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The Application of the Essential Facilities Doctrine to Intellectual Property Licensing in the European Union and the United States: Are Intellectual Property Rights Still Sacrosanct?

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ARTICLE

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INTRODUCTION

It has traditionally been stated that intellectual property rights[1] ("IPRs") and antitrust law conflict with each other.[2] The conflict arises because intellectual property law creates and protects monopoly power, while antitrust law proscribes it.[3] An additional explanation for this conflict stems from antitrust law's focus on attaining competitive market conditions not particular outcomes, as opposed to intellectual property law's preoccupation with ensuring the optimum amount of innovation.[4]

Recently, regulatory regimes have tried to reconcile these conflicting objectives by emphasizing the common purpose of intellectual property law and antitrust law: promoting innovation and enhancing consumer welfare.[5] This reconciliatory approach departs from the traditional view of IPRs as instruments of potential antitrust infringements.[6] Despite commonalities, the intersection between the two bodies of law has produced heavy litigation.[7] Attempts by U.S. courts to reconcile the conflict between IPRs and antitrust liability

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1 Intellectual property rights encompass patents, copyrights, trademarks, know-how, trade dress, registered designs, plant breeders' rights, and other similar related rights granted under national law, such as performance rights or broadcasting rights.

2 Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1215 (9th Cir. 1997) [hereinafter *Kodak II*].

3 *Id.* (quoting United States v. Westinghouse Elec. Corp., 648 F.2d 642, 646 (9th Cir. 1981)).

4 David McGowan, *Regulating Competition in the Information Age: Computer Software as an Essential Facility Under the Sherman Act*, 18 HASTINGS COMM. & ENT. L.J. 771, 773-74 (1996).

5 *See e.g.*, U.S. Department of Justice and Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property (April 6, 1995), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,132 [hereinafter *IP Guidelines*]; Debra A. Valentine, General Counsel of the FTC, *Abuse of Dominance in Relation to Intellectual Property: U.S. Perspectives and the Intel Cases*, (Nov. 15, 1999) (remarks at the Israel International Antitrust Conference), *available at* http://www.ftc.gov/speeches/other/dvisraelin.htm (last visited Mar. 9, 2001).

6 James B. Kobak, Jr., *Running the Gauntlet: Antitrust and Intellectual Property Pitfalls on the Two Sides of the Atlantic*, 64 ANTITRUST L.J. 341, 344 (1996).

7 *See* Michael H. Kauffman, *Image Technical Services, Inc. v. Eastman Kodak Co.: Taking One Step Forward and Two Steps Back in Reconciling Intellectual Property Rights and Antitrust Liability*, 34 WAKE FOREST L. REV. 471, 503-05 (1999).

have not reduced the legal uncertainty in this field of law.[8] The two bodies of law make use of different methods in achieving their common goals.[9] Antitrust law assumes that deterring monopolies will lead to the attainment of economic efficiency, while intellectual property law assumes that efficiency will be achieved only if regulators correctly estimate the proper mix of incentive and access to IPRs as needed to provide the optimal amount of innovation.[10] As this essay explains, this uncertainty concerning the amount of incentives necessary to guarantee optimal innovation has proven problematic in the intellectual property law context.[11]

This essay will examine the application of the essential facilities doctrine to refusals to license IPRs in the United States ("U.S.") and the European Union ("EU"). The application of the essential facilities doctrine to IPRs reflects the tension between antitrust law and intellectual property law.[12] A complex issue in antitrust law concerns determining whether a refusal to license intellectual property by a company with market or monopoly power infringes Article 82 of the Treaty Establishing the European Community[13] or Section 2 of the Sherman Act.[14]

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[8] *Compare Kodak II* (affirming a jury verdict for ISOs against Kodak, ruling that a patent owner's unilateral refusal to deal may violate antitrust laws where it is motivated by an anti-competitive purpose), *with In re* Independent Serv. Org. Antitrust Litig., 203 F. 3d 1322 (Fed. Cir. 2000) (affirming a summary judgment in favor of Xerox, ruling that Xerox was under no obligation to sell or license its patented parts and did not violate the antitrust laws by refusing to do so).

[9] Thomas F. Cotter, *Intellectual Property and the Essential Facilities Doctrine*, 44 ANTITRUST BULL. 211, 227-28 (Spring 1999).

[10] *Id.*

[11] See discussion *infra*. Section IV.A.2.

[12] Cotter, *supra* note 9, at 235.

[13] *See* TREATY ESTABLISHING THE EUROPEAN COMMUNITY, Nov. 10, 1997, O.J. (C 340) 3 (1997), [hereinafter EC TREATY] (incorporating changes made by TREATY ON EUROPEAN UNION, Feb. 7, 1992, O.J. (C 224) 1. Note that the EC TREATY was amended by the TREATY OF AMSTERDAM; *see* TREATY OF AMSTERDAM AMENDING THE TREATY ON EUROPEAN UNION, THE TREATIES ESTABLISHING THE EUROPEAN COMMUNITIES AND CERTAIN RELATED ACTS, Oct. 2, 1997, O.J. (C 340) 1 (1997) [hereinafter TREATY OF AMSTERDAM]. After the reform introduced by the TREATY OF AMSTERDAM, Articles 85 and 86 of the EC TREATY have become Articles 81 and 82 respectively. Note: European Community ("EC") competition law refers to "dominant position" to describe what U.S. Antitrust Law refers to as "market power." This essay uses these terms interchangeably.

[14] 15 U.S.C. § 2 (1990).

This essay highlights the differences between the EU and U.S. approaches and analyzes the recent inroads antitrust law has had in the sacrosanct domain of IPRs on both sides of the Atlantic.[15] Even though the prima facie elements to finding antitrust liability under the essential facilities doctrine are similar in the EU and U.S., the elements have been applied differently in their respective jurisdictions.[16] Notwithstanding this difference, in both the EU and U.S. it is difficult to rely on the essential facilities doctrine to force a dominant owner to license its IPRs.[17]

Section II of this essay analyzes the differing origins and approaches taken by the EU and U.S. authorities towards the essential facilities doctrine. Section III discusses the application of the essential facilities doctrine to refusals to deal. Section IV focuses on recent developments in the EU and U.S. in the application of this doctrine to refusals to license. Section V comments on the shortcomings of the approaches taken by U.S. jurisprudence towards compulsory licensing and analyzes the alternative approaches proposed by scholars regarding the application of antitrust laws to refusals to license. Finally, Section VI concludes that U.S. intellectual property ("IP") holders who refuse to license their IPRs contend with more legal uncertainty than their European counterparts.

I. THE DIFFERENT APPROACHES TOWARDS THE APPLICATION OF THE ESSENTIAL FACILITIES DOCTRINE IN THE EUROPEAN AND THE UNITED STATES

In spite of its U.S. origins, the essential facilities doctrine now appears to be more important in EC competition law than in U.S. antitrust law.[18] The essential facilities doctrine is applicable to a broader range of situations in the EU than in the U.S. and, therefore,

[15] *See* Kobak, *supra* note 6, at 354-54.
[16] *Id.* at 346-47.
[17] *See* Cotter, *supra* note 9, at 235, 250.
[18] *See* John Temple Lang, *Defining Legitimate Competition: Companies' Duties to Supply Competitors and Access to Essential Facilities*, 18 FORDHAM INT'L. L.J. 437, 484-85 (1994).

companies tend to rely more heavily on the essential facilities doctrine in the EU than in the U.S.[19] Two main factors drive these different approaches to the use of the essential facilities doctrine: (i) the different development of the essential facilities doctrine in the EU and the U.S., and; (ii) the strong influence that the economic model proposed by the Chicago School[20] has exerted upon U.S. antitrust agencies (the Federal Trade Commission and the Antitrust Division of the Department of Justice) and the judiciary.[21]

The development of the essential facilities doctrine has been different in the EU and the U.S.[22] As Section III.B explains below, EC competition law imposes upon dominant firms a general duty to share as well as a duty to supply.[23] The existence of these obligations obviates the need to construe an essential facilities doctrine in the EU. Contrariwise, the U.S. does not impose such general duties upon dominant firms.[24] Section 2 of the Sherman Act does, however, prohibit monopolization and attempts to monopolize.[25] Additionally, U.S. case law has relied on the essential facilities doctrine to create an exception to the general principle that firms do not have a duty to deal.[26] Under this doctrine, the owners of an essential facility may be found to monopolize in the meaning of

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[19] James S. Venit & John J. Kallaugher, *Essential Facilities: A Comparative Approach*, 1994 FORDHAM CORP. L. INST. 315, 333 (Barry E. Hawk ed., 1995); Mercer H. Harz, *Dominance and Duty in the European Union: A Look Through Microsoft Windows at the Essential Facilities Doctrine*, 11 EMORY INT'L L. REV. 189, 190 (1997).

[20] The Chicago School of economics considers efficiency the fundamental goal to be achieved in the market. This theory espouses the notion that businesses exist to maximize profit. As such, the market compels businesses to make rational decisions that promote efficiencies. Whereas competition secures market efficiencies, antitrust laws merely function to further support market created efficiencies. In essence, this school of thought views the market as a self-correcting force that punishes individuals who pursue inefficient practices. *See* Richard A. Posner, *The Chicago School of Antitrust Analysis*, 127 U. PA. L. REV. 925, 938-44 (1979).

[21] Venit & Kallaugher, *supra* note 19, at 344.

[22] Harz, *supra* note 19, at 189-90.

[23] *See* Lang, *supra* note 18, at 521; Venit & Kallaugher, *supra* note 19, at 332-33; Valentine Korah, *The Ladbroke Saga*, 3 EUR. COMP. L.R. 169, 174 (1998).

[24] *See* Venit & Kallaugher, *supra* note 19, at 332-33.

[25] *See* 15 U.S.C. § 2 (1990).

[26] Venit & Kallaugher, *supra* note 19, at 316.

Section 2, unless they make the facility available to outsiders.[27]

These differing approaches partly explain why practitioners find it easier to rely on the essential facilities doctrine in the EU as opposed to the U.S.[28] Moreover, these differing approaches also explain in part the narrower approach taken by American courts in invoking the essential facilities doctrine only in extreme cases.[29] Professor Areeda, concerned with the impact of this doctrine in reducing incentives to investment, identified those cases as examples of where a group of competitors acquires an existing bottleneck, such as what occurred in *United States v. Terminal Railroad Association*.[30]

Additionally, one should also consider that U.S. agencies and courts have been strongly influenced by the economists of the Chicago School.[31] According to Chicago School economists, antitrust law should only concern itself with the efficient operation of the markets, without regard to sociopolitical objectives.[32] In the EU, the European Commission (the "Commission") has never been directly influenced by the theories of the Chicago School.[33] Policy and social concerns command greater attention in EC competition law than in U.S. antitrust law.[34] For instance, the outcome of the *Radio Telefis Eireann v. Commission and Independent Television Publications Ltd. v. Commission* ("*Magill")*[35] case can be attributed to the subordinate consideration Europeans give market efficiency as compared to sociopolitical interests.[36]

The EC Treaty places great emphasis on the sociopolitical objective of achieving an integrated economy throughout the

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27 P. Ahern, *Refusals to Deal After Aspen*, 63 ANTITRUST L.J. 153, 166-82 (1994).

28 Venit & Kallaugher, *supra* note 19, at 334-36.

29 *See* Philip Areeda, *Essential Facilities: An Epithet in Need of Limiting Principles*, 58 ANTITRUST L.J. 841, 841-42 (1989); Korah, *supra* note 23, at 174.

30 *See* Areeda *supra* note 29 at 841-842; *see generally* United States v. Terminal R.R. Ass'n, 224 U.S. 383 (1912).

31 Harz, *supra* note 19, at 197. *See also supra* text accompanying note 20.

32 Harz, *supra* note 19, at 197.

33 *Id.*

34 *Id.*

35 Joined Cases C-241/91 P & C-242/91 P, Radio Telefis Eireann v. Commission, 1995 E.C.R. I-743.

36 *Id.*; *see* discussion *infra* Section IV.C.2

European Union.[37] EC competition law functions as an instrument to bring about a common market.[38] This goal of integrating the economies of the Member States of the EU has influenced how the Commission, the European Court of Justice ("ECJ") as well as the European Court of First Instance ("CFI") utilize the essential facilities doctrine.[39]

Market integration may control the application of essential facilities in two ways. First, with regard to the jurisprudence of EC Courts, concern for market integration affects how the courts interrelate EC Treaty[40] provisions regarding the free movement of goods to the use of IPRs.[41] It is beyond the scope of this essay to provide an analysis of this case law; however, it is important to note that this jurisprudence restricts the scope, and indirectly diminishes the value, of IPRs in the EU by having interpreted very broadly the "doctrine of exhaustion" of IPRs into the common market.[42] According to the "exhaustion doctrine," it is contrary to Articles 28 and 30 of the EC Treaty for an IP holder to assert its rights in one Member State to prevent parallel imports of patented products put in the market of another Member State by any of its licensees or with its consent.[43] The exhaustion of IPRs is not unknown to U.S. law. In the U.S., patents, trademarks and copyrights are subject to a "first-sale doctrine."[44] An IP owner "cannot ordinarily prevent or control the sale of goods bearing the mark once the owner has permitted those goods to enter commerce."[45]

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37 Emmanuel P. Mastromanolis, *Insights from U.S. Antitrust Law on Exclusive and Restricted Territorial Distribution: The Creation of a New Legal Standard for European Union Competition Law*, 15 U. PA. J. INT'L BUS. L. 559, 562 (1995).

38 *Id.*

39 *See id.* at 563.

40 EC Treaty, *supra* note 13, at arts. 28-30.

41 Mastromanolis, *supra* note 37, at 569.

42 Case 15/74, Centrafarm BV v. Sterling Drug, Inc., 1974 E.C.R. 1147; *see* VALENTINE KORAH, AN INTRODUCTORY GUIDE TO EC COMPETITION LAW & PRACTICE, §§ 8.1-.4 (6th ed. 1997).

43 *See* Korah supra note 42§§ 8.1-.4.

44 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 24 cmt. b. (1995); *see also* Adams v. Burke, 84 U.S. (17 Wall.) 453 (1874); Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992).

45 RESTATEMENT (THIRD), *supra* note 44, at § 24 cmt. b.

In light of this jurisprudence — which erodes the usefulness of IPRs, namely, the right to exclude others from using or making the goods or services protected by those rights — it should come as no surprise that the Commission and EC Courts could broadly apply the essential facilities doctrine as a basis to compel the licensing of IPRs.[46] For instance, the distinction between the "existence" of the IPRs and their "exercise" in *Magill* reflects the powerful influence continually exerted by the EU's concern for common market integration.[47] The Commission's distinction between IPRs and their actual use enables it to subordinate nationally granted IPRs to the integrationist interests of the EU.[48]

The second reason for the more prominent use of the essential facilities doctrine in the EU derives from the recent break-up of state-owned monopolies.[49] The recent history of state-controlled industries in Europe, which the member states began to privatize in the 1990s, has left many more dominant positions in the EU than exist in the U.S.[50] The doctrine of essential facilities is seen by the Commission as an additional antitrust instrument to deter companies and former incumbents from abusing their dominant positions.[51]

[46] *See* Venit & Kallaugher, *supra* note 19, at 334-35.

[47] *See* Ian S. Forrester, *Magill, "A Famous Victory"? Third Party Access to Intellectual Property Rights*, in 2 INT'L INTELL. PROP. LAW & POL'Y, §§ 35-7 to 8 (Hugh C. Hansen ed., 1996).

[48] *Id.* at §§ 35-5 to 10.

[49] Harz, *supra* note 19, at 198 n. 65; Lang, *supra* note 18, at 483.

[50] Harz, *supra* note 19, at 198 n. 65; Lang, *supra* note 18, at 483.

[51] *See* Lang, *supra* note 18, at 483.

II. THE APPLICATION OF THE ESSENTIAL FACILITIES DOCTRINE TO REFUSALS TO DEAL

A. *Overview*

1. Concept

Neither EU nor U.S. law provides a legal definition of the essential facilities doctrine, and in both systems its contours are still unclear.[52] Some commentators have pointed out that the essential facilities doctrine is not so much a method of analyzing antitrust cases, but rather a useful label to describe the factual posture of cases.[53] The essential facilities doctrine refers to a situation where a dominant firm owns or controls a facility that is indispensable to its competitors and refuses to grant access to that facility.[54] An essential facility can be a product, like a raw material[55] or a replacement part;[56] a license of an intellectual property right;[57] a service, such as access to a computerized airline reservation system;[58] a harbor;[59]

[52] Harz, *supra* note 19, at 221-23.

[53] Lang, *supra* note 18, at 483 (noting that "[e]ssential facility cases involve basic principles [and the] concept may be merely a useful label . . . rather than an analytical tool"); PHILIP E. AREEDA & HERBER HOVENKAMP, ANTITRUST LAW 650-51 (Supp. 1995) (stating that "[E]ssential facility' is just an epithet . . . . It is not an independent tool of analysis, but only a label-a label that beguiles some commentators and courts into pronouncing a duty to deal without analyzing the implications . . . .").

[54] *See* Areeda & Hovenkamp, *supra* note 53, at 650-51.

[55] *E.g.*, Joined Cases 6 & 7/73R, Instituto Chemioterapico Italiano SpA et Commercial Solvents Corp. v. Commission, 1973 E.C.R. 0357.

[56] *E.g.*, Commission Decision 87/500/EEC Relating to a Proceeding Under Article 86 of the EEC Treaty (IV/32.279 – BBI/Boosey & Hawkes Interim Measures), 1987 O.J. (L 286) 36.

[57] *E.g.*, Case T-69/89, Radio Telefis Eireann v. Commission, 1991 E.C.R. II-485; Joined Cases C-241/91 P & C-242/91 P, Radio Telefis Eireann v. Commission, 1995 E.C.R. I-743.

[58] *E.g.*, Commission Decision 92/213/EEC Relating to a Procedure Pursuant to Articles 85 and 86 of the EEC Treaty (IV/33,544, British Midland v. Aer Lingus), 1992 O.J. (L 96) 34; Alaska Airlines, Inc. v. United Airlines, Inc., 948 F.2d 536 (9th Cir. 1991) (involving a similar U.S. example).

[59] *E.g.*, Case IV/34.174, B&I Line PLC v. Sealink Harbour Ltd. & Sealink Stena Ltd., 5 C.M.L.R. 255 (1992); Commission Decision 94/119/EC Concerning a Refusal to Grant

railway facilities;[60] a football stadium;[61] a power generation or telecommunication network;[62] the landing and take off slots of airports;[63] or an airport needed to provide ground services.[64] The duty to provide access to the facility arises when the dominant firm's competitor faces an insurmountable barrier of access to the market if deprived of access to the facility.[65] Additionally, the duty to provide access arises when lack of access subjects competitors to a serious, permanent and inescapable competitive handicap that would render their activities uneconomical.[66]

A degree of confusion exists concerning the relationship between the essential facilities doctrine and the "monopoly leveraging doctrine."[67] While the two doctrines often overlap,[68] both theories

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Access to the Facilities of the Port of Rødby, 1994 O.J. (L 55) 52; Driscoll v. City of New York, 650 F. Supp. 1522 (S.D.N.Y. 1987) (involving a similar U.S. example).

[60] *E.g.*, United States v. Terminal R.R. Ass'n, 224 U.S. 383 (1912); Laurel Sand & Gravel, Inc. v. CSX Transp., Inc., 704 F. Supp. 1309 (D. Md. 1989), *aff'd*, 924 F.2d 539 (4th Cir. 1991).

[61] *E.g.*, Ferguson v. Greater Pocatello Chamber of Commerce, Inc., 848 F.2d 976 (9th Cir. 1988).

[62] *E.g.*, Commission Notice on the Application of the Competition Rules to Access Agreements in the Telecommunications Sector, 1998 O.J. (C 265) 2. A brief commentary on this Notice can be found in Sergio Baches Opi, *Comunicación sobre la Aplicación de las Normas de Competencia a los Acuerdos de Acceso en el Sector de las Telecomunicaciones*, 654 Revista General del Derecho, 2517-18 (Mar. 1999); Otter Tail Power Co. v. United States, 410 U.S. 366 (1973); MCI Communications Corp. v. American Tel. & Tel. Co., 708 F.2d 1081 (7th Cir. 1983) (concerning similar U.S. examples).

[63] *E.g.*, Commission Regulation 1617/93, 1993 O.J. (L 155) 18; Council Regulation 95/93, 1993 O.J. (L 14) 1.

[64] *E.g.*, Commission Decision 98/190/EC Relating to a Proceeding under Article 86 of the EC Treaty, 1998 O.J. (L 72) 30.

[65] *See* Lang, *supra* note 18, at 439.

[66] *See id.* at 487; *see* Alaska Airlines, Inc. v. United Airlines, Inc., 948 F.2d 536, 544 (9th Cir. 1991); Twin Labs., Inc. v. Weider Health & Fitness, 900 F.2d 566, 568 (2d Cir. 1990); Advanced Health-Care Servs., Inc. v. Giles Mem'l Hosp., 846 F. Supp. 488, 498 (W.D. Va. 1994). Perhaps because the essential facility doctrine is seen as a label to describe a factual situation, some commentators, especially in the U.S., have questioned whether this doctrine is necessary at all. This school of thought argues that refusals of access that increase or maintain market power are already subject to attack as a group boycott, monopolization, or attempt to monopolize. *See* James R. Ratner, *Should There Be an Essential Facility Doctrine?*, 21 U.C. DAVIS L. REV. 327, 382 (1988); Areeda, *supra* note 29, at 841.

[67] In the U.S. the "monopoly leveraging doctrine" refers to those situations where a company uses its monopoly power in one market to gain a "competitive advantage" or "to monopolize or attempt to monopolize" another market. U.S. courts have issued conflicting

could be distinguished in different ways. First, the essential facilities doctrine represents one of three tests used to determine whether a monopolist has unlawfully refused to deal.[69] In both the U.S. and EU, the plaintiff in an essential facility lawsuit must objectively prove that access to the facility is "indispensable" in order to

decisions regarding the elements to prove a monopoly leveraging case. The Second Circuit has ruled that a firm violates Section 2 of the Sherman Act merely by obtaining a competitive advantage in the second market, even in the absence of monopolization or an attempt to monopolize the leveraged market. *See* Berkey Photo, Inc. v. Eastman Kodak Co., 603 F.2d. 263 (2d Cir. 1979). In contrast, the Seventh Circuit rejected the "monopoly leveraging doctrine" set forth in *Berkey* and instead requires proof of defendant's use of monopoly power in one market to obtain, or attempt to obtain, a monopoly in the leveraged market. *See Alaska Airlines*, 948 F.2d, at 544. In the EU, the Commission and the EC Courts seem to have adopted a position similar to that held by the Second Circuit. In *Tetra Pak International SA v. Commission*, the Commission found that Article 82 of the EC Treaty prohibits a firm with dominant position in one market from engaging in anticompetitive practices in a second market where the company does not enjoy dominant position if the second market has close associative links with the market in which the firm is dominant. In this case, Tetra Pak was not dominant in the non-aseptic market for equipment and cartons for packaging liquids. However, the Commission found that Tetra Pak had abused its dominant position in the markets for aseptic and non-septic equipment and cartons, *inter alia,* by requiring buyers of equipment for filling cartons with milk and fruit juice to buy the cartons from Tetra Pak. Both the CFI and the ECJ upheld the Commission's decision. *See* Case T-83/91, Tetra Pak International SA v. Commission., 1994 E.C.R. II-755; Case 333/94P, Tetra Pak International SA v. Commission, 1996 E.C.R. I-5951. The ruling of the ECJ has been criticized by some scholars for failing to explain how the alleged links between the dominated and the non-dominated market allowed Tetra Pak to abuse its dominance in the non-dominated market. *See* Valentine Korah, *Tetra Pak II – Lack of Reasoning in Court's Judgment*, 2 EUR. COMP. L.R. 98, 99 (1996). Other commentators agree with the reasoning and holding of the ECJ. *See* D.G. GOYDER, EC COMPETITION LAW 329 (1998).

[68] *See* Allen Kezsbom & Alan V. Goldman, *No Shortcut to Antitrust Analysis: The Twisted Journey of the "Essential Facilities" Doctrine*, 1 COLUM. BUS. L. REV. 5 (1996). For a practical example of this overlap, *see*, *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346 (Fed. Cir. 1999).

[69] "Changes in pattern of dealing" and the "monopoly leveraging doctrine" represent the other two tests. *See* James B. Kobak, Jr., *Antitrust Treatment of Refusals to License Intellectual Property*, 566 PLI/PAT 517, 519 (1999). *See also* Kezsbom & Goldman, *supra* note 68, at 5 explaining that:

> a helpful way of understanding the [essential facilities] doctrine is to view it as a 'branch' of the law governing when a monopolist, or a group with aggregate monopoly power, has a duty to deal with competitors. In practice, many cases cited as examples of the doctrine's purported application actually represent traditional analysis that could have been approached utilizing some accepted Section 2 theory, such as monopoly leveraging, or abuse of monopoly power.

Id.

compete in the market with the firm that controls the facility.[70] The monopoly leveraging doctrine does not require such proof.[71] Because indispensability is difficult to prove, the monopoly leveraging doctrine offers plaintiffs better odds of success.[72] Second, the two doctrines can be distinguished on the basis of the scope of the business justifications offered for refusing to deal.[73] In an essential facilities dispute, business justifications appear to be limited to situations where access would disrupt the monopolist's own business, whereas traditional monopoly leveraging situations accommodate broader business justifications.[74]

Not withstanding the above, U.S. plaintiffs may face fewer obstacles when relying on the essential facilities doctrine because U.S. courts do not require that plaintiffs define the actual market involved.[75] Moreover, relying on the essential facilities doctrine may make it is easier for plaintiffs to prove a general intent to monopolize or a specific intent to attempt to monopolize, as required by Section 2 of the Sherman Act.[76] U.S. plaintiffs can argue that mere denial of access to an essential facility indicates anticompetitive intent.[77] It should be noted that *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*[78] *("Aspen Skiing")* could make the task of U.S. plaintiffs more difficult.[79] In *Aspen Skiing*, the Supreme Court supplemented the "intent to monopolize" test by requiring plaintiffs to establish the existence of exclusionary or predatory conduct.[80] In the EU, situations exist where use of the essential facilities doctrine to establish an Article 82 violation proves less onerous than reliance on

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[70] *See* Harz, *supra* 19, at 223.
[71] *See* Venit & Kallaugher, *supra* note 19, at 318-19.
[72] *See id.*
[73] *Id.*
[74] *See* Venit & Kallaugher, *supra* note 19, at 318-19.
[75] *See* Helix Milling Co. v. Terminal Flour Mills Co., 523 F.2d 1317, 1320 (9th Cir. 1975) (providing no analysis of relevant geographic market); Denver Petroleum Corp. v. Shell Oil Co., 306 F. Supp. 289, 304-06 (D. Colo. 1969) (holding that proof of monopoly power and definition of the relevant market is unnecessary because of defendant's ability to exclude competitors from the essential facility).
[76] Venit & Kallaugher, *supra* note 19, at 316-17.
[77] *See* Kezsbom & Goldman, *supra* note 68, at 7.
[78] 472 U.S. 585 (1985).
[79] *See* Venit & Kallaugher, *supra* note 19, at 317-18.
[80] Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 586 (1982).

the monopoly leveraging doctrine.[81] Even in the absence of other factors typically required in monopoly leveraging cases — tying of sales, discrimination *vis-à-vis* another independent competitor, discontinuation of supplies to existing customers, or deliberate action to damage a competitor — the EU Commission has shown a willingness to view the mere act of refusing access to an essential facility an abuse.[82]

A balancing test underlies the application of the essential facilities doctrine.[83] Courts and antitrust authorities will require a dominant company to grant access to its facilities when the economic and social benefits for consumers in establishing higher levels of free competition in a particular market override the right of a company to choose those with whom it wants to deal.[84] At times, however, consumer benefits could prove ephemeral, and the obligation imposed on a company to share its facility with competitors could adversely effect competition for the long-term.[85]

Application of the essential facilities doctrine could be overbroad.[86] Despite short-term gain to consumers in terms of price, quality and choice terms, use of the essential facilities doctrine could have a triple negative effect on competition in the long term.[87] First, it would discourage competitors from developing alternative competing facilities.[88] Second, it would reduce the incentive for dominant undertakings to introduce innovations in or duplicate their essential facilities.[89] Third, since someone will have to determine the

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81 *See* Venit & Kallaugher, *supra* note 19, at 332-35.

82 *See* Case C-7/97, Oscar Bronner GmbH Co KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, 1998 E.C.R. I-7791, [1998] 4 C.M.L.R. 112, 130 at ¶ 50 (1999).

83 Venit & Kallaugher, *supra* note 19, at 337, n. 58.

84 *Id.* at 336-41.

85 *See* Lang, *supra* note 18, at 512-13; Areeda, *supra* note 29, at 852.

86 Venit & Kallaugher, *supra* note 19, at 339, n. 65.

87 Areeda, *supra* note 29, at 851.

88 Of course, this is not the case when an incumbent passes a "tipping point" i.e., a degree of penetration that leads to a single network dominating the field. In that event, there will be no viable alternative networks that can be established. *See* Robert Pitofsky, *Antitrust Analysis in High-Tech Industries: A 19th Century Discipline Addresses 21st Century Problems*, 4 TEX. REV. L. & POL'Y. 129, 136 (1999).

89 *See* Case C-7/97, Oscar Bronner GmbH Co KG v. Mediaprint Zeitungs-und

terms of a compulsory access or license, it invites regulatory intervention.[90] These three drawbacks particularly impinge on IPRs. Given the tendency to misrepresent IPRs as a monopoly, misuse of the essential facilities doctrine could be potentially damaging to the viability of IPRs.[91]

2. The Basic Provisions

To understand the U.S. and EU case law dealing with the essential facilities doctrine, one must examine the basic antitrust provisions courts utilize to evaluate it.[92] In the EU courts analyze the essential facilities doctrine in cases concerning refusals to deal pursuant to the framework set forth under Article 82 of the EC Treaty.[93] Article 82 prohibits any abuse by one or more undertakings of a dominant position within the common market, or in a substantial part of it, in so far as it may affect trade between Member States.[94] Section 2 of the Sherman Act, the relevant provision in the U.S., proscribes a person or a firm from monopolizing or attempting to monopolize any part of the trade or commerce among several States, or with foreign nations.[95]

Zeitschriftenverlag GmbH & Co. KG, 1998 E.C.R. I-7791, [1998] 4 C.M.L.R. 112, 130 at ¶ 57 (1999); Korah, *supra* note 22, at 174.

[90] *See id.*

[91] *See* Derek Ridyard, *Essential Facilities and the Obligation to Supply Competitors under UK and EC Competition Law*, 17 EUR. COMP. L.R. 438, 445 (1996); *In re Independent Serv. Org. Antitrust Litig.*, 989 F. Supp. 1131, 1135-36 (D. Kan. 1997), *aff'd*, 203 F.3d 1322 (Fed. Cir. 2000).

[92] *See generally* Venit & Kallaugher, *supra* note 19 (explaining how §§ 1, 2 of the Sherman Act and Article 82 of the EC Treaty serves as the proper point of departure in an analysis of the essential facilities doctrine because these statutes establish the parameters of the doctrine's future development).

[93] *Id.* at 325.

[94] Article 82 was previously Article 86 under the EC Treaty of Rome before its revision pursuant to the Treaty of Amsterdam.

[95] 15 U.S.C. § 2 (1990). Section 2 provides that:

> [e]very 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 $10,0000,000 if a corporation, or, if any other person, $350,000, or

Commentators in the EU have tried to analogize Article 82 with Section 2 of the Sherman Act.[96] However, significant differences between these two provisions exist.[97] First, Article 82 prohibits customer exploitation and exclusionary practices,[98] while under Section 2, U.S. courts have emphasized the exclusionary practices against competitors by defendants.[99] As *United Brands v. EC Commission*[100] shows, Article 82 even prohibits abuses that may not advance the firm's dominant position yet may cause direct harm to a single consumer or have an anticompetitive effect in markets in which the dominant firm does not compete.[101]

It is important to note that in the essential facilities field the ECJ seems to have confined the application of Article 82 to those cases in which the defendant's conduct is exclusionary, namely, to those cases in which the refusal to grant access to the facilities harms competition.[102] Under this approach, harm to a single competitor in a market where there are other competitors does not necessarily harm competition.[103] It is important to note that the language used by the Advocate General in *Oscar Bronner* represents a novel view in EC

> by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

Id.

96 *See* Harz, *supra* note 19, at 198.

97 *See* BARRY E. HAWK, 2 UNITED STATES, COMMON MARKET & INTERNATIONAL ANTITRUST: A COMPARATIVE GUIDE 743 (Supp. 1990) (discussing Article 86).

98 *See* CARLOS ESTEVA & STEPHEN RYAN, ARTICLE 82 – ABUSE OF A DOMINANT POSITION 121 (Faull & Nikpay, ed., 1999). In Europemballage Corp. & Continental Can v. Commission, the ECJ held that Article 82 "is not only aimed at practices which may cause damage to consumers directly, but also at those which are detrimental to them through their impact on an effective competition structure." Case 6/72, Europemballage Corp. and Cont'l Can v. Commission., 1973 E.C.R. 215, 245 at ¶ 26 (1973).

99 *See* HAWK, *supra* note 97, at 743.

100 *See* Case 27/76, United Brands Co. v. Commission, 1978 E.C.R. 207, 208, [1978] 3 C.M.L.R. 83 (1978).

101 *See* ESTEVA & RYAN, *supra* note 96, at 121; HAWK, *supra* note 97, at 743.

102 Venit & Kallaugher, *supra* note 19, at 328.

103 *See* Case C-7/97, Oscar Bronner GmbH Co KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, 1998 E.C.R. I-7791, [1998] 4 C.M.L.R. 112, 132, at ¶ 58 (1999) (holding that "it is important not to lose sight of the fact that the primary purpose of Article 86 [now Article 82] is to prevent distortion of competition – and in particular to safeguard the interests of consumers – rather than to protect the position of particular competitors").

competition law.[104] The ECJ did not expressly refer to this statement of the Advocate General, but one can infer from its reasoning and holding in *Oscar Bronner* that the Court essentially agreed with the Advocate General.[105]

Second, the policy objective of "single market" inherent throughout the EC Treaty also differentiates Article 82 from Section 2 of the Sherman Act.[106] Conduct such as geographic price discrimination may be condemned under Article 82 because it contributes to the partitioning of the common market, yet escapes Section 2 condemnation because it does not necessarily harm competition.[107] The underlying thought is that there are situations, such as when investments involved significant sunk costs, where discrimination in accordance with what each geographic market can bear leads to increased product supply, and that therefore, society is better off than if price discrimination were forbidden.[108]

Third, both provisions are aimed at regulating firms holding market power, but neither Article 82 of the EC Treaty nor Section 2 of the Sherman Act prohibit dominance or monopoly power alone.[109] Section 2, however, goes one step further by also prohibiting "attempts to monopolize" a relevant market.[110] To establish a monopolization or an attempt to monopolize claim under Section 2, one must evaluate the exclusionary conduct of the defendant that harms competitors - and thereby consumers - in terms of the product's relevant market.[111] A monopolization claim must be based upon the defendant having a substantial market power.[112] The problem, however, is determining how much market power a firm must have in order to establish an attempted monopolization claim under Section 2.[113] Market share requirements vary widely in such

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104 *See id.* at 128, ¶¶ 45-46.
105 *See id.*
106 Mastromanolis, *supra* note 37, at 562-63.
107 *Contra* Commission Decision 80/1333, Hennesst-Henkell, 1980 O.J. (L 383) 11-15.
108 *See* Korah, *supra* note 23, at 172.
109 EC Treaty, *supra* note 13, art. 82; 15 U.S.C. § 2 (1990).
110 15 U.S.C. § 2 (1990).
111 *See* Spectrum Sports, Inc. v. McQuillan, 506 U.S. 447, 447 (1993).
112 15 U.S.C. § 2 (1990).
113 *Id.*

cases.[114] Market shares between 47%-50% or between 50%-55% have been considered insufficient,[115] but in other cases a 24% market share has been considered sufficient.[116] Unlike an outright monopolization claim, "an attempt to monopolize" allegation does not require that plaintiffs establish that the dominant firm possesses market power.[117] Therefore, a U.S. plaintiff can prevail in an attempted monopolization case against a company having a market share lower than the market share typically indicative of dominance under Article 82.[118]

B. *The Essential Facilities Doctrine in the European Union*

Application of the essential facilities doctrine in the EU dates back to the 1970s.[119] A detailed analysis of the jurisprudence of the ECJ as well as the case law of the Commission dealing with essential facilities is beyond the scope of this essay. It is necessary, however, to briefly touch upon landmark decisions of the ECJ and the Commission in this field to understand the different approaches taken in the EU and U.S. regarding the essential facilities doctrine.

The ECJ has yet to make an explicit reference to the essential facilities doctrine;[120] the sole instance of such a reference occurred in an Article 81 case before the Court of First Instance.[121] A number of ECJ cases, however, dealing with refusals to supply goods or services by a dominant company implicitly rely on the essential

[114] E. THOMAS SULLIVAN & HERBERT HOVENKAMP, ANTITRUST LAW, POLICY & PROCEDURE 728 (1999).

[115] *See* Ford v. Stroup, 1997 Trade Cas. (CCH) ¶ 71,838 (6th Cir. April 23, 1997) (opinion unpublished); Springfield Terminal Ry. Co. v. Canadian Pac. Ltd., 133 F.3d 103, 107-08 (1st Cir. 1997).

[116] *See* Twin City Sportservice, Inc. v. Charles O. Finley & Co., 676 F.2d 1291, 1298 (9th Cir. 1982).

[117] *See* SULLIVAN & HOVENKAMP, *supra* note 114, at 727.

[118] *See id.*

[119] *E.g.*, Joined Cases 6-7/73, Istituto Chemioterapico Italiano SpA and Commercial Solvents Corp. v. Commission, 1974 E.C.R. 223, 1 C.M.L.R. 309 (1974); Case 27/76, United Brands Co. v. Commission, 1978 E.C.R. 207, [1978] 3 C.M.L.R. 83 (1978).

[120] Lang, *supra* note 18, at 446.

[121] Joined Cases T-374/4, T-375/94, & T-388/94, ENS, Eurostar, UIC, NS, SNCF v. Commission, 1998 E.C.R. II-3141 (1998).

facilities doctrine.[122] The two leading cases in this area have been *Istituto Chemioterapico Italiano SpA and Commercial Solvents Corp. v. Commission ("Commercial Solvents")* [123] and *United Brands Co. v. Commission ("United Brands")*.[124] These two cases reflect two distinct strands in the theory of abuse under Article 82 of the EC Treaty.[125] *Commercial Solvents* is a monopoly leveraging case, while *United Brands* deals with selective refusals to deal.[126]

In *Commercial Solvents*, the ECJ held that a company with a dominant position in the production of a raw material could not cease supplying an existing customer and competitor in the downstream market for derivatives of the raw material when the refusal would eliminate the competitor from the market.[127] The ECJ found the defendant's purported justification for its refusal to supply - that it would commence using the raw material to manufacture derivative products - unpersuasive.[128]

In *United Brands,* the ECJ found that United Brands, the distributor of Chiquita bananas, abused its dominant position by cutting off supplies to a Danish ripener-distributor because the latter had begun advertising bananas of a competing brand.[129] Unlike *Commercial Solvents*, the parties in this case were not in a competitive relationship.[130] Despite this fact, the ECJ acknowledged that United Brands had a duty to continue supplying its Danish distributor.[131] The ECJ took into account the impact that United Brand's termination could have on the willingness of other customers to distribute competing brands as well as the need to preserve the independence of small and medium size firms in their

[122] *See e.g.,* Case C-7/97, Oscar Bronner GmbH&Co KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH&Co. KG, 1998 E.C.R. I-7791, [1998] 36 C.M.L.R. 1289 (1999).

[123] Joined Cases 6-7/73, *Commercial Solvents*, 1974 E.C.R. 223.

[124] Case 27/76, *United Brands*, 1978 E.C.R. 207.

[125] Venit & Kallaugher, *supra* note 19, at 328.

[126] Joined Cases 6-7/73, *Commercial Solvents*, 1974 E.C.R. 223; Case 27/76, *United Brands*, 1978 E.C.R. 207.

[127] Joined Cases 6-7/73, *Commercial Solvents*, 1974 E.C.R. at 250-51.

[128] *Id.*

[129] Case 27/76, *United Brands*, 1978 E.C.R. at 217.

[130] *Id.* at 216-17.

[131] *Id.* at 207-08.

commercial position with a dominant company.[132]

There are two main differences between *United Brands* or *Commercial Solvents*-type cases and normal essential facility cases. First, if a dominant company tries to deny access to a facility as a means of putting pressure on a competitor to compete less vigorously, it is likely to commit an abuse "even if the facility is not essential."[133] Second, in cases involving selective refusal of access as a way of discouraging aggressive competition, courts pay particular attention to special characteristics of the victim so as to determine how likely refusal will cause the firm to be discouraged from entering the market, to compete vigorously, or to be forced out of the market entirely.[134]

The sweeping reasoning of the ECJ in *United Brands* and *Commercial Solvents* may explain why the ECJ did not refer expressly to the essential facilities doctrine in subsequent cases.[135] After *Commercial Solvents* and *United Brands* the general duty to supply was so well established that it was not necessary to distinguish essential facilities cases from other cases involving exclusionary conduct, although some of the latter cases may have been susceptible to essential facilities analysis.[136]

The Commission first referred to the essential facilities doctrine in two interim decisions concerning access to the Welsh Holyhead Harbor in the Wales.[137] In *Sea Container v. Stena Sealink*, the complainant wanted to compete with the defendant in the market for the transport of passengers and cars from Holyhead to Ireland.[138] Stena Sealink owned the port facilities of Holyhead.[139] The Commission considered the port of Holyhead an essential facility because it was the only British port serving this market, with no

132 *Id.* at 208.
133 Lang, *supra* note 18, at 507.
134 *Id.*
135 *See* Venit & Kallaugher, *supra* note 19, at 328-30.
136 *See* Lang, *supra* note 18, at 443.
137 Case IV/34.174, B&I Line PLC v. Sealink Harbour Ltd. & Sealink Stena Ltd., 5 C.M.L.R. 255 (1992) (EC).
138 *Id.* at 260, ¶¶ 14-15.
139 *Id.* at 259, ¶ 12.

feasible alternatives available.[140] The trip from the nearest available port, Liverpool, was twice the length of that from Dublin to Holyhead.[141] The building of a new port was not economically feasible or physically possible.[142] Stena Sealink had refused on several occasions to grant access to Sea Container to the port facilities on a non-discriminatory basis.[143] The Commission concluded that Stena Sealink had abused its dominant position in the ferry market by refusing to give Sea Containers access to the port of Holyhead on reasonable and non-discriminatory terms.[144] In this case, however, the Commission did not have to order remedial measures because Stena Sealink finally consented to providing sufficient offers of additional slot times allowing plaintiffs to run a viable ferry service.[145]

The Commission expanded upon the issue of leveraging market power from the essential facility's market to the downstream market.[146] According to the Commission, an undertaking which occupies a dominant position in the provision of an essential facility and itself uses that facility, and which refuses other companies access to that facility without objective justification, or grants access to competitors only on terms less favorable than those which it gives to its own services, infringes Article 82 of the EC Treaty.[147]

140 *Id.* at 265, ¶¶ 39-41.
141 *Id.*
142 *Id.* at 265, ¶¶ 63-65. Some commentators have pointed out that the Commission was wrong by accepting that Liverpool was not an alternative to Holyhead. N/E/R/A (NATIONAL ECONOMIC RESEARCH ASSOCIATES), OSCAR BRONNER: LEGITIMATE REFUSALS TO SUPPLY, 3-4 (January 1999). The Commission should have taken into account that, although the Liverpool route takes just over two hours more than the Holyhead route, the Holyhead passenger must drive for approximately 80 miles across North Wales after leaving the main motorway, whereas the Liverpool docks are well served by two major motorway routes. *Id.* Indeed, the refusal of the Commission to grant interim measures led Sea Containers to inaugurate a new ferry service from Liverpool. *Id.* As of this writing Sea Containers continues servicing this route as advertised on its web-site. *See* http://www.steam-packet.com/timetables/fares-ssc.shtml (last visited Mar. 9, 2001).
143 Case IV/34.174, *B&I Line/Stena*, 5 C.M.L.R. at 255, ¶ 66.
144 *Id.* at ¶¶ 76-78.
145 *Id.* at ¶ 79.
146 *Id*. at ¶ 66.
147 *Id*. at ¶¶ 41-42.

It is important to point out that, as the decision of the Commission in *Stena Sealink* shows, the application of the essential facilities doctrine does not require the parties to be in a competitive relationship.[148] The Commission decided that it also applies when the potential competitor seeking access to the essential facilities is a new entrant into the relevant market.[149] Years later, in *Flughafen Frankfurt AG*,[150] the Commission appeared to go beyond *Stena Sealink* by holding that the obligation of the company controlling an essential facility to grant access to users of that essential facility also extends to potential operators who are not users of that infrastructure but who are willing to provide services to users of that infrastructure.[151]

ECJ jurisprudence as well as the case law of the Commission has exhibited a flexible approach towards the essential facilities doctrine which has led complainants to rely on this doctrine as a pretext to gain access to facilities controlled by a dominant competitor even when access was not critical to a continued market presence.[152] The ECJ has become aware of this increasing over reliance on the essential facilities doctrine.[153] The judgment of the ECJ in *Oscar Bronner,*[154] on November 26, 1998, serves as an attempt to limit the broad obligation of the doctrine.[155]

Mediaprint, a publisher of two Austrian newspapers with a large market share,[156] refused to grant its competitor Oscar Bronner access

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148 *See id*. at ¶ 66; Case 27/76, *United Brands*, 1978 E.C.R. at 216-17.

149 *See* Case IV/34.174, *B&I Line/Stena*, 5 C.M.L.R. at ¶ 66.

150 Commission Decision 98/190/EC Relating to a Proceeding under Article 86 of the EC Treaty, 1998 O.J. (L 72) 30, 43. In this case the Commission found that the Frankfurt Airport had abused its dominant position by refusing several airlines access to the airport to offer ramp ground services. *Id.*

151 *See* Enrico Maria Armani, *One Step Beyond in the Application of the Essential Facility Theory*, 3 EC COMPETITION POLICY NEWSLETTER 15, 18 (1999).

152 *See* Alan Overd & Bill Bishop, *Essential Facilities: The Rising Tide*, 4 EUR. COMP. L.R. 183, 183 (1998); Pat Treacy, *Essential Facilities-Is the Tide Turning?*, 8 EUR. COMP. L.R. 501, 504 (1998).

153 Pat Treacy, *supra* note 152, at 501.

154 Case C-7/97, Oscar Bronner GmbH&Co KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH&Co. KG, 1998 E.C.R. I-7791, [1998] 36 C.M.L.R. 1289 (1999).

155 Pat Treacy, *supra* note 152, at 501.

156 Mediaprint at the time of suit controlled 46.8% of the Austrian daily newspaper market in terms of circulation and 42% in terms of advertising revenues. Case C-7/97,

to its nationwide early-morning newspaper home-delivery network.[157] According to Oscar Bronner, Mediaprint bore a duty to grant access to its distribution network because *Commercial Solvents* and its progeny require a dominant company to supply access to competitors in the downstream market unless refusal to supply can be objectively justified.[158] Oscar Bronner contended that the access requested was essential for its business since it was not economically feasible, due to the limited circulation of its newspaper, to establish its own distribution network.[159]

The ECJ rejected Oscar Bronner's arguments.[160] Instead, the ECJ reconfigured its *Commercial Solvents* precedent by limiting the duty to grant access to instances where, pursuant to Article 82, access to the dominant company's goods or services is "indispensable" to the plaintiff company's ability to carry out its business and where the denial of access by the dominant company is likely to eliminate all competition.[161]

Against this background, the ECJ found that Mediaprint's distribution network did not qualify as an essential facility.[162] First, it was undisputed that other distribution methods existed, like mailing, retail shops, and kiosks.[163] The court ruled that even though these alternatives were less advantageous for the distribution of certain newspapers, this drawback proved insufficient to warrant treating Mediaprint's distribution network as an essential facility.[164] Furthermore, the ECJ noted that no technical, legal, or economic obstacles existed that would make it difficult for any other publisher, alone or in partnership with other publishers, to establish its own nationwide home-delivery scheme.[165] The ECJ endorsed the reasoning of Advocate General Jacobs holding that for such access to

Oscar Bronner, 1998 E.C.R. at I-7794, ¶ 3.

157 *Id.* at I-7826, ¶ 23.

158 *Id.* at I-7826, ¶¶ 24-25.

159 *Id.*

160 *Id.* at I-7831, ¶¶ 41-44.

161 *Id.* at I-7831, ¶ 41.

162 *Id.*

163 *Id.* at I-7831, ¶ 43.

164 *Id.*

165 *Id.* at I-7831, ¶ 44.

be regarded as indispensable, it would be necessary, at the very least, to establish the economic impracticality of creating a second newspaper home-delivery scheme with a circulation comparable to that of the existing scheme.[166] According to Advocate General Jacobs, in assessing refusals to deal by a firm controlling an essential facility, it is important not to lose sight that the primary purpose of Article 82 is to prevent distortion of competition – and in particular to safeguard the interests of consumers – rather than to protect the interests of particular competitors.[167] This implies that a refusal to grant access only amounts to an abuse of dominant position if it has an adverse impact on consumers.[168] Such conduct will only have an adverse impact on consumers if the dominant firm's final product is sufficiently insulated from competition to give it market power.[169] This reasoning is coherent with the ruling of the ECJ in *Commercial Solvents*, in which Commercial Solvents refused to continue supplying the raw material ethambutol to a former customer thereby threatening to deprive the market of one of ethambutol's principal manufacturers.[170]

The ECJ's ruling in *Oscar Bronner* makes good sense from an economic and a legal standpoint. Economically speaking, the decision proves sensitive to the danger of the chilling effect wrought by an overzealous application of the essential facilities doctrine to innovative initiatives.[171] The decision also recognizes that the primary concern of antitrust law is to safeguard consumer welfare, rather than to protect particular competitors.[172] From a legal perspective, the decision bestows greater legal certainty concerning the conditions necessary to a finding of liability under the essential facilities doctrine.[173] In particular, the ECJ clarified its previous

166 *Id.* at I-7832, ¶ 46.

167 *Id.* at I-7811, ¶ 58.

168 *Id.*

169 *Id.*

170 *See* Joined Cases 6 & 7/73R, Instituto Chemioterapico Italiano SpA et Commercial Solvents Corp. v. Commission., 1973 E.C.R. 0357, ¶ 25.

171 Case C-7/97, *Oscar Bronner*, 1998 E.C.R. at I-7812, ¶ 63.

172 *Id.* at I-7811, ¶ 58. Notice that the U.S. Supreme Court has also considered consumer welfare as the ultimate goal of antitrust law. *See, e.g.,* State Oil Co. v. Khan, 522 U.S. 3 (1997); Intergraph Corp. v Intel Corp., 195 F.3d 1346, 1355 (Fed. Cir. 1999).

173 *See* Pat Treacy, *supra* note 152, at 501-04.

jurisprudence by adding that a facility is only "indispensable" to the business when no actual or potential substitutes exist.[174] A plaintiff must prove a facility to be indispensable before a court will compel the controlling firm to provide access. [175]

The ruling of the ECJ may also be interpreted as a warning to those competitors seeking to operate as free riders of the dominant firm's assets.[176] Reliance on the essential facilities doctrine as a pretext to gain access to a competitor's facilities, merely because they are more advantageous than one's own, fails to trigger Article 82 remedial provisions.[177]

Oscar Bronner shares the same philosophical underpinnings and skepticism about a broad application of the essential facilities doctrine as a previous decision of the CFI in an Article 81 case. In *European Night Services Ltd. and Others v. Commission ("ENS")*,[178] the CFI quashed a Commission decision in part on the grounds that the Commission had misapplied the essential facilities doctrine when granting an exemption under Article 81(3) of the EC Treaty to an agreement between several railway companies operating a night passenger service between the U.K. and different cities in other EU countries.[179] This new service emerged as a result of the construction of the tunnel linking the U.K. to the European continent.[180]

The CFI found that the railway companies did not enjoy a dominant position in the relevant market.[181] The CFI noted that ENS market share in the relevant market (business travelers and leisure travelers in the routes in question) did not exceed 7% to 8%.[182] The CFI ruled that even if the parties had dominant positions in the

[174] Case C-7/97, *Oscar Bronner*, 1998 E.C.R. at I-7832, ¶¶ 45-46.
[175] *Id.* at I-7832, ¶ 46.
[176] *See* Pat Treacy, *supra* note 152, at 501-04.
[177] Case C-7/97, *Oscar Bronner*, 1998 E.C.R. at I-7832, ¶ 46.
[178] Joined Cases T-374/94, T-375/94 & T-388/94, European Night Servs. Ltd and Other v. Commission, 1998 E.C.R. II-3141 (1998).
[179] *Id.* at II-3223, ¶¶ 206-07.
[180] *Id.* at II-3153, ¶¶ 212-13.
[181] *Id.* at II-3226, ¶ 215.
[182] *Id.* at II-3225, ¶ 212.

passenger transportation market between the routes in question, the essential facilities doctrine did not justify imposing on the railway companies the duty to supply slots, locomotives, and crews to third parties.[183] Thus, the CFI found that the Commission erred in applying the essential facilities doctrine given the existence of other alternative providers, neither locomotives nor crews could be considered essential.[184] Likewise, the CFI found that the slots in question were not essential since there were enough alternative slots available.[185]

In summary, *Oscar Bronner* can be read as a corrective measure by the ECJ to narrow what had been a broad approach to refusal to deal cases. It also narrows the scope of the Commission's interpretation of the duty to deal found in such earlier decisions as *London European/Sabena*, a decision which future jurisprudence will have to clarify.[186]

C. *The Application of the Essential Facilities Doctrine in the United States*

1. The Essential Facilities Doctrine After *Aspen Skiing*

It is beyond the scope of this paper to provide a thorough understanding of the development of the essential facilities doctrine in the U.S.[187] A brief reference to *United States v. Terminal*

[183] *Id.* at II-3228, ¶ 221.
[184] *Id.* at II-3225, ¶¶ 212-13.
[185] *Id.* at II-3223, ¶¶ 207-08.
[186] Commission Decision No. 88/589/EEC, O.J. (L 317) 47 (London European-Sabena). The Commission condemned Sabena's refusal to grant London European access to its computerized reservation system. *Id.* The Commission found that Sabena enjoyed a dominant position in the Belgium market for computerized reservation systems and that access to these systems was of "capital importance for all companies seeking to operate competitively in the Belgium market." *Id.* at ¶ 26. Some commentators have suggested that this case was wrongly decided since the Commission did not look at Sabena's position in the airlines' market to determine whether the potential exclusion of London European from this market would have had any significant impact or harm in the relevant market. *See* Venit & Kallaugher, *supra* note 19, at 333.
[187] For a thorough and recent outline of this development consult Abbott B. Lipsky & J.

Railroad Association[188] and *Otter Tail Power Co. v. United States*[189] cases shed light on the development of the doctrine in the U.S. Although the actual expression "essential facilities" does not appear in any reported judicial decision until 1977,[190] the doctrine originated in *Terminal Railroad*—a case brought under Section 1 of the Sherman Act.[191] Six railroads formed the Terminal Railroad Association (the "Association").[192] The Association acquired, among other facilities, the bridge connecting St. Louis with the other side of the Mississippi River.[193] The bridge was essential for railroad companies terminating on either side of the river.[194] Contrary to arguments proffered by federal antitrust authorities, the Supreme Court did not dissolve the Association, but ordered it to either open membership to all railroads or grant non-members reasonable access to the bridge.[195] While not a refusal to deal case, *Terminal Railroad* concerned the anticompetitive effects of the agreement among the six railroads and the group's actual monopolization of the bridge.[196]

Otter Tail represents the high-water mark of the essential facilities doctrine in the U.S. and courts frequently quote from it. The case marks the first time that the Supreme Court confronted the essential facilities doctrine in the context of a refusal to deal.[197] Otter Tail held a regulated monopoly for electric power distribution in the upper Midwest, and also distributed electricity at the retail level in four-hundred and sixty-five towns.[198] Several communities supplied by Otter Tail built their own generation facilities and sought to establish their own grid by obtaining power from Otter Tail at

Gregory Sidak, *Essential Facilities*, 51 STAN. L. REV. 1187 (1999).

[188] 224 U.S. 383 (1912).

[189] 410 U.S. 366 (1973).

[190] Lipsky & Sidak, *supra* note 187, at 1194.

[191] J. GIFFORD & LEO J. RASKIND, FEDERAL ANTITRUST LAW CASES & MATERIALS 393 (1998).

[192] *Terminal R.R.*, 224 U.S. at 391.

[193] *Id.* at 391-92.

[194] *Id.* at 392-93.

[195] *Id.* at 409-11.

[196] *Id.* at 410.

[197] James C. Burling, William F. Lee & Anita K. Krug, *The Antitrust Duty to Deal and Intellectual Property Rights*, 24 J. CORP. L. 527, 530 (1999).

[198] Otter Tail Power Co. v. United States, 410 U.S. 366, 368 (1973).

wholesale rates.[199] Otter Tail refused to supply wholesale power to these communities and it sought to prevent them from gaining access to alternative suppliers.[200] The U.S. Department of Justice (the "DOJ") sued Otter Tail alleging monopolization of the retail power market by unlawful use of its monopoly power in the electricity transmission market.[201] The Supreme Court ruled that Otter Tail had violated Section 2 of the Sherman Act and confirmed the order of the District Court requiring Otter Tail to supply wholesale power to the communities.[202]

Following *Otter Tail*, the essential facilities doctrine enjoyed a growing popularity as many firms relied on it despite its impractical nature.[203] This was the situation until *Aspen Skiing*,[204] in which the Supreme Court confined the doctrine to far more limited situations.[205] *Aspen Skiing* dealt with the refusal by Aspen Skiing, the owner of three ski resorts in Aspen, Colorado to continue to jointly market an "all-Aspen ticket program" together with the owner of the fourth resort, Aspen Highlands.[206] This program afforded skiers the opportunity to access four skiing resorts with a single ticket.[207]

The Court of Appeals affirmed the jury verdict that Aspen Skiing monopolized the Aspen ski market on two grounds.[208] First, the Tenth Circuit held that the all-ticket scheme was an essential facility.[209] Second, it found sufficient evidence to support the claim that Aspen Skiing intended to drive Aspen Highlands out of the

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[199] *Id.*
[200] *Id.* at 371.
[201] *Id.* at 368-69.
[202] *Id.*
[203] *See* Lipsky & Sidak, *supra* note 187, at 1192.
[204] *See* Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585 (1985); *see also* Lipsky & Sidak, *supra* note 187, at 1206 (commenting on the significance of *Aspen* in the development of Section 2 of the Sherman Act).
[205] Herbert Hovenkamp, *Intellectual Property Rights and Federal Antitrust Policy, Introduction*, 24 J. CORP. L. 477, 481 (1999).
[206] *Aspen Skiing*, 472 U.S. at 589.
[207] *Id.* at 589.
[208] *Id.* at 599.
[209] *Id.*

market.[210] The Tenth Circuit considered Aspen Skiing's purported business justification invalid.[211] Aspen Skiing's dismissive treatment of alternative ways of making Aspen Highlands' tickets compatible with Aspen Skiing tickets also influenced the Circuit Court's decision.[212] The Supreme Court found that Aspen Skiing had monopoly power and maintained such monopoly power through exclusionary acts.[213] Yet, despite confirming the decision of the Court of Appeals, the Supreme Court found application of the essential facilities doctrine unnecessary.[214]

The Supreme Court's ruling in *Aspen Skiing* established that a refusal to deal by a monopolist violates Section 2 of the Sherman Act when such refusal produces an important change in a pattern of distribution that cannot be justified by normal business purposes.[215] By ignoring the essential facilities doctrine, the Supreme Court rejected it as the controlling law in unilateral refusal to deal cases and thereby endorsed the application of traditional Section 2 principles to such cases.[216] Since *Aspen Skiing*, some courts have been reluctant to apply the essential facilities doctrine when the alleged anti-competitive conduct may be assessed as monopolization or attempt to monopolize under Section 2 of the Sherman Act.[217]

In *Eastman Kodak Co. v. Image Technical Servs. Inc.* ("*Kodak I*"),[218] after rejecting respondents' argument that the essential facilities doctrine was the controlling law in unilateral refusals to deal, the Ninth Circuit relied on *Aspen Skiing* and held that Section 2 of the Sherman Act prohibits a monopolist from refusing to deal in

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210 *Id.* at 599.
211 *Id.*
212 Aspen Skiing, 472 U.S. at 599.
213 *See id*.
214 *Id.* at 611, n. 44.
215 Jonathan B. Baker, *Promoting Innovation Competition Through the Aspen/Kodak Rule*, 7 GEO. MASON L. REV. 495, 503 (1999).
216 *Aspen Skiing*, 472 U.S. at 600-05.
217 *See, e.g.,* Alaska Airlines v. United Airlines, 948 F.2d 536 (9th Cir. 1991); McKenzie v. Mercy Hosp., 854 F.2d 365 (10th Cir. 1988); Soap Opera Now, Inc. v. Network Publ'g Corp., 737 F. Supp. 1338 (S.D.N.Y. 1990); Laurel Sand & Gravel, Inc. v. CSX Trans. Inc., 924 F.2d 539 (4th Cir. 1991); Illinois *ex rel* & Burris v. Panhandle Eastern Pipeline Co., 935 F.2d 1489 (7th Cir. 1991).
218 504 U.S. 451 (1992).

order to create or maintain a monopoly absent a legitimate business justification.[219] The Ninth Circuit emphasized the change of pattern effect to find Kodak in violation of Section 2 for refusing to continue to sell replacement parts to independent service providers.[220]

The same reasoning may be found implicitly in *Intergraph Corp. v. Intel Corp.*,[221] in which Intel was found guilty of a Section 2 violation for refusing to continue licensing to one of its customers secret business information regarding its new products.[222] On appeal, the *Intel* court refused to apply the essential facilities doctrine to a refusal by a supplier to provide secret technical information to one of its customers.[223] The court found that the plaintiff and the defendant were not competitors in any of the relevant markets and, contrary to the plaintiff's submission, considered the presence of a competitive relationship a prerequisite to invoking the essential facilities doctrine under the Sherman Act.[224]

2. The Main Differences between the United States and the European Union Systems

The essential facilities doctrine has received a more structured analysis in the U.S. than in the EU. U.S. courts have set forth a four-part test to determine whether a refusal to deal involving an essential facility constitutes an illegal monopolization contrary to Section 2 of the Sherman Act. In *MCI Communications Corp. v AT&T*,[225] the court established the following as elements of the test: (i) control of

219 *Id.* at 460-61; *see also Kodak II*, 125 F.3d at 1211.

220 *Kodak II*, 125 F.3d at 1211; *see also* PSI Repair Servs. Inc. v. Honeywell, Inc., 104 F.3d 811 (6th Cir. 1997). (contributing to *Aspen Skiing* and *Kodak II* the rule that a monopolist is allowed to make a blanket refusal to deal to its potential competitors provided that the defendant has not changed its commercial policy after locking-in some of its customers).

221 3 F. Supp.2d 1255 (N.D. Ala. 1998).

222 *Id.* at 1279. The district court decision was reversed by the Court of Appeals for the Federal Circuit. *See* Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1353 (Fed. Cir. 1999). On remand the district court granted Intel's motion for summary judgment. *See* Intergraph Corp. v. Intel Corp., 88 F. Supp. 2d 1288 (N.D. Ala. 2000).

223 *Intel*, 195 F.3d at 1356-57.

224 *Id.*

225 708 F.2d 1081, 1132-33 (7th Cir. 1983).

an essential facility by a monopolist; (ii) competitor's inability practically or reasonably to duplicate the essential facility; (iii) refusal to grant access to the facility, and; (iv) the feasibility of providing the facility.[226] Although neither the EC courts nor the Commission have established a similar four-part test, these elements are implicitly incorporated in the reasoning of the EC courts and of the Commission when they deal with an essential facilities case.[227]

While the concept of essential facility is similar on both sides of the Atlantic, significant differences exist between the approaches taken by antitrust authorities towards the essential facilities doctrine. These differences are significant enough to merit the attention of an in-house counsel or an attorney advising a U.S. or EU firm on the circumstances under which it can lawfully refuse to license to actual or potential competitors. In particular, legal practitioners must take into account factors such as whether the owner of the facility and the competitor to whom access is refused compete in the downstream market or whether the justification for the refusal to license is going to be accepted by both competition authorities.[228]

The first significant difference between both regimes is that, as the *Intel* case[229] shows, the application of the essential facilities doctrine by U.S. courts appears to be limited, at least in monopoly leveraging cases, to those situations where the party controlling the essential facility has market power in a downstream market.[230] In contrast, in the EU, possession of market power in the downstream market, despite being relevant, is not an essential element for reliance on the essential facilities doctrine.[231] This divergent treatment may be

[226] *Id.*; Kobak, *supra* note 69, at 522-23; Venit & Kallaugher, *supra* note 19, at 323-24 (referring to an analysis of these elements in Norman W. Hawker, *Open Windows: The Essential Facilities Doctrine and Microsoft*, 25 OHIO N.U. L. REV. 115, 120-21 (1999)).

[227] *E.g.*, Joined Cases 6 & 7/73R, Instituto Chemioterapico Italiano SpA et Commercial Solvents Corp. v. Commission, 1973 E.C.R. 0357; Case C-7/97, Oscar Bronner GmbH Co KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, 1998 E.C.R. I-7791, [1998] 36 C.M.L.R. 1289 (1999); Joined Cases T-374/94, T-375/94 & T-388/94, European Night Servs. Ltd and Other, v. Commission, 1998 E.C.R. II-3141 (1998).

[228] *See* Venit & Kallaugher, *supra* note 19, at 334, 344.

[229] Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1357 (Fed. Cir. 1999).

[230] Alaska Airlines v. United States, 948 F.2d 536, 543 (9th Cir. 1991).

[231] Lang, *supra* note 18, at 478; *see also* Venit & Kallaugher, *supra* note 19, at 333.

explained by the fact that Article 82 imposes broader duties to deal on dominant companies than Section 2 of the Sherman Act.[232] In his opinion in the *Oscar Bronner* case, Advocate General Jacobs summed up the actual state of EC competition law in this area as follows:

> [A] dominant undertaking commits an abuse where, without justification, it cuts off supplies of goods or services to an existing customer or eliminates competition on a related market by tying separate goods and services. However, it also seems that an abuse may consist in a mere refusal to license where that prevents a new product from coming on a neighboring market in competition with the dominant undertaking's own product on that market.[233]

It is also considered easier to generate a business justification for a refusal to deal in the U.S. than in the EU.[234] U.S. courts accept business justifications based on technical, commercial or efficiency grounds as legitimate reasons for refusing access to an essential facility.[235] In contrast, the jurisprudence of the EC Courts and the case law of the Commission provide little guidance as to what types of business justifications constitute legitimate defenses.[236] Despite the foregoing, case law suggests that EC courts and antitrust officials would favorably consider common defenses relied upon by

[232] Venit & Kallaugher, *supra* note 19, at 333. Stating that:
In the United States the essential facility doctrine focuses on effects in markets where a firm holds market power subject to control under Section 2. The Article 86 [now Article 82] cases, in contrast, appear to apply the concept in a monopoly leveraging context without extensive consideration of the extent to which the dominant firms holds a dominant position in the downstream market.
Id.

[233] Case C-7/97, Oscar Bronner GmbH Co KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, 1998 E.C.R. I-7791, I-7806 ¶ 43, [1998] 36 C.M.L.R. 1289 (1999).

[234] *See* Lang, *supra* note 18, at 478.

[235] *See*, *e.g.*, Oahu Gas Serv. Inc. v. Pacific Res., Inc., 838 F.2d 360, 368 (9th Cir. 1988) (a monopolist refusal - in this case the sole producer of propane gas in Hawaii - to aid a competitor was not found in violation of Section 2 of the Sherman Act because the investment required of the defendant to expand production to accommodate the entry of the competitor would have resulted in a negative return).

[236] Venit & Kallaugher, *supra* note 19, at 317; Lang, *supra* note 18, at 522.

companies controlling essential facilities before U.S. courts.[237] Such defenses range from taking advantage of economies of scale, the risk of having negative returns if access were granted, serious congestion in the facility, or safety considerations.[238]

III. THE APPLICATION OF THE ESSENTIAL FACILITIES DOCTRINE TO INTELLECTUAL PROPERTY RIGHTS

A. *When Refusals to License Intellectual Property Rights and Antitrust Law Conflict?*

1. Overview

Article 82 of the EC Treaty as well as Section 2 of the Sherman Act may only be violated if a firm possesses market or monopoly power.[239] IPRs confer a monopoly on the proprietor to the extent that the proprietor is insulated from the competitive exploitation of its invention.[240] In the EU and U.S., however, mere ownership of an IPR does not confer a dominant position.[241] An IP owner holds a dominant position only if sufficient substitutes of the protected product or service in the relevant market do not exist.[242] Therefore, the tension between intellectual property and antitrust law arises in refusal to license cases only when an IPR confers dominant power to

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237 *See supra* note 227.

238 *Id.*

239 ESTEVA & RYAN, *supra* note 98, at 119; ERNEST GELLHORN & WILLIAM E. KOVACIC, ANTITRUST LAW & ECONOMICS 94 (1994).

240 Burling, Lee & Krug, *supra* note 197, at 537.

241 *E.g.*, Case 238/87, Volvo AB v. Erik Veng (U.K.) Ltd., 1988 E.C.R. I-6211, ¶ 8; Joined Cases C-241/91 and C-242/91, RTE and ITP v. Commission., 1995 E.C.R. I-743, ¶ 46; Intergraph Corp. v. Intel Corp., 195 F.3d 1346 (Fed. Cir. 1999); *In re* Indep. Serv. Orgs. Antitrust Litig., 203 F.3d 1322 (Fed. Cir. 2000). This jurisprudence is consistent with the IP Guidelines which state that U.S. agencies will not presume that a patent, a copyright or a trademark necessarily confers market power upon its owner. IP Guidelines, *supra* note 5, at ¶ 2.2.

242 *Id.*

its proprietor in the relevant market.[243]

The central question in the conflict between intellectual property and antitrust law is whether refusals to license in an IPR context should be treated like any case involving refusal to deal by a dominant firm.[244] The answer to this question raises a number of policy issues. These issues concern the difficult task of balancing interests, like the full exploitation of IPRs to generate new technology in an ever-increasing competitive market, and the need to preserve free competition in the market.[245] These objectives are often in conflict with one another.[246] Strict adherence to antitrust policy may discourage future investments in innovation, leading to a loss of competitiveness of local industry in a global economy, especially in strategic economic sectors such as pharmaceuticals, aircrafts, or computer software.[247] On the other hand, granting immunity to IPR holders from antitrust laws may lead to unreasonable levels of monopoly power.[248]

2. Theories Proposed to Solve the Intellectual Property Law/Antitrust Law Conflict

Different theories have been construed to answer the question posed in the previous section. These theories reflect different approaches used to achieve an optimal balance between intellectual property and antitrust laws. One approach advocates granting companies antitrust immunity for the use of IPRs.[249] Because intellectual property law expressly authorizes refusal to license IPRs, a company's decision not to license its IPRs should be immune from antitrust liability.[250] The traditional misuse doctrine would provide the only exception to this antitrust immunity for refusals to license

[243] *See* Burling, Lee & Krug, *supra* note 197, at 535.
[244] *Id.* at 528; SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1204 (2d Cir. 1981) (citations omitted).
[245] *See* GIFFORD & RASKIND, *supra* note 191, at 677.
[246] *See* Richard C. Levin, *Patents in Perspective*, 53 ANTITRUST 519, 522 (1984).
[247] GIFFORD & RASKIND, *supra* note 191, at 677-78.
[248] *See* GIFFORD & RASKIND, *supra* note 191, at 677.
[249] *See* AREEDA & HOVENKAMP, *supra* note 53, at 188-97.
[250] *Id.* at 189-90.

IPRs.[251] The advocates of this view argue that antitrust laws threaten the efficiency of the economic incentives IPRs afford.[252] By granting the power to exclude others, legislators have assumed that no antitrust violation can occur. The Court of Appeals for the Federal Circuit endorses this approach.[253]

A second school of thought believes that the "antitrust-immunity approach" is flawed.[254] It is undisputed that the aim of IPRs is to encourage and reward innovation.[255] However, pro-competition proponents claim that the right to recover research and development ("R&D") investments and obtain a reward should not be boundless.[256] Many situations exist where the exercise of IPRs stands to produce anti-competitive effects in the market important enough to outweigh the benefits that arise from the antitrust immunity granted to IPRs.[257] Excluding a competitor by denying access to a patent might allow sellers to raise their product's price by X amount, but compulsory licensing might deprive consumers of Y efficiencies per unit.[258] Therefore, a full evaluation of gains and lost efficiencies is required.[259]

This second approach attempts to reconcile intellectual property law with antitrust law by limiting the application of antitrust law to refusals to license IPRs to exceptional circumstances. In the U.S., federal agencies and the Ninth Circuit have endorsed this view.[260]

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251 *See* Burling, Lee & Krug, *supra* note 197, at 533; *In re* Indep. Serv. Org. Antitrust Litig., 989 F. Supp. 1131, 1139-40, *aff'd,* 203 F.3d 1322 (Fed. Cir. 2000).

252 *In re Indep. Serv. Org*, 989 F. Supp. at 1135-36.

253 *Id.*

254 *See* Mark R. Patterson, *When is Property Intellectual?: The Leveraging Problem*, 73 S. CAL. L. REV. 1133.

255 *Id.*

256 Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1813, 1818 (1984).

257 *See* F.M. SCHERER & DAVID ROSS, INDUSTRIAL MARKET STRUCTURE & ECONOMIC PERFORMANCE 660 (3rd ed. 1990) (discussing how misallocation of resources is a social harm of monopoly power).

258 Kaplow, *supra* note 256, at 1819.

259 *See* Pitofsky, *supra* note 88, at 139.

260 According to R. Pitofsky, "a cautious approach is called [for the application of antitrust laws to high-tech industries]. But abandoning antitrust principles in this growing and increasingly important sector of the economy seems like the wrong direction to go." *Id.*; *see also* Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of*

The IP Guidelines embody the principle that, for the purpose of antitrust analysis, federal agencies regard intellectual property as akin to any other form of property.[261] The Commission and the EC Courts have taken similar positions.[262] Several theories have given life to this second approach.

For instance, the Ninth Circuit has followed this approach by holding that the desire of an IP holder to exclude others from its intellectual property is a presumptively valid justification for leveraging.[263] The Ninth Circuit adopted the "presumption approach" because it was concerned with the negative effects on innovation of widening the standard of antitrust liability to include some unilateral practices regarding the use of IPRs.[264] Alternatively, Professor Kaplows argues that since the ultimate question to be answered relates to the proper incentives for IP owners or potential IP holders, the ideal method to determine whether an IP owner has infringed antitrust law is to analyze each alleged misconduct under a ratio test.[265] Such a test compares the patentee's reward with the

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Antitrust and Intellectual Property, *available at* http://www.ftc.gov/speeches/pitofsky/000615speech.htm (last visited Mar. 9, 2001) (concerning a speech delivered before the American Antitrust Institute Conference: An Agenda for Antitrust in the 21st Century on June 15, 2000).

261 *See* IP Guidelines, *supra* note 5, at ¶ 2.1.

262 *See* GOYDER *supra* note 67, at 351-59.

263 *Kodak II*, 125 F.3 at 1211.

264 *Id.* Unilateral conduct is the most common conduct in the economy. *Id.* After *Kodak II,* unilateral conduct by a manufacturer in its own aftermarkets may give rise to liability and, in one-brand markets, monopoly power created by patents and copyrights will frequently be found. *Id.* Under current law the successful defense of monopolization claims will rest largely on the legitimacy of the asserted business justifications, as evidenced by the jury instructions approved in *Aspen Skiing*. *Id.* As the *Kodak II* court stated:

> Without bounds, claims based on unilateral conduct will proliferate. The history of this case demonstrates that such claims rest on highly disputed factual questions regarding market definition. Particularly where treble damages are possible, such claims will detract from the advantages lawfully granted to the holders of patents or copyrights by subjecting them to the cost and risk of lawsuits based upon the effect, on an arguably separate market, of their refusal to sell or license. The cost of such suits will reduce a patent holder's "incentive . . . to risk the often enormous costs in terms of time, research, and development."

Id. at 1218 (quoting Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 480 (1974)).

265 Kaplow *supra* note 256 at 1842.

monopoly loss imposed on society.[266]

The antitrust immunity approach and the approach adopted by the Ninth Circuit have been criticized as too simplistic.[267] According to some authors, these approaches fail to make a real attempt to determine the proper balance between the social benefits that stem from the creation of intellectual property and the social cost of monopoly overcharges.[268] The antitrust-immunity approach avoids this dilemma by overlooking the need to keep a proper balance between the main interests of intellectual property law (ensuring a proper reward to IP holders in order to encourage innovation) and the public interest of enhancing free competition.[269] In other words, this approach overlooks the fact that IPRs grant a privilege serving a public purpose.[270] Intellectual property law grants monopolies in order to provide an incentive for the creation of inventions.[271] These monopolies are limited, because the goal of the law is to create the incentive while imposing no higher a monopoly cost than is

[266] *Id*.

[267] *See* Patterson, *supra* note 254, at 1140.

[268] Kaplow, *supra* note 256, at 1845-49; Patterson, *supra* note 254, at 1138-39.

[269] *See supra* note 268.

[270] Patterson, *supra* note 254, at 1139; *see also* Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 666 (1944).

[271] *See e.g.*, 35 U.S.C. §§ 102, 112 (1994) (concerning patent law where statute requires that the invention be novel and described with sufficient particularity to allow others to make and use the invention); Graham v. John Deere Co. of Kansas City, 383 U.S. 1 (1966) (discussing requirements for patentability); ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 135 (1997) ("Patent law provides a market-driven incentive to invest in innovation by allowing the investor to appropriate the full economic rewards of her invention."); Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 546 (1985) ("The rights conferred by copyright are designed to assure contributors to the store of knowledge a fair return for their labors."); Sony Corp. of Am. v. Universal City Studios, Inc. 464 U.S. 417, 429 (1984) ("[T]he limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired."); William W. Fisher, III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1659, 1687 (1988) ("[T]he elaborate combination of grants and reservations that comprise the Copyright Act is designed to advance the public welfare by rewarding creative intellectual effort sufficiently to encourage talented people to engage in it, while at the same time making the fruits of their genius accessible to as many people as possible as quickly and as cheaply as possible.").

necessary.[272]

The second approach, whether it adopts the *Kodak II* presumption or Kaplows' proposal, is not without its faults. The presumption approach has been criticized for failing to calculate the incentives necessary to encourage innovation.[273] While the Kaplow ratio test may resolve this issue, it proves difficult to apply in practice.[274] The balance between gains and losses required under Kaplow's ratio test could force courts and administrative agencies to perform an inappropriate function for which they may lack expertise and appropriate information.[275] Courts and antitrust authorities may miscalculate the efficiencies of granting or not granting compulsory access.[276] Neither the case law nor independent economic analysis has articulated workable quantitative criteria to correctly calibrate the incentives to induce an optimal amount of innovation.[277]

The issues posed by the tension between innovation incentives and optimal deterrence can be grappled with in two ways. The *Kodak II* court's focus on intent[278] serves as one alternative. As explained in Section 4(D)(2)(a) below, the Ninth Circuit held that Kodak's business justifications for its refusal to license its replacement parts to independent service organizations was pretextual.[279] The court based its conclusion on the testimony of Kodak's parts manager who declared that patents "did not cross his mind" when Kodak instituted a policy of refusing to sell parts to independent repairers.[280] The *Kodak II* court's subjective test has the advantage of avoiding the delicate task of economic balancing when deciding whether intellectual property drives the refusal to license the replacement

272 Patterson, *supra* note 254, at 1139.
273 *Id.* at 1140.
274 *Id.* at 1139.
275 *See* Kaplow, *supra* note 256, at 1833.
276 *See id*.
277 Marino Lao, *Unilateral Refusal to Sell or License Intellectual Property & Antitrust Duty to Deal*, 9 CORNELL J. L. PUB. POL'Y. 193, 214-15 (1999); GIFFORD & RASKIND, *supra* note 191, at 676; Patterson, *supra* note 254, at 1139.
278 *Kodak II.*, 125 F.3d at 1219-20.
279 *Id*.
280 *Id.* at 1218-20.

parts.[281] Unfortunately, the court's inquiry into the subjective motivation of IP holders undermines the advantage gained by foregoing economic balancing. As explained section 4(D)(2)(a) below, the IP holder's subjective motivation is always difficult to determine.[282]

Professor Patterson of Fordham University School of Law has recently proposed an interesting and thoughtful theory to circumvent the difficult economic balancing which the second approach requires. Patterson's proposal is based on the idea that patents and copyrights protect inventions and expression, not products.[283] Thus, intellectual property law should only provide special protection when the owner of the rights truly denies access to its intellectual property.[284] This occurs only when the one who will "use" the IP is deprived of its use.[285] According to Patterson, an independent service provider who seeks access to the owner's protected parts in order to install them in the equipment of others cannot be deemed willing to "use" the owner's IP.[286] Therefore, an owner's refusal cannot be justified on the grounds that the invention embodied in its products has patent protection.[287]

This use-oriented approach, like the *Kodak II* approach, avoids the economic balancing between the fair return to the IP holder and the social loss that awarding an IP monopoly presents.[288] Professor Patterson's theory has two advantages over the *Kodak II* approach. First, by focusing on "actual business practice," rather than "intent" it avoids the uncertainty that the *Kodak II* court's reasoning introduces by relying on the IP owner's subjective intent.[289] Second,

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[281] Patterson, *supra* note 254, at 1139-41.
[282] *Id.* at 1141.
[283] *Id.* at 1134.
[284] *Id.* at 1135.
[285] *Id.* Notice though, that as Professor Patterson acknowledges, the problem is that it is not always possible to make use of the underlying ideas in a copyrighted work without also copying the work's protected expression. *Id.* Professor Patterson indicates that U.S. courts have tried to solve this problem by applying the fair use doctrine. *Id.* at 1154.
[286] *Id.* at 1136.
[287] Patterson, *supra* note 254, at 1135.
[288] *Id.* at 1141.
[289] *Id.*

by focusing on the party to whom access is denied, instead of the owner of the intellectual property, the proposal better ensures that the return on IP relates to its value.[290]

The drawback of Patterson's approach concerns the difficulty in determining the potential licensee's true intentions: does the potential licensee desire to "use" the patent or the product wherein the patent is embedded? Moreover, the success of such an approach remains unknown. Unlike the other approaches discussed above, U.S. courts have yet to adopt it. The validity of this approach lies in an expansive interpretation of the Patent Act. Section 271 of the Patent Act[291] grants the patent holder the right to "exclude others from making, using, or selling the invention throughout the United States."[292] As Patterson points out, a service organization that buys and installs a part that incorporates a patented invention does not "make" the invention.[293] Likewise, the service organization would not "use" the invention if the invention does not play a role in the product's installation.[294]

Questions remain as to the extent to which the service organization actually uses the invention when it resides in the part. The reward of the owner probably depends not on the sales of the invention (in this case a market for the invention as such existed), but on the sales of the replacement part.[295] Finally, one cannot argue that the service organization does not "sell" the invention. Patterson tries to overcome this difficulty by arguing the following: if what the organization offers for sale is its service, in which parts are included, but does not sell the manufacturer's parts independently of that service, "it seems that a reasonable argument can be made that it does not sell the parts."[296] The success of this interpretation remains uncertain.

290 *Id.*
291 35 U.S.C. § 271 (2000).
292 *Id.*
293 Patterson, *supra* note 254, at 1149-50.
294 *Id.*
295 *Id.* at 1150.
296 *Id.* at 1149.

How Patterson's theory solves the issue of the proper incentives needed to maintain an optimal level of innovation remains unanswered. The success of this approach hinges on a presumption that the incentive provided by intellectual property laws to innovate, represented by the right to exclude others from the "invention" (without then including within the scope of the IP the right to exclude others from making or selling the product in which the invention is embodied), is sufficient to stimulate the creation and dissemination of ideas. Yet, precisely because the amount of incentive needed for optimal creativity remains unknown, one can reasonably argue that the right of IP holders to refuse to license products in which their inventions are embodied should be limited only to exceptional circumstances. Any legal rule, either based on the essential facilities doctrine or the leveraging theory, that may decrease the value of IPRs by limiting or qualifying an IP owner's right to the exclusive use of its own property, risks drastically reducing the incentive to innovate.[297]

The ECJ seems to follow an approach similar to that of Professor Patterson.[298] In *Volvo AB v. Erik Veng*, the ECJ held that Volvo's refusal to license to an independent repairer its design rights for the front wing of its "Series 200" automobiles did not amount to an abuse of dominant position under Article 82 of the EC Treaty.[299] However, the ECJ did hold that Volvo could not arbitrarily refuse to supply its wing panels to independent repairers.[300] The ECJ's holding relies on the idea that an arbitrary refusal to sell replacement parts cannot be justified by a concern for protecting Volvo's IPR on its wing panels.[301] In other words, the independent repairers in *Volvo*, like the independent service providers in *Kodak II* and *Xerox*, did not want to "use" Volvo's design rights, but only offered a repair service for which the wing panels were required.[302]

[297] Ronald W. Davis, *The FTC's Intel Case: What Are the Limitations on "Throwing Your Weight Around?" Using Intellectual Property Rights?*, 13 ANTITRUST 47, 47 (1999).
[298] Case 238/87, Volvo AB v. Erik Veng (U.K.) Ltd., 1988 E.C.R. I-6211.
[299] *Id.* at 6236.
[300] *Id.* at 6235.
[301] *See id.* at 6235, ¶ 8-9.
[302] *See id.* at 6235, ¶ 9, 6224, ¶ 6-11.

The second approach, despite rejecting the pro-immunity approach, endorses the widely-held view that antitrust authorities and courts should take a more cautious approach in refusal-to-deal situations involving IPRs than other goods or services.[303] Unlike conventional goods or services, IPRs form a legitimate basis for exclusivity because IPRs bear an inherent right to exclude others.[304] IPRs raise special concerns because limiting their exercise based on antitrust remedies may have the opposite effect of the desired goal of opening up markets. Consequently, access to IPRs owned by a dominant firm, under this second view, should be granted on much narrower grounds than the granting of access to mere goods, infrastructures or services.

B. *Inroads on the Traditional Approach*

Under EU and U.S. law, the general rule is that an intellectual property owner with a dominant position is under no obligation to license its IPRs.[305] Otherwise, the owner would be deprived of the substance of its rights if it were obliged to grant a license every time a person requested one and offered to pay a reasonable royalty.[306] Nonetheless, in recent years, significant inroads to this general rule have emerged that have generated legal uncertainty for dominant IP owners who refuse to license their IPRs.[307]

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303 *See* Pitofsky, *supra* note 260.

304 *See* Case 238/87, *Volvo*, 1988 E.C.R. at 6235.

305 *E.g.*, Case 238/87, Volvo AB v. Erik Veng (U.K.) Ltd., 1998 E.C.R. 6211; Case T-69/89, RTE v. Commission, 1991 E.C.R. I-114; Joined Cases C-241 & C-242/91, RTE, ITP v. Commission, 1995 E.C.R. I-743. In the U.S., refer to the U.S. IP Guidelines, *supra* note 5, at ¶ 2.2.

306 Case 238/87, *Volvo*, 1988 E.C.R. at 6235, ¶ 8.

307 *See* Kobak, *supra* note 69, at 534; *see also* J.T. Westermeier, *Interoperability, Standards, Intellectual Property and Antitrust*, 566 PLI/PAT 235, 240 (1999); Charles L. Freed, *Antitrust and the Duty to License Intellectual Property -– Can Manufacturers Be Compelled to Deal with ISOs?*, 14 ANTITRUST 33, 37 (1999).

C. *The Application in the European Union of the Essential Facilities Doctrine to Refusals to License*

1. The Jurisprudence of the European Court of Justice Prior to *Magill*

Before *Magill*,[308], the landmark decision in this field was *Volvo*.[309] Volvo held a U.K. registered design for the front wing panels of Volvo Series 200 cars.[310] Without Volvo's authorization, Veng imported imitations of Volvo's wing panels into the U.K. from other Member States.[311] Volvo sought to prevent Veng from importing and marketing them in the U.K.[312]

Volvo refused to license its design rights, despite Veng's willingness to pay a reasonable royalty.[313] A British Court requested a preliminary ruling from the ECJ that would guide its decision whether this refusal amounted to an infringement of Article 82 of the EC Treaty.[314]

Following the Opinion of Advocate General Mischo, the ECJ reasoned that the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing without the proprietor's consent products incorporating the design, constitutes "the very subject-matter" of its exclusive right.[315] Accordingly, the ECJ ruled that an obligation imposed on the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a license for the production and marketing of products incorporating the design, would deprive the proprietor of the substance of his exclusive right.[316] For this reason,

308 Joined Cases C-241/91 P & C-242/91 P, Radio Telefis Eireann v. Commission, 1995 E.C.R. I-743.

309 Case 238/87, *Volvo*, 1998 E.C.R. 6211.

310 *Volvo*, 1988 E.C.R. at 6213-14, 6233 ¶ 3.

311 *Id.* at 6234.

312 *Id.* at 6233.

313 *Id.* at 6234.

314 *Id.*

315 *Id.* at 6235.

316 *Volvo*, 1988 E.C.R. at 6235.

a refusal to grant such a license cannot in itself constitute an abuse of dominant position.[317]

In its holding, the ECJ introduced various nuances distinguishing the refusal to license the design rights from an arbitrary refusal to supply replacement parts.[318] According to the ECJ, the "exercise" of an exclusive right by the proprietor of a registered design with respect to car body panels may be prohibited by Article 82 if it involves on the part of a dominant firm, any of three types of "certain abusive conduct:." (i) the arbitrary refusal to supply replacement parts to independent repairers; (ii) the fixing of prices for replacement parts at an unfair level, or (iii) a decision to cease production of replacement parts for a particular model when many cars of that model are still circulating.[319] The *Volvo* case is significant since the ECJ accepted that it is possible, under Article 82, to interfere with rights falling within the specific subject matter of an IPR. The ECJ further elaborated on the *Volvo* doctrine in *Magill*.[320]

2. The Impact of *Magill* on Refusals to License Intellectual Property Rights

After *Volvo*, legal uncertainty surrounded the question of whether the owner of an exclusive right in a dominant market position should be required to license its IPRs to third parties when the owner, apart from refusing to grant the license, has committed no acts that would demand antitrust scrutiny.[321] In *Volvo,* the ECJ identified three

[317] *Id.*
[318] *Id.*
[319] *Id.*
[320] Case T-69/89, RTE v. Commission., 1991 E.C.R. II-485 (1991); Case T-70/89, BBC v. Commission. 1991 E.C.R. II-535 (1991); Case T-76/89, ITP Ltd. v. Commission., 1991 E.C.R. II-575 (1991); Joined Cases C-241 & C-242/91, RTE, ITP v. Commission., 1995 E.C.R. I-743 (1995).
[321] Joined Cases C-241 & C-242/91, *RTE/ITP*, 1995 E.C.R. at I-764. A comment by Professor Korah regarding paragraph 9 of *Volvo* reflects the vagueness of the judgment: "*It seems* then that the proprietor of an exclusive right, who is held to enjoy a dominant position, may be required either to license third parties, or to supply them with the protected product on terms which are not 'unfair,' whatever that may mean." (emphasis added). KORAH, *supra* note 42, at 257; *see also* Thomas C. Vinje, *The Final Word on Magill, The*

circumstances in which a firm's refusal to license its IPRs to a third party may constitute an abuse of dominant position.[322] The ECJ, however, failed to indicate whether a refusal to license in other circumstances could also constitute an abuse of dominant position.[323] In *Magill*, the ECJ held that under certain "exceptional circumstances," simply by refusing to license its IPRs to a third party, a dominant firm could violate Article 82.[324] This theoretical legal exposure could compel dominant firms to always grant license requests.[325] Dominant firms find *Magill* troubling because it fails to define what "exceptional circumstances" would warrant the granting of access to IPRs.[326] *Magill* provides paltry guidance in this respect.[327]

In *Magill*, three television stations (RTE, ITV and BBC) broadcasting in Ireland and Northern Ireland (U.K.) refused to license their copyright on the information contained in their respective program listings to the Irish publisher Magill TV Guide Ltd. ("Magill").[328] Magill briefly attempted to publish a comprehensive weekly television guide that competed with the broadcasters' guides.[329] The three broadcasters relied on their copyrights and obtained injunctions in the Irish courts to restrain Magill from publishing the guide.[330] In 1986, Magill lodged a complaint with the Commission against the three broadcasters' refusal to license their copyrights.[331]

In 1988, the Commission condemned the three broadcasters for abusing their dominant positions by preventing the publication and sale of a comprehensive weekly TV guide in Ireland and Northern

Judgment of the ECJ, 17 E.I.P.R. 297, 301 (1995).

322 Vinje *supra* note 321, at 301.
323 *Id.* at 323.
324 Joined Cases C-241 & C-242/91, *RTE/ITP*, 1995 E.C.R. at I-744-45, ¶ 3.
325 *See* Vinje, *supra* note 321, at 301.
326 *Id.*
327 *See id.*
328 Case T-69/89, RTE v. Commission., 1991 E.C.R. II-485, 494, ¶¶ 7-10 (1991).
329 *Id.*
330 *Id.*
331 *Id.* at II-495, ¶ 11.

Ireland.[332] The three broadcasters were forced to grant Magill a copyright license.[333] The broadcasters appealed the decision, but the CFI upheld it.[334] RTE and ITV subsequently appealed the judgment of the CFI before the ECJ.[335] The ECJ affirmed the CFI's holding, but declined to endorse its reasoning.[336]

The CFI based its ruling on the distinction between the "existence" and the "exercise" of an intellectual property right.[337] The CFI developed this distinction by balancing the principle of free movement of goods within the common market against the protection of IPRs.[338] The CFI transposed aspects of this jurisprudence to Article 82 cases.[339] The CFI found that even though a refusal to license is not in itself an abuse, this lack of liability vanishes when the right is exercised to pursue an aim manifestly contrary to the objectives of Article 82.[340] The CFI found that the broadcaster, RTE, prevented the production and marketing of a new product - a comprehensive weekly TV guide - for which there was consumer demand.[341] The CFI opined that RTE acted to ensure its monopoly in the market of weekly TV guides.[342] In so doing, the CFI held that RTE went beyond the scope of its copyright, because it

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332 *Id.* at II-491, ¶ 1.

333 *Id.*; Commission. Decision 89/205/EEC, art. 1-2, 1989 O.J. (L 78) 43.

334 Case T-69/89, *RTE*, 1991 E.C.R. at II-496, ¶ 13.

335 Joined Cases C-241 & C-242/91, RTE, ITP v. Commission., 1995 E.C.R. I-743 (1995).

336 *Id.* at 825, ¶ 58.

337 Case T-69/89, *RTE*, 1991 E.C.R. at II-510, ¶ 46.

338 *Id.* at II-518, ¶ 67, II-522-23, ¶¶ 76-77.

339 Rosa Greaves, *Magill Est Arrivé . . . RTE and ITP v. Commission. of the European Communities*, 4 EUR. COMP. L.R. 244, 247 (1995). *See also* KORAH, *supra* note 42, at 217-18. In criticizing the distinction between the "existence" of rights and their "exercise" Korah states:

> In legal theory, it is impossible to draw the line between the existence and the exercise, except at the extremes. Analytically, the existence of a right consists of all the ways in which it may be exercised. In ruling that an important difference rests on a distinction which cannot be drawn by logical analysis, the Court created a very flexible instrument for it to develop the law and reduce the value of intellectual property.

Id.

340 Case T-69/89, *RTE*, 1991 E.C.R. at II-519, ¶ 71.

341 *Id.* at II-507-08, ¶¶ 41-42.

342 *Id.* at II-510, ¶ 46.

had pursued an aim "manifestly contrary to the objectives of Article 86 [now Article 82]."[343]

The problem with this approach is that a strict application of the existence/exercise doctrine to refusal to license cases could lead to a solution incompatible with the fundamental nature of IPRs.[344] Article 30 of the EC Treaty allows an organization with an IPR to derogate from the provisions on free movement of goods to protect industrial and commercial property, provided such derogation does not constitute arbitrary discrimination or a disguised restriction on community trade.[345] Since the very aim of an IPR is to give the owner the option of restricting competition,[346] it would be difficult to determine when a refusal to license does not constitute a "disguised restriction of competition" within the meaning of Article 30 of the EC Treaty.[347]

Perhaps, because the ECJ was aware of the shortcomings of the existence/exercise doctrine when applied to refusals to license IPRs, it instead followed a different line of reasoning.[348] The ECJ confirmed that mere ownership of an intellectual property right does not confer dominant position.[349] Yet since each of the broadcasters enjoyed a monopoly over the information contained in its program listings, each also held a dominant position over that information.[350] With regard to actual abuse, the ECJ rejected the appellants' argument that a company is immune from antitrust laws when it exercises its copyright.[351] In *Magill*, unlike in *Volvo*, the ECJ did not rely on the distinction between the "existence" and the "exercise" of IPRs.[352] Instead, the ECJ focused on whether there were

343 *Id.* at II-520-21, ¶ 73.
344 *See* Vinje, *supra* note 321, at 300-01.
345 Joined Cases C-241 & C-242/91, RTE, ITP v. Commission., 1995 E.C.R. I-743, I-816, ¶ 25 (1995).
346 *Id.* at I-767, ¶ 67.
347 Marleen Van Kerckhove, *Magill: A Refusal to License or a Refusal to Supply*, 416 PLI/PAT 997, 1003 (1995).
348 Vinje, *supra* note 307, at 297.
349 Joined Cases C-241 & C-242/91, *RTE/ITP*, 1995 E.C.R. at I-822, ¶ 46.
350 *Id.* at ¶ 47.
351 *Id.* at ¶ 48.
352 Vinje, *supra* note 321, at 300-01.

"exceptional circumstances" rendering the broadcasters' refusal to supply the copyrighted information a violation of Article 82.[353]

Contrary to the Opinion of the Advocate General,[354] the ECJ found exceptional circumstances, and ruled that the broadcasters had abused their dominant position by relying on their copyrights in refusing to supply Magill with the basic information regarding their program listings.[355] The ECJ pointed to three exceptional circumstances.[356] First, there was no actual or potential substitute for a weekly television guide offering information on the week's upcoming programs, despite a specific, constant and regular consumer demand.[357] The broadcasters' refusal to provide basic information (i.e., channel, day, time and title of the programs), the "indispensable raw material"[358] for compiling a weekly guide, prevented the emergence of a new product which would have competed with the broadcasters' own guides.[359] Second, no business justification existed for the refusal, although the ECJ did not thoroughly discuss this finding.[360] Third, the broadcasters had reserved for themselves a monopoly in the secondary market of weekly television guides by excluding all competition.[361]

The ECJ's judgment led to considerable disappointment for two reasons.[362] First, the ECJ confronted the CFI's application of the existence/exercise doctrine developed under Articles 28 and 30 of the EC Treaty (free movement of goods) to Article 82 cases dealing

353 Joined Cases C-241 & C-242/91, *RTE/ITP*, 1995 E.C.R. at I-823, ¶ 46.
354 *Id.* at I-747.
355 *Id.* at I-824, ¶ 54.
356 *Id.* at I-824, ¶¶ 52-57.
357 *Id.* at I-823-24, ¶ 52.
358 GOYDER, *supra* note 67, at 357 (describing how the ECJ was concerned specifically with the refusal to supply information more than with a refusal to license). *Compare* RTE/ITP, 1995 E.C.R. at I-824 *with* Joined Cases 6 and 7/73, Instituto Chemioterapico Italiano SpA and Commercial Solvents Corporation v. Commission, 1974 E.C.R. 223 (concerning a reference to an indispensable raw material reminiscent of the wording used by the ECJ in traditional refusal to deal cases like Commercial Solvents).
359 Joined Cases C-241 & C-242/91, *RTE/ITP*, 1995 E.C.R. at I-824, ¶ 53-54.
360 *Contra* at I-767 (endorsing appellants' argument that the right to refuse licenses must be regarded as necessary in order to guarantee the copyright owner the reward for his creative effort).
361 *Id.* at I-824, ¶ 50.
362 GOYDER, *supra* note 67, at 357; Greaves, *supra* note 339, at 246.

with refusals to license.[363] Second, the ECJ failed to enunciate a clear legal doctrine for refusals to license IPRs.[364] The *Magill* decision fails to address the question of when a product is considered sufficiently new to trigger the application of the judgment.[365] Perhaps the ECJ's failure to establish a clear doctrine for refusals to license reflects an unwillingness to confine itself doctrinally, as happened in the wake of *Volvo*.[366] Nonetheless, the ECJ should have addressed these issues to establish legal certainty.[367]

The business world viewed *Magill* as a radical judgment.[368] The case sparked anxiety among proprietors of IPRs, especially in the pharmaceutical and computer/software industries.[369] Firms feared that a broad interpretation of *Magill* could devalue their rights.[370] The pharmaceutical industry feared that a firm holding an important patent could be forced to license its patent to other companies seeking to manufacture the product around the world,[371] or to a holder of a major improvement.[372] In this latter scenario, the patent holder would be deprived of its right to make available a new, improved product, severely undermining the prospective profit of the basic patent.[373]

In the software industry, the *Magill* judgment ignited the debate surrounding the final adoption of the EC Software Directive.[374] The EC Software Directive struck a balance between copyright protection and competition in the information technology industry.[375] However, some commentators saw *Magill* as buttressing the pro-competition

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[363] *See* Greaves, *supra* note 339, at 247.
[364] GOYDER, *supra* note 67, at 357.
[365] H.H. Paul Lugard, *ECJ Upholds Magill: It Sounds Nice in Theory, But How Does It Work in Practice?*, 6 E.B.L.R. 231, 233 (1995).
[366] *See* Vinje, *supra* note 321, at 301.
[367] Kerckhove, *supra* note 347, at 1003; *see also* Vinje, *supra* note 321, at 301; *see generally* GOYDER, *supra* note 67, at 357.
[368] Vinje, *supra* note 321, at 302; *contra* Greaves, *supra* note 339, at 247.
[369] GOYDER, *supra* note 67, at 359.
[370] *Id.*
[371] *Id.*
[372] KORAH, *supra* note 42, at 258.
[373] *Id.*
[374] Council Directive 91/250, 1991 O.J. (L 122) 42.
[375] Vinje, *supra* note 321, at 302.

agenda in the software industry.[376] Software producers feared that the owner of a valuable software program could be prevented from effectively exploiting the program by being forced into widespread licensing.[377] Following *Magill*, the varying scholarly views about the decision's future impact on licensing practices show the software producers' fears were valid.[378] The ECJ's narrow interpretation of *Magill*, however, allayed these initial fears.[379]

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376 *Id.*

377 GOYDER, supra note 67, at 359; Vinje, *supra* note 321, at 302-03.

378 *Compare* Vinje, *supra* note 321, at 302 (stating "*Magill* is unlikely to be limited strictly to its facts, and it will be necessary for both rightholders and their competitors to review a whole range of conducts involving intellectual property from a new perspective.") *with* Greaves, *supra* note 339, at 246-47 ("[t]he formulation of the judgment is so tied up with stressing the 'exceptional circumstances' of this case that it is difficult, if not impossible, to imagine another situation where the refusal to license by a copyright owner will be held an abuse of dominant position.") and Lugard, *supra* note 365, at 232 ([t]he conditions that have to be fulfilled in order to arrive at the conclusion that Article 86 [now Article 82] requires a company to license its intellectual property rights are multiple and quite strict, making the *Magill* doctrine difficult to apply in practice."); *see also* Forrester, *supra* note 47, at § 35-12.

379 *See* GOYDER, *supra* note 67, at 359; KORAH, *supra* note 42, at 259. The Commission refused to apply the *Magill* doctrine in a complaint brought by a pay-per-view digital platform (Via Digital) against the grant by the right holder (Audiovisual Sport) of an exclusive license over football broadcasting rights to a competing TV digital platform (Canal Satelite Digital). The licensee and the complainant were the only two digital platforms in Spain. Before the exclusive license was granted, both platforms were entitled to broadcast Spanish league football games covered by the challenged license. In 1999, the Commission granted a three year exemption to the exclusivity under Article 81(3) of the EC Treaty, and refused to consider football broadcasting rights as an essential facility, despite the claims from the complainant that football broadcasting rights were indispensable for the digital platform to continue operating in the market (the Commission's decision granting the exemption was never published). Thereafter, however, the shareholders of each digital platform reached an agreement to share among themselves the football broadcasting rights of the Spanish league. Pursuant to this deal, the parties granted exclusive football broadcasting rights to Via Digital and Canal Satelite Digital thereby excluding other pay-TV platforms from having access to the broadcasting rights. The deal was notified to the EC Commission, which sent the parties a statement of objections lifting the immunity from fines normally stemming from the filing of a notification with the EC Commission. The EC Commission threatened the parties with fines if they did not grant access to those rights to other pay-TV platforms on the ground that successful access to the Spanish pay-TV market relied heavily on the right to broadcast the relevant football games. In June 2000, the parties granted access to the relevant football rights to new cable and digital terrestrial television entrants in Spain. *See* IP/00/1352, Brussels, 23 November 2000. The outcome of this case may indicate that in future cases the EC Commission will be more receptive to claims against granting exclusive broadcasting rights based on the essential facility doctrine. *See*

Despite the judgment's shortcomings, *Magill* was rightly decided on the merits. Moreover, the ECJ ruling in *Magill* is important for two reasons. First, it reflects the tension between intellectual property and EC competition laws.[380] Second, *Magill* goes a step further than *Volvo* in its antitrust/intellectual property analysis.[381] It was the first, and remains the only, case in which the ECJ imposed the duty to license an IPR to prevent the infringement of EC competition laws.[382] The *Magill* holding is significant in that copyright compulsory licenses under EU competition law lack binding force in the individual member states.[383] One may speculate that the ECJ opted not to express the true basis for its *Magill* decision out of concern that it would conflict with the national copyright laws of the different member states.[384]

ECJ judges view Irish and U.K. copyright legislation with disfavor.[385] While copyright laws are designed to encourage, protect, and reward creative innovation, copyrighted television listings hold little literary merit.[386] That *Magill* concerns the publication of television listings explains why the holding should not extend to non-copyright IPRs.[387] Enforcing compulsory licensing for television listings does not significantly impact the production and release of program listings.[388] The incentive to produce and disseminate programs will be the same irrespective of whether the broadcasters are protected from competition in the television guide market.[389]

A.M. Wachtmeister, *Broadcasting of Sports Events and Competition Law*, 2 Competition Policy Newsletter, June 1998.

[380] *See* Vinje, *supra* note 321, at 297.

[381] *Id.* at 300.

[382] *Id.* at 298.

[383] Joined Cases C-241 & C-242/91, RTE, ITP v. Commission., 1995 E.C.R. I-743, 748 (1995).

[384] *Id.* at I-823 (indicating in paragraph 49 of the judgment that, in the absence of harmonization, the scope of intellectual property rights is a matter for national law).

[385] *See* Korah, *supra* note 23, at 173; *see also* Case C-7/97, Oscar Bronner GmbH Co KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, 1998 E.C.R. I-7791, [1998] 4 C.M.L.R. 112, 133-34 (1999).

[386] *See* Greaves, *supra* note 339, at 246.

[387] Ridyard, *supra* note 91, at 446.

[388] *Id.*

[389] *Id.*

Unlike television listings, however, the compulsory licensing of economically useful intellectual property discourages firms from committing resources to innovation.[390] For this reason, other commentators welcomed the ECJ's use of the "circumstance-based approach."[391] This novel approach marked the demise of the existence/exercise doctrine as a guide to determining whether a refusal to license runs contrary to Article 82.[392] The judgment of the CFI in *Ladbroke v. Commission*[393] confirms this hypothesis.

Professor Korah reports that officials of the Commission's legal service pointed out, in their personal capacities, that *Magill* should be limited to "unmeritorious kinds of intellectual property."[394] *Ladbroke* confirmed this view.[395] In *Ladbroke*, the Commission and the CFI refused to apply *Magill* to a situation where the undertakings (PMI/PMU) holding the exclusive rights to televised pictures and audio commentaries on French horse races, and an undertaking holding the exclusive rights to market such performing rights in Austria and Germany (DSV), refused to license the right to retransmit such audiovisuals of French horse races to a Belgian betting agency (Tiercé Ladbroke).[396] The CFI distinguished *Magill* from *Ladbroke* on three different grounds. First, Tiercé Ladbroke enjoyed a dominant position in the Belgian horse races betting services market, and did not need a license to introduce a new product.[397] Second, the license was not indispensable because sounds and images, although helpful, are not essential to a betting agency.[398] Third, films are not indispensable since they are shown after the bets have been placed.[399]

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[390] Korah, *supra* note 23, at 173; Ridyard, *supra* note 91, at 446.

[391] Darren Fitzgerald, *Tiercé Ladbroke AS v. The Commission*, 20 E.I.P.R. 154, 160 (1998); *see also* Vinje, *supra* note 321, at 301.

[392] Vinje, *supra* note 321, at 301.

[393] Case T-504/93, Tiercé Ladbroke SA v. Commission, 1997 E.C.R. II-927 (1997).

[394] VALENTINE KORAH, TECHNOLOGY TRANSFER AGREEMENT AND THE EC COMPETITION RULES 53-54 (1996).

[395] Case T-504/93, Tiercé Ladbroke SA v. Commission, 1997 E.C.R. II-923.

[396] *Id.*

[397] *Id.* at II-969, ¶ 130.

[398] *Id.* at II-969, ¶ 132.

[399] *Id.*; *see generally* Korah, *supra* note 23, at 169 (providing a thorough and critical analysis of this case).

The first of these three grounds evinces the CFI's narrow interpretation of *Magill*'s "novelty" test.[400] Rather than concluding that sounds and images of French horse races were a service ancillary to the betting market and not indispensable, the CFI could have found that the act of relaying these sounds and images in Belgium was itself a new product whose emergence was prevented by the refusal to license.[401] Likewise, the weakness of the third ground could be interpreted as exemplifying the CFI's unwillingness to apply *Magill* to this case.[402] In this respect, a logical counterargument could be that bettors, knowing the images were going to be shown after and not during the race, might still be strongly influenced in their choice of betting agency.[403] Finally, along with the opinions of Commission officials and the outcome of *Ladbroke*, the ECJ's judgment in *Oscar Bronner*, narrowly interpreting *Magill* and the essential facilities doctrine, also weighs against a broad interpretation of *Magill*.[404]

The foregoing indicates that the ECJ's holding in *Magill* is so constrained by the specific facts and exceptional circumstances of the case, that the judgment is unlikely to be successfully transposed to other situations.[405] *Magill* is thus not likely to be repeated.[406] Some may argue that the *Magill* judgment is not radical.[407] In fact, the decision does not seem to have had much impact on the conduct of copyright owners, and has not taken the evolution of EC competition much further than *Volvo*,[408] much less added legal certainty in this field.

Despite the narrow interpretation given by the Commission and the CFI to *Magill*, the paucity of reasoning by the ECJ in *Magill* and the

[400] Fitzgerald, *supra* note 391, at 160.
[401] *Id.*
[402] *Id.* at 160-61.
[403] *Id.* at 161.
[404] *E.g.*, Case C-7/97, Oscar Bronner GmbH Co KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, 1998 E.C.R. I-7791, [1998] 4 C.M.L.R. 112, 133-34 (1999).
[405] *Contra* Vinje, *supra* note 321, at 302.
[406] *See* Greaves, *supra* note 339, at 247.
[407] *Id.*
[408] *Id.*

CFI's failure in *Ladbroke* to expressly limit *Magill* to extreme cases leave some unanswered questions.[409] First, it is still unclear whether the holder of an important patent, which is indispensable to a third party seeking to introduce a new product that will compete with the right holder's product, may refuse to license its patent without infringing Article 82. The reasoning of the ECJ in *Magill* does not give much guidance in this respect. Yet, the narrow interpretation given by the Commission and the CFI make it unlikely that a patent holder or a copyright owner, in circumstances markedly different from those in *Magill*, would be forced to grant a license under EC competition law.[410]

Second, neither *Magill* nor *Ladbroke* shed any light on what would happen if, in a *Magill*-type scenario, the defendant tried to prevent antitrust liability by providing the new product itself.[411] It seems this should be enough to avoid the application of Article 82 to the refusal to license, especially if the defendant can prove it had planned to enter that market before the plaintiff requested the license.[412] However, if the introduction of the product is seen as a stark reaction to the request for the license, then the possibility cannot be ignored that the Commission might perceive such conduct as a pretext to exclude a new product from the market, and as such, contrary to Article 82.

409 Korah, *supra* note 23, at 176.
410 *See* Lugard, *supra* note 365, at 234.
411 *See id.* at 233.
412 *See id.*

D. *The Application of the Essential Facilities Doctrine to Refusals to License Intellectual Property in the United States*

1. Overview

a. The United States Supreme Court Case Law

For many years, U.S. courts almost uniformly held that the owner of a valid IPR that has not engaged in any form of misuse, such as the tying of unpatented articles, price fixing over an unpatented product, or the bringing of unjustified infringement claims does not violate antitrust laws and, therefore, cannot be compelled by Section 2 of the Sherman Act to license its rights to a competitor.[413] In *Miller Insituform v. Insituform of North America*, [414] the Sixth Circuit was asked to decide whether a licensor that had terminated an exclusive sublicense agreement, allegedly to retake as exclusive the territory granted to the sublicensee, could be held liable under Section 2 of the Sherman Act.[415] The court distinguished a simple refusal to license from other improper practices that may run afoul of the Sherman Act, such as tying or illegal price fixing activities in connection to patents.[416] The court found that none of the improper practices leading to liability under the Sherman Act were present in the case at hand and accordingly confirmed the grant of summary judgment for the defendant.[417] The court held that a patent holder who lawfully acquires a patent cannot be held liable under Section 2 of the Sherman Act simply by refusing to license the patent to others.[418]

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413 *See* AREEDA & HOVENKAMP, *supra* note 53, at 188; Burling, Lee & Krug, *supra* note 197, at 537; Freed, *supra* note 307, at 33.
414 830 F.2d 606 (6th Cir. 1987).
415 *Id.* at 607.
416 *Id.* at 608.
417 *Id.* at 609.
418 *Id.*

Similarly, in *Advanced Computer Services of Michigan v. MAI Systems*,[419] a district court granted summary judgment in favor of the copyright holder MAI Systems ("MAI"), a minicomputers manufacturer.[420] Several independent service providers ("ISP") sued MAI for an alleged violation of Section 1 (tying its software to its services) and Section 2 (monopolization of MAI computers' service market) of the Sherman Act.[421] MAI had requested that the independent service providers cease copying its computer software used for the maintenance of MAI computers.[422] The district court held that MAI could not be held liable for monopolization because "the enforcement of its copyrights do not constitute copyright misuse, nor does it constitute anticompetitive conduct in violation of § 2 of the Sherman Act".[423]

With the exception of *Kodak I*,[424] none of the Supreme Court's duty-to-deal precedents involved intellectual property.[425] After *Kodak I*, the rule articulated in *Miller Insituform*, *Advance Computer Services*, and other cases[426] involving refusal to license patents or copyrights came under scrutiny and was revised.[427] In *Kodak I*, Kodak changed its long established pattern of distribution and refused to supply replacement parts for its copiers to independent service providers.[428] Some ISPs sued Kodak for attempting to monopolize the service market by leveraging its dominant position in the replacement parts market.[429] Kodak filed a motion for summary judgment that was eventually rejected by the Supreme Court.[430]

419 845 F. Supp. 356 (E.D. Va. 1994).
420 *Id.* at 371.
421 *Id.* at 359.
422 *Id.* at 359-60.
423 *Id.* at 370.
424 Eastman Kodak Co. v. Image Technical Servs. Inc., 504 U.S. 451 (1992) (*Kodak I*).
425 Burling, Lee & Krug, *supra* note 197, at 533.
426 SCM Corp. v. Xerox Corp., 645 F.2d 1195 (2d Cir. 1981); United States v. Westinghouse Elec. Corp., 648 F.2d 642 (9th Cir. 1981).
427 Freed, *supra* note 307, at 33.
428 *Kodak I*, 504 U.S. at 458.
429 *Id.* at 459.
430 *Id.* at 479.

In its opinion, the Court did not thoroughly address the issue of the interconnection between intellectual property laws and antitrust laws. Its most relevant statement in this regard is contained in a succinct footnote.[431] In footnote 29 of its opinion, the Supreme Court introduced some confusion as to whether a patent owner may be compelled under antitrust laws to license its technology.[432] The Court noted that "power gained through some natural advantage or legal advantage such as a patent, copyright, or business acumen can give rise to liability, if a seller exploits its dominant position in one market to expand his empire into the next."[433] Although it is unclear whether the Court endorsed the theory that an IP owner could be required to license its rights to avoid antitrust liability,[434] the *Kodak I* decision decisively influenced the rulings by lower courts in the *Data General*[435] and *Kodak II*[436] cases.

b. The Relevance of the Protection of Innovation Markets for the Development of the Essential Facilities Doctrine: the *Microsoft* and *Intel* Cases

i. *The Implementation of the Intellectual Property Guidelines*

The IP Guidelines state that U.S. agencies will protect competition in innovation markets.[437] According to the IP Guidelines research and development directed at particular new or improved goods or processes characterizes an innovation market.[438] This concept is

[431] *Id.* at 479,n. 29.
[432] *See id.*
[433] *Id.*
[434] *Kodak II*, 125 F.3d at 1215-16 (declining however to specifically address the question of antitrust liability based upon a unilateral refusal to deal in a patented or copyrighted product).
[435] *See* Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147 (1st Cir. 1994).
[436] *See Kodak II*, 125 F.3d at 1215-16.
[437] *See* IP Guidelines, *supra* note 5, at § 3.2.3.
[438] *See id.* A commentator has defined "innovation" as a process which "concerns the R&D to create products which do not exist for markets that may be only dimly conceived. This is a search for competitive markets before there are sales, before there are even patents

important because if U.S. courts and antitrust authorities consider the process of competitive innovation in a particular field as a separate "good" that requires protection, plaintiffs may then go a step further, and demand that a competitor grant a license on the grounds that its IPRs constitute an essential facility. U.S. agencies have already relied on this innovation concept in at least two landmark antitrust cases. Indeed, the protection of innovation markets underlies the approach taken by the Department of Justice in *United States v. Microsoft*[439] and by the Federal Trade Commission ("FTC") in the *In re Intel* case.[440]

ii. *The* Microsoft *Case and the Essential Facilities Doctrine*

Since the facts in the *Microsoft* case are generally well-known, they will not be addressed in detail here.[441] It is germane, however, that in *Microsoft* the innovation concerns related to the preservation of development of future Windows alternatives.[442] Nevertheless, the district court's Findings of Fact have been criticized for not having specified sufficiently how the alleged anticompetitive conduct of Microsoft is supposed to have affected, or might affect the innovation efforts of potential competitors in the computer operating systems market.[443] According to Judge Jackson, "[t]here is

or trade secrets." Kobak, *supra* note 6, at 361. Protecting innovation markets requires authorities to prosecute actions which may harm the ability and incentives of existing and potential rivals in R&D for the future. Valentine *supra* note 5, at 9.

[439] *See* United States v. Microsoft Corp., 84 F. Supp. 2d 9 (D.D.C. 1999) (Findings of Fact); United States v. Microsoft Corp., 87 F. Supp. 2d 30 (D.D.C. 2000) (Conclusions of Law).

[440] *In re* Intel Corp., No. 9288, Agreement Containing Consent Order, (FTC March 17, 1999) *available at* http://www.ftc.gov/os/1999/9903/d09288intelagreement.htm (last visited Mar. 9, 2001). Intergraph, an Intel customer, also brought a civil lawsuit under Section 2 of the Sherman Act against Intel in a District Court. The FTC's findings are broader than the civil *Intel* case since the opinion analyzed the behavior of Intel towards Intergraph, Digital, and Compaq. Moreover, the FTC, unlike the District Court, took into account the innovation market concept in its evaluation of the anti-competitive conduct. *See id*.

[441] United States v. Microsoft Corp., 84 F. Supp. 2d 9 (D.D.C. 1999) (Findings of Fact).

[442] *Id.* at 27; James B. Kobak, Jr., *Microsoft: Questions of Harm and Remedy*, Vol. 14, 4 CLA BULLETIN, 118, 120 (2000).

[443] *See id.*

insufficient evidence to find that, absent Microsoft's actions, Navigator and Java already would have ignited genuine competition in the market for Intel-compatible PC operating systems."[444] Despite this finding, the court held that Microsoft "retarded, and perhaps altogether extinguished, the process by which these two middleware technologies *could have facilitated* the introduction of competition into an important market."[445] The court also found that Microsoft sacrificed revenues by giving away Internet Explorer in order to achieve this objective.[446] Regrettably, as Professor Kobak has pointed out,[447] the court did not make any specific finding that Microsoft would recoup its losses, as the Supreme Court requires in a pure predatory pricing case.[448]

On April 3, 2000, Judge Jackson issued his Conclusions of Law.[449] The court held that Microsoft violated Section 2 of the Sherman Act by unlawfully maintaining its monopoly power in the Intel-compatible PC operating systems market, and by attempting to monopolize the Web browser market by anticompetitive means.[450] The court also found that Microsoft violated Section 1 of the Sherman Act by unlawfully tying its Web browser to its operating system.[451]

According to the Conclusions of Law, the exclusionary conducts of Microsoft were aimed at eliminating interoperability of middleware software applications - Navigator and Java - to preserve the high entry barriers in the market for Intel-compatible PC operating systems.[452] By maintaining high entry barriers, Microsoft sought to prevent potential software developers from attempting to develop an operating system to compete with Windows.[453]

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[444] *Microsoft*, 84 F. Supp. 2d at 112 (Findings of Fact).
[445] *See supra* note 442 (emphasis added).
[446] *Id.* at 46.
[447] *See* Kobak, *supra* note 442, at 120.
[448] *See* Brooke Group, Ltd. v. Brown & Williamson Tobacco Corp., 509 U.S. 209, 243 (1993).
[449] *Microsoft*, 87 F. Supp. 2d at 35 (Conclusions of Law).
[450] *Id.*
[451] *Id.*
[452] *Id.* at 38-39.
[453] *Id.*

While a thorough analysis of the *Microsoft* case goes beyond the scope of this essay, the issue regarding the kind of remedies that would be equitable in the *Microsoft* case provoked a hot debate that is worth mentioning.[454] A wide range of remedies is available to a court depending on their effects upon the defendant's business. The court can choose between conduct and structural remedies, or combine elements of each, depending on its liability findings and its goals for relief.[455]

The remedy must be proportional to the need to recreate the market situation that would have existed absent the alleged anticompetitive conduct.[456] In some cases it will be enough to order a simple injunction to prevent the repetition of any illegal practices. In others, a court may go further and prohibit discrimination or ban tying and exclusive arrangements. Only when conduct remedies may be ineffective to restore the competitive conditions of the market should the court consider structural relief (dissolution of the defendant or divestiture of assets).[457]

Courts also must take into account the characteristics of the industry in which the relief will produce its effects.[458] Particularly in markets involving high-technology industries, courts have imperfect information available and their mistakes are likely to be enduring and costly.[459] Over-deterrence may interfere with the market's self-

[454] United States v. Microsoft Corp., 97 F. Supp. 2d 59, 64-70 (D.D.C. 2000). The issue of the proper remedies in the *Microsoft* case has been subject to conflicting commentaries. *Compare* John E. Lopatka & William H. Page, *A (Cautionary) Note on Remedies in the Microsoft Case,* 13 ANTITRUST 25, 28 (1999) (arguing against the adoption of structural remedies; i.e.; the breaking-up of Microsoft) *with* R. Craig Romaine & Steven C. Salop, *Slap Their Wrist? Tie their Hands? Slice Them Into Pieces? Alternative Remedies for Monopolization in the Microsoft Case*, 13 ANTITRUST 15, 17-18 (1999) (arguing that, due to the network effects of the Windows operating system, the structural remedy is the only efficient remedy to restore competition in the market).

[455] Romaine & Salop, *supra* note 454, at 17-19.

[456] Lopatka & Page, *supra* note 454, at 27-28.

[457] *Id.* at 26.

[458] Romaine & Salop, *supra* note 454, at 15.

[459] Lopatka & Page, *supra* note 454, at 25-26; Steven C. Salop & R. Craig Romaine, *Preserving Monopoly: Economic Analysis, Legal Standards, and Microsoft*, 7 GEO. MASON L. REV. 617 (1999) (stating that *Microsoft* "may determine the course of computer software industry for the next ten or twenty years").

correcting forces,[460] especially in high-technology markets where rewards drive innovation.[461] If those rewards are taken away, innovation will likely decline, and in the long run consumers will suffer.[462]

In *Microsoft*, the court ultimately chose a combination of structural and conduct remedies.[463] On June 7, 2000, the court issued its final judgment, adopting the DOJ's proposed remedies and ordering Microsoft to divide, into two firms, one selling Windows and the other selling business applications such as Word or Internet Explorer.[464] The goal of this remedy was to lower barriers to entry into the operating systems market by eliminating the incentive for Microsoft to leverage its operating system monopoly power into the business applications market.[465] The costs of this remedy on Microsoft's business, and the difficult decision facing Microsoft officers in terms of selecting the line of business to be retained, may be better evaluated by taking into account that Microsoft earns about 45% of its revenue from Windows and more than 40% from its business applications.[466]

The court also imposed upon Microsoft several conduct remedies to be implemented over a period of three years if the breakup order withstands appeal, and ten years if it does not.[467] The restrictions are

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460 Lopatka & Page, *supra* note 454, at 25-26.

461 *Id.* at 27. Salop and Romaine have argued that liability standards should not be more permissive in high-technology industries. Salop & Romaine, *supra* note 459, at 664. These economists state that when:

> [A] market is driven more by innovation than price competition, then entrants also must have an open environment to challenge the monopoly. An overly permissive antitrust regime may reduce aggregate innovation, as innovation by entrants by potential new entrants and small competitors is reduced by more than innovation by the monopolist increases.

Id. This approach, however, appears to overlook that over-deterrence in a particular case may have a spillover effect in the whole industry so that potential entrants or competitors also may be discouraged from committing resources to innovation.

462 United States v. Microsoft Corp., 97 F. Supp. 2d 59, 64 (D.D.C. 2000).

463 *Id.*

464 *Id.*

465 *See id.*

466 *Microsoft Split Ordered by Judge Jackson*, 13 SOFTWARE LAW BULLETIN, July 2000, at 111.

467 *See Microsoft*, 97 F. Supp. 2d at 66.

aimed at neutralizing the primary potential drawback of ordering the divestiture of Microsoft along functional lines.[468] Microsoft could circumvent the divestiture order by achieving a *de facto* integration with favored partners, mainly through the discriminatory disclosure of Windows application programming interfaces ("APIs")[469] or other technical information regarding the interoperability of applications with Windows, and also through the use of tying clauses and exclusive dealing clauses.[470] To prevent this circumvention, the final judgment imposes upon Microsoft: (i) the obligation to disclose, in a timely and non-discriminatory manner, technical information about its products to internet service vendors, independent hardware vendors, and original equipment manufacturers ("OEMs "); (ii) a prohibition on modifying its operating system to interfere with or degrade the performance of non-Microsoft programs; (iii) a ban on exclusive dealing and tying arrangements that condition the granting of Windows on an OEM or other licensee agreeing to obtain any other Microsoft product; and (iv) a ban on tying middleware products, such as Internet Explorer or Microsoft's version of Java, to the purchase of Windows.[471]

It must be pointed out that neither the DOJ nor the district court relied on the essential facilities doctrine to seek a Section 2 infringement declaration.[472] However, the court could have concluded, in deciding which remedy was the most appropriate, that Windows was an essential facility. This could have happened, for instance, if Judge Jackson had accepted the argument that imposing a structural remedy was not in society's interests because of the high

468 *See id.*

469 *See* Romaine & Salop, *supra* note 454, at 24, n. 18. APIs are the instructions required by application developers to write an application (such as Netscape or Java) that will run on a particular operating system or interoperate with another particular application. *Id.* The Windows APIs are controlled by Microsoft and contain the information developers need to write software that runs on the Windows operating system. *Id.*

470 *See* Romaine & Salop, *supra* note 454, at 21.

471 *See Microsoft*, 97 F. Supp. 2d at 65-69.

472 *See generally Microsoft*, 97 F. Supp. 2d at 59. (finding a § 2 Sherman Act violation by focusing on: (1) whether a relevant market existed; (2) whether Microsoft possessed actual power to exclude competition from the relevant market, and; (3) whether Microsoft used anticompetitive methods to achieve or maintain its position without pro-competitive business motives).

fragmentation cost this measure might entail.[473] In order to qualify as an essential facility, Windows must be considered "indispensable" for applications developers to remain in the market.[474] Under the test laid out by the court in *MCI*, this means that other actual or potential competitors cannot and could not practically or reasonably duplicate Windows.[475]

The *Microsoft* court found that competitors cannot feasibly duplicate Windows.[476] However, in the computer industry, a sector characterized by a high tendency towards innovation as well as the presence of strong financial and technical players, one could question whether it is practical or economically feasible to develop viable alternatives to Windows within a reasonable period of time.[477]

In view of the market reality of computer industry, it is arguable that neither the investment nor the time required to develop a new operating system would be insurmountable for potential entrants in the operating systems market. Even if the court had doubts about the likely availability of Windows alternatives, the structure of the computer market itself should have established a strong presumption that viable alternatives were possible. Further, the existence of other operating systems such as Unix, Linux and Netware confirms that it is feasible to develop operating systems as alternatives to

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[473] *See* Romaine & Salop, *supra* note 454, at 20.

[474] *See* MCI Communications Corp. v. AT&T, Inc., 708 F.2d 1081 (7th Cir. 1983); see also discussion *infra* Section III.C.2.

[475] *See MCI*, 708 F.2d at 1133.

[476] *See Microsoft*, 84 F. Supp. 2d 9, ¶¶ 18-29 (D.D.C. 1999) (Findings of Fact). According to the court:

> Currently there are no products, nor are there likely to be any in the near future, that a significant percentage of consumers worldwide could substitute for Intel-compatible PC operating systems without incurring substantial costs. Furthermore, no firm that does not currently market Intel-compatible PC operating systems could start doing so in a way that would, *within a reasonably short period of time*, present a significant percentage of consumers with a viable alternative to existing Intel-compatible PC operating systems (emphasis added).

Id. The *Microsoft* court, however, does not specify how short the period to establish a viable alternative to Windows must be to avoid antitrust liability. *See* Hawker, *supra* note 226, at 137-38.

[477] *See* Lopatka & Page, *supra* note 454, at 27-28.

Windows.[478]

If the creation of an alternative to Windows were technically and economically feasible, then the main condition under the *MCI* test for qualification as an essential facility would not be met.[479] The *MCI* court found that it was not feasible to duplicate a local telephone network, in part because it was uneconomical, largely because MCI could not obtain regulatory clearance to duplicate local networks.[480]

If Windows were considered an essential facility, several alternative or cumulative remedies could be imposed on Microsoft.[481] The most feasible remedy would probably have been to order Microsoft to license its Windows source code to other companies.[482] Like the remedy actually ordered, this remedy would have led to the breaking-up of the company. However, unlike the "business line breaking-up" solution ultimately selected, which leaves the Windows business intact, Microsoft would have been divided into several independent firms selling competing versions of Windows.

The question that arises is whether the breaking-up of Microsoft, in any of its variations, may be disproportionate in view of the infringements found by the court. If we assume that the objective of equitable relief is to restore the competitive structure and consumer welfare that would have developed absent Microsoft's anticompetitive conduct,[483] then it is reasonable to argue that the breaking-up of the company goes beyond what is necessary to restore

[478] However, the functioning and maintenance of Linux, Unix and Netware require a more developed computer technical assistance than Windows, although the difference between Linux and Windows on this point is narrowing.

[479] *See MCI*, 708 F.2d at 1081.

[480] *See id.* at 1133.

[481] *See* Romaine & Salop, *supra* note 454, at 15.

[482] *See id.* at 21-22 (distinguishing between two possible licensing remedies: "compulsory licenses" and a "one-time licensing auction." The latter would not require the sharing of newly developed IP over a long period of time because of the one-time nature of the entitlement). *See also* Steve Lohr, *On Breaking up Microsoft Into "Baby Bills"*, N.Y TIMES, Mar. 5 1999, at C2.

[483] See Salop & Romaine, *supra* note 459, at 667.

this *status quo ante*.[484]

Some commentators have pointed out that the usual conditions requisite for structural relief are not present in *Microsoft*.[485] Microsoft did not achieve its monopoly by illegal acquisitions or as a result of government regulations, but simply by offering a product that consumers preferred.[486] That Microsoft acquired its monopoly lawfully does not necessarily mean, however, that a structural remedy could not be appropriate in some situations.[487] For instance, if Microsoft had faced competition, and destroyed its most likely potential competitor by means of exclusionary practices, then it could have been persuasively argued that a structural remedy was necessary to "kick-start" the market.[488] It is unclear, however, both in the Findings of Fact and in the Conclusions of Law, to what extent Microsoft's conduct impeded the introduction of a viable alternative to Windows.[489]

The court appears to acknowledge that Microsoft did not prevent the entrance of other competitors into the market, since the court was not able to identify any specific potential entrant.[490] Imposing on Microsoft the creation of rivals, based on the general presumption that Microsoft would have stifled innovation in the operating systems market, may be overreaching. The breaking-up of Microsoft will introduce a level of competition greater than that which market forces would likely have introduced, but for Microsoft's conduct. In other words, this measure may lead to the creation of "governmentally sanctioned free riders," undermining the incentives to innovate.[491]

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[484] See Lopatka & Page, *supra* note 454, at 27.

[485] *See id.*; *see also* Kobak, *supra* note 442, at 121.

[486] *See* Lopatka & Page, *supra* note 454, at 27.

[487] *See id.*

[488] *See* Salop & Romaine, *supra* note 459, at 18.

[489] *See generally* United States v. Microsoft Corp., 84 F. Supp. 2d 9 (D.D.C. 1999) (Findings of Fact); United States v. Microsoft Corp., 87 F. Supp. 2d 30 (D.D.C. 2000) (Conclusions of Law).

[490] *See Microsoft*, 84 F. Supp. 2d at 9 (Findings of Fact); *Microsoft*, 87 F. Supp. 2d at 30 (Conclusions of Law) .

[491] *See* Lopatka & Page, *supra* note 454, at 27.

The alleged network effects of Windows have also provided ammunition to those defending structural relief as necessary.[492] Commentators have argued that, since Windows exhibits network effects, conduct remedies might be insufficient to "kick-start" the market.[493] The idea underlying this argument is that markets for goods exhibiting strong network effects tend to involve high barriers to entry, mainly because in these kinds of markets the value of the goods depends directly on the number of consumers.[494] Thus, once a monopoly is achieved it is difficult for new entrants or competitors to replace the incumbent, even if they offer a superior product.[495]

This approach ignores the difficulty of applying the network theory to justify structural remedies in *Microsoft*.[496] First, it overlooks the fact that high-technology industries are not inclined to have network effects.[497] In those markets, especially in the software industry, it is difficult to argue that an incumbent, even one whose market power is protected through exclusionary acts, will retain its advantage when faced with competition from a superior product.[498]

Second, even if the operating systems market exhibits network effects, structural remedies might be appropriate to correct a situation provided that a company used illegal exclusionary practices to tip the market to its product, thereby locking in consumers to a possibly inferior standard.[499] In this situation, conduct remedies would be insufficient to recreate the market that would have existed had the exclusionary conduct not occurred.[500] It has not been proven, however, that Microsoft locked its customers into a product technologically inferior to the product that could have existed but for

492 *See* Romaine & Salop, *supra* note 454, at 18.
493 *See* Carl Shapiro, *Exclusivity in Network Industries*, 25 GEO. MASON L. REV. 673, 674 (1999).
494 *See id.*
495 *See id.*
496 *See* Lopatka & Page, *supra* note 454, at 27-28.
497 *Id.*
498 Lopatka & Page, *supra* note 454, at 28 (stating that "there is no empirical evidence that network markets in fact lock in on inferior standards. To the contrary, empirical studies of software markets indicate that superior products regularly displace inferior ones") .
499 *Id.* at 27.
500 *See* Romaine & Salop, *supra* note 454, at 18-20.

Microsoft's exclusionary practices.[501]

The DOJ accused Microsoft of using illegal exclusionary practices to maintain high application barriers in the market for computer operating systems, thereby entrenching its monopoly.[502] The court held that Microsoft, in order to achieve a monopoly, sought to exclude Netscape and Java from their respective markets, thereby preventing the evolution of both applications into a competing platform.[503] These findings would only justify the imposition of a structural remedy upon Microsoft if it had been proven that the browser and Java markets actually tipped to the Microsoft standard.[504] In light of this reasoning, the structural remedy imposed upon Microsoft may be overreaching.[505] It would have been enough to impose upon Microsoft a conduct remedy, such as the disallowance of exclusionary practices or the ban of tying and exclusive dealing arrangements, to thwart Microsoft's alleged entrenching plans.[506]

iii. *The* Intel *Case: The Federal Trade Commission Complaint and Consent Order*

The *FTC/Intel* case[507] was initiated by an FTC complaint charging Intel with a violation of Section 5 of the FTC Act for having refused to continue to provide trade secret information on its new products to three of its customers (Intergraph, Digital Equipment and Compaq).[508] The FTC alleged Intel's conduct was a means of coercing licenses to its customers' rival microprocessor technology.[509] The FTC's legal argument was a classic Section 2

[501] Lopatka & Page, *supra* note 454, at 27.
[502] United States v. Microsoft Corp., 84 F. Supp. 2d 9, 19 (D.D.C. 1999) (Findings of Fact).
[503] *Id.* at 30-34, 105.
[504] *See* Lopatka & Page, *supra* note 454, at 27.
[505] *See id.*
[506] *See id.* at 28; Cotter, *supra* note 9, at 13.
[507] *See In re* Intel Corp., No. 9288, Complaint, 1, 3-4, ¶ 11-14, 42 (FTC June 8, 1998), *available at* http://www.ftc.gov/os/1998/9806/intelfin.cmp.htm (last visited Mar. 9, 2001).
[508] *See id.*
[509] The commitments undertaken by Intel in the consent decree are in stark contrast with

argument, alleging that Intel had willfully maintained its monopoly power in the microprocessors market through exclusionary conduct.[510]

The FTC, finally settling through a consent decree, concluded that "a natural and probable effect" of Intel's conduct was to diminish the incentives to Intergraph, Digital Equipment ("Digital") and Compaq, as well as other firms that were Intel customers or otherwise commercially dependent upon Intel, to develop innovations relating to microprocessor technology.[511] This vague language reflects that the FTC asserted its theory in almost doctrinaire fashion, offering no proof of actual competitive harm or tangible diminution of research effort.[512]

This criticism may apply only to the FTC's position *vis-à-vis* the conduct of Intel regarding Intergraph, not Digital. While the former was not a competitor of Intel, the latter was competing with Intel in the microprocessors market with its Alpha microprocessor.[513] Thus, as far as Digital was concerned, the FTC's fears that innovation would be hindered and stifled by Intel's behavior may have been justified.[514] However, this distinction does not necessarily justify the FTC's position. The antitrust analysis required to sustain a compulsory license is meager both in the FTC Complaint and in the subsequent Consent Decree. Regardless of whether Digital was an actual or potential competitor of Intel, the FTC's position needed a

the holding of the Federal Circuit in Intel's appeal of the district court's opinion. *See generally* Intergraph Corp. v. Intel Corp., 195 F.3d 1346 (1999 Fed. Cir.). The district court granted a preliminary injunction requiring Intel to continue providing Intergraph access to technical information about its new products. Intergraph Corp. v. Intel Corp., 1999 U.S. Dist. Lexis 9681 (D. N. Ala. 1999). The Federal Circuit found that the plaintiff had not proved that Intel had monopolized or attempted to monopolize any market by refusing to give Intergraph trade secret information regarding improvements in its microprocessors. *Intergraph*, 195 F.3d at 1363-64.

[510] *See* Valentine, *supra* note 5, at 8-9.

[511] *See In re Intel Corp.*, No 9288, Complaint, at 4, ¶14.

[512] *See* James B. Kobak, Jr., *Microsoft Decision Article*, (working paper, on file with author); *see also* Orson Swindle, *What Are We Learning from the Microsoft Case?*, Speech delivered before the Federalist Society (September 30, 1990), *available at* http://www.ftc.gov/speeches/swindle/federalist990930.htm (last visited Mar. 9, 2001).

[513] *See In re Intel Corp.*, No. 9288, Complaint, at 4, ¶17.

[514] *See id.* at 4-5, ¶15-21.

more detailed analysis. First, the FTC should have closely examined whether Intel had a monopoly in the microprocessors market, and second, whether, through the alleged anticompetitive conduct described in the Complaint, Intel entrenched its alleged monopoly.

That Intel might not have monopoly power in the microprocessors market, despite its approximately 80% market share, is not merely a hypothesis. In an industry with such a high level of innovation, comprised of financially and technically robust players, high market share can be eroded quickly by existing or potential competitors. Therefore, U.S. agencies should have been more circumspect in finding a monopoly in the microprocessors market.[515]

Even if we accept that Intel had monopoly power, whether this case was about preservation of monopoly power is far from clear.[516] Intergraph abandoned the microprocessor business when it began using Intel chips.[517] As commentators have pointed out, there is no evidence to suggest that Intergraph was in a position to produce competing chips in the foreseeable future, or even that it was planning to do so.[518] With regard to Digital, it seems that the Alpha microprocessor was already competing, albeit it unsuccessfully, with the Intel Pentium microprocessor.[519] These facts cast doubt on whether Intel's behavior was aimed at entrenching a monopoly, or rather at defending itself against patent infringements, as the circuit court suggests in the judgment issued in the civil litigation proceedings.[520]

The FTC supported its monopolization claim by arguing that Intel's behavior was unnecessary and served no pro-competitive

[515] The position taken by FTC Commissioner, Orson Swindle, supports this argument, expressing uncertainty as to "whether Intel, despite its extremely large market share in general purpose microprocessors, actually had monopoly because it appeared to face aggressive competition from innovative firms, especially those that were supplying general purpose microprocessors for personal computers costing less than $ 1,000." *See* Orson Swindle, *supra* note 512.

[516] *See* Randal C. Picker, *Regulating Network Industries: A Look at Intel*, 23 HARV. J.L. & PUB. POL'Y 159, 177 (1999).

[517] *Id*. at 190; Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1350 (1999 Fed. Cir.).

[518] Picker, *supra* note 516, at 177-78.

[519] *Id.* at 178.

[520] *See Intergraph*, 195 F.3d at 1357-58.

purpose.[521] The question remains, however, whether a firm's defensive measures should serve a pro-competitive purpose. Intel may have had a legitimate business justification for no longer treating those three customers as "preferred" when faced with expensive patent litigation.[522] Under this view, the FTC may have turned what was really no more than a patent dispute between a supplier and its customers into an antitrust case.

Phrased differently, Intel's conduct may not be seen by the FTC as pro-competitive, but why should it be? Intel's conduct was contractually justified because its supply agreements with its customers provided for termination without cause.[523] It was also commercially justified because a firm in this position, even one enjoying market power, would normally try to accommodate its customer relationships.[524]

The broad language used both in *FTC/Intel* and *Microsoft* underlines the main problem in defining innovation markets. If what antitrust laws are trying to protect is the process of innovation, and this process may take place before a product has even been created and put into the market, then U.S. agencies and courts will often have scant empirical evidence about innovation markets, since companies prefer not to disclose much information on their innovations.[525] Moreover, the anticompetitive impact of an agreement or a refusal to license on R&D is difficult to establish because a negative effect can often only be determined after such work has been completed.[526]

The lack of empirical evidence may create legal uncertainty in U.S. courts and agencies' findings, as well as significant failures in

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[521] *In re Intel Corp.*, No 9288, Complaint, 5, ¶20 (FTC June 8, 1998), *available at* http://www.ftc.gov/os/1998/9806/intelfin.cmp.htm (last visited Mar. 9, 2001).

[522] *See* W. Greg Papciak, *Intergraph Corp. v. Intel Corp.*, 14 BERKELEY TECH. L.J. 323, 337-38 (1999).

[523] *Id.* at 340.

[524] *Id.*

[525] *See* Laurence B. Landman, *Innovation and Structure of Competition: Future Markets in European and American Law*, 81 J. PAT & TRADEMARK OFF. SOC'Y 838, 878 (1999).

[526] *Id.* at 860-64 (explaining why legal and regulatory structures in which agencies operate will not allow them to find innovation markets).

their decisions.[527] Given the financial and material resources which R&D often entails, a mistaken decision in this field may discourage future investments in this field, ironically stifling competition instead of opening up future markets.

Commentators have argued that the FTC and DOJ policy regarding the protection of innovation in the computer industry is based on a faulty hypothesis, namely, that U.S. agencies believe that protection of innovation promotes competition, which leads to lower prices and faster innovation.[528] However, one should wonder to what extent cases such as *Intel* are necessary in an industry that has witnessed price declines and product improvements as fast as any other industry.[529] Likewise, one should wonder about the efficiency of the remedies imposed by U.S. agencies or courts on today's extraordinarily dynamic markets.[530]

2. Refusals to License: Is Antitrust Law Encroaching Upon Intellectual Property Laws' Domain?

a. The Tide is Rising for Intellectual Property Rights: *Data General*, *Kodak II* and the Federal Trade Commission Consent Decree in *Intel*.

The tension among the different approaches toward the interplay between antitrust liability and intellectual property rights referred to in Section IV.A above is reflected in conflicting judgments regarding refusals to license. Although the First Circuit in *Data General*[531] and the Ninth Circuit in *Kodak II*[532] did not rely on the essential facilities doctrine, the holding in both cases provides support for its

[527] *See* Kobak, *supra* note 6, at 359.
[528] *See* Robert J. Barro, *Why the Antitrust Cops Should Lay Off High Tech*, BUSINESS WEEK, Aug. 17, 1998, at 20.
[529] *See id.*
[530] *See id.*
[531] Data General Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147 (1st Cir. 1994).
[532] Image Technical Servs., Inc. v. Eastman Kodak Co., 125 F.3d 1195 (9th Cir. 1997).

application to IPRs.[533] In stark contrast, in *In re: Independent Service Organizations Antitrust Litigation,*[534] the Tenth Circuit expressly refused to follow the Ninth Circuit's holding in *Kodak II.* Instead, it held that, in the absence of proof that the monopolist acquired the protection of IPRs in an unlawful manner, a refusal to license is immune from antitrust laws.[535]

In *Data General*, a computer manufacturer, Data General ("DG"), refused to license its copyright over a sophisticated computer program to an independent service provider ("Grumman").[536] The program is used to diagnose problems in DG computers.[537] DG and Grumman were competitors in the market for service to DG computers.[538] Grumman contended that by refusing to license its copyright, DG had illegally maintained its monopoly in the service market.[539] DG argued that IPRs are immune from antitrust laws.[540] The court refused to heed DG's argument that a refusal to license can never constitute exclusionary conduct.[541] The court concluded that a monopolist's refusal to deal is not always entirely pro-competitive because consumers can be harmed by such refusal.[542]

Accordingly, the court reasoned that some type of presumption may be appropriate to evaluate these situations.[543] After reviewing precedent and relevant patent and copyright statutes, the court held that neither the Sherman Act[544] nor the Copyright Act[545] works a partial repeal of the other.[546] Thus IPRs, although protected by

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533 *See* James E. Hartley, *Monopolization: The Essential Facility Doctrine and the Market Shares for Monopolization and Attempt Cases*, SC71 ALI-ABA 249, 254 (1998).

534 989 F. Supp. 1131, 1134 (D. Kan. 1997).

535 *See id.* at 1134.

536 *See* Data General Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1187 (1st Cir. 1994).

537 *See id.* at 1152.

538 *See id.* (Grumman, a "third party maintainer," provided, repair and maintenance services which came to involve the servicing of Data General's computers).

539 *See id.*

540 *See id.*

541 *See Data General*, 36 F.3d at 1187.

542 *See id.*

543 *See id.*

544 15 U.S.C. § 1 (2000).

545 17 U.S.C. § 411 (2000).

546 *See* Data General Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1187 (1st Cir.

intellectual property laws, are not explicitly exempt from the application of antitrust law.[547] The court then reasoned that the most appropriate way to harmonize intellectual property laws and antitrust laws was to establish a presumption whereby, "while exclusionary conduct can include a monopolist's unilateral refusal to license a copyright, an author's desire to exclude others from using its copyrighted work is presumptively valid business justification for any immediate harm to consumers."[548]

Thus, the court in *Data General* established a rebuttable presumption for unilateral refusals to license a copyright.[549] However, it did not delineate the situations in which that presumption can be overcome.[550] The only specific reference to the possible grounds for such rebuttal is found in footnote 64 of the decision.[551] There, the court indicated that the presumption may be rebutted when imposing antitrust liability "is unlikely to frustrate the objective of the Copyright Act."[552] Although, this statement does not precisely identify those situations, the decision enables the identification of at least two situations where the presumption may be overcome.[553]

First, the presumption may be rebutted in *Aspen Skiing*-type cases.[554] Contrary to Grumman's request, the court refused to apply *Aspen Skiing* to the facts of the case at bar arguing that the reasoning of *Aspen Skiing* does not hinge on the fact that the defendant in that case withdrew assistance upon which competitors may have relied when entering the market.[555] According to the First Circuit, *Aspen Skiing* turns on a comparison of the behavior of firms in a competitive market with a monopolist behavior once competition has

1994).

[547] *See id.*
[548] *Id.*
[549] *See id.*
[550] *See id.*
[551] *See id.*, n. 64.
[552] *See Data General*, 36 F.3d at 1188.
[553] *See id.*
[554] *See* Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585 (1982).
[555] *See Data General*, 36 F.3d at 1156.

been curtailed.[556] Thus, the analytical framework of *Aspen Skiing* could not be transposed to the facts of *Data General* since the court was unable to view DGs market practices in both competitive and noncompetitive conditions.[557] Unlike the defendant in *Aspen Skiing*, DG had always been a monopolist in the market for servicing its computers, despite the inroads made by third-party maintainers.[558] Second, by holding that Grumman did not prove that DG had acquired its software in an unlawful manner, the court implied that the presumption could also be overcome if the plaintiff shows the defendant has misused its IPRs.[559]

In *Kodak II*, the Ninth Circuit adopted a "modified version" of the rebuttable presumption laid down by *Data General*.[560] The court held that "while exclusionary conduct can include a monopolist's unilateral refusal to deal to sell a [patent or] copyright, or to sell its patented or copyrighted work, a monopolist desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers."[561] The court reached this conclusion despite having found "no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright."[562]

The difference between the *Kodak II* and *Data General* presumptions is found in the circumstances in which the presumptions may be rebutted.[563] The Ninth Circuit endorsed *Data General's* approach, concluding that the presumption of legitimacy can be rebutted by evidence that the monopolist acquired the protection of intellectual property laws unlawfully.[564] Significantly, however, the court added that the presumption may also be rebutted

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556 *See id.*; *see also Aspen Skiing*, 472 U.S. at 587.

557 *See supra* note 556.

558 *Compare Data General*, 36 F.3d at 1156, *with Aspen Skiing*, 472 U.S. 587 (Data General had provided an exclusive maintenance service to its computers, whereas Aspen Skiing Co. joined with its competitors to provide an "all-Aspen" pass for all resorts.).

559 *See Data General*, 36 F.3d at 1188-89.

560 *See id*. at 1156; *Kodak II*, 125 F.3d at 1218.

561 *See Kodak II*, 125 F.3d at 1218.

562 *See id.* at 1216.

563 *See In re* Indep. Serv. Org. Antitrust Litig., 203 F.3d 1322, 1327 (Fed. Cir. 2000).

564 *See Kodak II*, 125 F.3d at 1218.

"by evidence of pretext."[565] The court found that neither the aims of intellectual property law, nor of antitrust law, justify allowing a monopolist to rely upon a pretextual business justifications to mask anticompetitive conduct.[566]

The procedural history of the case is helpful in understanding why the court eventually rejected Kodak's justification for its refusal to deal with ISOs.[567] The Ninth Circuit confirmed a jury's finding that Kodak had violated Section 2 of the Sherman Act by refusing to supply patented and unpatented replacement parts for its copiers.[568] Kodak relied on the protection of its patents as a valid business justification for refusing to supply some of the replacement parts, only after the case was remanded from the Supreme Court to the Ninth Circuit.[569] The court then rejected this argument as pretextual.[570]

The court found evidence of pretext in the "state of mind" of Kodak employees.[571] In particular, the court recalled that Kodak's parts manager testified that "patents did not cross [his] mind" at the time Kodak began to change its parts policy.[572] The court also found that Kodak had not distinguished between patented or copyrighted parts and non-patented or non-copyrighted parts.[573] Instead, Kodak issued a blanket refusal to sell any replacement parts to ISOs.[574] In light of the pretextual reasons submitted by Kodak as justification for its refusal, the court took the unprecedented step of requiring complete compulsory licensing by a firm not found to have engaged in illegal tying, improper infringement suits, or any other patent

[565] *See Data General*, 36 F.3d at 1188.
[566] *See Kodak II*, 125 F.3d at 1219.
[567] *See id.* at 1212 (discussing that exclusionary conduct does not violate § 2 of the Sherman Act if it is supported by a legitimate business justification).
[568] *See id.* at 1219.
[569] *See id.* at 1219-20.
[570] *See id.* (rejecting Kodak's business justification argument on the basis of pretext, finding that it was not a "genuine reason for Kodak's conduct").
[571] *See id.*
[572] *See Kodak II*, 125 F.3d at 1210-20.
[573] *See id.* at 1220.
[574] *See id.* at 1219.

misuse.[575]

The *Kodak II* decision has been widely criticized as inconsistent with the Patent Act as amended in 1988 as well as with Supreme Court jurisprudence.[576] Section 271(d) of the Patent Act states that:

> No patent owner otherwise entitled to relief for infringement. . .of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of. . .[the patent owners'] (4) refus[sal] to license or use any rights to the patent; or (5) condition[ing] 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.[577]

For these commentators, a refusal to license is clearly not an illegal extension of the patent right within the meaning of Section 271(d)(4) of the Patent Act.[578] They argued that by disregarding congressional intent, the *Kodak II* court made a mistake when it condemned a patentee's simple refusal to sell its patented parts.[579] The court's reasoning that the Patent Act did no more than codify the existing law does not help to resolve the inconsistency of its ruling with the Patent Act. As Professors Areeda and Hovenkamp point out, the fact that a limiting statute merely codifies existing law hardly justifies the adoption of a rule significantly expanding existing law; existing law had never compelled licensing in the absence of misuse and in conflict with the statute's language.[580]

[575] *See id.*; *see* AREEDA & HOVENKAMP, *supra* note 53, at 190.
[576] 35 U.S.C. § 271(d) (2000); *see* AREEDA & HOVENKAMP, *supra* 53, at 190-200; Burling Lee & Krug, *supra* note 197at 527; Kauffman, *supra* note 7 at 471; Hovenkamp, *supra* note 205.
[577] *See* 35 U.S.C. § 271(d) (2000).
[578] *See id.*; *see also* AREEDA & HOVENKAMP, *supra* note 53, at 198.
[579] *See* AREEDA & HOVENKAMP, *supra* note 53, at 197-98.
[580] *See id.*

These commentators have also argued that the introduction of an intent-based presumption in *Kodak II* is inconsistent with the Supreme Court's holding in *Professional Real Estate v. Columbia Pictures Industries ("PRE")*.[581] In *PRE*, the Supreme Court held that the right of a copyright holder to pursue an infringement action cannot be made dependent on its anticompetitive "state of mind."[582] The *Kodak II* rule creates this anomalous situation: under *PRE* a patentee who files an infringement action to exclude the alleged infringer from some market may have its infringement claim resolved on patent law merits without regard to its intent.[583] By contrast, the patentee who merely refuses to license its patent is subject to antitrust scrutiny depending on whether its intent was anticompetitive.[584] Although a copyright case, *PRE* is consistent with the Patent Act, which allows exclusionary activity without reference to the patent holder's subjective motivations.[585] Lower courts have consistently applied *PRE* to patent infringement actions as well.[586]

Given this Supreme Court decision, it is difficult to understand why the Ninth Circuit in *Kodak II* ignored this precedent and failed to explain its reasons for deviating from it.[587] Perhaps the *Kodak II* court did not refer to *PRE* because the Supreme Court in *PRE* applied the Noerr-Pennington doctrine to an infringement action.[588]

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[581] *See id.*; Prof'l Real Estate Investors v. Columbia Pictures Indus., 508 U.S. 49 (1993).

[582] *See Prof'l Real Estate Investors*, 8 U.S. at 57-58.

[583] *See generally id.*; *Kodak II*, 125 F.3d at 1195.

[584] *Prof'l Real Estate Investors*, 508 U.S. at 57-58.

[585] *See* 35 U.S.C. § 271 (2000); AREEDA & HOVENKAMP, *supra* note 53, at 189-190.

[586] AREEDA & HOVENKAMP, *supra* note 53, at 192.

[587] *Id.*

[588] The Noerr-Pennington doctrine establishes the basic principle of antitrust immunity for petitioning conduct. This doctrine is rooted in the First Amendment of the U.S. Constitution which states that: "Congress shall make no law [. . .] abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petitioning the Government for a redress of grievances." U.S. CONST. amend. I, art. 1. According to this doctrine, joint efforts to influence public officials do not violate the antitrust laws even though intended to eliminate competition. *See* Eastern R.R. Presidents Conf. v. Noerr Motor Freight, Inc., 365 U.S. 127 (1961); United Mine Workers v. Pennington, 381U.S. 657 (1965). The Noerr-Pennington doctrine originally applied to immunize efforts to influence legislative or administrative officials, but was extended by the Supreme Court to insulate from antitrust laws attempts to influence adjudicative bodies. *See* California Motor Transport v. Trucking Unlimited, 404 U.S. 508 (1972).

Thus, the court may have thought that since Kodak was not bringing an infringement action, but rather taking action to keep patented parts out of the hands of possible infringers, Kodak's behavior could not be analogized to an infringement action enough to justify an application of the Noerr-Pennington doctrine.

A recent case supports the idea that the *Kodak II* decision is inconsistent with *PRE*. In *Primetime 24 Joint Venture v. NBC*,[589] a district court held that the Noerr-Pennington doctrine applies not only to infringement actions, but also to pre-litigation actions.[590] According to the court, which quoted Professors Areeda and Hovenkamp on this point, given that pre-litigation communications provide useful notice of potential liability and facilitate the settlement of controversies, it would be unwise to apply antitrust rules to them.[591] The district court did not analogize pre-litigation communications to refusals to license.[592] However, the reasoning in *Primetime 24* supports an argument that an IP holder that refuses to license its IPRs cannot be held liable under antitrust laws depending on whether its subjective intent was anticompetitive.

Even if the ruling in *Kodak II* were consistent with the Patent Act and Supreme Court precedent, there would be grounds to argue that it is inappropriate to rely on the state of mind of the defendant to determine whether the plaintiff has overcome the presumption that the defendant's refusal to license IPRs was not anticompetitive. In intellectual property cases, the anticompetitive behavior or intent coincides with the specific subject matter of IPRs, namely, giving the holder the power to exclude competition.[593] By allowing the plaintiff to rely on the defendant's subjective motivations to rebut the presumption, the court may have given plaintiffs the upper hand in rebutting the presumption.[594] One can hardly imagine a situation where a patent holder's sole purpose in refusing to deal with a

589 21 F. Supp. 2d 350 (S.D. N.Y. 1998).
590 *Id.* at 356-57.
591 *Id.*
592 *See id.* at 350.
593 *See* Patterson, *supra* note 254, at 1138-40.
594 *See generally* Primetime 24 Joint Venture v. NBC, 21 F. Supp. 2d 350 (S.D. N.Y. 1998).

competitor would be a desire to protect its IPRs.[595] Such a desire is always driven by the goal of increasing profits by being the sole supplier of the protected good or service.[596]

According to some authors, *Kodak II* stands as an example of how a careless application of antitrust laws[597] may create concerns in licensing strategies.[598] By finding that Kodak had unlawfully leveraged its monopoly power from the replacement parts market into the market for services, the court disregarded Kodak's two-hundred and twenty patents on sixty-five of the necessary parts.[599] The court's reasoning and understanding of the relationship between a patent and the market it affects is unrealistic. Leveraging does not exist when a patent holder merely exercises the rights inherent in its IPRs, because these IPRs give the holder the right to exclude competition in different markets.[600] According to this school of thought, decisions like *Kodak II* may have adverse effects on IP holders. By facilitating competitors' access to IPRs through

[595] Kauffman, *supra* note 7, at 523; AREEDA & HOVENKAMP, *supra* note 53, at 193.

[596] Kauffman, *supra* note 7, at 523.

[597] It has been argued that the court finding of monopoly power was based on insufficient evidence. The Ninth Circuit concluded that there was substantial evidence that Kodak possessed the requisite market share to constitute monopoly power on the basis of the following: (i) Kodak's own manufacturer of Kodak parts (30%); (ii) its control of OEMs' sales of Kodak parts to ISOs through tooling clauses (20-25%); and (iii) its discouragement of other part-makers from selling Kodak parts to ISOs. Notice that the court only identified a 55% market share by Kodak. The court presumed the percentage of "discouraged sales," despite the fact that the ISOs did not provide proof of any agreement or practice to discourage these sales. Moreover, the court could not calculate the percentage of parts made by other part manufacturers affected by the alleged discouraging practices. *See* AREEDA & HOVENKAMP, *supra* note 53, at 195; Kauffman, *supra* note 7, at 514-16.

[598] Westermeier, *supra* note 307, at 242-43.

[599] *Id.* at 241.

[600] *See* Burling, Lee & Krug, *supra* note 197, at 539. Professor Hovenkamp has stated:

> Kodak reasoned that the patent entitled Kodak to protect its parts monopoly but not its service monopoly. But this reasoning rests on a flawed misunderstanding of a patent. A patent describes an invention not a market. Many patents, particularly for intermediate goods, might be used in final products or processes that operate in a wide variety of markets. For example, a patent mixing process might be applied to paint, peanut butter, and prescription drugs. A patented microprocessor circuit might be used in personal computers, navigation systems or bread machines.

HERBER HOVENKAMP, FEDERAL ANTITRUST POLICY, THE LAW OF COMPETITION AND ITS PRACTICE 330 (1999).

compulsory licensing, these types of decisions could discourage manufacturers' R&D by casting uncertainty on whether they will realize the expected return on their investments.[601]

In contrast, commentators have only criticized the reasoning of the *Kodak II* court but not the decision.[602] According to Professor Patterson, the *Kodak II* court was correct in ordering Kodak to supply its patented parts to independent service providers.[603] Nonetheless, Patterson criticizes the *Kodak II* court for having focused on the subjective motivation of Kodak in holding that the presumption in favor of the legality of Kodak's commercial policy had been rebutted. [604] According to Patterson, the IP holder's subjective motivation will always be difficult to determine.[605]

Under Patterson's user-oriented approach, the outcome of the case would have been the same.[606] Kodak's refusal to supply its patented parts to the independent service providers was not related to their use of its IPRs, but rather to the independent service providers use of parts where the IPRs were embodied to provide their services to the copiers' owners.[607] Under this approach, it would not be permissible for Kodak to refuse to supply its patented parts to ISPs.[608]

b. The Tide is Turning for Intellectual Property Rights: The *Xerox* and *Intel* Cases

Not all courts have accepted the *Kodak II* solution to reconcile the tension between antitrust law and intellectual property law. In the *Intel* and *Xerox* cases,[609] the Court of Appeals for the Federal Circuit

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601 Kauffman, *supra* note 7, at 526.
602 Patterson, *supra* note 254, at 1155-58.
603 *Id.* at 1135.
604 *Id.* at 1151-54.
605 *Id.*
606 *See* discussion *infra* Section IV.A.2.
607 Notice that this distinguishes *Kodak II* from *Data General*, where the independent service providers needed to use DG's software to provide their service to owners of DG computers.
608 *Id.* at 12-15.
609 Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1357 (Fed. Cir. 1999); *In re* Indep. Serv. Org. Antitrust Litig. (CSU, L.L.C. v. Xerox Corp.), 203 F.3d 1322 (Fed. Cir. 2000).

adopted a more pro-intellectual property right approach.

i. *The* Intel *Case*

Intel illustrates the different approaches taken by U.S. agencies and courts regarding refusals- to-license IPRs. This case involved a dispute between Intel, the world's largest designer, manufacturer and supplier of high performance microprocessors used in desktop computers, laptops, servers and workstations, and Intergraph, a workstation manufacturer and one of Intel's customers.[610]

In 1993, Intergraph had abandoned its patented Clipper microprocessor and began incorporating Intel microprocessors into its workstations.[611] The dispute arose when Intergraph asserted its Clipper patents against several of Intel's original equipment manufacturers ("OEM"), based on their use of Intel microprocessors.[612] When settlement negotiations failed, Intel refused to continue supplying Intergraph with samples of its computer chips and technical information about new products, ostensibly to coerce Intergraph to settle these patent claims by cross-licensing to Intel the patented technology in dispute.[613]

The district court upheld Intergraph's claim that the advanced chips, and the secret technical information comprising them, were essential facilities to allow Intergraph to compete effectively in the workstations market, and granted a preliminary injunction against Intel.[614] Intel appealed the district court's order and the Federal Circuit reversed it.[615] The Circuit Court held that the district court misapplied the essential facilities doctrine.[616] Contrary to Intergraph's position, the court held that the presence of a competitive relationship in the market where the monopolistic behavior is alleged is prerequisite to applying the essential facilities

610 *Intergraph*, 195 F.3d at 1349-50.
611 *Id.* at 1350.
612 *Id.*
613 *Id.* at 1350-51.
614 *See* Intergraph Corp. v. Intel Corp., 1999 U.S. Dist. Lexis 9681, 4-5.
615 *Intergraph*, 195 F.3d at 1367.
616 *Id.*

doctrine.[617] The court reached this conclusion after warning that the essential facilities doctrine "is not an invitation to demand access to the property or privileges of another, on pain of antitrust penalties and compulsion."[618] On this point there is some similarity between the *Intel* judgment and the ECJ's judgment in *Oscar Bronner*.[619]

The court found that Intergraph and Intel did not coexist in any of the relevant markets, namely, the market for high-end microprocessors and the graphics subsystems market.[620] The court refused to accept that Intergraph was present in the former by virtue of its Clipper patents.[621] A patent right, the court reasoned, is a legal right to exclude, not a commercial product in a competitive market.[622] Likewise, and reversing the district court's findings, the Federal Circuit held that, even if there were evidence that Intergraph was planning to enter into the graphics subsystems market, there was neither evidence nor even a suggestion of monopoly power by Intel in that market.[623] The Federal Circuit ruled that neither under the essential facilities doctrine, nor under the leveraging monopoly theory, had Intergraph proved that Intel had monopolized or attempted to monopolize any of the markets where Intergraph was active.[624] The reasoning of the court is premised on the assumption, as the court itself stated, that antitrust laws do not have the objective to protect competitors, but rather competition: "[t]o constitute a violation, the monopolist's activities must tend to cause harm to competition, unrelated harm to an individual competitor or consumer is not sufficient."[625]

617 *Id.* at 1357.
618 *Id.*
619 See discussion *infra* Section III.B.
620 *Intergraph*, 195 F.3d at 1355.
621 *Id.*
622 *Id.*
623 *Id.*
624 *Id.* at 1357-60.
625 *Id.* at 1355. Notice that in the EU Advocate General Jacobs, in his Opinion in *Oscar Bronner*, relied on the same argument. *See* Case C-7/97, Oscar Bronner GmbH Co KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, 1998 E.C.R. I-7791, [1998] 4 C.M.L.R. 112, 130, at ¶ 58 (1999); *see also* discussion Section III.B.

The court also refused to accept the restrictive approach adopted by the district court in response to Intel's argument that its proprietary information and pre-release products were subject to copyrights and patents.[626] The district court had held that Intel's intellectual property did not confer upon Intel the privilege or immunity to violate antitrust laws.[627] Despite agreeing with the district court on this point, the Federal Circuit noted that the antitrust laws do not negate the patentee's right to exclude others from patent property.[628] The court refers to the rebuttable presumption established by the First Circuit in *Data General* and the Ninth Circuit in *Kodak II*, but does not expressly endorse it.[629] It then relied on Section 271(d)(4) of the Patent Act and on some existing case law favorable to the right of a licensee to refuse to license its IPRs.[630] It held that an IP holder who lawfully acquires a patent cannot be held liable under Section 2 of the Sherman Act for maintaining the market power he lawfully acquired by refusing to license the patent.[631] On the basis of the precedents mentioned, and the language of Section 271(d)(4) of the Patent Act, the court concluded that the owner of a proprietary information has no obligation to provide it, whether to a competitor, customer or supplier.[632] The court added that a customer who is dependent on a manufacturer's supply of a component cannot, on that ground, force the supplier to provide it absent an anticompetitive act.[633]

The judgment of the court appears consistent with the essential facilities doctrine as developed by precedent.[634] The court's acceptance of Intergraph's position would have been an unwarranted extension of precedent. The outcome of the case appears to indicate that the Federal Circuit accepted that Intel's behavior was motivated more by its patent and contractual dispute with Intergraph than by

[626] *Intergraph*, 195 F.3d at 1362-63.
[627] *Id.*
[628] *Id.* at 1362.
[629] *Id.* at 1362-63.
[630] *Id.*
[631] *Id.*
[632] *Intergraph*, 195 F.3d at 1362-63.
[633] *Id.*
[634] Papciak, *supra* note 522, at 323; HOVENKAMP, *supra* note 600, at 200.

any intent to unlawfully maintain or acquire monopoly power in any of the relevant markets.[635]

The judgment of the Federal Court in *Intel* contrasts in two ways with the approach taken by the FTC in its Complaint brought against Intel for infringement of Section 5 of the FTC Act.[636] First, the FTC Complaint was brought on the basis of a fuller factual record, i.e., Digital was competing with Intel in the microprocessors market.[637] Second, unlike the Federal Circuit, the FTC focused on the impact of Intel's refusal to license on the innovation markets for microprocessors.[638]

As described in Section IV.D.1.b.iii above, the FTC found that Intel had cut off its supplies of chip samples and strategic information about its new products to at least three of its main customers (Compaq, Digital and Intergraph) in order to force these customers to grant Intel licenses related to microprocessor technology.[639] Intel argued that its withholding of its IPRs from Compaq, Digital and Intergraph, in response to these firms withholding their IPRs from Intel, represented a legitimate response to the threat to microprocessor innovation caused by the existing "patent minefield."[640] According to Intel, the overabundance of microprocessor patents threatened to stifle innovation in the market since a microprocessor manufacturer might be subject to multiple demands by the holders of these patents.[641] In Intel's view, microprocessor manufacturers can only neutralize this risk by pursuing cross-licensing policies.[642]

The FTC dismissed Intel's business justification for its conduct and considered Intel's behavior exclusionary.[643] The FTC held that

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635 Papciak, *supra* note 522, at 340.

636 *In re* Intel Corp., No 9288, Complaint, (FTC June 8, 1998), 4, ¶ 14, *available at* http://www.ftc.gov/os/1998/9806/intelfin.cmp.htm (last visited Mar. 9, 2001).

637 Valentine, *supra* note 5, at 8; *In re Intel Corp.*, No 9288, Complaint, 4-5, ¶¶ 15-19.

638 Valentine, *supra* note 5, at 9; *In re Intel Corp.*, No 9288, Complaint, 3-4, ¶¶ 11-14.

639 Valentine, *supra* note 5, at 3, *In re Intel Corp.*, No 9288, Complaint, 3-4, ¶¶ 11-12.

640 Intel Corporation Trial Brief [Public Version], ¶¶ 41-42 (Feb. 25, 1999), *available at* http://www.ftc.gov/alj/D9288/intelbrief.pdf (last visited Mar. 9, 2001).

641 *Id.*

642 *Id*. at 9, ¶¶ 41-42.

643 *In re Intel Corp.*, No 9288, Complaint, 3-4, ¶¶11-14.

the "natural and probable" effect of Intel's conduct was to diminish the incentives of those three Intel customers – as well as other firms that are Intel customers or otherwise commercially dependent upon Intel to develop innovations relating to microprocessor technology.[644] According to the FTC, Intel's exclusionary conduct effectively undermines the patent rights of such firms and reduces their incentives to develop new technologies that might compete with Intel microprocessors.[645] The FTC concluded that, by engaging in these coercive business tactics, Intel had willfully maintained its monopoly power in the microprocessor market and had also attempted to monopolize both current and future generations of microprocessors.[646]

The FTC proceedings against Intel were resolved by Consent Decree.[647] The Consent Decree required Intel to do precisely the opposite it would have been entitled to do under the judgment of the Federal Circuit vacating the injunction of the District Court.[648] It was now required to supply these three customers, and other customers in the same situation, its confidential new product information.[649]

The *FTC/Intel* case raises the issue of whether the function of U.S. agencies is to force a proprietor to license its IPRs on the grounds of the "probable" anticompetitive effects of its refusal on the relevant market. The answer will depend on whether the protection of future innovation is conceived as a "good" deserving so much protection so

[644] *Id.* at 4, ¶ 14.
[645] *Id.*
[646] *Id*. at 9, ¶¶ 41-42.
[647] *In re* Intel Corp., No. 9288, Agreement Containing Consent Order (FTC March 17, 1999), *available at* http://www.ftc.gov/os/1999/9903/d09288intelagreement.htm (last visited Mar. 9, 2001).
[648] *Id.*
[649] *Id.* The Consent Decree requires Intel, for a period of ten years, to cease impeding access to its confidential product information for reasons related to situations where the customer has asserted or threatened to assert any IPRs. *Id.* It is interesting to note that under Professor Patterson's "user approach" theory, one can argue that Intel's discriminatory practices were not related to its potential licensees' "use" of Intel's IP, but rather were based instead on whether those licensees had asserted their own IPRs against Intel. Patterson, *supra* note 254, at 1159. The FTC Complaint and the Consent Decree are consistent with this approach. *Id.*

as to justify setting aside the idea that an IP holder is entitled to any returns it can get on its IPRs. The FTC in the *Intel* case and the DOJ and the district court in the *Microsoft* case seem to think so. If the FTC's views are accepted, it must follow that, despite IPRs, there are situations in which a firm with monopoly or market power may be required to create its own competition, as the FTC Complaint and the district court decision in *Intel* suggest.[650] This is also the approach that seems to have been adopted by the district court in *Microsoft*.[651] It is important to note that, when the court rejects Microsoft's copyright defense to justify the restrictions on original equipment manufacturers selling Windows with Netscape and the tying of Internet Explorer to Windows, the court does not mention cases favoring IPRs' immunity from antitrust liability, such as the *Xerox* case.[652] Instead, it relies on those judgments that may be interpreted as denying such immunity, such as *Kodak II* and *Data General*.[653]

The idea underlying the FTC Complaint is not necessarily wrong. Innovation markets may deserve antitrust protection. However, as stated in section IV.D.1.b.iii above, antitrust complaints must be based on empirical evidence rather than on speculative and theoretical assumptions on the "possible" or "probable" effects of a refusal to license in the relevant innovation market. The FTC Consent Decree and the decision of the district court in *Intel* may be seen as part of the same "saga" as *Data General* and *Kodak II*. The FTC and the district court relied on the Ninth Circuit to find intent to monopolize on the part of Intel.[654] As with the Ninth Circuit in *Kodak II*, it is unclear how their conclusions may be reconciled with Supreme Court precedent and the congressional intent of the Patent Act.[655]

[650] David Balto, *Protecting Competition from the abuse of Monopoly Power: The Intel Case*, 16 No. 6/7 COMPUTER LAWYER 4, 9 (1999).

[651] United States v. Microsoft Corp., 87 F. Supp. 2d 9, 40-41 (D.D.C. 1999) (Conclusions of Law).

[652] Id.; *In re* Indep. Serv. Org. Antitrust Litig., 203 F.3d 1322 (Fed. Cir. 2000). In this case the Federal Circuit appears to endorse the idea that conduct based on IPRs is immune from antitrust laws.

[653] *Microsoft*, 87 F. Supp. 2d at 40-41 (Conclusions of Law).

[654] Burling, Lee & Krug, *supra* note 197, at 541.

[655] *Id.*

ii. *The* Xerox *Case:* Data General *and* Xerox *Distinguished*

The Ninth Circuit's holding in *Kodak II* has been expressly rejected by other courts for its inconsistency with Supreme Court precedent and Section 271(d) of the Patent Act.[656] On February 17, 2000, the Federal Circuit rendered its decision affirming the district court's ruling for Xerox.[657] In this case, Xerox refused to supply ISOs with replacement parts for its printers and copiers, but allowed the equipment owners themselves to purchase the replacement parts.[658] An ISO brought suit alleging that Xerox had infringed Section 2 of the Sherman Act.[659] The Federal Circuit denied appeal of the district court's ruling in which the district court found that Xerox's unilateral refusal to license or sell its patented parts could not constitute unlawful exclusionary conduct under antitrust laws.[660] After the Ninth Circuit issued its decision in *Kodak II*, the plaintiff requested that the district court reconsider its decision in light of *Kodak II*.[661]

The district court expressly declined to follow the Ninth Circuit and confirmed its previous decision.[662] The district court argued that the Ninth Circuit overlooked the distinction between "patent monopoly" and "economic monopoly," by assuming that a single patent can create at most a single "inherent" economic monopoly.[663] However, the scope of a patent monopoly is defined by the claims of a patent, not by the limits of what a court determines is the most analogous antitrust market, whereas the scope of an economic monopoly refers to a firm's power to control the price of a product in

[656] Hovenkamp, *supra* note 205, at 479.
[657] *In re Indep. Serv.*, 203 F.3d at 1329-30.
[658] *In re Indep. Serv. Org. Antitrust Litig.*, 989 F. Supp. 1131, 1133 (D. Kan. 1997), *aff'd*, 203 F.3d 1322 (Fed. Cir. 2000).
[659] *Id.*
[660] *In re Indep. Serv.*, 203 F.3d at 1324.
[661] *In re Indep. Serv.*, 989 F. Supp. at 1134.
[662] *Id.* at 1135-37.
[663] *Id.* at 1135.

a properly defined relevant antitrust market.[664] This means that a patent can implicate multiple antitrust markets within which the patent holder can rely on its claims to exclude third parties from those markets.[665] The district court held that a patent holder's intent in exercising its exclusionary power is irrelevant because the right to exclude competition is expressly authorized by law, provided that power is exerted within the limits of the patent's claim.[666] The district court also referred to the Supreme Court ruling in *Kodak I*.[667] There, the Supreme Court reasoned "that power gained through some natural and legal advantage such as a patent, copyright or business acumen can give rise to antitrust liability if a seller exploits his dominant position in one market to expand his empire into the next market."[668] Unlike the Ninth Circuit, the district court reasoned that the Supreme Court statement was not applicable where a patent holder, exercising its unilateral refusal to license or use its invention, acquires a monopoly in two separate antitrust markets.[669] In *Xerox*, the court stated that there is no antitrust leveraging of monopoly power when a patent holder merely exercises its rights inherent in the patent grant.[670]

[664] *Id.*
[665] *Id.*
[666] *In re Indep. Serv.*, 989 F. Supp. at 1140-41
[667] *Id.* at 1135.
[668] *Kodak I*, 504 U.S. at 479, n. 29 (1992).
[669] *In re Indep. Serv.*, 989 F. Supp. at 1135.
[670] *Id.* at 1135. Professor Patterson has suggested that the *Xerox* court misapplied Section 271(d) of the Patent Act to the facts of the case. According to Professor Patterson, contrary to what Xerox argued, Xerox's behavior cannot be insulated from antitrust laws by virtue of Subsection (4) of Section 271(d) (no patent owner shall be deemed guilty of misuse or illegal extension of the patent right by reason of having refused to license its IPRs). As the legislative history makes clear, that Subsection refers to a complete refusal to license rather than to selective licensing, the latter being the conduct which Xerox was pursuing. If Subsection (4) is not applicable, then the question that arises is whether Xerox's policy of conditioning access to its parts on not purchasing independent repairers' services could be caught under Subsection (5) of Section 271(d) of the Patent Act, which renders inapplicable the exemption to the tying policies pursued by a dominant firm. It is also unclear whether Subsection (5) applies to Xerox's behavior. Subsection (5) allows two conflicting interpretations. Xerox argued that Subsection (5) was not applicable because it only applies to tying agreements but not to a unilateral conditioning of a license on the purchasing of another product. *See* Brief of Defendant-Appellee Xerox Corporation 25-32, *In re* Indep. Serv. Org. Antitrust Litig. (CSU, L.L.C. v. Xerox Corp.), No. 99-1323 (Fed. Cir. filed July 14, 1999). Scholars have conflicting views on the correct interpretation of

According to the district court, the Ninth Circuit reached the opposite conclusion because it implicitly assumed that a single patent could create a single inherent "antitrust monopoly."[671] This premise is incorrect. A patent right can implicate multiple antitrust markets, and the reward of the patented invention is the right to exploit the entire field of the invention, not just the right to exploit the single most analogous antitrust market.[672]

The Federal Circuit again affirmed the district court decision.[673] Unlike the district court, which merely referred to *Data General*, the Federal Circuit relied on it.[674] The Federal Circuit, however, gives the rebuttable presumption set out in *Data General* a restrictive interpretation.[675] The Federal Circuit seems to have limited the possibility of rebutting the presumption to situations of misuse or unlawful acquisition of IP, while the First Circuit in *Data General* did not seem to limit to misuse claims the grounds where the plaintiff may rebut the presumption.[676] Like the district court, the Federal Circuit expressly declined to follow the Ninth Circuit, because its rationale requires an evaluation of the patentee's subjective motivation for refusing to sell or license its patented products.[677] The court acknowledges that the patentee's right to exclude is not without limit.[678] However, it is in the identification of such limits that the Federal Circuit in *Xerox* differs with the Ninth Circuit.[679]

Subsection (5). While Professor Patterson disagrees with Xerox's interpretation of Subsection (5), arguing that "there is no indication" that Subsection (5) was intended to apply only to explicit tying agreements, Professor Hovenkamp suggests that the absence of a contract implies the absence of conditioning with the meaning of Subsection (5). *See* Patterson *supra* note 254, at 1149-51; HOVENKAMP, *supra* note 574, at 331.

671 *In re Indep. Serv.*, 989 F. Supp. at 1138.

672 *Id.*; *see* HOVENKAMP, *supra* note 600, at 330-31, n. 51.

673 *In re* Indep. Serv. Org. Antitrust Litig., 203 F.3d 1322, 1329-30 (Fed. Cir. 2000).

674 *Id.* at 1328-29.

675 *Id.* at 1329; Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147 (1st Cir. 1994).

676 *Id.* at 1329; Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147 (1st Cir. 1994).

677 *Indep. Serv.*, 203 F.3d at 1327.

678 *Id.* at 1326.

679 *Id.* at 1326-28.

For the Federal Circuit, a compulsory license cannot be ordered, unless the plaintiff proves at least one of the following conditions: (i) the defendant obtained its patent through fraud; (ii) the infringement suit is objectively baseless and subjectively motivated by a desire to impose collateral, anticompetitive injury, rather than to obtain a justifiable legal remedy (sham litigation); or (iii) the patent was used as part of an illegal tying strategy to extend market power beyond the legitimate scope of the patent grant.[680] The plaintiff in the *Xerox* case proved none of these conditions.[681] Thus, the court ruled that absent these exceptional circumstances, the antitrust defendant's subjective motivation is irrelevant even though its refusal to sell or license its patented invention may have anticompetitive effects.[682]

The Federal Circuit referred then to footnote 29 of the Supreme Court's decision in *Kodak I*,[683] and held that its language does nothing to limit the right of the patentee to sell or license in markets within the scope of the statutory patent grant.[684] Further, absent exceptional circumstances a patent may confer the right to exclude competition in more than one antitrust market.[685] The Federal Circuit gave a clearer interpretation of footnote 29 than the district court did.[686] It attempted to reconcile the Supreme Court's statement with its ruling in the *Xerox* case.[687] The Federal Circuit held that the words in footnote 29 could be interpreted as "restating the undisputed premise that the patent holder cannot use his statutory right to refuse to sell patented parts to gain a monopoly in a market *beyond the scope of the patent.*"[688] (emphasis added). The Federal Circuit narrowly interpreted the meaning of "beyond the scope of the patent" by holding that Xerox's refusal to license its replacement parts did not go beyond the scope of the patent because, absent exceptional circumstances, a patent may confer the right to exclude

680 *Id.* at 1327-28.
681 *Id.* at 1327.
682 *Id.* at 1327-28.
683 *Kodak I*, 504 U.S. at 479, n. 29 (1992).
684 *Indep. Serv.*, 203 F.3d at 1327.
685 *Id.*
686 *Id.*
687 *Id.*
688 *Id.*

competition altogether in more than one antitrust market.[689]

The difference between the *Xerox* decision of the Federal Circuit and the *Data General* and *Kodak II* decisions is that the Federal Circuit has created a rule stating that absent those exceptional circumstances which relate to unlawful acquisition, misuse, or illegal tying, the use of IPRs is immune from antitrust laws.[690] It is worth pointing out that neither the Commission nor the EC Courts have yet to issue a decision expressly acknowledging that the use of IPRs is immune from antitrust liability.

It is premature to speculate on the impact of the Federal Circuit's *Xerox* opinion on lower courts. At least one district court has already relied on the Federal Circuit's opinion. In *Townshend v. Rockwell Int'l Corp.*,[691] the holder of several basic patents over the technology underlying 56k modems[692] sued Rockwell for patent infringement.[693] The defendant launched antitrust counterclaims alleging that, *inter alia*: Townshend and one of its licensees conspired to fraudulently obtain the patents; the licensing terms were unfair because (i) Townshend sought unfair royalty rates; (ii) the licenses were granted on condition that licensees cross-license their technology to Townshend; and (iii) Townshend conditioned its licenses on the resolution of litigation.[694] The District Court for the Northern District of California relied on, among other cases, the Federal Circuit's *Xerox* opinion and dismissed Rockwell's counterclaims.[695] The district court recalled that the Federal Circuit held in *Xerox* that "the antitrust laws do not negate a patentee's right to exclude others from patent property."[696] Pursuant to this premise, the court held

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[689] *Id.*

[690] *Id.* at 1327-28; Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d. 1147 (1st Cir. 1994).

[691] 2000-1 Trade Cas. (CCH) ¶ 72,890, at 87,629 (N.D. Cal. 2000).

[692] A modem is a device that allows computer users to connect their electronic equipment to telephone networks. *Id.* at 87,629. The 56kps refer to the maximum speed at which a modem allows such interconnection to take place. *Id.* According to the definition of the district court, 56kps modem technology allows a computer user to access information at 56,000 bits per second. *Id.*

[693] *Id.* at 87,629.

[694] *Id.* at 87,630.

[695] *Id.* at 87,633.

[696] *Id.*

that, "because a patent owner has the legal right to refuse to license its patent on any terms, the existence of a predicate condition to a license agreement cannot state an antitrust violation."[697]

IV. A NEW THEORY TO IDENTIFY SITUATIONS THAT MAY WARRANT THE APPLICATION OF ANTITRUST LAWS TO REFUSALS TO LICENSE

None of the approaches adopted in the U.S. and the EU toward the possible application of the essential facilities doctrine to refusals to license is satisfactory. In the EU, if the *Magill* doctrine is broadly interpreted, a dominant IP owner might be required to license its IPRs to allow a competitor to introduce a new product that would compete with its own. This implies that the defendant could be compelled to create its own competition, thereby reducing the value of its IPRs. In the U.S., *Xerox* confines the application of antitrust laws concerning refusals to license to those cases where the plaintiff proves the defendant's unlawful acquisition or misuse of IPRs.[698] This is a very formalistic approach. It does not take into account extreme situations, beyond misuse, where the refusal to license an IPR could seriously harm competition.[699] In contrast to the "quasi-antitrust immunity" advocated in *Xerox*, the FTC and some courts are less sensitive to the protection of IPRs. Under this more restrictive approach antitrust law may be applicable to refusals to license either on the basis of the "probable" harm caused by the alleged anticompetitive conduct in innovation markets (*FTC/Intel* and *Microsoft*), or on the basis of the subjective intent of the defendant (*Kodak II*).

Those theories that, on the grounds of the protection of innovation markets, favor compulsory licensing based on a hypothetical and speculative analysis of the future consequences of the refusal to license in the innovation markets are unsatisfactory. Likewise, the

[697] *Id.* at 87,634.

[698] *In re* Indep. Serv. Org. Antitrust Litig., 989 F. Supp. 1131, 1135-36 (D. Kan. 1997), *aff'd*, 203 F.3d 1322 (Fed. Cir. 2000).

[699] The *Xerox* ruling has been strongly criticized by some officials of the FTC as upsetting the traditional balance between intellectual property and antitrust laws. Pitofsky, *supra* note 260.

introduction of a subjective-intent test to rebut the presumption that a refusal to license is a valid business justification may lead to significant mistakes, since the distinction between legitimate and illegitimate motives is not entirely clear when a holder refuses to license its IPRs.[700] In light of the shortcomings of the approaches endorsed by antitrust authorities and courts, it is necessary to formulate an intermediate theory to allow companies in the U.S. and the EU to identify situations in which it is justified to require a proprietor to license its IPRs to a competitor in order to avoid antitrust liability.

Any theory that is developed to address the interaction between intellectual property laws and antitrust laws must be based on the premise that compulsory licensing should be ordered only in very limited circumstances. It is also essential to require that, whenever the antitrust authorities and courts in the EU and the U.S. require compulsory licensing, the plaintiff or the complainant must prove the existence of a real risk of suffering competitive harm, whether actual or potential. Compulsory licensing cannot be made dependent on the subjective intent of the owner, or on the "probable" remote effects of the challenged behavior in innovation markets, but rather on proving objectively that the challenged exclusionary or predatory conduct attributed to the IP owner has, or may reasonably have, the effect of harming competition.

Without being exhaustive, one may foresee at least one situation where the application of the essential facilities doctrine to a refusal to deal may be adequate. If a company, already owning the leading IPRs in the market, undertakes a policy to aggressively and systematically buy up every patent that comes along in the relevant market, and accumulates a very important cluster of patents which becomes a bottleneck for a third party to enter or remain in the market, then this third party could rely on the essential facilities doctrine to force the owner to license its technology.[701]

It is unclear, however, whether in practice this is a viable cause of action in the EU and the U.S.. Supreme Court jurisprudence is not

[700] AREEDA & HOVENKAMP, *supra* note 53, at 193, 202.
[701] SULLIVAN & HOVENKAMP, *supra* note 114, at 711.

entirely clear on the question of antitrust liability for patent accumulation.[702] In *Transparent-Wrap Machine Corporation v. Stokes & Smith*,[703] the Court suggested that patent accumulation might be subject to antitrust liability: "As patents are added to patents a whole industry may be regimented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. Competitors might be eliminated and an industrial monopoly perfected and maintained."[704] The Court, however, appears to have reached the opposite conclusion just three years later in *Automatic Radio Manufacturing. v. Hazeltine Resources*,[705] where it held that the "mere accumulation of patents, no matter how many" is not a Sherman Act violation.[706]

It is also difficult to anticipate the reaction of the Commission and the EC Courts towards a cumulative patent complaint. Although *Tetra Pak I* was not an essential facilities case, the position of the Commission invites observers to infer that the Commission would be receptive toward a complaint of a company against a firm accumulating patents with an exclusionary purpose.[707] In *Tetra Pak I*, the Commission found that Tetra Pak had abused its dominant position by the acquisition of a competitor's exclusive license (Liquipak) over an important technology relating to a new UHT milk-packaging process.[708] It is important to note that Elopak, one of the only two companies capable of competing in the EC with Tetra Pak, had contributed to the development of this new technology.[709] The Commission's decision concluded that the right to use the

[702] Kobak, *supra* note 69, at 543. Kobak points out that in the U.S. neither the existing case law nor the IP Guidelines have addressed the issue of under what circumstances (if any) an aggregation of intellectual property rights held by an individual firm may be regarded as an essential facility that must be licensed to all competition on reasonable terms. *Id.* at 543.

[703] 329 U.S. 637 (1947).

[704] Id. at 647.

[705] 339 U.S. 827 (1950).

[706] Id. at 834.

[707] Commission. Decision 88/501/EEC, [1988] O.J. (L 272) ¶ 27. The CFI upheld the Commission's decision in Tetra Pak Rausing v. Commission, Case T-51/89, 1990 E.C.R. II-309.

[708] Case T-51/89, Tetra Pak Rausing v. Commission., 1990 E.C.R. II-309, 351, ¶ 8 (1990).

[709] *Id*. at II-349, ¶ 5.

process protected by the exclusive license "was alone capable of giving an undertaking the means of competing effectively with [Tetra Pak] in the field of aseptic packaging of milk."[710] Thus, by acquiring this exclusive license, Tetra Pak strengthened its dominance[711] in the market for machines and materials for the aseptic packaging of milk and prevented, or delayed considerably, the entry of a new competitor in a market where there was already little competition.[712]

Finally, one may wonder which theory should be adopted if antitrust authorities and/or courts were to decide to set aside the pro-immunity approach and the subjective-intent approach, as outlined in the U.S. by the *Xerox* and the *Kodak II* opinions respectively.[713] Despite not having been adopted by any U.S. court, and despite the doubts that it poses regarding the balance between incentives and the application of antitrust laws to IPRs, Professor Patterson's "use-oriented approach"[714] might be at least a useful and clear method to identify those situations where an IP owner may be forced under the essential facilities doctrine to license its IPRs to its competitors.[715] This, of course, does not diminish the view that courts should always be extremely careful when ordering the compulsory licensing of an IPR.

In summary, absent a deliberate accumulation of IPRs or, should Professor Patterson's theory be adopted by antitrust authorities and courts, absent a refusal unrelated to the "use" of the intellectual property, a unilateral refusal to deal should not be subject to antitrust liability except when IPRs have been misused or unlawfully obtained. If antitrust authorities and courts extend the essential facilities doctrine beyond these situations, the effect of a compulsory license would be to force the IP owner to create its own competition. This is not the goal that antitrust laws should pursue and it is in stark

710 Commission. Decision 88/501/EEC, [1988] O.J. (L 272) ¶ 27.

711 Tetra Pak had 91.8% of the EC market in aseptic filling machines and 89.1% of the market in the relevant cartons. Case T-51/89, *Tetra Pak I*, 1990 E.C.R. at II-312-13, ¶ 3.

712 Commission. Decision 88/501/EEC, [1988] O.J. (L 272) ¶ 27, ¶¶ 45, 60.

713 *In re* Indep. Serv. Org. Antitrust Litig., 989 F. Supp. 1131, 1135-36 (D. Kan. 1997), *aff'd*, 203 F.3d 1322 (Fed. Cir. 2000); *Kodak II*, 125 F.3d at 1215.

714 Patterson, *supra* note 254, at 1146-47.

715 *See* discussion *infra* Section IV.A.2.

conflict with the very essence of IPRs. The main function of antitrust laws should not be to compel firms to maximize competition, but to prevent them from restricting it.[716]

Patent accumulation or a refusal unrelated to the "use" of the intellectual property could justify the application of the essential facilities doctrine to a refusal to license IPRs. However, this would be dangerous advice, especially in the U.S. Though attorneys generally should not suggest this course of action firmly to a client, it may be an approach worth considering.

CONCLUSION

IPRs in the EU and U.S. were previously unscathed by antitrust liability. The situation has slightly changed, and IPRs are now open to antitrust liability. In recent years, both in the EU and U.S., significant antitrust inroads have been made into the IPR domain introducing legal uncertainty for IPR owners. Despite these inroads, the application of the essential facilities doctrine or the monopoly leveraging doctrine to refusals to license has occurred only in exceptional cases. Nothing indicates that compulsory licenses based on U.S. antitrust law or EC competition law will become commonplace.[717] This should allay the fears of those who might interpret cases such as *Magill*, *FTC/Intel* or *Kodak II* as heralding the erosion of the privileged status of IPRs.[718]

In the U.S., with the exception of the Ninth Circuit's *Kodak II* opinion, there appears to be no reported case in which a court has imposed antitrust liability for a unilateral refusal to license IPRs. The recent judgment of the Federal Circuit in the *Intel* case shows the reluctance of U.S. courts to issue compulsory licensing orders. In the EU's *Magill* case, the Commission imposed upon a company the duty to license its copyright to another company competing in a downstream market. The potentially severe impact of this case on IPRs, however, has been neutralized by the narrow interpretation

[716] U.S.M Corp. v. SPS Tech. Inc., 694 F.2d 505, 512-13 (7th Cir. 1982).
[717] Forrester, *supra* note 47, at 35-12.
[718] Fitzgerald, *supra* note 391, at 161.

given to it by the Commission and the CFI, and it is not likely to be repeated. For this reason, there is now more legal certainty in the EU than in the U.S. for owners of IPRs who refuse to license them to actual or potential competitors. In the U.S., the Federal Circuit (*Xerox*), the Ninth Circuit (*Kodak II*), and the Federal Circuit and the FTC in the *Intel* case, have reached opposite conclusions as to whether the exercise of IPRs is immune from antitrust laws.

Both in the EU and U.S. the issue of how intellectual property laws and antitrust laws should interrelate is still unresolved. There are several different mechanisms to reconcile these fields of law. Jurisprudence should develop a clear legal theory regarding this issue, and in the U.S. the problem is ripe for consideration by the Supreme Court.[719] Legislators may also enact statutory provisions regulating this relationship to avoid the legal uncertainty created by the jurisprudence on both sides of the Atlantic.[720]

Finally, frictions between intellectual property laws and antitrust laws could also be alleviated, especially regarding patents and similar rights, by narrowing the scope of the claims so that patents do not cover basic research tools which may be used by potential competitors.[721] By doing so, competitors would be less prone to

719 Freed, *supra* note 310, at 37.

720 *See* Antonio F. Pérez, *DOJ's 'New' Antitrust Paradigm Resurrects Outdated Economics*, 7 ANDREWS ANTITRUST LITIG. REP. 18. This scholar has pointed out that, given that the cost for the computer industry of a wrong decision by the judiciary in the *Microsoft* case is likely to be high, the DOJ should have never brought the *Microsoft* case without additional policy guidance from the legislative branch. *Id*.

721 *See* John H. Barton, *Patents and Antitrust: A Rethinking in Light of Patent Breadth and Sequential Innovation*, 2 ANTITRUST 65, 449 (1997). This scholar points out that in some fields, like biotechnology, patents are very broad and may cover basic research tools. *Id*. This concern about broad patents may also be related to computer software. In a groundbreaking case, State Street Bank & Trust Co. v. Signature Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998), the Federal Circuit held that computer software is patentable subject matter. *Id.* Therefore, firms may now attempt to claim broad software patents to gain a competitive advantage over their competitors who, in turn, could rely on the essential facilities doctrine to gain compulsory access to patented software. *See* Christopher S. Cantzler, *State Street: Leading the Way to Consistency for Patentability of Computer Software*, 71 U. COLO. L. REV. 423, 424 (2000); *see also* Suzanne Scotchmer, *Cumulative Innovation in Theory and Practice*, GSPP Working Paper 240, U.C. Berkeley, at 16-18 (February 1999), *available at* http://socrates.berkeley.edu/~scotch/ip.html (last visited Mar. 9, 2001) (regarding the effects of broad patents in innovation markets).

request compulsory access to a patent right, and therefore, antitrust laws would be invoked less frequently to interfere with IPRs.