dominant firm in refusing to license an IPR: (1) the refusal in question should be in relation to a product or service which is *indispensable* for competing in a particular market;³⁷⁷ (2) the refusal prevents the emergence of a *new product* for which there is a potential consumer demand; (3) there is no *objective justification* for the refusal; and (4) the refusal is likely to exclude all competition in the *secondary market*.³⁷⁸

In both the *Magill* and the *IMS* cases, the “new product” test, that is, the intention of the requesting firm to offer new products or services *not offered by the owner* of the IPR and for which there is a *potential consumer demand*, was established.³⁷⁹ The courts, however, did not refer to the innovative features of the “new” products. As long as the new product is sufficiently different from the products already on the market, this test is satisfied. The degree of novelty of the new product, therefore, was not addressed in the

³⁷⁵ *Ibid.*, para 12.

³⁷⁶ *Ibid.*, paras 36-37.

³⁷⁷ The 1869 brick structure of IMS and the information on the weekly schedules of the TV stations in *Magill*, were indispensable because without using that structure or information, a person or entity would not be able to carry out a business or to produce new product in the market and compete in it. *Ibid.* [emphasis added].

³⁷⁸ *Ibid.*, para. 37 [emphasis added].

³⁷⁹ *Ibid.*, paras. 37, 52.

courts' analysis. However, Katarzyna Czapracka argues that a slightly modified version of an existing product should not be enough; rather, the company requesting an IP has to "prove that the access to IP is needed to commercialize an important innovation."³⁸⁰ This analysis takes a look back at the incentives to grant IPRs and the role of competition interventions in safeguarding the incentives of owners to create further innovations or involve research & development. It asserts that IP owners' incentives to create will only be preserved if the requesting firm introduces a product which is not in direct competition with the owners' product or service and has a new feature in comparison to the owners' product.

However, neither the ECJ nor the Commission required an innovative character for the emerging product. Rather, the focus was on something new that the owner of the right was not offering but for which there were potential consumers, even though, in *Magill*, the new product was simply a compilation of already existing separate weekly program guides. In other words, according to the ECJ, access to IP should be considered if it is needed for a kind of product which is innovative, or at least different from the products already presented in the market. As long as the intention of the firm which requests a licence is not to "limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the IP right," the new product test is satisfied.³⁸¹ This understanding of the new product test has been strengthened in the *Microsoft* case, in which it was held that the refusal to license was abusive because it prevented further technical development of a product that the owner of the right had

³⁸⁰ Czapracka, "IP" *supra* note 88 at 35.

³⁸¹ *IMS*, *supra* note 371 at para. 48.

already introduced to the market.³⁸² Therefore, the mere intention of the firms to add some advanced features to an IP owners' product has been recognized in the E.U. as satisfying the "new product" test.

However, one may argue that the new product test introduced in *Magill* and *IMS* dealt with copyright (a weak form of IPR) as opposed to patents. An original work³⁸³ that merits copyright protection should meet the old "sweat of the brow"³⁸⁴ or, more recently, the "skill and judgment"³⁸⁵ test in Canada, or the "creativity" test in the U.S.³⁸⁶ These tests are less restrictive than the novelty test that is required for an innovation to be protected under patent law. Thus, the new product test has the potential for being interpreted more restrictively in cases involving other forms of IPRs such as patents and trade-marks.

Another important point that the *IMS* case dealt with was the distinction between two separate markets in the refusal to license cases: (1) upstream market (market for access to the input); and (2) downstream market (market in which the input is needed to produce a product or provide a service). In each case involving the refusal to license, these two markets have to either actually or potentially exist. The refusal to license an

³⁸² Case COMP/C-3/37.792. *Microsoft* Decision, at 186 paras. 693-694, online: European Union

< http://ec.europa.eu/competition/antitrust/cases/dec_docs/37792/37792_4177_1.pdf > [*Microsoft*].

³⁸³ Section 5(1) of the *Copyright Act* states "[s]ubject to this act, copyright shall subsist in Canada, for the term hereinafter mentioned, in every original literary, dramatic, musical and artistic work."

³⁸⁴ *Walter v. Lane* [1900] AC 539; [1900-3] All ER Rep Ext 1666; *University of London Press*, *supra* note 103.

³⁸⁵ *CCH*, *supra* note 107.

³⁸⁶ *Feist Publications*, *supra* note 105.

IPR in the upstream market should affect creation or development of a product in the secondary market (downstream market).³⁸⁷

The Commission repeated the ECJ's analysis in *IMS* in another equally important case: *Microsoft*.³⁸⁸ In that case, Microsoft Corporation was accused of infringing article 82 of the EC Treaty by engaging in a series of anti-competitive actions including refusal to supply "interoperability information"³⁸⁹ that was necessary for its rivals to be able to design, develop and distribute work group server operation system products.³⁹⁰ In responding to *Microsoft's* interpretation of the case law's elements of the violation of article 82 of the EC Treaty, the Commission pointed out that "there is no persuasiveness to an approach that would advocate the existence of an exhaustive checklist of exceptional circumstances and would have the Commission to disregard *a limine* other circumstances of exceptional character that may deserve to be taken into account when assessing a refusal to supply."³⁹¹ The Commission, therefore, noted that the case law of the E.U. supports a comprehensive examination of each case based on its specific

³⁸⁷ *IMS*, *supra* note 371 at para. 42. The court stated that an upstream market may be a potential market or a hypothetical one. A potential market exists "where the product and services are indispensable in order to carry on a particular business and where there is an actual demand for them on the part of undertakings which seek to carry on the business for which they are indispensable." *Ibid.*, at para. 44.

³⁸⁸ *Microsoft* Decision, Case Summary, at 2, 18, online: European Union

< <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32007D0053:EN:NOT>>.

³⁸⁹ The term "interoperability information" is defined as "the complete and accurate specifications for all the *Protocols* implemented in *Windows Work Group Server Operation System* and that are used by *Windows Work Group Servers* to deliver file and print services and group and user administration services, including the *Windows Domain Controller* services, *Active Directory* services and *Group Policy* services, to *Windows Work Group Networks*." *Ibid.*, at 298, para. 1.

³⁹⁰ *Microsoft*, Case Summary, at 2, 18, online: European Union

< <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32007D0053:EN:NOT>>.

³⁹¹ *Microsoft*, *supra* note 382 at 149 para. 555.

circumstances.³⁹² The Commission specified the following specific circumstances that constituted abuse by Microsoft in refusing to supply the interoperability information: (1) Microsoft was in the *dominant position* in the PC operating system and was *leveraging* its dominance in the market for work group server operating systems; (2) it refused to disclose information which was necessary for its rivals to achieve such *interoperability*; (3) there was a risk that the refusal *eliminated competition* in the work group server operating system market; (4) the refusal resulted in the *stifling of innovation* in the impacted market and of *diminishing consumers' choices* by locking them into a homogenous Microsoft solution; and (5) Microsoft was unable to provide an *objective justification* that would offset the exceptional circumstances.³⁹³

Therefore, the E.U.'s treatment of refusal to license IPRs was initiated in the framework of the essential facility doctrine in *Magill*³⁹⁴ and has developed dramatically over the last two decades. The three-element test set out by the ECJ in the *Magill* case has been replaced by a non-exhaustive list of criteria that may change with each case on the basis of its unique characteristics. This style of analysis is more compatible with the contemporary dominant rule-of-reason analysis of the anti-competitiveness of conduct in the most pioneering competition regimes of the world.³⁹⁵

The conditions that justify the application of article 82 of the EC Treaty (now article 102 of *TFEU*) to refuse to license IPRs have been re-emphasized in the

³⁹² *Ibid.*, at 558.

³⁹³ *Ibid.*, at 779-781.

³⁹⁴ Czapracka, "IP" *supra* note 88 at 32.

³⁹⁵ *Ibid.*, at 39.

Commission's Discussion Paper on exclusionary abuses.³⁹⁶ In the application of article 82 to refuse to license IPRs, the Paper acknowledges a group of tests and concepts, as follows:

1) the *dominant test* (the holder of the IPR has to be in a dominant position in the relevant market);³⁹⁷

2) the *essential nature of the IPR* (the IPR has to be indispensable to carry on normal economic activity in the downstream market),³⁹⁸ in the sense that it is impossible for the competitors to turn on any workable alternative technology or to 'invent around' the IPR);³⁹⁹

3) the distinction between the *upstream market* (market for access to the input) and *downstream market* (market for which the input is needed to produce a product or provide a service);⁴⁰⁰

4) the *negative effect of the refusal on competition in the downstream market*⁴⁰¹ (the negative effect may occur in not only the existing market but also in a new

³⁹⁶ European Commission, DG Competition, DG Discussion Paper on the Application of Article 82 of the Treaty to Exclusionary Abuses (Brussels, December 2005).

³⁹⁷ *Ibid.*, at paras. 221-226[emphasis added].

³⁹⁸ *Ibid.*, at para. 228 [emphasis added].

³⁹⁹ *Ibid.*, at para. 230.

⁴⁰⁰ *Ibid.*, at para. 212 [emphasis added].

⁴⁰¹ *Ibid.*, at paras. 222- 231.

market, if the owner of the indispensable IPR refuses access to a buyer that would use the IPR to manufacture a new product or provide a new service);⁴⁰² and

5) *objective or efficiency justification*⁴⁰³ (the recognition of the duty to license should not stifle the long-term effects on investment incentives in order to gain short-term competition.)⁴⁰⁴

ii) *The U.S. Approach to the Refusal to License IPRs*

The direction that the U.S. authorities have taken regarding the refusal to license IPRs is different from that of the E.U. The underlying legal framework in which the duty to license is recognized in the E.U. has been the “doctrine of essential facilities.” The doctrine of essential facilities imposes a general duty to deal when a dominant firm unjustifiably denies access to infrastructure or other facilities that cannot be replicated by any reasonable means, but are nonetheless essential for competitors or consumers.⁴⁰⁵ The case law in the U.S. is unique, in that the doctrine of essential facilities has not been as popular as it has been in the E.U. The unwillingness of the U.S. authorities to adopt this doctrine has been demonstrated in the refusal to deal cases in general, and the refusal to license IPRs in particular. The U.S. case law on refusal to license can be divided into two

⁴⁰² *Ibid.*, at para. 233.

⁴⁰³ *Ibid.*, at paras 224, 234 [emphasis added].

⁴⁰⁴ *Ibid.*, at para 213.

⁴⁰⁵ Commission Notice on the Application of the Competition Rules to Access Agreements in the Telecommunication Sector, 1998, O.J. (C265) 2, 12. See also Spencer Weber Waller & William Tasch, “Harmonizing Essential Facilities” (2010) 76:3 Antitrust L. J. 741 at 741.

distinct periods: case law developed from the mid-1990s to 2004; and the *Trinko* case⁴⁰⁶ decided by the U.S. Supreme Court in 2004.

In *Data General*,⁴⁰⁷ an owner of a copyrighted computer software program refused to license its right to independent firms that were providers of maintenance and repair services for Data General's computers. The First Circuit held that Data General's right to exclude others from using its IPR was a "presumptively valid business justification for any immediate harm to consumers."⁴⁰⁸ The court also emphasized that the validity of the exclusionary conduct of an IP owner is rebuttable in "very rare circumstances," such as in cases on acquiring IPRs in an unlawful manner.⁴⁰⁹

In the *Kodak* case, the Ninth Circuit Court expanded the scope of the rebuttable presumption on the legality of the refusal to license patents.⁴¹⁰ The court also expanded the exceptional circumstances in which refusal to license becomes abusive to include situations that involve anti-competitive "intentions" of IP owners in refusing to license.⁴¹¹ Critical to the recognition of the duty to license for IPR holders, the Federal Circuit Court adopted a *per se* rule of legality for refusal, at least in patent, in *Xerox*⁴¹² in 2000. Like Data General, Xerox, a dominant firm in manufacturing copiers and printers, refused to sell or license its maintenance products and software to independent service providers.

⁴⁰⁶ *Trinko*, *supra* note 237.

⁴⁰⁷ *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147 (1st Cir. 1994).

⁴⁰⁸ *Ibid.*, at 1187.

⁴⁰⁹ *Ibid.*

⁴¹⁰ *Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, at 1218 (9th Cir. 1997), cert. denied, 118 S.Ct. 1560 (1998).

⁴¹¹ *Ibid.*, at 1218.

⁴¹² *In re Independent Service Organizations Antitrust Litigation (CSU v. Xerox)* 203 F.3d 1322 (Fed. Cir. 2000).

The court stated that “absent exceptional circumstances, a patent may confer the right to exclude competition altogether in more than one antitrust market.”⁴¹³ Exceptional circumstances recognized by the court included acquiring the patent through fraud, enforcing the patent in a sham lawsuit, and using the right to exclude to gain monopoly power beyond the scope of the patent.⁴¹⁴ As it becomes clear, the exceptional circumstances that threatened the right of the owners to refuse were mainly in relation to the improper acquisition or enforcement of IPRs. In fact, in the U.S. the role of competition policy to intervene as an external tool has not been recognized openly.

In the *Trinko* case,⁴¹⁵ once again the applicability of section 2 of the *Sherman Act* to cases involving dominant firms’ refusal to deal with their competitors was under consideration. Focusing on the dominant firms’ incentives to innovate and their freedom to deal, the court decided that “the mere possession of monopoly power, is not only not unlawful; it is an important element of the free-market system.”⁴¹⁶ The court drew a direct link between monopoly power and innovation and expressed that “to safeguard the incentive to innovate, the possession of monopoly power will not be found unlawful unless it is accompanied by an element of anticompetitive conduct.”⁴¹⁷ The U.S. Supreme Court’s decision in *Trinko* has been criticized by some scholars for departing from the post-Chicago school of economics analysis of anti-competitive conduct and ignoring the

⁴¹³ *Ibid.*, at 1127-1128.

⁴¹⁴ *Ibid.*, at 1327.

⁴¹⁵ *Trinko*, *supra* note 237.

⁴¹⁶ *Ibid.*, at 407.

⁴¹⁷ *Ibid.*

possible social disadvantages of the monopolies' expansive right to refuse to deal.⁴¹⁸ This decision also cast serious doubt on the application of the doctrine of essential facilities as an underlying legal theory for imposing the duty to license on dominant IPR owners.

Relying on the *Trinko* decision, as well as on other case law, Czapracka asserts that "the U.S. courts see a very narrow, if any, scope for application of antitrust laws to a unilateral refusal to license a valid IPR."⁴¹⁹ Courts tend to impose liability on firms for anti-competitive conduct involving IPRs in the form of tying, reviewable under section 1 of the *Sherman Act*, rather than for refusal to license under section 2 of the *Act*. U.S. case law also contains proceedings under the scope of section 2 of the *Sherman Act* for improper acquisition or enforcement of IPRs. This is parallel with the Federal Trade Commission's Report of 2003⁴²⁰ which put more emphasis on providing solutions to prevent inappropriate acquisition and enforcement of IPRs, especially in relation to patents.

In summary, in the U.S. bodies responsible for providing the balance between IPRs and competition law have more concerns about the inappropriateness of IP law and policies and tend to limit the abusive conduct of owners by using tools from inside IP law,⁴²¹ rather than by employing external tools such as the *Sherman Act*. This partly explains the early emergence and fast growth of the doctrine of the misuse of IPRs in the

⁴¹⁸ Gallego, *supra* note 348 at 221.

⁴¹⁹ Czapracka, "IP" *supra* note 88 at 46.

⁴²⁰ Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition Law and Patent Policy*, (2003), online: Federal Trade Commission <<http://www.ftc.gov/os/2003/10/innovationrpt.pdf>>.

⁴²¹ An example of this approach can be seen in the House of Lords' decision in one of the most important English cases in the law of copyright: the *British Leyland* case. See *infra* note 462 and accompanying text.

U.S. in comparison to other jurisdictions. In the view of U.S. authorities, the role of competition law in reshaping the boundaries of IPRs is obviously more limited than it is in the E.U. Adjudicators in the U.S. are reluctant to use competition law and policies as a tool to “mitigate the consequences of imperfect IP policies.”⁴²²

There are at least two significant problems with the U.S. approach, which recognizes a very restrictive role for competition law in preventing expansive use of IPRs. First of all, this contradicts the modern notion of the complementary relationship of IP and competition law. The objective of both sets of regulations is to promote innovation, economic growth and consumer welfare. Any tool necessary to reach these goals must be employed by the authorities without giving preference to one over another. If competition law can better serve to restrain the over-protection of IPRs, it must be used as an alternative, and equally important, tool to IP policy itself. Moreover, defining the appropriate boundaries of IPRs has always been a difficult task for both legislators and decision-makers, due to the inherent incompleteness of IPRs. IP law, one of the fastest growing fields of law dealing with valuable knowledge-based assets, will never become mature enough to be completely independent from the scrutiny of competition law and policies.⁴²³

⁴²² Czapracka, “IP” *supra* note 88 at 48.

⁴²³ It is worth noting that depending on the tool that is used to limit the inappropriate use of IPRs, the responsible decision-making bodies differ. When limitations in the scope of IPRs are imposed from within IP law, it is the courts that evaluate and decide on the boundaries of rights (the *British Leyland* case). But when another body of law, such as competition law, is used to prevent the negative effects of the abuse of IPRs, it is basically the competition authorities that decide, or provide adequate inputs for the courts to decide. An example of the latter scenario is described in section 32 of Canada’s *Competition Act*, which provides that the Federal Court decides on a case, but it is the Bureau that triggers the litigation.

iii) *Canada's Approach to the Refusal to License IPRs*

The question now before Canadian competition authorities is how they would react to cases such as *IMS*. As discussed earlier in this chapter, Canada's *Competition Act* contains both general provisions and a specific provision (section 32) that deal with anti-competitive conduct involving IPRs. However, the general provisions are not applicable when owners of IPRs make use of their rights, as described in section 32 of the *Act*, or merely exercise their rights, as the Bureau interprets. Further, although two of the general provisions, sections 75 and 79, have statutory potential for application in cases involving the refusal to license, the Bureau's guidelines and jurisprudence in *Tele-Direct* and *Warner* have restrained such potential.

It is important to note that the Bureau has held that the refusal to license an IPR is not reviewable under section 75 of the *Competition Act*;⁴²⁴ rather, the refusal may, in very rare circumstances, cause competition concerns and be reviewable under section 32 of the *Act*. In *Tele-Direct*, the Competition Tribunal acknowledged the IP owners' inherent prerogative to refuse to license their rights. The Tribunal pointed out that licensing of IPRs might need to be investigated by competition bodies if anti-competitive provisions are attached to the licence. This last situation, however, is not the same as one in which there is a refusal to license; it involves situations, such as tying a non-proprietary product to a product covered by IPR in a license agreement, which invoke other general provisions of the *Competition Act*.

In the *IPEGs*, the Bureau divides refusal to license situations into two main categories: (1) refusals accompanied by conduct which goes beyond such a refusal; and

⁴²⁴ *Tele-Direct*, *supra* note 313 at 32.

(2) the refusals to license by IP owners. In the first scenario, a firm acquires market power by systematically purchasing a controlling collection of IPRs. It further refuses to license the rights to others and consequently substantially lessens or prevents competition in markets associated with the IPRs. In such a situation, the acquisition is reviewable under either section 79 (abuse of dominance) or 92 (mergers) of the *Act*.⁴²⁵ In the second scenario, the refusal is not pursuant to any other conduct, and it is the mere refusal to license an IPR that cause competition concerns. In such a situation, none of the general provisions of the *Act*, including section 75, are applicable, regardless of the degree to which competition is affected.⁴²⁶

Section 78 of the *Competition Act* provides a non-exhaustive list of anti-competitive acts reviewable under section 79 as abuses of dominant position. The *Enforcement Guidelines on the Abuse of Dominant Positions (Abuse Guidelines)*⁴²⁷ has made it clear that any act that has an “element of anti-competitive design, purpose or object that is predatory, exclusionary or disciplinary” may be considered an anti-competitive act.⁴²⁸ In 2009, the Bureau issued a *Draft of a New Abuse of Dominance Guidelines (Draft Guidelines)* in which an exclusionary conduct is considered conduct

⁴²⁵ This scenario is different from one in which a firm accumulates patents to not gain control over the collection of IPRs, but to use them later as a litigation threat against firms that used the same patents. The latter behaviour is known as “patent trolling” a fast-growing business method for some non-productive firms. The Bureau does not refer to this kind of abuse of IPRs in the *IPEGs*. The emphasis is mainly on the arrangement of the firms or on their joint abuse. Part 4.2.1 states that “[t]he Bureau applies the general provisions of the *Competition Act* when IPRs 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.” *IPEGs*, *supra* note 6, part 4.2.1 at 7.

⁴²⁶ *Ibid.*

⁴²⁷ Canada, Competition Bureau, *Enforcement Guidelines on the Abuse of Dominance Provisions* (2001) [*Abuse Guidelines*].

⁴²⁸ *Ibid.*, part 1 at 6.

which is designed to either make current or potential rivals less effective at disciplining the exercise of a firm's market power or at eliminating them from the market entirely.⁴²⁹

The application of section 79 to unilateral conduct of IP owners, however, encounters two main obstacles, which are rooted in the language of the section itself. The first concern is regarding the word "practice" in subsection 79(1) (b) of the *Act*. It provides that section 79 is applicable to the practice of anti-competitive acts in which the dominant firm or group of firms has engaged or is engaging.⁴³⁰ In *NutraSweet*, the Tribunal interpreted the word "practice" as something "more than an isolated act or acts."⁴³¹ The *Abuse Guidelines* further point out that this word may refer to a single act that is sustained and systematic over a period of time or that has had a lasting negative impact on competitors.⁴³² Both the Tribunal and the *Abuse Guidelines* also recognize that different individual acts taken together may be considered as anti-competitive acts.⁴³³

Therefore, interpretations of section 79 have made it clear that a single act of unilaterally refusing to license by a dominant firm may not be considered anti-competitive unless it is repeated systematically and followed by other individual acts intending to harm competition. For instance, if a firm acquires market power by systematically purchasing a controlling collection of IPRs and then refuses to license

⁴²⁹ Canada, Competition Bureau, *Draft Updated Enforcement Guidelines on the Abuse of Dominance Provisions* (2009), Part 4 at 20 [*Draft Guidelines*].

⁴³⁰ Section 79(1) of the *Competition Act* stipulates that: "[w]here, on application by the Commissioner, the Tribunal finds that (a) one or more persons substantially or completely control, throughout Canada or any area thereof, a class or species of business, (b) that person or those persons have engaged in or are engaging in a practice of anti-competitive acts, and (c) the practice has had, is having or is likely to have the effect of preventing or lessening competition substantially in a market, the Tribunal may make an order prohibiting all or any of those persons from engaging in that practice."

⁴³¹ *NutraSweet*, *supra* note 312 at 36.

⁴³² *Abuse Guidelines*, *supra* note 427, part 3.2.2. at 17 & 31.

⁴³³ *Ibid.*; *NutraSweet*, *supra* note 312 at 36.

those rights to others, thereby substantially lessening or preventing competition in the markets associated with the IPRs, the Bureau could view the acquisition of such rights as anti-competitive and review the matter under section 79 (abuse of dominance).⁴³⁴ It is worth noting that, even in such a situation, the Bureau refers to the acquisition of IPRs as suspicious anti-competitive acts, and not to the refusals to license the acquired IPRs.

This notion is also confirmed by the exemption that subsection 79(5) provides for anti-competitive conduct. This subsection indicates that, for the purpose of section 79, “an act pursuant only to the exercise of any right or enjoyment of any interest derived under the [IP-related acts] pertaining to intellectual or industrial property is not an anti-competitive act.”⁴³⁵ This exemption, from the Bureau’s point of view, does not extend beyond unilateral exclusionary conduct of IP owners and their decisions to use or not use their own IPRs. All this subsection intends to safeguard is the “legitimate use” of IPRs and not owners’ “abuses” of their rights.⁴³⁶ The *Draft Guidelines* re-emphasize this by stating that first, the exclusive rights that are granted by IP law do not necessarily generate abusive conduct; and, second, superiority of IP owners in the market due to their innovative and qualified products does not contravene section 79 of the *Competition Act*.⁴³⁷ Therefore, as stipulated in the *IPEGs* and supported by the *Abuse Guidelines* and *Draft Guidelines*, mere refusal to license IPRs cannot be reviewed under section 79, and it is section 32 that, in very rare circumstances, may be used to condemn illegitimate refusals to license IPRs.

⁴³⁴ *IPEGs*, *supra* note 6, part 4.2.1 at 8. For further analysis see Neilson, *supra* note 317 at 350.

⁴³⁵ *Competition Act*, *supra* note 4.

⁴³⁶ *Abuse Guidelines*, *supra* note 427, part 5.3.3 at 27.

⁴³⁷ *Draft Guidelines*, *supra* note 429, part 5.3.3 at 27.

In deciding cases involving refusal to license IPRs, the Bureau has emphasized that if all the circumstances mentioned in section 32 are satisfied and “the alleged harm stems directly from the refusal and nothing else,” the refusal to license can be considered anti-competitive and reviewable under section 32 of the *Act*.⁴³⁸ The Bureau, however, has acknowledged that only “in certain narrowly defined circumstances” may this section be invoked.⁴³⁹ It introduced a two-step test for evaluating an alleged anti-competitive refusal to license. The Bureau has to establish that:

- the mere refusal to license IP has *adversely affected competition* to a degree that would be considered *substantial in a relevant market*; and,⁴⁴⁰
- invoking a special remedy against the IPR holder would not *adversely alter the incentives to invest in research and development* in the economy.⁴⁴¹

For the first test to be satisfied, the owner of the IP should be *dominant* in the relevant market, and the IP should be an *essential input or resource* for firms participating in the relevant market.⁴⁴² Here again, the Bureau emphasizes that *only in very rare circumstances* are these conditions satisfied.⁴⁴³ The conditions for application of section 32 of the *Competition Act* can be summarized as follows:

- 1) the IP holder has to be dominant in the relevant market (the *dominance test*);⁴⁴⁴

⁴³⁸ *IPEGs*, *supra* note 6, part 4.2.2 at 9.

⁴³⁹ *Ibid.*

⁴⁴⁰ The author’s emphasis.

⁴⁴¹ The author’s emphasis.

⁴⁴² *Ibid.*, part 4.2.2 at 9. [emphasis added]

⁴⁴³ *Ibid.* [emphasis added].

⁴⁴⁴ *Ibid.*, part 4.2.2 at 9 [emphasis added].

- 2) the IP has to be an essential input or resource for firms participating in the relevant market (the *essential facility test*);⁴⁴⁵
- 3) only the refusal to license (and nothing else) directly results in anti-competitive harm; (the *competition impact test*);⁴⁴⁶
- 4) the effects of the refusal extend beyond the “core market” that is somehow directly linked to the subject-matter of the intellectual property⁴⁴⁷ (perhaps this could be termed the *leveraging test*);⁴⁴⁸ and
- 5) the refusal has to stifle further innovation and not simply prevent the replication of existing products (the *new product test*).⁴⁴⁹

It is argued that the Bureau has tried to insert the doctrine of essential facilities into the Canadian competition literature via the *IPEGs*. This attempt has not been appreciated, due to the ambiguities surrounding the application of this doctrine to refusal to license in the U.S. and its divergence from the E.U. perspective, which “would draw Canadian competition policy into the murky analysis of market power, rivalry, and their effects on innovation.”⁴⁵⁰ However, it is not actually the *IPEGs* that introduced the doctrine of essential facilities to the Canadian literature. Rather, reference to the essential facilities doctrine has been made in the language of subsection 32(1), which articulates that: “where the use has been made of [IPR] so as to limit unduly the facilities for transporting, producing, manufacturing, supplying, storing or dealing” the Federal Court may make

⁴⁴⁵ *Ibid.*, [emphasis added].

⁴⁴⁶ *Ibid.*, [emphasis added].

⁴⁴⁷ Hollander, *supra* note 33 at 345.

⁴⁴⁸ The author’s emphasis.

⁴⁴⁹ *Ibid.*, [emphasis added].

⁴⁵⁰ Hollander, *supra* note 33 at 358.

one or more of the orders referred to in subsection 32(2) of the *Act*. Thus, “*limiting of the availability of services and commodities in a market place*” is elaborated in the initial context of section 32.⁴⁵¹ Moreover, the Bureau has attempted to lessen the concerns regarding the obscurities surrounding application of this doctrine to the Canadian context in the new *Draft Guidelines* of 2009.⁴⁵²

The Bureau’s approach toward unilateral refusal to license IPRs contains some tokens from both the E.U. and the U.S. approaches. On the one hand, the Bureau repeatedly emphasizes throughout its various guidelines that the refusal may, in very rare and narrowly-defined circumstances, result in competition interventions. This unwillingness of the Bureau to intervene in the realm of IP reminds one more of the American authorities’ reluctance to recognize the duty to license.⁴⁵³ On the other hand, the Bureau’s analysis of unilateral refusal to license situations that invoke section 32 of the *Competition Act* has undeniable similarities to the E.U.’s approach: the Bureau creates almost the same requirements that the E.U. authorities employed in cases involving refusal to license IPRs.

⁴⁵¹ Howell, “IPRs and Competition” *supra* note 5 at 4 [emphasis in original].

⁴⁵² Appendix IV of the *Draft Guidelines* indicates that the denial of access to a facility to competitors may be abuse of dominant position under section 79 of the *Competition Act* only if all the following conditions are present:

- a vertically integrated firm has market power in the downstream (or retail) market for the market in which the facility is used as an input in the time period following the denial;
- a denial of access to the facility has occurred for the purpose of excluding competitors from entering or expanding in the downstream market or otherwise negatively affecting their ability to compete;
- and
- the denial has had, is having or is likely to have the effect of substantially lessening or preventing competition in the downstream market. *Draft Guidelines, supra* note 429 at Appendix IV, para. 1.

⁴⁵³ Alden F. Abbott, “Intellectual Property Licensing and Antitrust Policy: A Comparative Perspective” (2002) 34 *Law and Pol’y Int’l Bus.* 801 at 817- 818.

In fact, as the *IPEGs* have indicated, Canada's approach has been developed by taking into account both the U.S. and the E.U. approaches.⁴⁵⁴ Here, it seems that the Bureau's policy with respect to the refusal to license IPRs is ambiguous, not because of the lack of statutory clarifying documents, but because of its attempt to combine the two divergent approaches adopted by the E.U. and the U.S. competition authorities. Thus, the Canadian approach to the unilateral refusal to license still needs further clarification, which is perhaps best accomplished through judicial consideration. This leads us to another important issue in relation to the application of section 32: analyzing possible reasons behind the lack of adjudication. This issue will be discussed in more detail after the second meaning of the expression "mere exercise of IPR and nothing more" is discussed.⁴⁵⁵ As stated earlier,⁴⁵⁶ the *IPEGs* suggest two meanings for the "mere exercise of IPRs." The previous part of this chapter has investigated the first meaning: IP owners' unilateral refusal to license. The next part discusses the second meaning that the Bureau has suggested: IP owners' use or non-use of the IP.

b) IP Owner's Use or Non-use of the IP

On the one hand, part 4.2.2. of the *IPEGs* identifies the IP owner's use or non-use of the IP as an example of the mere exercise of an IPR. There is no further explanation regarding situations in which the use or non-use of an IPR may cause competition concerns. The difference between the first meaning of the mere exercise of IPR, which is excluding others from using the IPR, and the second meaning, which is the use or non-use of IPRs, is also not clear. On the other hand, part 4.2.3 of the Bureau's *IPEGs* covers

⁴⁵⁴ *IPEGs*, *supra* note 6, part 1 at para. 12.

⁴⁵⁵ *Infra* note 469 and accompanying text.

⁴⁵⁶ *Supra* note 346 and accompanying text.

matters that are outside of the *Competition Act*. It refers to illegitimate extension of an IPR that may include anti-competitive behaviour, and infringement of a legitimate IPR that may be justifiable on competition grounds. The Bureau considers these issues to be outside of the application of any section of the *Competition Act*. The Bureau points out that such “disputes are best resolved by the appropriate IP authority under the appropriate IP statute.”⁴⁵⁷ Other than referring to the hypothetical first example, the *IPEGs* do not provide any further explanation of the extent to which the illegitimate extension of an IPR stays outside the realm of the *Competition Act*.

In this regard, the question before the Bureau is why section 32 of the *Competition Act* cannot be applied to an owner’s use of its IPR in an illegal manner. How can one make a distinction between inappropriate use of an IPR that triggers application of section 32, and illegitimate extension of the IPR that stands outside the competition law’s scrutiny? Which judicial or quasi-judicial bodies are responsible for deciding on the scope of these rights?⁴⁵⁸ In fact, section 32 of the *Competition Act* recognizes various special remedial orders that overlap the remedies available under IP laws. Remedies such as declaring any arrangement relating to the challenged right void, revoking a patent, expunging or amending a trade-mark, or directing that other such acts be done or omitted as deemed necessary to prevent the challenged use are all interventions that the Federal Court may make in the IP law realm based on the application of section 32. The

⁴⁵⁷ *IPEGs*, *supra* note 6, part 4.2.3 at 10. Perhaps section 65 of the *Patent Act*, which was discussed in part 4 of chapter one of this thesis, is one of the IP statutes that part 4.2.3 of the *IPEGs* refers to.

⁴⁵⁸ It is also a question of which body will decide a case. When limitations are imposed using the definitional or policy tools from within IP law, it is the court that decides on the scopes of the IPRs. In a case involving competition law interventions, conversely, it is initially the responsibility of the non-judicial competition bodies (such as the Competition Bureau in Canada) to initiate the litigation and of the quasi-judicial bodies (such as the Competition Tribunal) to decide the case.

challenged use of IPRs, as the language of section 32 suggests, are therefore not limited to refusal to license the IPRs; rather, the scope of section 32 is broad enough to include all various expansive uses of IPRs or uses which afford “exclusivity and monopoly beyond the appropriate boundaries of IPRs.”⁴⁵⁹

Thus, section 32 of the *Competition Act* has to serve its “boundary keeping” role to prevent expansive use of IPRs that would bring anti-competitive results.⁴⁶⁰ Even the Bureau’s choice of words, “mere exercise of IPR,” which is used in the *IPEGs*, instead of “use has been made,” which is used in the *Competition Act*, may result in limiting the boundaries of the application of section 32.⁴⁶¹ This section has to be interpreted broadly enough to cover all cases in which use of an IPR affords an exclusive entitlement beyond what is primarily and ordinarily envisaged for that IPR.

Due to the inherent incompleteness of IPRs, which leads to ambiguities in determining their appropriate boundaries, IPRs have always been, and will be, subject to overly broad interpretations. Historically, courts developed judge-made doctrines or exceptions to limit these expansive interpretations. One of the most significant British cases in this regard, *British Leyland Motor Corp. Ltd. et al. v. Armstrong Patents Co. Ltd. et al.* (1986),⁴⁶² led to recognition of an exception to British copyright law. In this case, the court dealt with the question of the infringement of the plaintiff’s copyright in automobile exhaust pipes (three-dimensional) by a defendant who made a similar object

⁴⁵⁹ Howell, “IPRs and Competition” *supra* note 5 at 4.

⁴⁶⁰ Gold, “Mending the Gap” *supra* note 17 at 399.

⁴⁶¹ *Ibid.*, at 400.

⁴⁶² *British Leyland*, *supra* note 155.

(three-dimensional) by reverse-engineering the exhaust pipes without having had any access to the drawings (two-dimensional). Both the trial judge and the Court of Appeal agreed with the plaintiff's argument that the defendant indirectly copied the original drawings of the exhaust system by reproducing pipes using the shape and the dimensions of the original parts.⁴⁶³

The case was appealed to the House of Lords, and the majority of the Law Lords recognized the defendant as an infringer of the design drawings of the spare parts. However, since the copyright could not provide its owner with a *monopoly over the spare parts*, they declared the plaintiff's rights unenforceable because the copyright was contradicted by the "inherent right of the owners to repair their cars by replacing the exhaust whenever necessary in the most economical way possible."⁴⁶⁴ Therefore, in order to balance interests of the IP owner and the car owners, the majority introduced a "spare parts exception" in the law of copyright to prevent the plaintiff from benefiting unduly from its monopoly over the spare parts market.⁴⁶⁵ Three of the judges in the House of Lords⁴⁶⁶ referred to the submissions made on behalf of the defendant that "Parliament did not intend the protection afforded by copyright to a drawing should be capable of

⁴⁶³ John S. McKeown, *Fox Canadian Law of Copyright and Industrial Designs* (Scarborough: Carswell, 2000) at 419.

⁴⁶⁴ *British Leyland*, *supra* note 155 at 627.

⁴⁶⁵ *Ibid.*, at 591-595.

⁴⁶⁶ Lord Scarman, Lord Templeman and Lord Griffiths, *ibid.*, at 614, 632 & 646.

exploitation so as to prevent the reproduction of a functional object depicted in a drawing.”⁴⁶⁷

In Canada, cases similar to *British Leyland* in which an IP owner uses its right to leverage its dominant position in the core IP market to the secondary “spare part” market can be reviewable under section 32 of the *Competition Act*. In fact, as Howell suggests, “limiting of the availability of services and commodities in a market place by the exercise of an IPR” is the factual context of section 32.⁴⁶⁸ Competition law should by now have gained enough recognition and credibility to make the courts comfortable with using it as an instrument to keep IPRs inside their appropriate boundaries and aligned with their underlying policies. This does not contradict the fact that, in some situations, IP law itself can be used as a tool to limit abusive interpretations of the boundaries of IPRs.

One of the most important examples of this trend in the law of copyright is the introduction of the new test of “skill and judgment” instead of the historical “sweat of the brow” test for determining the originality of a copyrightable work. These initiatives reflect the corrections that apply from the inside IP law for keeping IPRs within appropriate boundaries that are envisaged based on the objectives of IP protection. However, when it comes to cases such as *British Leyland*, the problem before the court is beyond the corrections applicable from inside IP law, because the courts have to interpret

⁴⁶⁷ Lord Griffiths in dissent was the only law lord who doubted the infringement of the plaintiff’s copyright in the drawings. He argued that the *Copyright Act* of 1956 “conferred copyright on *any* drawing irrespective of artistic quality”⁴⁶⁷ [emphasis added] that meant that “the draughtsman [was] entitled to the copyright in every original mechanical drawing that he produc[ed].” Thus, in the case before the court, only “an unnatural and extended meaning of the word ‘copying’ would result in an infringement because the defendant never saw the plaintiff’s “mechanical drawings and in any ordinary usage of the word ‘copy’ they never copied the drawings.” *Ibid.*, at 613.

⁴⁶⁸ Howell, “IPRs and Competition” *supra* note 5 at 4 [emphasis in original].

a whole new scenario in which the exercise of an IPR, defined correctly inside the framework of its conceptual elements, has resulted in creation of a monopoly beyond what is ordinarily envisaged or intended for that right. In such a situation, competition law is a more appropriate tool for limiting the monopoly that is afforded by the IPR, and section 32 of Canada's *Competition Act* can be the best tool for achieving this effect.

However, in addition to restrictive interpretations of this section, some procedural limitations to the application of section 32 have prevented it from reaching its statutory potential. One of the most important restraints in the application of section 32 is the stipulation that only the Attorney General can bring an action under this section.⁴⁶⁹ Generally, Canada's *Competition Act* has four primary enforcement bodies: the Commissioner of Competition;⁴⁷⁰ the Attorney General of Canada;⁴⁷¹ the Competition Tribunal; and the courts. The Commissioner is the head of the Competition Bureau, which is located within the Department of Industry. All investigations in both criminal and civil cases are administered by the Competition Bureau under the direction of the Commissioner. Generally, in civil reviewable matters, the Commissioner has jurisdiction to pursue proceedings and to bring an action to the Competition Tribunal for remedial order. However, in criminal cases, such jurisdiction does not exist for the Commissioner,

⁴⁶⁹ Wetston, "The Treatment" *supra* note 7 at 313; Jones, *supra* note 74 at 712; *IPEGs*, *supra* note 6 at 8.

⁴⁷⁰ Before the amendments of 1999, the Commissioner was known as the Director of Investigation and Research.

⁴⁷¹ The *Director of Public Prosecution Act* of 2009 (Part III of the *Federal Accountability Act*, S.C. 2006, c. 9) established that all offences under federal jurisdiction are to be prosecuted by Director of Public Prosecutions (DPP). This includes all criminal prosecutions under the criminal provisions of the *Competition Act*. See online: the Public Prosecution Service of Canada <<http://www.ppsc.gc.ca/eng/pub/ar09-ra09/03.html>> and the Competition Bureau >. <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/h_00109.html>.

and it is the Attorney General (through the Director of Public Prosecution, or DPP)⁴⁷² who decides whether to start a prosecution in the courts of criminal jurisdiction as defined by the *Criminal Code* of Canada.⁴⁷³

As discussed earlier,⁴⁷⁴ conduct involving IPRs can be either a criminal offence, investigated by the Bureau, prosecuted by the Attorney General and adjudicated in a relevant criminal court; or a civil reviewable matter, investigated by the Bureau and adjudicated by the Tribunal. Section 32 of the *Competition Act* is not included in either of the above categories and, as a special remedy, has its own unique enforcement process. According to this section, the adjudication takes place in the Federal Court at the request of the Attorney General. It is the Competition Bureau that, under the direction of the Commissioner, investigates section 32 cases and provides enough documents to recommend that the Attorney General to pursue an action.⁴⁷⁵ The enforcement process, however, has more similarities with the enforcement procedure of the criminal provisions of the *Act*.⁴⁷⁶

Nothing in the history of section 32 shows a particular justification for this similarity. In fact, the most probable argument may be that the unique criminal-like enforcement process of section 32 is rooted in the early years of Canada's *Competition Act* when the entire *Act* belonged to the criminal domain and was incorporated into the *Criminal Code* of Canada. Over the last century, both the substance and the enforcement

⁴⁷² *Ibid.*

⁴⁷³ *Competition Act*, *supra* note 4, section 23.

⁴⁷⁴ Part two of chapter three.

⁴⁷⁵ *IPEGs*, *supra* note 6, part 4.2.2 at 8-9.

⁴⁷⁶ Alex Cameron & Robert Tomkowicz, "Competition Policy and Canada's New Breed of 'Copyright' Law" (2007) 52:2 McGill L. J. 291 at 297-298.

process of the *Act* have changed dramatically; however, section 32 and its most recent precursors have not gone through any substantial amendment since the middle of the century. One of the most important changes in the substance of the *Act* was that its criminal analytical framework was gradually replaced by almost a civil framework. From the mid-1980s to 2009, via various amendments, most of the criminal provisions of the *Act* have been reformulated as matters of civil review. Section 32, however, has still been left untouched, and while it does not exactly contain any criminal features, it is trapped in the safeguards of the criminal provisions.⁴⁷⁷

According to the *IPEGs*, section 32 is applicable only in situations in which the impugned anti-competitive conduct is not reviewable under general provisions of the *Act*, including both criminal and civil provisions. Thus, section 32, may include factual contexts that are similar to those under both the criminal and civil provisions of the *Act*. In this situation the limitation that only the Attorney General may bring an action under this section limits its application unjustifiably, at least for cases containing civil features.⁴⁷⁸

⁴⁷⁷ This argument can be supported by another feature of section 32, which is the requirement that the suspicious conduct “unduly” lessens competition. This test, which is one of the oldest limitations that existed in the earliest anti-combines act in Canada, has been removed from various provisions and, to date, exists in only a limited number of criminal provisions of the *Act*, including, most importantly, the conspiracy provision. See Neilson, *supra* note 317 at 3-4.

⁴⁷⁸ The importance of the Federal Court as an appropriate adjudicator for deciding cases involving section 32 has been discussed by Gwilym Allen, a member of the Competition Bureau participating in the Department of Justice and the Federal Trade Commission’s joint hearings on competition and IP law and policy in the knowledge-based economy held in Washington, D.C. in 2002. Allen pointed out that the Federal Court is in the best position to consider the trade-off between competitive harm and possible harm to innovation incentives. This is so because, unlike the Tribunal “which is a specialized court made up of judges and industry experts” and the criminal courts that deal with criminal offences, the Federal Court “traditionally make[s] these types of social/economic trade-offs” and section 32 of the *Act*, as a special remedy, requires such a trade-off and can thus be best adjudicated in the Federal Court. See Allen, “Hearing on Competition and Intellectual Property Law and Policy in the Knowledge Based Economy” (panel participation at hearing hosted by the U.S. Federal Trade Commission, Washington D.C., 22 May 2002) at 68.

The aforesaid uncertainty also extends to the right of private action in relation to section 32. Since 1976, section 36 of the *Competition Act* has conferred a private right of action to any person who suffers loss or damages as a result of anti-competitive conduct that contradicts the criminal provisions of the *Act* or an order of the Competition Tribunal or of a court under the *Competition Act*.⁴⁷⁹ In addition, since 2002, section 103(1) has provided private parties with a right of action directly to the Tribunal to address civil reviewable matters under sections 75, 77, and (since 2009) 76, if they can obtain leave of the Tribunal and if they can meet other conditions set forth in section 103.⁴⁸⁰ Section 32 is neither among the criminal provisions of the *Act* (for which damage claims are available under section 36) nor among the civil reviewable matters that are enumerated in section 103. The only room for private action in cases involving section 32 would regard a failure to comply with an order of the Federal Court.⁴⁸¹

⁴⁷⁹ *Competition Act*, *supra* note 4, section 36.

⁴⁸⁰ According to section 103 of the *Competition Act*, a private individual can directly bring an action to the Competition Tribunal if that individual can satisfy the following conditions: (1) a prospective applicant will be required, as a first step, to obtain leave of the Tribunal in order to bring an action (subsection 103.1(1)); (2) in granting leave for applications under sections 75 and 77, the Tribunal must believe that the applicant's business is *directly* and *substantially* affected by the relevant anti-competitive practice (subsections 103.1(7)); (3) in granting leave for applications under section 76, the Tribunal must believe that the applicant is *directly* affected by the relevant anti-competitive conduct (subsections 103.1(7.1)); and 4) leave will not be granted if the Commissioner has commenced an inquiry or settled a matter (subsection 103.1(11)) [emphasis added]. It is claimed that, since 2002, when section 103(1) was added to the *Competition Act*, several applications for leave have been made, but most of them were denied because the applicants were not able to establish a direct and substantial effect of the claimed conduct on their businesses. See *Olah v. Canada (Correctional Service)* (2008), 2008 Comp. Trib. 29 (Competition Trib.); *Canadian Standard Travel Agent Registry v. International Air Transport Assn.* (2008), 2008 Competition Trib. 14, 2008 CarswellNat 2593 (Competition Trib.); *John Guy Annable v. Capital Sports & Entertainment Inc.* (2008), 2008 Comp. Trib. 5 (Competition Trib.). Brian A. Facey & Dany H. Assaf, *Competition and Antitrust Law*, (Canada: LexisNexis Butterworths, 2006) at 375; Trebilcock, "Law and Economics" *supra* note 215 at 375.

⁴⁸¹ The Canadian approach regarding the private right of action is different from the American approach. In the U.S., private parties have always had the right to bring private actions for breach of antitrust legislation. In Canada, in contrast, the criminal orientation of the competition legislations limited its application to the public authorities. For more discussion, see Facey & Assaf, *ibid.*; Trebilcock, "Law and Economics" *supra* note 215 at 220; and Musgrove, eds. *supra* note 209 at 16, 311.

Recommended Changes: A Path to the Future

In recommending a future path or direction in the governance or overview of the interface of IPRs and competition law and theory, the objective that must be not only maintained, but enhanced, is the attainment of a competitive market place utilizing both the innovations gained only through effective IPR protection and the achievement of a broader competition policy provided for through competition law and policy. In effect, the interface of these two areas is a coordination of two limbs of essential the same tree. This has been recognized of recent times and must continue. The ultimate recommendation in this thesis is cognizant of this in the recommendation that there be established a supervisory or so-called 'super-tribunal,' inclusive of the expertise of both limbs: IPR law and policy and competition law and policy, including not only legal expertise but also economic and administrative skill and experience. Necessarily, the definitional requirements, as to the scope of IPRs in a day to day sense, will fall to the courts. A super-tribunal can have no jurisdiction over the courts. However, such a tribunal could include a jurisdiction to consider reform measures for recommendation to Parliament (or, where applicable, Provincial legislatures) for effective reform in a definitional context. Indeed, the presence of such recommendations, if accompanied by appropriate scholarly discussion, will both aid and influence the courts when interpreting the scope of IPRs as is often the position with publications of Law Reform Commissions or the like.

Given this inherent dimension, the recommendations in this part must necessarily focus on intervention in the context of an anti-competitive result occurring from the

exercise or non-exercise of an IPR. The principal focus is when section 32 (as it stands or as amended) ought to be invoked. However, there may be no reason why a super-tribunal could also have jurisdiction when any IPR/competition law conflict arises, even if such involves a breach of the regular enumerated categories of competition law infringement, but that is a matter beyond this thesis. However, within the framework of this thesis, the relationship and jurisdiction between specific IP subject area authorities, e.g. the Commissioner of Patents (section 65 of the *Patent Act*) and the Copyright Board of Canada (sections 66-69 of *Copyright Act*) and any super-tribunal, would need to be determined. The author would envisage these as complementary, perhaps operating in the nature of an appeal process, but with original jurisdiction also resting in the super-tribunal. More comprehensively, the area of law described as the misuse of patents and (perhaps) copyright might be brought directly within the jurisdiction of a super-tribunal in much the same manner as civil proceedings currently before the Competition Tribunal, as a new branch of competition law and policy.

Within this framework, the following matters discussed in this thesis will require to be considered specifically. First, the appropriate domain of section 32 within the *Competition Act* requires further clarification. Both the *Act* and the *IPEGs* specify obtaining the consent of the Attorney General to bring an application under section 32, though section 32 in nature is a civil relief. The need for such a process should be reconsidered. As it stands, the consent of the Attorney General can be seen as a hybrid-connection between the criminal provisions of the *Competition Act* and the civil provisions.

The relational role of the public authorities in enforcing this section and the need to allow private actions for damages should be rationalized. As this thesis has suggested, the current hybrid position of section 32, which provides various restrictions of its own application, is simply a result of the failure to keep up with the general amending pace of the *Act* over the years. If this is the case, the only solution to the problem is to amend the procedural aspects of section 32. If this is not done, then the Competition Bureau should further clarify why such a restrictive approach has been adopted and whether this approach is consistent with the overall trend of change in the *Act* in its embrace of the civil approach to enforcement.

Section 32 is also hybrid from another perspective: it belongs to a very delicate area of interface between IP law and competition law. It is designed to balance between the right of the IP owners to exploit their rights, and the right of the public to have a robust competitive market. Any decision in this field must be made by taking into account various relevant factors from both IP and competition law. This task is not easy to accomplish, particularly considering the newly-emerging problematic forms of intellectual products. As the scope of intellectual products and their presence expands in the competitive market place, investigating their impact becomes more complicated and requires more expertise.

Under the supervision of the Commissioner of Competition, the Competition Bureau is a body responsible for the administration and enforcement of the *Competition Act* and three labelling statutes.⁴⁸² In cases involving anti-competitive use of IPRs, reviewable under section 32 of the *Act*, the Bureau detects and investigates the cases and

⁴⁸² The *Consumer Packaging and Labelling Act*, the *Textile Labelling Act* and the *Precious Metals Making Act*. *Competition Act*, *supra* note 4, section 7. (1).

makes recommendations to the Attorney General to bring an application for special remedy to the Federal Court. Among different branches that the current Bureau encompasses,⁴⁸³ none is specialized in the complicated area of IP law. This may partly explain why section 32 has not been approached broadly in Canada.

This obstacle may be overcome by imposing changes on the administrative infrastructure of the body responsible for investigating cases related to section 32: the Competition Bureau. The Bureau has to establish whether (a) the exercise of IPR has adversely affected competition to a substantial degree and (b) the invoking of a special remedy against the IPR holder would adversely alter the incentives to invest in research and development.⁴⁸⁴ Also, according to the *IPEGs*, the Bureau would recommend to the Attorney General that an application be made to the Federal Court provided that no appropriate remedy is available under the relevant IP statutes.⁴⁸⁵ This means that the application of section 32 requires not only competition-related analysis, but also needs a deep scrutiny in the IP-related regulations and case law. To be able to do that, the Competition Bureau should either consult with all the relevant IP-related discrete tribunals or be replaced by an “IP abuse related” super-tribunal.

This thesis recommends that the enforcement infrastructure of section 32 be changed so that another more specialized body, inclusive of diverse experts in business and economics as well as legal experts in competition law and IP, be convened to

⁴⁸³ The Civil Matters Branch, the Criminal Matters Branch, the Fair Business Practices Branch, the Mergers Branch, the Public Affairs Branch, the Legislative and International Affairs Branch, the Legal Support Branch, and the Economic Policy and Enforcement Branch. All types of anti-competitive agreements and arrangements of a non-criminal nature, including section 32, are reviewed by the Civil Matters Branch. See the Bureau’s website for more information, online: Competition Bureau <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/h_00018.html>.

⁴⁸⁴ *IPEGs*, *supra* note 6 at 9.

⁴⁸⁵ *Ibid.*

investigate the exercise of IPRs. Such a super-tribunal must contain representatives from IP-related entities, such as the Intellectual Property Office, the Patent Office and the Copyright Board of Canada, and competition-related bodies, such as the Competition Bureau.

The expertise of the members of such a super-tribunal in diverse fields of economics, business, IP and competition law may result in a more frequent, secure and effective application of section 32.⁴⁸⁶ Such a super-tribunal should have jurisdiction over any issue which stands on the border of the IP/competition law interface, including cases involving section 32 of the *Competition Act*. This super-tribunal should have the powers of all of the existing tribunals represented in the super-tribunal. Its role would be to apply the *Competition Act* in the complicated realm of IPRs, and to design and apply a Canadian IP abuse policy which is consistent with the Canadian context of IP/competition law interface.

In reforming the supervisory infrastructure dealing with IPRs and competition law, care must be taken to ensure that such an infrastructure is capable of accommodating broader issues that may arise in the future. In other words, such an infrastructure must have potential to accommodate the emerging issues or consequences that may not be known or predicted at present. For example, the earlier identification of the pooling of patent rights (so-called ‘patent trolling’) presents dimensions of legal and economic

⁴⁸⁶ The same form of body is recommended by the Telecommunications Policy Review Panel (TPRP) for dealing with issues related to the area of interface between telecommunication and competition. The TPRP recommended that a Tribunal, named as the “Telecommunication Competition Tribunal,” with the powers of both the Canadian Radio-television and Telecommunication Commission (CRTC) and the Competition Bureau, be formed for more efficiency and coordination between the agencies. The members of this Tribunal would have adequate expertise in both telecommunications to reflect the CRTC’s concerns, and competition-related areas to reflect the Competition Bureau’s input. Robert Howell, *Canadian Telecommunications Law* (Toronto: Irwin Law, 2011) at 53, 67

analysis well beyond the current analysis of pro-competitive exercise of IPRs in themselves.

While it is premature to deal with such issues before relevant trends are discerned nationally and internationally, and consequently beyond the scope of this thesis, the recommendations made in this thesis for an infrastructure should facilitate the examination, investigation and evaluation of such practices. A tribunal of diverse experts, including experts in competition economics as well as legal expertise in competition law and IP, will be needed to reach effective and sensible conclusions with respect to these practices. There is no doubt that the suggestions provided in this thesis will be also beneficial for other broad practices.

This thesis has also claimed that the Competition Bureau's interpretation of the substantive features of section 32 in the *IPEGs* is restrictive, lacks sufficient guidance, and needs further clarifications.⁴⁸⁷ First of all, relying on adjudication in two early cases decided by the Tribunal and the exemption that is provided in section 79(5) of the *Competition Act*, the Bureau has indicated that section 32 will be applicable to cases involving the mere exercise of IPRs and nothing more. Although the mere exercise of IPRs is defined as (1) an IP owner's right to unilaterally exclude others from using the IP, and (2) an IP owner's use or non-use of its rights, the latter scenario has not been

⁴⁸⁷ The Bureau's deficient analysis of the enforcement of IPRs in Canada is not limited to the (non-) application of section 32. Rather, there are other problematic fast-growing practices involving IPRs that have not been addressed at all or have been addressed only very briefly in the *IPEGs*. For example, the Bureau's approach toward new forms of abuse of IPRs in patent pooling and patent trolling is not clearly discussed in the guidelines. The focus of the analysis is mainly on IP owners' anti-competitive arrangements and their refusal to license. Clarifying Canada's approach toward these practices is beyond the scope of this thesis and perhaps further research is required in these fields.

addressed in any part of the *IPEGs*. The main focus of the *IPEGs*, therefore, is on unilateral refusal cases (typically, cases involving the refusal to license IP).⁴⁸⁸

Also, the Bureau's approach to the unilateral refusal to license IPRs is restrictive. This approach brought the Canadian version of the duty to license and the doctrine of essential facilities more in line with the American approach,⁴⁸⁹ even though the underlying principles of these two regimes, and the policy tools they have adopted, vary. While both U.S. and Canadian competition policy seek to promote efficiency, Canadian policy additionally seeks to ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy and consumers have access to competitive prices and product choices.⁴⁹⁰ The consideration of a broader framework for the analysis of the purpose of competition law and its role in the overall welfare of society is comparable with the European style of analysis. Therefore, this thesis concludes that the Bureau's analytical framework, and its focus on the notion of efficiency in evaluating scenarios of mere refusal to license, does not fit Canada's context and lacks consideration of the underlying principles of Canadian competition policy.

The current interpretation, which the Bureau suggests for section 32, does not seem to be broad enough to cover all emerging scenarios of abuse of IPRs. In this regard, one must discover the source of the Bureau's reluctance to employ this section and how further amendments could make section 32 more available for resolving the newly-emerging issues in the interface between IP and competition law such as "patent trolling."

⁴⁸⁸ *IPEGs*, *supra* note 6, part 4.2.2 at 9.

⁴⁸⁹ Recent jurisprudence (discussed in part three of chapter three of this thesis) reflects the reluctance of the U.S. authorities to use competition law as a tool for limiting the boundaries of IPRs. See *supra* note 407 and accompanying text.

⁴⁹⁰ *Competition Act*, *supra* note 4, section 1.1.

If this restrictive interpretation results from and is imposed by the language of section 32 in the *Competition Act*, then perhaps it is section 32 that needs to be repealed and replaced with a broader, more recent Canadian IP abuse policy. Such a policy must include all the relevant internal and external elements that this thesis covers as adequate determinative elements for shaping an appropriate scope for IPRs.

Conclusion

Intellectual products have become one of the most valuable assets of humankind in the current century. As the role of these products in economic growth increases significantly, the anxiety of owners to protect their IP products also grows. The reasons for protection, and its extent and methods, have always been at the heart of the discussion. To date, the focus of the theories justifying IPRs has tilted away from IP owners' personality and their natural rights to the products of their labour, and toward the social benefit of granting IPRs. Now it is widely accepted that IPRs are granted to IP owners, not only as a reward for their efforts, but also to serve a broader objective: to enhance the incentives for developing further intellectual products for the long-term benefit of society.

The key concern in modern IP law is to define an appropriate scope for IPRs, which will provide a proper balance between the plausible exclusivity afforded by the rights and implausible expansions that harm society. In fact, various tools from within and outside of IP law have been used to reach this goal. Competition law, potentially, can be used as one of the most effective complementary tools to this effect. In Canada, section 32 of the *Competition Act* could play a significant role in providing such a balance. However, various procedural barriers and restrictive conceptual interpretations have prevented this section from being implemented.

First of all, the current hybrid nature of section 32, either as a criminal provision or as a civil reviewable matter, needs further clarification or amendment (if necessary). The Competition Bureau's analysis of section 32 in the *IPEGs* does not provide any

guidance in this regard. The current enforcement process (the role of the Attorney General) and the standard of proof (undue effect on competition) suggest a more criminal essence for this section. However, section 32 can meet its statutory potentials more effectively if it has a less restrictive enforcement process, as do other civil reviewable matters. In fact, this thesis suggests that the enforcement infrastructure of section 32 should be amended in order to form a super-tribunal consisting of not only competition law and economics experts but also those who are specialized in the area of IPRs.

Secondly, the restrictive interpretation that the Bureau suggests for this section requires further modifications. Current interpretation limits the scope of section 32 to cases involving the mere exercise of IPRs, and mainly to cases involving the refusal to license. The roots of this limited application should be clarified. If the Bureau's restrictive approach is affected by the American approach to the IP/competition law interface, then the Bureau should review its approach and make it more consistent with the Canadian underlying principles of IP law and competition policy. But if this restriction is imposed by the language of section 32 in the *Competition Act*, then perhaps it is section 32 that needs to be repealed and replaced with a broader, more recent Canadian IP abuse policy.

The recommendations that have been made in this thesis for the future infrastructure of the resolution of IPR/competition law principles and replacement of section 32 with a Canadian IP abuse policy must also be drawn from the perspective of dealing with patent trolling and all other broad issues that may arise in the future within the context of the competition policy and IPRs.

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Appendix I

Related Regulations

The European Union

Consolidated version of the Treaty on the Functioning of the European Union - Part Three: Union Policies and Internal Actions – Title VII: Common Rules on Competition, taxation and Approximation of Laws - Chapter 1: Rules on competition - Section 1: Rules applying to undertakings - Article 101 (ex Article 81 TEC) *OJ C 115, 9.5.2008, p. 88–89*

Article 101(ex Article 81 TEC)

1. The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which:

- (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
- (b) limit or control production, markets, technical development, or investment;
- (c) share markets or sources of supply;
- (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.

3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:

- any agreement or category of agreements between undertakings,
- any decision or category of decisions by associations of undertakings,
- any concerted practice or category of concerted practices,

which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

(a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;

(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Article 102 (ex Article 82 TEC)

Any abuse by one or more undertakings of a dominant position within the internal market or in a substantial part of it shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States.

Such abuse may, in particular, consist in:

(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;

(b) limiting production, markets or technical development to the prejudice of consumers;

(c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;

(d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

The United States

Section 1, *Sherman Act*, 15 U.S.C. § 1

Trusts, etc., in restraint of trade illegal; penalty

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding \$10,000,000 if a corporation, or, if any other person, \$350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

Section 2, *Sherman Act*, 15 U.S.C. § 2

Monopolizing trade a felony; penalty

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding \$10,000,000 if a corporation, or, if any other person, \$350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

Canada**Section 32, *Competition Act*, R.S.C., 1985, c. C-34**

32.(1) In any case where use has been made of the exclusive rights and privileges conferred by one or more patents for invention, by one or more trade-marks, by a copyright or by a registered integrated circuit topography, so as to

- (a) limit unduly the facilities for transporting, producing, manufacturing, supplying, storing or dealing in any article or commodity that may be a subject of trade or commerce,
- (b) restrain or injure, unduly, trade or commerce in relation to any such article or commodity,
- (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, trade-marks, copyrights or registered integrated circuit topographies relating to or affecting the manufacture, use or sale of any article or commodity that may be 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 licence relating to that use,
- (b) restraining any person from carrying out or exercise any or all of the terms or provisions of the agreement, arrangement or licence,

(c) directing the grant of licences under any such patent, copyright or registered integrated circuit topography to such persons and on such terms and conditions as the court may deem proper or, if the grant and other remedies under this section would appear insufficient to prevent that use, revoking the patent;

(d) directing that the registration of the 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, trade-marks, copyrights or integrated circuit topographies to which Canada is a party.

Section 65, *Patent Act*, R.S.C., 1985, c. P-4

65. (1) The Attorney General of Canada or any person interested may, at any time after the expiration of three years from the date of the grant of a patent, apply to the Commissioner alleging in the case of that patent that there has been an abuse of the exclusive rights thereunder and asking for relief under this Act.

What amounts to abuse

(2) The exclusive rights under a patent shall be deemed to have been abused in any of the following circumstances:

(a) and (b) [Repealed, 1993, c. 44, s. 196]

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

(d) if, by reason of the refusal of the patentee to grant a licence or licences 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 licence or licences should be granted;

(e) 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, licence or use of the patented article or to the using or working of the patented process; or

(f) 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 unfairly to prejudice in Canada the manufacture, use or sale of any materials.

(3) and (4) [Repealed, 1993, c. 44, s. 196]

Definition of “patented article”

(5) For the purposes of this section, the expression “patented article” includes articles made by a patented process.

Powers of Commissioner in cases of abuse

66. (1) On being satisfied that a case of abuse of the exclusive rights under a patent has been established, the Commissioner may exercise any of the following powers as he may deem expedient in the circumstances:

(a) he may order the grant to the applicant of a licence on such terms as the Commissioner may think expedient, including a term precluding the licensee from importing into Canada any goods the importation of which, if made by persons other than the patentee or persons claiming under him, would be an infringement of the patent, and in that case the patentee and all licensees for the time being shall be deemed to have mutually covenanted against that importation;

(b) [Repealed, 1993, c. 44, s. 197]

(c) if the Commissioner is satisfied that the exclusive rights have been abused in the circumstances specified in paragraph 65(2)(f), he may order the grant of licences to the applicant and to such of his customers, and containing such terms, as the Commissioner may think expedient;

(d) if the Commissioner is satisfied that the objects of this section and section 65 cannot be attained by the exercise of any of the foregoing powers, the Commissioner shall order the patent to be revoked, either forthwith or after such reasonable interval as may be specified in the order, unless in the meantime such conditions as may be specified in the order with a view to attaining the objects of this section and section 65 are fulfilled, and the Commissioner may, on reasonable cause shown in any case, by subsequent order extend the interval so specified, but the Commissioner shall not make an order for revocation which is at variance with any treaty, convention, arrangement, or engagement with any other country to which Canada is a party; or

(e) if the Commissioner is of opinion that the objects of this section and section 65 will be best attained by not making an order under the provisions of this section, he may make an order refusing the application and dispose of any question as to costs thereon as he thinks just.

Proceedings to prevent infringement

(2) A licensee under paragraph (1)(a) is entitled to call on the patentee to take proceedings to prevent infringement of the patent, and if the patentee refuses or neglects to do so within two months after being so called on, the licensee may institute proceedings for infringement in his own name as though he were the patentee, making the patentee a defendant, but a patentee added as defendant is not liable for any costs unless he enters an appearance and takes part in the proceedings.

Service on patentee

(3) Service on a patentee added as a defendant may be effected by leaving the writ at his address or at the address of his representative for service as appearing in the records of the Patent Office.

Considerations by which Commissioner to be guided

(4) In settling the terms of a licence under paragraph (1)(a), the Commissioner shall be guided as far as possible by the following considerations:

(a) he shall endeavour to secure the widest possible use of the invention in Canada consistent with the patentee deriving a reasonable advantage from his patent rights;

(b) he shall endeavour to secure to the patentee the maximum advantage consistent with the invention being worked by the licensee at a reasonable profit in Canada; and

(c) he shall endeavour to secure 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 licence previously granted.