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Canada's New Intellectual Property Enforcement Guidelines—New Rules for SEPs in Canada

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I. INTRODUCTION

In 2014, the Canadian Competition Bureau embarked on a multi-phase process to update its Intellectual Property Enforcement Guidelines (“IPEGs”). The update was needed to reflect legislative and policy developments that had occurred since the IPEGs were first issued in 2000.

The IPEGs are important because they are the only meaningful Canadian guidance available to patent holders and users about how the *Competition Act* applies to the exercise of intellectual property rights; this is particularly true in the area of standard-essential patents (“SEPs”), which have never been the subject of an antitrust decision from a Canadian court.

This article briefly summarizes the updated IPEGs, with an emphasis on (i) how the IPEGs create policy for the application of the *Competition Act* in the area of SEPs, and (ii) how the IPEGs may differ from the established law and policy in the United States and European Union regarding the application of competition law in the area of SEPs.

II. BACKGROUND TO THE UPDATED IPEGs

The Competition Bureau first issued guidance on the application of the *Competition Act* to the use of intellectual property in its first iteration of the IPEGs, published in 2000.² This initial guidance enshrined as Bureau policy the now familiar “scope of the patent” test—that is, conduct involving a patent could only be subject to the *Competition Act* if that conduct was something more than the “mere exercise” of the rights associated with the grant of the patent.

There have been significant changes in both law and policy since 2000, and the IPEGs were in need of an update. In 2014, the Bureau announced its intention to update IPEGs; this process has occurred in three main phases:

- First, the Bureau updated the IPEGs to reflect the significant changes to Canada's *Competition Act* that have been implemented since 2000, including the de-criminalization of certain types of unilateral conduct and the introduction of a provision making non-criminal agreements among competitors that prevent or lessen competition substantially subject to civil prohibition. This update did not result in significant substantive changes to the prior iteration of the IPEGs. The Bureau published an updated draft of the IPEGs that

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² The 2000 version of the Bureau's IPEGs is available at <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/01286.html>.

implemented these changes in April 2014;³ following a period of public consultation, the Bureau published the final iteration of the IPEGs that implemented these changes in September 2014.⁴

- Second, the Bureau issued a “White Paper” and the Commissioner delivered a speech that outlined how the Bureau intended to apply the *Competition Act* to settlements of patent infringement litigation among brand name and generic pharmaceutical companies.⁵ The White Paper expressed the Commissioner’s intention to prosecute, both criminally and on a *per se* standard, parties to settlements of patent litigation in the pharmaceutical industry in certain situations (this was an enforcement position that differed significantly from the civil rule of reason approach adopted in the United States). The Commissioner’s position on this issue was to be incorporated into the next version of the IPEGs.
- Third, the Bureau published a further updated version of the IPEGs in draft for public consultation in June 2015.⁶ The updated draft reflects (i) the initial update to the IPEGs, (ii) a significantly moderated version of the Commissioner’s position with regard to how the *Competition Act* applies to settlements of patent litigation in the pharmaceutical industry and so-called “product hopping” efforts, and (iii) the Commissioner’s position as to how the *Competition Act* applies to the conduct of patent holders whose patents are essential to a standard or that were made subject to a licensing commitment as part of the process of being included a standard. The consultation period on the most recent update to the IPEGs closed in August, and a final version of the IPEGs is expected later in 2015 or early in 2016.

III. UPDATED IPEGs AND SEPS

The most recent draft IPEGs set out for the first time the Commissioner’s policy regarding the application of the *Competition Act* to conduct involving SEPs. Among other things, the IPEGs explain (i) which section of *Competition Act* will be applied by the Bureau to patent holders that attempt to obtain injunctions for FRAND-encumbered SEPs, and (ii) what factors and evidence the Bureau will consider probative in determining whether to enforce the *Competition Act* against patent holders. In particular:

³ See “Competition Bureau Seeks Input on the Updated Intellectual Property Enforcement Guidelines,” Competition Bureau press release (April 2, 2014) available at <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03715.html>.

⁴ See “Competition Bureau Releases Updated Intellectual Property Enforcement Guidelines,” Competition Bureau press release (September 18, 2014) available at <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03814.html>.

⁵ See “Remarks by John Pecman,” presented at the George Mason University Pharma Conference (September 23, 2014) available at <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03817.html>; and “Patent Litigation Settlement Agreements: A Canadian Perspective,” September 23, 2014, available at <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03816.html>.

⁶ See “Competition Bureau seeks input on its updated Intellectual Property Enforcement Guidelines,” Competition Bureau press release (June 9, 2015) available at <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03959.html>.

- **Abuse of Dominance:** The Bureau will assess whether attempts to obtain injunctions for FRAND-encumbered SEPs constitute an abuse of dominance under section 79 of the *Competition Act*.
 - Section 79 is a civil provision. It requires that the Commissioner satisfy the Competition Tribunal that the defendant company (i) has a dominant position in a market, (ii) has engaged in an anticompetitive practice without objective justification, and (iii) that the anticompetitive practice has the effect of preventing or lessening competition substantially in a market.
 - However, section 79 provides an important exception; namely, that “an act engaged in pursuant only to the exercise of any right” under the *Patent Act* “is not an anti-competitive act.”
 - If the Tribunal concludes that an abuse of dominance has been committed, it may make an order prohibiting the defendant from engaging in the anticompetitive practice or, if that order would not restore competition in the market, make any other order directing the defendant to take such actions as are reasonable and necessary to overcome the effects of the anticompetitive practice in the market. The Tribunal may also impose an administrative monetary penalty against the defendant of up to C \$10 million (C \$15 million in the case of recidivists).
- **“Scope of the Patent” Test:** The IPEGs take the position that when a patent holder makes a commitment to license a patent to a standard-setting organization and then seeks an injunction in respect of those patents against potentially willing licensees, the patent holder is engaged in “something more” than the mere exercise of patent rights, and the exception contained in section 79 does not apply. As a legal matter, this position is untested, and while there are antitrust reasons that support it, there are contra arguments that could be advanced. For example, there is no suggestion in the IPEGs that the mere seeking of an injunction against potential willing licensees (absent a FRAND commitment) would be anything but the mere exercise of patent rights; why the characterization of the attempt to obtain an injunction should change as a result of a prior FRAND commitment is not obvious as a matter of statutory interpretation.
- **Dominance:** The IPEGs take the position that patent holders obtain market power when their patents are incorporated in a standard in exchange for a FRAND commitment and other firms make investments in the standard in reliance upon that FRAND commitment. The IPEGs suggest that the mere fact of standardization and the making of FRAND commitment are sufficient for the Bureau to conclude that a dominant position exists. For the purposes of determining whether market power exists, the IPEGs do not discuss whether the Bureau might examine other factors—such as the existence of competing standards or the level of investment potential licensees have made—to determine whether the potential licensees are truly “locked in.” Instead, the IPEGs suggest these factors will only be considered at a later stage, where competitive effects are assessed.
- **Anticompetitive Practice:** The IPEGs recognize that the mere seeking of an injunction for a FRAND-encumbered SEP is not necessarily undertaken for an anticompetitive purpose in every instance, and instead there may be legitimate justifications for patent

holders to seek injunctions. This is particularly the case where licensees are not actually willing to enter into negotiations and pay a FRAND rate. The IPEGs provide that, in determining whether an effort to obtain an injunction is an anticompetitive practice, the Bureau will consider whether a licensee is not willing to engage into licensing negotiations or pay a rate determined to be FRAND by a court or arbitrator.

- **Effect on Competition:** The IPEGs acknowledge the Commissioner’s obligation to establish that the seeking of an injunction is not an abuse of dominance unless it is or is likely to prevent or lessen competition substantially; in other words, the mere seeking of an injunction for a FRAND-encumbered SEP is not an abuse of dominance *per se*.
 - In assessing the competitive effects of an attempt to obtain an injunction, the Bureau will assess whether the patent holder’s conduct “created, preserved or enhanced its market power in technology markets that included its patented technologies due to those patented technologies being necessary to implement the standard.” In other words, the Bureau will examine how the conduct impacts the patent holder’s market power in the downstream markets that implement the patent. As a matter of Canadian law, it is not necessary that the patent holder participate in the downstream market in order to have market power in those downstream markets; merely having a mechanism of “control”—such as ownership of a patent that is included in a standard—is arguably sufficient for the Tribunal to find that a patent holder has market power in a downstream market.⁷
 - The Bureau will also assess for these purposes (i) whether there exist substitutable technical standards and (ii) if so, the costs associated with a licensee switching to those alternatives. If such alternatives exist and switching is not cost-prohibitive, the Bureau is less likely to conclude that the attempt to obtain an injunction for FRAND-encumbered SEPs maintained or increased the market power of the patent holder and prevented or lessened competition substantially.
 - The Bureau will also assess for these purposes the effect on competition in downstream markets that implement the standard. If there is evidence that an injunction would result in higher prices for downstream products (because of the effect of royalty rates on downstream prices and the inability of customers to switch to alternative products in response to a price increase), then it is more likely to conclude that the conduct has prevented or lessened competition substantially. Establishing an effect on competition on this basis seems challenging given, among other things, the need to establish that the high royalty rates of one single patent holder (out of many holders of patents in a standard) are being passed through to downstream customers such that competition is lessened substantially in the downstream market. In addition, since mere high prices are not recognized as an anticompetitive practice under Canadian law, the Bureau would likely be obligated to show that the high prices are the causal result of some

⁷ See, *The Commissioner of Competition v. The Toronto Real Estate Board*, 2013 Comp. Trib. 9; rev 2014 FCA

underlying exclusionary conduct, which may be challenging as a matter of evidence.

- **Other Features:** Under Canadian law, if the Commissioner has reason to believe that a company has violated section 79 of the Act (among other provisions), he can resolve his concerns by entering into an agreement upon consent with the defendant company. That consent agreement can be registered with the Competition Tribunal as of right; upon registration, the consent agreement has the same force and effect as if it were an order of the Competition Tribunal. The right of private parties to challenge a consent agreement is extremely limited.⁸ The IPEGs provide that, where the Commissioner has reason to believe that an attempt to obtain an injunction for a FRAND-encumbered SEP contravenes section 79, the Commissioner will first attempt to negotiate a consent agreement with the defendant; only if those negotiations fail will the Commissioner bring proceedings before the Tribunal.

IV. IPEGs AND STANDARDS IN OTHER JURISDICTIONS AND NEXT STEPS

There are similarities and differences in how the IPEGs propose to treat holders of FRAND-encumbered SEPs that seek injunctions as compared to standards established in the United States and European Union. For example, unlike the recent decision of the Court of Justice of the European Union in *Huawei v. ZTE*,⁹ the IPEGs do not prescribe any process that patent holders must first adhere to when dealing with licensees and before seeking an injunction. Instead, the IPEGs are much closer to the broad guidance set out in the joint *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* of the U.S. Department of Justice and the U.S. Patent & Trademark Office.¹⁰

As a result, the main effects of the IPEGs in the area of SEPs are to confirm that (i) the *Competition Act* is capable of applying to patent holders that seek injunctions for their FRAND-encumbered patents, and (ii) because patent holders have made FRAND commitments to standard-setting organizations, their efforts to obtain injunctions are not exempt from the application of the *Competition Act*. Additional guidance as to how the Bureau will apply the *Competition Act* in such situations will need to come from actual cases.

Canada, however, is a much smaller jurisdiction than either the United States or the European Union, and there is no ability in Canada to bring private abuse of dominance claims (like in the United States) or have very significant fines imposed for abuse of dominance (like in the European Union). This dynamic (i) reduces the likelihood that holders of FRAND-encumbered SEPs would seek injunctions in Canadian courts (as opposed to U.S. courts or courts of the Member States), and (ii) reduces the likelihood that a potential licensee would complain

⁸ See, *Kobo Inc. v. The Commissioner of Competition*, 2014 CACT 14 (CanLII), leave to appeal to the Supreme Court of Canada pending at the time of writing.

⁹ See Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH*.

¹⁰ See joint statement of the U.S. Department of Justice and the U.S. Patent & Trademark Office, “*Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments*,” (January 8, 2013) available at http://www.uspto.gov/about/offices/ogc/Final_DOJ-PTO_Policy_Statement_on_FRAND_SEPs_1-8-13.pdf.

about a patent holder's conduct to the Competition Bureau (as opposed to bringing private proceedings in the United States or a Member State or bringing a complaint before the European Commission). In turn, this reduces the likelihood that the Bureau will have actual cases to investigate and bring forward in the near term.