8-10-15

Competition Bureau
50 Victoria Street
Gatineau, Quebec
K1A 0C9

Via email: consultation.pi/ip.consultation@bc-cb.gc.ca

Re: IPO Comments on the Canadian Draft IP Enforcement Guidelines

Dear Sir or Madame:

The Intellectual Property Owners Association ("IPO") would like to thank you for the opportunity to comment on the Canadian Competition Bureau's proposed IP Enforcement Guidelines.

IPO is a trade association representing companies and individuals in all industries and fields of technology who own, or are interested in, intellectual property rights. IPO's membership includes more than 200 companies and more than 12,000 individuals who are involved in the association either through their companies or as inventor, author, law firm, or attorney members.

The following comments are offered for your consideration, based on input from IPO members that hold patents and other intellectual property rights, implement hosts of industry standards, and actively engage in developing and contributing to standards. The relationships between innovation and intellectual property rights, standards, and competition are important, and forming an appropriate balance that respects the interests of the various stakeholders and that promotes success of vital standards is increasingly essential.

Our comments are directed to Sections 4.2.2 and 7.3, and the text in general, as follows.

1. <u>Section 4.2.2.</u>

The proposed Guidelines should not expand the concept of a technical standard and should not apply competition law to lawful exercise of patent rights.

Section 4.2.2 articulates certain circumstances where special remedies may be appropriate for "unilateral exercise of the IP right to exclude" that causes "competitive harm [that stems] directly from the refusal [to license] and nothing else." The criteria include any IP that is "an essential input or resource for firms participating in the relevant market." This language does not adequately limit the circumstances to those involving patents that are essential to a standard that has been set by a collaborative Standard Development Organization ("SDO") and for which the patent holder has agreed to license under fair, reasonable, and non-discriminatory ("FRAND") terms. Such a limitation is needed because a patent holder may refuse to license or may license on terms of its choosing, absent a formal agreement.

Outside of collaboratively-developed technical standards, patent owners generally have not voluntarily committed to license their patents for implementation by others on FRAND terms. As a result, patent owners are free to reserve their inventions to themselves for their own products, or to license their patents for a royalty. In rare cases, a patented invention may enjoy high demand among consumers where the relevant patents cannot easily be designed around or alternative technologies do not serve as strong competitors. In such cases, patents may achieve a kind of market power, but such market power is lawfully acquired and lawfully exercised as the reward for innovation that is fundamental to the patent system. In general, there should be no limitations on the patent holder's rights regarding these differentiating patents absent a showing of ancillary anticompetitive conduct and effect or patent abuse as provided under Section 32 of the Competition Act.

The discussion of Example 8, "refusal to license a standard," appears to confuse technical standards with differentiating technologies that consumers seem to prefer. The title of Example 8 is inapposite, as no standard is involved in the facts presented in the example. Rather, the hypothetical merely involves superior software that is preferred over alternatives. This is the precise circumstance that the patent laws allow for refusal to license without challenge under the competition laws. A refusal to license patented software or technology that has not been made subject to a formal collaborative standardization activity and which is not subject to a related licensing commitment such as FRAND, is within the lawful exercise of patent rights. Confusion may arise in Example 8 from the discussion of "network effects." While network issues often are the reason that certain technologies are addressed by SDOs, in the absence of any actual standard or SDO activity, any limitations on a patent holder's rights to refuse to license simply do not, and should not apply.

2. Section 7.3

Section 7.3 of the proposed Guidelines dealing with standard essential patents ("SEPs") defines the development of technical standards as being either standardization through "a formal Standard Development Organization ('SDOs') or other means." We believe that the phrase "or other means" and the associated footnote should be omitted, as the text that follows in section 7.3 is appropriately limited exclusively to a discussion of SDOs and declared SEPs. As noted above, any patented technology associated with any of these "other means" should not be analyzed as SEPs and should be subject to the same competition law analysis as any other non-standardized, differentiating patent.

Section 7.3 contains additional presumptions that warrant reconsideration.

a. Repeated use of "ambush" characterization. The term "ambush" is used as a label multiple times in the Guidelines. This label carries a negative implication and should not be propagated by the Bureau. The term reflects a bias against patent owners. Further, the Guidelines should not be invoked (whether labelled "ambush" or otherwise) merely because a patent has not been disclosed where there has been no deception or intent shown. The Guidelines should not presume party intent. This becomes particularly problematic when participants agree to "blanket" FRAND commitments without specifically identifying patents. In addressing such issues, the Bureau should ensure that the Guidelines distinguish between those making an assurance to the SDO as opposed to parties who have not. *See* Section 7.3, Paragraph 2 and Example 15.

b. "*Ex ante*" disclosure of licensing terms. In Guidelines text and example, disclosure of licensing terms before a standard is finalized seems referenced as common practice. However this practice rarely appears in SDO IPR policies and even in SDOs that reference the practice, it has been rarely used. There are numerous reasons for an SDO not adopting such a practice. For example, *ex ante* disclosure of terms requires patent holders to set a royalty before knowing what the standard is, what rates others are charging, the worth and number of essential patents the patent holder has, how many patents of others may be essential, and the like, which could lead to patent holders identifying high rates. *See* Paragraph 3 and Examples 14 and 16.

c. Section 79(5) exclusion. Competition Act Section 79(5) makes an act engaged solely for exercising IP rights safe from antitrust/anticompetition attacks. The Guidelines could benefit from additional clarity on when Section 79(5) is excluded, with regard to the three stated conditions that appear overbroad in their potential application. *See* Paragraph 8 and Example 15.

d. Injunction based on small versus large component. The Guidelines state that seeking an injunction on a SEP for "a small component of the standard…can be particularly problematic." Additional clarification is needed as to why an injunction on a small component, without considering its importance or value, is "particularly" problematic. *See* Example 18.

e. Inferences drawn for innocent failure to disclose. In Example 15, a participant "overlooks" and fails to disclose a SEP. The SEP holder later seeks to recover royalties which implementers allege are supra-competitive, based on enhanced market power due to the standard. While the Bureau allows the SEP holder to provide a "legitimate business justification," the "Bureau will infer "from the reasonable, foreseeable consequences of the firm's conduct, that it was for the purpose of negative effect on competitors." There should not be a presumption and bias against the SEP holder and its intent. Most SDOs do not mandate a patent search; SEP holders may innocently fail to disclose SEPS; and "reasonable royalties" is not a precise science. There is no basis for urging in this example that failure to disclose the SEPs is "something more than exercising IP rights" so that Section 79(5) protections do not apply.

3. Specific Comments on Draft Text.

a. Disclosing patents that ***draw upon*** standard's technology. The trigger for disclosing patents in Examples 14 and 18 seems overbroad. Typically, disclosure is triggered by the patent holder's representative having a reasonable belief that the patent (or patent application) has claims that are essential or may become essential if a draft standard were adopted as final. Simply drawing upon the standard's technology is not enough.

b. Technical alternatives and competition scrutiny. It is unclear how the "existence of alternatives" affects a "competition" analysis. Under the Guidelines, if no viable alternatives exist, the Bureau is more likely to find "increased market power." If the standards group had no choice but to select the patented technology, however, the SEP holder is less likely to be restricting competition. The premise also seems contrary to other portions of the Guidelines, for example where a patentee has "limited market power" when "[t]here may be many alternatives," but "once a standard is selected,… higher market power may be created."

c. "Potentially willing" is unclear. SEP holder injunction and other remedies are linked to whether the prospective licensee is "potentially willing." It is unclear what a "***potentially*** willing licensee" is. For clarity and consistency within the Guidelines, we recommend deleting the phrase "potentially willing licensee" from all places that it appears in the Guidelines (such as Paragraph 6 and Example 18) and substitute the phrase that is used in other parts of the Guidelines, which reads: "potential licensee willing to enter into negotiations."

d. Incentives for innovators to participate and contribute technology. Bureau investigations, in several paragraphs, discuss impact on incentives to participate in standards. This premise should apply to submitting technology or implementing the standard or both. The Bureau should consider the significance of SDOs framing IP policies that balance stakeholder interests. If an SDO disincentivizes participation, it could adversely impact its standards if, for example, inventors remain outside the standard development process and avoid the attendant FRAND assurance. *See* Paragraph 6, Example 15, and Example 18.

e. Injunction situations as examples. In Paragraph 7, the Guidelines recognize circumstances when the Bureau might refer a matter to the Tribunal for possible injunctive relief. As suggested by the Guidelines text, we recommend that these conditions be noted as examples with the following minor insertion: "Circumstances where the Bureau would, ***by way of example***, conclude that the seeking of an injunction was appropriate include…" Courts and government agencies have proposed various models for injunctive review in the standards and FRAND context beyond the bulleted examples.

f. Obligating transferees unaware of SEP, standard, or FRAND. It is not clear how the Bureau will address issues arising when a SEP is transferred. One early statement provides that "[transferee] Firm C [is obligated] to honour [transferor] Firm B's licensing commitment." While the sentiment of not enabling the avoiding of licensing assurances upon transfer is understood, the foregoing statement seems at odds with a later explanation in the Example 17 analysis. The later Example analysis states that:

> [T]he Bureau would determine whether the transaction explicitly provided that the terms and conditions of Firm B's license commitment be transferred to Firm C along with the patent. If this was not the case, the Bureau would target Firm B under section 79 with the view that it was evading its commitment by selling the patent without transferring the obligations of its licensing commitment.

The Example is silent as to whether the SDO rules require Firm B to include a provision that Firm C is subject to prior licensing commitments. We believe clarification, based on legal and practical considerations, would be beneficial.

IPO again thanks you for the opportunity to provide these comments on the Draft Guidelines. We would be pleased to meet with you or otherwise engage in further discussion. If we may be of further assistance, please do not hesitate to contact us.

Sincerely,

Philip S. Johnson
President