

**Canadian Copyright Institute,
Canadian Publishers' Council, Association of Canadian
Publishers, Canadian Music Publishers Association,
Playwrights Union of Canada**

**Joint Comments on the Draft
Intellectual Property Enforcement Guidelines**

Introduction

These comments are submitted by the Canadian Copyright Institute, the Canadian Publishers Council, the Association of Canadian Publishers, the Canadian Music Publishers Association and the Playwrights Union of Canada (collectively, the “Associations”), all of whom are organizations that represent rights-holders in the copyright industries. Our members are owners of intellectual property for whom the right to create, license and exploit copyright works and repertoire is the core of their business. A description of each organization is included in Appendix “A”.

We are pleased to have the opportunity to comment on the Bureau’s Draft Guidelines. We understand that the Bureau is in the process of rewriting the Guidelines, and we trust that these comments will be taken into consideration in the redrafting process.

We have had the benefit of reviewing many other submissions to the Bureau concerning the IPEG Guidelines. Many of those submissions have raised concerns which we share. In particular, we endorse the comments of the Canadian Bar Association. In our brief, however, we focus on the most crucial points as they affect our members.

The Guidelines include a number of broad policy statements which we support fully. These include the following:

1. Enforcement action under the general provisions of the Competition Act will only be taken with respect to conduct going beyond the intellectual property right (but see out comments of the meaning of “inherent”);
1. Section 32 of the Competition Act will be invoked only in the rarest of circumstances;
1. The exercise of intellectual property rights alone will not be considered anti-competitive;

1. Intellectual property protection will not give rise to presumption of market power;
1. Licensing agreements are regarded as generally pro-competitive;

We are concerned, however, that certain other principles are in error. In particular, we question the restrictive concept of “inherent” IP rights, its application to licensing in the Guidelines, the principle that the same competition law analysis should be applied to intellectual property as to other forms of property, and the inadequate appreciation of the important distinctions between differing forms of intellectual property rights. More generally, we find a wide gap between the broad general statements of principle and their applications in the hypothetical examples. **This gap reflects not only what we believe to be errors in application of competition law principles, but also the need for further analysis of the factors which the Bureau considers important in its evaluation of a given business arrangement involving IPR.**

Principle of “Inherent Rights” and “Beyond”

At the outset we must voice our concern that the enforcement policy articulated by the Guidelines will impinge significantly and in critical ways on the exploitation of our members’ intellectual property rights, as defined by statute and common law. Under the *Competition Act*, intellectual property is given a distinctive status. Section 79(5), for example, exempts from characterization as an anti-competitive act any act engaged in *pursuant only to the exercise of any right or enjoyment of any interest derived under the Copyright Act* and other acts of Parliament pertaining to intellectual or industrial property. This clear statement of legislative intent we assume is the basis for the principle that enforcement action under the general provisions of the Competition Act will only be taken with respect to conduct going beyond the “inherent” rights of the intellectual property right.

In principle, the Guidelines themselves indicate that what is inherent will be determined by reference to the applicable statute and common law. If that were so, then copyright owners could look to the copyright act and caselaw to tell them the extent of their inherent rights. **Despite this policy statement, the Guidelines patently do *not* apply that standard.**

The Guidelines reveal an unacceptably restricted concept of inherent rights of IP. It appears that the term “inherent” is being used by the Bureau as a means of reducing or distilling some acceptable (to the Bureau) but limited range of rights otherwise granted to IPR under their applicable statutes. The Guidelines seem to confine inherent rights to the use(or non-use)of the IPR by the right holder alone (paragraph 24). Any use involving another party, such as licensing, sale or marketing would appear to take the transaction outside the realm of “inherent rights” of IP.

This restrictive concept of inherent IP rights does not stem from statute or caselaw. The right to assign or license rights of copyright to other parties, for example, is *indisputably* a right granted to copyright owners under the *Copyright Act*. In spite of the statements to the contrary in the Guidelines, the existing IP laws do not act as an objective predictor of what the Bureau would consider to be inherent rights.

We find this extremely alarming. We are deeply concerned that this approach will mislead the Bureau into attempting to use the *Competition Act* to interfere unduly with the exercise of our members' IPR, to the detriment not only of our members' ability to carry on business with confidence, but also to the dynamic efficiencies required to promote innovation and creation of IP within the economy as a whole.

The Bureau must expand its concept of intellectual property rights and stay true to the principle that the exercise of intellectual property rights alone will not be considered anti-competitive. Indeed, this is the obligation of the Bureau *at law* (section 79(5) *Competition Act*)

The need for some clarity in the application of competition policy to IP is obviously paramount in for the Bureau. The Guidelines state their goal to be the following:

“...to articulate the principles governing the Competition Bureau’s...policy with respect to the interface between IP rights and competition law. The goal is to alleviate uncertainty that the business community may face concerning this interface and to promote transparency in the enforcement of the Competition Act. These Guidelines explain how the Bureau will assess business arrangements involving IP.”

From our perspective, the draft Guidelines in their current form have fallen distinctly short of the goal. The Bureau should both reconsider the scope of the “inherent “ rights of IP, and recognize that though fine as a principle, the “inherent rights” concept is a poor tool of analysis. In the next draft the Bureau should consider doing analytic development to define in concrete terms the nature of *conduct* involving IP which may raise competition concerns . This is particularly crucial in respect to IP licensing.

The Key Concern: Copyright Licensing

The application of competition policy to licencing of copyright is the key issue for us.

We are dismayed to find how narrowly the Bureau views the inherent rights of IP owners in licensing. The Bureau states in paragraph 24 of the Guidelines, that it interprets “the exclusive right to use, license, transfer or sell the IP” to mean that it is only the IP owner who can determine whether or not to license, transfer or sell the IP – no other individual has this right. This reflects the exclusive nature of IPR under applicable statute law. The paragraph goes on to state, however, that “ the *Competition Act*, as it does with other property, places limits on to whom the IP owner can license, transfer or sell the IP.” In our view, the choice of whom to license or not to license is as inherent to the exclusive rights of copyright as the decision whether or not to use, license, transfer or sell the copyright.

The *Trade-Marks Act* permits trade-mark owners to determine to whom and upon what terms they licence their trade-marks. As stated by the Competition Tribunal in the Tele-Direct Case

(*Director of Investigation and Research v. Tele-Direct (Publications) Inc.* (1997), 73 C.P.R. (3d) 1:

“The Tribunal is in agreement with the Director that there may be instances where a trade-mark may be misused. However, in the Tribunal’s view, something more than the mere exercise of statutory rights, even if exclusionary in effect, must be present before there can be a finding of misuse of a trade-mark. Subsection 79(5) expressly recognizes this.

We urge the Bureau to recognize the right of intellectual property owners, not only to exploit the intellectual property unilaterally, but also to grant or refuse to grant licences both exclusive and non-exclusive. The Bureau should clarify that there must be evidence of some specific anti-competitive conduct going beyond inherent IP rights, such as collusion or tying before any competition concerns are raised.

It was out of concern to preserve the right to decline to license IPR that an intervention was made in the Warner Music case (*Canada (Director of Investigation and Research) v. Warner Music Canada Ltd.* (1997), 78 C.P.R. (3d) 321). That case put at stake the fundamental right to decide whether to license or not to license a repertoire of copyright works, raising the fear that the Competition Bureau might compel a rights owner to grant a license in IPR against its will. Choosing if, when and to whom to licence a copyright work is, in our view, merely exercising our exclusive rights of copyright as defined by statute. The *Warner Music* decision concluded that copyright licenses are not “products” within the meaning of the refusal to deal provision of the Competition Act, and so refusal to licence copyright works cannot offend that section.

The Bureau has made it clear, however, that it views the *Warner Music* decision on narrow grounds. Hypothetical example 10 indicates that the ability to decide whether or not to licence is subject to review under the Guidelines. This has renewed the apprehensions first raised when the Bureau prosecuted Warner Music.

Both within Canada, and internationally at the international copyright treaty level, there is agreement that compulsory licenses are to be discouraged under copyright legislation. The Bureau is out of step with international opinion in its evident desire to assert the right to impose a compulsory licence. The Bureau appears to be baulking at the guidance given by the Competition Tribunal in Tele-direct and Warner cases which impose limitations on the Bureau’s ability to seek compulsory licensing of IPR.

Example10 bears a strong similarity to the *Warner Music* case. The enforcement principle given in that set of facts is that the refusal to license a repertoire of works in a particular format is an anti-competitive act where it permits the rights owner to dominate another market. The Bureau does not recognize the right of DISCO’s parent companies to refuse to license their repertoire of recorded music in the required format.

We note that the other market in example10 - digital playback devices - is at a further remove from what might be called the established primary market - record distribution - than

was the record club market in the Warner Music case. Record clubs are an established subsidiary market for record distributors. Perhaps the analysis of the Bureau is dependent on how close it believes the market affected is to an established primary market of exploitation of the IP. Making determinations of this kind, however, would involve some discretionary judgement as to what a primary market for a given IP is. IP statute do not define markets for the exploitation of any given IPR, so the principle of “inherent rights” will not give any guidance here. Is the Bureau implying that exercising rights to decline to license within the primary market for the exploitation of copyright works is acceptable, but that refusing to license is not acceptable where it affects markets not considered by the Bureau to be a legitimate market for the exercise of the IP? If so, what about related subsidiary markets? And in a dynamic and changing marketplace, who is to say what is a proper market for an IPR?

Further, the commentary in Example 10 suggests obliquely that commercial behavior involving collections of copyrights will attract a different analysis than that involving individual works. It seems to suggest that what may be an “intrinsic right” of IPR in an individual work may not apply when copyrights are aggregated and dealt with as a repertoire. The example suggests that what is a basic right for one work, would no longer be a basic right of IPR when dealing with several works en mass. If this is the position of the Bureau, as it appears, then it is a further indication of the lack of predictive power of the “intrinsic IP rights” concept that is presented as fundamental to the Bureau’s analysis. The copyright in one work as defined by reference to statute law and common law is the same as when applied to several works in a repertoire; but it appears that, in the Bureau’s view the competition law ramifications are not.

We represent many members who own or administer IPR in repertoires or libraries of copyright works. Statements such as the enforcement principle in Example 10 do little to lend certainty to the Bureau’s enforcement policies. While hypothetical examples are a good idea, it is disturbing to have to draw fundamental principles by inference, and to be unsure whether they are correctly drawn.

What is required is a reconsideration of the Bureau’s activist stance in regard to licensing, *positive* statements of commercial licensing behavior that *is* acceptable, and statements that set out clearly how the principles are applied and what specific factors and commercial conduct are important in the analysis.

Section 32

We have similar concerns regarding the enforcement of Section 32. The Guidelines state that Section 32 of the *Competition Act* will be enforced “only in the rarest circumstances”. However the list of circumstances identified in paragraph 55 which would prompt the Bureau to seek to enforce the section are too general, and lacking in a definitive limiting principle to identify those rare cases which would justify using the section. Part of the problem again is the indefinite nature of the term “inherent rights” of IP. Furthermore, included among the “plus factors” is the refusal to licence (not an anti-competitive act - according to *Warner Music* and the *Tele-Direct* case). Refusal to license does not belong in the list. Additionally, the concept of evaluating whether or not a business has received too much compensation for an investment in intellectual property should be dropped from the list of “plus factors”, as the Bureau will be in no

position to make such determinations.

Intellectual Property Requires Particular Consideration

We feel it is wrong to take the position, as the Guidelines do in paragraph 6(c), that “the same competition analysis can be applied to conduct involving intellectual property as to conduct involving other forms of property, to determine any anti-competitive effects”. Intellectual property differs in important ways from other forms of property. The Guidelines do recognize that intellectual property is “unique”. But that uniqueness has ramifications for the application of competition policy. At its most fundamental, as other commentators have expressed at length, intellectual property requires a focus on dynamic markets, rather than on static allocation of resources. Intellectual property protects innovation, and creation which by their nature bring new works and inventions into the marketplace.

Furthermore, IP legislation itself already reflects a calculus of the benefits to society in granting exclusive rights in IP.

The Differences between Kinds of Intellectual Property Make a Difference in the Application of Competition Law

The Guidelines consciously underplay the differences in the various types of intellectual property (copyright, patent, trademarks, industrial designs and trade secrets).

The key goal of competition policy and IP law and policy is identified in the Guidelines as the promotion of economic efficiency and of innovation. The protection of exclusive rights to exploit those ideas of invention and creative works granted by law is time-limited, reflecting a legislative weighing of the need to *promote* creation and innovation, against the public need for access to the ideas and works that are so protected. The balance between the need to allow a return on investment to the inventor/creator to create an incentive and the need for public access to the invention or to the work, will vary depending on the nature of the IPR. These differing balances can be seen in the different terms of exclusive protection granted to, for example, patents and copyrights.

Patents prevent other parties from making and selling a patented invention for a relatively short period of time. After this time, public interest in access to the invention takes precedence over the inventor’s right to recoup expenses and to profit from exploitation of the invention.

Copyright, on the other hand, does not protect or exclude others from using the ideas contained in a work, but only the particular *expression* of the ideas. Arguably it is in part because there is no exclusivity in the ideas *per se*, that the term of protection is longer (life of the author plus 50 years).

The failure of the Bureau to recognize and account for the important differences which exist between types of intellectual property could result in anomalous applications of policy.

This is most obvious in the licensing of trade-marks, the value of which would be destroyed if subject to compulsory orders associating the marks with unauthorized goods or services. Perhaps this is a reason that none of the examples in the Guidelines touch on trade-marks. The distinction between forms of IP from a competition perspective should be made explicit.

As an incidental matter, the inclusion of rights granted under the *Status of the Artist Act* as intellectual property rights in paragraph 10 is incorrect. The rights conferred to representative artists organizations under that Act result in the creation of a bargaining agent for artists in a designated sector, but do not create intellectual property rights, either in the certified artists organization, or the artists included in the defined sector. Artists organizations certified under the *Status of the Artist Act* are deemed by virtue of subsection 9(2) of that Act to be “combinations of employees” for the purpose of exemption from the provisions of the *Competition Act* under subsection 4(1) of the *Competition Act*.

Level of Specificity

To alleviate uncertainty, the general abstract principles must be brought down to a level of specificity that permits them to be applied to a given fact situation with some degree of assurance that they will be broadly predictive of the position of the Bureau as to whether any given conduct involving IP rights has been anti-competitive. In other words, guidelines should give practical guidance as to how the policy will apply to a given business practice in a given situation. To do this, the guidelines must be as concrete as possible.

In this respect there is a critical gap, and too frequently a contradiction, between the detailed and highly fact-specific hypothetical examples included in the Guidelines, and the broad and largely non-controversial principles governing the interface between IP laws and competition laws. The gap is caused by the difficulty of applying the general principles to a given business arrangement involving IP, on the one hand, and the difficulty of generalizing the policy applications in the hypothetical examples from their detailed fact situations, on the other.

While we appreciate that the Bureau cannot address every situation, and while we understand that the guidelines cannot replace the advice of qualified counsel, we nonetheless believe that the principles in the Guidelines must be made sufficiently concrete to alert IP rightsholders to situations where they may have to employ such counsel.

The challenge in drafting guidelines is to articulate principles of application of competition policy that business people and their advisors can reasonably apply. This is particularly necessary, for licensing, as licensing is generally an “ordinary course of business” activity in the copyright industries. This is as opposed to mergers, which are transactions out of the ordinary course of business in which competition law analysis will be a standard consideration. We believe there is still significant analytical work to be done before the Guidelines give the kind of “guidance” which will in fact explain how the Bureau will assess business arrangements involving IP, particularly in respect of licensing.

A broader challenge is to ensure that any enforcement policy is moderated to ensure that the dynamic requirements of the creation and exploitation of intellectual property are not

constrained by an overly aggressive application of competition law. In our view, the Bureau should revise the Guidelines to clearly articulate and respect the right of owners of IPR to exercise their legal intellectual property rights, as they are defined by statute and common law, and where appropriate, identify the factors which may, in its opinion, take any given business arrangement “beyond” such rights.

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Thank you for the opportunity to comment on the draft guidelines. We look forward to the opportunity to comment on the next draft of the Guidelines.

APPENDIX “A”

The **Canadian Copyright Institute**, founded in 1965, is an association of creators, producers and distributors of copyright works. The Institute’s purpose is to encourage a better understanding of copyright law on the part of its members and the public, and to engage in and to foster research and reform in copyright law. The Institute’s membership includes associations of creators and distributors, individuals, and corporations within the copyright industries.

The **Canadian Publishers’ Council** was founded in 1910 as a national publishing trade association. Its member firms publish in all markets, including school, post-secondary, general interest, professional and reference. They publish in every format, from books to CD-ROMS and online services.

The **Association of Canadian Publishers** represents over 125 Canadian-owned book publishers, with members from all provinces and territories, and members from the literary, general trade, scholarly and education sectors. In all its activities, the ACP aims to encourage the writing, publishing, distribution and promotion of Canadian books.

The **Canadian Music Publishers Association** is Canada’s oldest and largest organization of music publishers doing business in Canada. Founded in 1949, CMPA’s members own and/or administer the vast majority of copyright musical works performed and reproduced in Canada.

The **Playwrights Union of Canada** is an association of primarily English-language Canadian playwrights with a membership of about 350 in the whole of Canada. It represents the interests of playwrights with respect to their plays and administers the amateur production rights of 90% of its members. Bi-annually it negotiates the terms and conditions of the collaboration between its members and the members of the Professional Association of Canadian Theatres (PACT), which both agree set standards for the industry.