

**“Refusal-to-Deal Cases of IP Rights at the Aftermarket in the US and EU Law:  
Converging of Both Law Systems Through Speaking the Same Language of Law  
and Economics”**

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ABSTRACT.....	144
A. Introduction.....	145
B. IP Rights and the Presumption of Market Power Thereof.....	148
I. General Rule.....	148
II. The Recent Illinois Toolwork v. Independent Ink Case of the Supreme Court	150
C. US Law.....	152
I. First Principles.....	152
II. Refusal to Deal Cases.....	153
III. The Particularity of US Law with Regard to the Merger and Misuse Doctrines	155
D. EU Law.....	158
I. First Principles.....	158
II. Refusal to Deal Cases.....	158
E. The Way of Converging the Two systems by Speaking the Same Language of Law and Economics.....	161
I. Introduction.....	161
II. The Current Discussion in the EU for the Application of Art. 82 EC on an “Economic Approach” Basis.....	162
III. The Courts Should Finally Speak a Common Legal and Economic Language	164
IV. The Distinction Between Competition by Substitution and Competition by Imitation and Its Implications.....	165
V. The Leveraging Element and De Facto Monopoly.....	168
VI. Economic Balancing.....	170
VII. Hypothetical resolution of cases through the common language.....	170
1. IMS Health.....	171
2. Verizon v. Trinko.....	172
F. Conclusion.....	174

**ABSTRACT**

*One common way in which abuse of dominance cases could lead to action restricting Intellectual Property (IP) law is where an IP right holder’s refusal to deal inordinately restricts the development of competition. According to Section 2 of the Sherman Act and Article 82 of the EC, both US and EU law intervene with regard to de facto monopoly in refusal to deal cases based on an exclusive IP right “under exceptional circumstances.” The US and EU face the same legal problem and handle*

*it basically with the same principles. Yet courts on both sides of the Atlantic have not used a common language until now. The courts still do not use any economic arguments. The proposed common language that follows could be applied by the courts on both sides of the Atlantic for refusal to deal cases. This language consists of commonly understood legal terms and economic analysis and includes two cumulative steps. First, the courts should examine the “possibility of competition by substitution” and whether a “de facto monopoly on the downstream market” exists. These should be the first two criteria to find an anti-competitive abuse of IP rights. The second step of the proposed analysis consists of an economic balancing between the pro- and anti-competitive effects of the refusal of the IP owner to deal. Convergence could bring some legal certainty in this area of law, especially through application of the proposed two-step test, and would become an example for the resolution of refusal to deal cases at the interface of IP and competition law for developing countries.*

## **A. Introduction**

The prevailing view nowadays is that antitrust law by protecting competition, and intellectual property law, by rewarding innovation, each create incentives to introduce new products. At the highest level of analysis, intellectual property rights (IPRs)<sup>1</sup> complement competition policies because they each share a concern to promote technical progress to the ultimate benefit of consumers (i.e., the theory of complementarity).<sup>2</sup> Under the theory of complementarity, the intervention of

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<sup>1</sup> The present thesis focuses mainly on the exclusive rights of copyright and patent law with regard to IPR and not on trademark rights.

<sup>2</sup> See *Atari Games v. Nintendo of America Inc.* 897 F. 2d 1572, 1576 (Fed. Cir. 1990) (“The two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition”). The Technology Guidelines (Commission Notice – Guidelines on the application of Article 81 of the EC Treaty to Technology transfer agreements, 2004 O.J. (C 101/03) ¶7) recognize that

competition laws apparently depends on effects of a given IP right and its exercise in the market. The IP system rests on the idea of long-term innovation incentives. That is entirely consistent with antitrust policy related to exclusionary conduct, which also focuses on dynamic competition and long-term effects. Firms are more likely to innovate if they are at least somewhat protected against free-riding. They are also more likely to innovate if they face strong competition. The right holder is enabled to prevent competitors from exploiting the very subject matter of protection, but may not prohibit the development and use of competing technology. Thus, IPRs exclude only competition by imitation but further competition by substitution.<sup>3</sup>

The most common ways in which abuse of dominance cases could lead to action restricting IP law are when an IPR holder's refusal to deal inordinately restricts the development of competition. First, there is a general category of dominance which applies to undertakings in a powerful position in a market where some effective competition continues to exist. Second, there is a special extreme form of dominance, a de facto monopoly, where the competitor has factually no alternatives to compete.<sup>4</sup> However, even when an IP protected product reaches the status of a de facto monopoly and falls within the scope of Section 2 of the Sherman Act or Article 82 of the EC, merely achieving that status is not itself viewed as abusive. A firm that has achieved a de facto monopoly by virtue of its investment in R&D and IP protection is

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generally intellectual property and competition law are not in conflict; on the contrary "both bodies of law share the same basic objective of promoting consumer welfare and an efficient allocation of resources. Innovation constitutes an essential and dynamic component of an open and competitive market economy. Intellectual property rights promote dynamic competition by encouraging undertakings to invest in developing new or improved products and processes. So does competition by putting pressure on undertakings to innovate. Therefore, both intellectual property rights and competition are necessary to promote innovation and ensure a competitive exploitation thereof". See also M. Howard Morse, *Standard Setting and Antitrust: The Intersection Between IP Rights and the Antitrust Laws*, IP LITIGATOR, May-Jun. 2003, 17, 18.

<sup>3</sup> Hanns Ullrich, *Gewerblicher Rechtsschutz und Urheberrecht im Gemeinsamen Markt*, in EG-WETTBEWERBSRECHT, KOMMENTAR [EEC Competition Right, Comment], 1101, 1101-14 (Ulrich Immenga & Hans-Joachim Mestmäcker eds, 1997); Josef Drexl, *IMS Health and Trinko – Antitrust Placebo for Consumers Instead of Sound Economics in Refusal-to-Deal Cases*, 35 IIC 788, 805 (2004).

<sup>4</sup> See Part E. III.

normally entitled to continue to compete by exercising its exclusionary rights even in aftermarkets.<sup>5</sup>

However, there are cases where the abuse of a dominant position in the upstream market that is being facilitated by the IP right can be “transferred” to the neighboring downstream market. This occurs when the competition is eliminated in the downstream market because of the refusal of the IP right holder to license its right to competitors.<sup>6</sup> European law especially has always started with the assumption that the leveraging of dominant positions into other markets may constitute an abuse if success on the neighboring market is not based on competition on the merits.<sup>7</sup> Conduct can be abusive if it is characterized by an instrumental use of the economic power bestowed by the dominant position to gain commercial advantages, usually on adjacent markets. Abuses in this category can also be referred to as market power leveraging abuses.<sup>8</sup> The two most important variants are tying and refusals to grant access to a necessary input for downstream activities.<sup>9</sup>

According to Section 2 of the Sherman Act and Art. 82 EC , both US and EU law intervene in de facto monopoly in refusal to deal cases based on an exclusive IP right “under exceptional circumstances.”<sup>10</sup> Yet courts on both sides of the Atlantic do not use a common language until now, although facing the same legal problem and

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<sup>5</sup> Steven Anderman, *Does the Microsoft Case offer a New Paradigm for the ‘Exceptional Circumstances’ Test and Compulsory Copyright Licenses under EC Competition Law?* 1(2) *Competition L. Rev.* 1, 9 (2004).

<sup>6</sup> RICHARD WHISH, *COMPETITION LAW* 200-201 (5th ed. 2003); ERNST-JOACHIM MESTMAECKER & HEIKE SCHWEITZER, *EUROPAEISCHES WETTBEWERBSRECHT* (2d ed., 2004), § 18, nr. 19; Case T-83/91, *Tetra Pak Int’l Sa v. Comm’n*, 1994 E.C.R. II-755.

<sup>7</sup> ULRICH IMMENGA, ET AL., *EG-WETTBEWERBSRECHT [EEC COMPETITION RIGHTS]*, 765 (1997).

<sup>8</sup> AXEL BECKMERHAGEN, *DIE ESSENTIAL FACILITIES DOCTRINE IM US-AMERIKANISCHEN UND EUROPAEISCHEN KARTELLRECHT*, 140 (2002).

<sup>9</sup> See Thomas Eilmansberger, *How to Distinguish Good From Bad Competition Under Art. 82 EC*, 42 *COMMON MKT L. REV.* 129, 155 (2005).

<sup>10</sup> See among others *CSU, L.L.C. v. Xerox Corp.*, 203 F.3d 1322 (Fed. Cir. 2000), , *aff’g In re Indep. Serv. Orgs. Antitrust Litig.*, 114 F. Supp. 2d 1070 (D. Kan. 2000), *reh’g denied*, No. 99-1323, 2000 U.S. App. LEXIS 9987, *cert. denied*, 531 U.S. 1143 (2001); Case C-418/01, *Ims Health GMBH v. NDC Health GMBH*, 2004 E.C.R. I-5039. See also STEVEN D. ANDERMAN, *EC COMPETITION LAW AND IP RIGHTS*, p. 173 (1998).

handling it basically with the same principles (e.g. they do not presume market power from IP rights as such). Moreover, they do not use any economic arguments at all, although the US law facilitates an economic efficiency test and the EU law intends to adopt an economic approach for the application of Art. 82 EC (Part E. II.).

This article points out the common legal approaches of the US and EU law systems, handling refusal to deal cases with regard to IP rights. Part B analyzes the presumption of market power from IP rights as such. It then reveals how the US and EU courts have approached the “exceptional circumstances” criteria for the abuse of IP rights in monopoly situation cases (Part C and D). Part E ascertains that the US and EU courts do not use economic arguments at all (E. IV.) and dictates the possibility of using common – from both sides understandable – legal terms (E. III., IV, V and VI.) for the definition of the “exceptional circumstances” and the resolution of such cases (E. VII.).

## **B. IP Rights and the Presumption of Market Power Thereof**

### **I. General Rule**

Market power is the ability of a single seller to raise price and restrict output. Market power typically is associated with a departure from the conditions necessary for the optional functioning of a market: sufficient number of buyers or sellers, relatively easy conditions of entry and exit, or readily accessible information on market conditions. Intellectual property law potentially confers market power because it creates barriers to competitors’ entry into the relevant market with the same good and, to a certain extent, with substitute goods. The degree of market power is a function not only of how unique or socially desirable the product is, but also of how effective the property right is in erecting entry barriers that keep substitutes out of the

market. Antitrust is not opposed to market power, as such, if it is necessary to achieve efficiencies and respects the need for incentives for investment in research and development. If a firm builds market power through innovation, investment and marketing activities, this is perfectly legal.<sup>11</sup> Market power is less durable in markets characterized by a high level of innovation and therefore by dependence on IP rights.

Intellectual property cannot be presumed to establish market power.<sup>12</sup> While intellectual property grants exclusive rights, these rights are not monopolies in the economic sense. They do not necessarily provide a large share of any commercial market and they do not necessarily lead to the ability to raise prices in a market. Where products are differentiated, a company can have constrained market power without being a monopolist. This is particularly likely in markets in which IP rights are important.<sup>13</sup> An IP right may actually prove so successful that it creates a market dominant position. However, such a position is not the result of IP protection but of the market situation (e.g., lock-in, network effects).<sup>14</sup> Market power can only be determined by an actual economic analysis of the anti- and pro-competitive aspects of the actual use and ownership of the specific piece of intellectual property. For example, a single patent or a copyright especially may have dozens of close substitutes.<sup>15</sup> The mere presence of an intellectual property right does not permit an antitrust enforcer to skip the crucial steps of market definition and determining market effects.

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<sup>11</sup> MASSIMO MOTTA, *COMPETITION POLICY: THEORY AND PRACTICE* 35 (2004).

<sup>12</sup> Debra A. Valentine, *Abuse of Dominance in Relation to Intellectual Property: US Perspectives and the INTEL Cases*, 3/2000 *COMPUTER L. REV.* 73, 76.

<sup>13</sup> See HERBERT HOVENKAMP, MARK D. JANIS, MARK LEMLEY, *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW*, (Herbert Hovenkamp ed., 2006), § 10-9.

<sup>14</sup> *Drexler*, *supra* note 3, at 792.

<sup>15</sup> Ralph Jonas et al., *Copyright and Trademark Misuse*, 2000 *A.B.A. SEC. ANTITRUST L., INTELLECTUAL PROPERTY MISUSE: LICENSING AND LITIGATION* 165, 184.

In the view of the Department of Justice and the Federal Trade Commission, the idea that IP rights cannot be presumed to create market power is a settled question.<sup>16</sup> The ECJ adopts the same approach. In its *Deutsche Grammophon* decision,<sup>17</sup> the ECJ observed that the exercise of exclusive distribution rights under a sound recording copyright does not automatically translate to dominance. Rather, there must be some further showing of effective competition over a considerable part of the relevant market. In *Magill*,<sup>18</sup> the ECJ similarly held that mere ownership of IP rights, without more, does not establish dominance.

Consequently, the general approach both in the US and EU is to avoid rigid tests and instead rely on a review of the likely economic effects to the marketplace as a whole, both in the short term and over the long term, factoring in incentives for pro-competitive innovation. Moreover, the presumption of market power would encourage routine filing of tying antitrust claims because the accusers would not need to confront market realities. The increased risk of antitrust liability may discourage IP right owners from enforcing their rights. Both IP law and competition law seek to maintain dynamic, innovative markets far into the future. To that end, they properly are willing to tolerate a degree of private reward and market power in the present day.

## **II. The Recent *Illinois Toolwork v. Independent Ink* Case of the Supreme Court**

In the *Independent Ink* case, the Federal Circuit, which handles all direct patent appeals in the US, held that Supreme Court precedent<sup>19</sup> compelled it to

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<sup>16</sup> Russell Lombardy, *The Myth of Market Power: Why Market Power Should not be Presumed When Applying Antitrust Principles to the Analysis of the Tying Arrangements Involving Intellectual Property*, 8 ST. THOMAS L. REV. 449, 450-451 (1996).

<sup>17</sup> Case 78/70, *Deutsche Grammophon Gesellschaft MBH v. Metro-SB-Grossmarkte GMBH*, 1971 E.C.R. 487, 1971C.M.L.R. 631, ¶ 16.

<sup>18</sup> *Joined Cases C-241/91 P & C-242/91, Radio Telefis Eireann v. Comm'n*, 1995, E.C.R. I-743, ¶ 46.

<sup>19</sup> *HU. S. v. Loew's Inc.*, 371 U.S. 38, 47 (1962)H (ruling that “when the tying product is patented or copyrighted ... sufficiency of economic power is presumed”) , *overruled by Ill HTool Works Inc. v. Indep. Ink, Inc.*H, 126 S. Ct. 1281(2006); *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 26 (1984) (dictum); *U. S. Steel Corp. v. Fortner Enters., Inc.*, 429 U.S.610, 619 (1977) (dictum).

conclude that a patent does raise a presumption of market power in an IP tying case. But even the Federal Circuit disagreed with the presumption. In fact, the Federal Circuit's opinion invited the Supreme Court to reverse. That's exactly what the Supreme Court did.<sup>20</sup>

Illinois Toolwork (ITW) manufactured printing systems made up of piezoelectric impulse jet print heads and inks for use in packaging assembly lines. Patents covered the print head, the ink bottle, and the connection between them. ITW's license required OEM customers, the assembly line manufacturers, to purchase ink from ITW. The ITW license didn't bind end users, though. Plaintiff claimed this requirement constituted a tying arrangement in violation of Section 1 of the Sherman Act. The Supreme Court ruled that "[n]othing in our opinion [in *Jefferson Parish*] suggested a *rebuttable* presumption of market power applicable to tying arrangements involving a patent on the tying good... It described the rule that a contract to sell a patented product on condition that the purchaser buy unpatented goods exclusively from the patentee is a *per se* violation of § 1 of the Sherman Act."<sup>21</sup> The 1988 patent law amendment requires "proof of market power in the relevant market" for patent misuse defense (35 U.S.C. § 271(d)(5)). The 1988 amendment invites a reappraisal of the *per se* rule announced in *International Salt*. The Court concluded that "tying arrangements involving patented products should be evaluated under the standards applied in cases like *Fortner II* and *Jefferson Parish* rather than under the *per se* rule applied in *Morton Salt* and *Loew's*... Liability must be supported by proof of power in the relevant market rather than by a mere presumption thereof."<sup>22</sup>

The first question the Court examined was whether the presumption of market power in a patented product should survive as a matter of antitrust law. It determined

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<sup>20</sup> *Illinois Tool Works Inc. v. Independent Ink*, 126 S. Ct. 1281, 547 U.S. 28 (2006).

<sup>21</sup> *Id.* at 1288, 547 U.S. 28.

<sup>22</sup> *Id.* at 1291, 547 U.S. 28.



that “Congress, the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee. Today, we reach the same conclusion, and therefore hold that, in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.”<sup>23</sup> Through this decision the Supreme Court made clear that there is no market power presumption through the existence of patents as such the courts should demand real proof of such market power.

The second issue the Court considered was the presumption of per se illegality of a tying arrangement involving a patented product and the reappraisal of the per se rule announced in *International Salt*. The Court concluded that “tying arrangements involving patented products should be evaluated under the standards applied in cases like *Fortner II* and *Jefferson Parish* rather than under the *per se* rule applied in *Morton Salt* and *Loew’s*... Liability must be supported by proof of power in the relevant market rather than by a mere presumption thereof.”<sup>24</sup> Arguably, the decision is limited to patent tying and copyright market power presumption would therefore remain arguably intact. But the decision’s logic should extend to copyrights as well due to legal certainty and similarity of the cases.

## **C. US Law**

### **I. First Principles**

How does the US legal system (Part C. I.) and its courts (C. II., III.) approach in practice the refusal to license cases?<sup>25</sup> Is this approach principally similar to the EU

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<sup>23</sup> *Id.* at 1293, 547 U.S. 28.

<sup>24</sup> *Id.* at 1291, 547 U.S. 28.

<sup>25</sup> It will be a rather sketchy presentation of the US refusal-to-deal cases, since the purpose of this paper is just to show indicatively how the US courts have treated such cases. For a more lengthy analysis, see among others Kenneth L. Glazer & Abbott B. Lipsky, Jr., *Unilateral Refusals to Deal under Section 2 of the Sherman Act*, 63 ANTITRUST L.J. 749 (1995).

one?<sup>27</sup> US antitrust enforcement focuses on specific anticompetitive actions, as judged by their effects on markets and consumer welfare. In other words, US cases at the intersection between intellectual property and antitrust law have been analyzed by examining the impact on economic incentives to innovate and balancing them against anticompetitive effects. There exists no quarrel with the fundamental rule that a patent holder has no obligation to license or sell in the first instance.<sup>28</sup> A patent holder is not under any general obligation to create competition against itself within the scope of its patent.<sup>29</sup> Antitrust law does not itself impose an obligation to use or license intellectual property rights, where such a refusal would violate the antitrust laws. Further, such an obligation would conflict directly with the rights granted to an intellectual property owner by the intellectual property laws. Thus, as a general rule there is no antitrust obligation either to use or license a patent.

## II. Refusal to Deal Cases

In *Data General v. Grumman Systems Support*,<sup>30</sup> the First Circuit confronted an aftermarket exclusion claim. The Independent Service Organizations (ISOs) were repairing computer hardware, and the “part” they needed access to was Data General’s copyrighted diagnostic software. The Court created a *rebuttable presumption* designed to take the copyright into account: “[w]hile exclusionary conduct can include a monopolist’s unilateral refusal to license a copyright, an author’s desire to exclude others from use of its copyrighted work is a presumptively

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<sup>26</sup> See Part D.

<sup>27</sup> See Part D.

<sup>28</sup> Valentine, *supra* note 12, at 74; James B. Kobak, *Antitrust Treatment of Refusals to License Intellectual Property*, in 2003 INTELLECTUAL PROPERTY ANTITRUST 377, 392, (David Bender ed., Practising Law Institute 2003).

<sup>29</sup> See, e.g., *Continental Paper Bag v. Eastern Paper Bag*, 210 US 405, 429 (1908); *HSCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1206 (2d Cir. 1981) (“[W]here a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger ... liability under the antitrust laws.”).

<sup>30</sup> 36 F.3d 1147 (1st Cir. 1994). For a more analytical presentation of the refusal to deal cases in the US see Kobak, *supra* note 28, at 401.

valid business justification for any immediate harm to consumers”.<sup>31</sup> Rebuttable presumptions offer somewhat less predictability, but permit courts to delve into the factual context of the cases before them in order to determine competitive effect.

In its 1997 *Kodak* decision, the Ninth Circuit held that a refusal to license patented parts was a violation of Section 2 of the Sherman Act<sup>32</sup>. The court reasoned that patents may have given Kodak a monopoly on some of its parts, but by refusing to sell the parts to independent repair technicians Kodak was effectively creating a second monopoly in the relevant market for service. The Kodak patents on aftermarket parts were valuable both in the market for the parts themselves and in the complementary market for servicing photocopiers. As far as the Ninth Circuit was concerned, this fact meant that Kodak had a duty to sell its parts. Otherwise, Kodak would reap the advantages of monopoly in both the parts market and the service market.

The Federal Circuit also concluded in the *Xerox* case<sup>33</sup> that a patentee can refuse to license or sell with immunity under the antitrust laws unless one of the following conditions applies: (1) The patent was obtained by fraud on the PTO; (2) The suit to enforce the patent was “sham” – as that term was defined by the Supreme Court<sup>34</sup>; or (3) The patent was used as part of a tie-in strategy to extend market power beyond the legitimate confines of the patent grant.

In *Trinko*,<sup>35</sup> the Supreme Court found that private plaintiffs did not state an antitrust claim when they alleged a failure by communications provider Verizon to

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<sup>31</sup> *Id.* at 1187.

<sup>32</sup> *Image Tech. Servs. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997), *cert. denied*, 523 U.S. 1094 (1998); *see* James S. Venit & John J. Kallaughner, *Essential Facilities: A Comparative Law Approach*, 1994 INT’L ANTITRUST AND POL’Y: ANNUAL PROCEEDINGS OF THE FORDHAM CORP. L. INST. 315, 317 (Barry E. Hawk ed., 1994).

<sup>33</sup> *CSU, L.L.C. v. Xerox Corp.*, *supra* note 10H.H

<sup>34</sup> *HProfessional Real Estate Investors, Inc. v. Columbia Pictures Indus.*, 508 U.S. 49 (1993)H.

<sup>35</sup> *Verizon Communs. Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004).

provide adequate assistance to its rivals. “Such liability may lessen the incentive for the monopolist, the rival, or both to invest in economically beneficial facilities” and “also requires antitrust courts to act as central planners... a role for which they are ill-suited”.<sup>36</sup> Thus, an enforcement agency should not impose a duty to deal that it cannot reasonably supervise because this risks assuming the day-to-day controls characteristic of a regulatory agency. In *Trinko*, the Court gave a number of reasons for refusing to impose a duty to deal. These reasons include the absence of an earlier, voluntary business relationship between the defendant and its competitors and the presence of an extensive regulatory framework dealing with the issues that the plaintiff sought to have governed by the antitrust laws.

### **III. The Particularity of US Law with Regard to the Merger and Misuse Doctrines**

US law does not approach interface issues between Intellectual Property and Antitrust law only through Section 2 of the Sherman Act as abuse of monopoly, but also internally in the IP system itself through the doctrines of merger and misuse, which limit the legal monopoly of the IP owner. The merger doctrine states that if an idea and the way to express it are so intertwined that the ways of expression have little possible variation, there will not be copyright infringement, lest the copyright prevent others from expressing the same idea (i.e., idea/expression distinction).<sup>37</sup>

Moreover, the US courts use the misuse defense, another flexible and powerful tool, to avoid the adverse effects of compulsory licensing on innovation.<sup>38</sup>

Actually, defendants bring the misuse doctrine as an “aggressive” defense against the

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<sup>36</sup> *Id.* at 407, 414-415.

<sup>37</sup> Merger Doctrine – Wikipedia, the free encyclopedia, [http://en.wikipedia.org/wiki/Merger\\_doctrine](http://en.wikipedia.org/wiki/Merger_doctrine). (last visited Jan 4, 2006)

<sup>38</sup> Robert Pitofsky, *Antitrust and IP: Unresolved Issues at the Heart of the New Economy*, 16 BERKELEY TECH. L.J., 535, 550 (2001).

plaintiff who misuses an IP patent or copyright. The courts can use the flexible misuse doctrine as a balancing tool to decide cases at the interface of intellectual property and competition law. But such a misuse defense could not be practically applied in EU law because of the legal uncertainty of such a fact-specific misuse approach and the unforeseeable weakening of IP rights in favor of the competition process, especially in a fiction like the Internal Market of the EU. The misuse doctrine “arose to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy.”<sup>39</sup> The policy rationale was that the misuse doctrine would prevent the IP owner from using the IP right to obtain benefits beyond those granted by statute. While the doctrine “has evolved separately from the antitrust laws ... it is used to attack patent licensing practices that are claimed to be undesirable from a public policy standpoint.”<sup>40</sup> If successful, a misuse defense renders the patent unenforceable against anyone until the misuse has been eliminated and the effects on the marketplace have been purged.

As a general rule, the misuse doctrine has a broader scope than that of antitrust laws, but the two overlap significantly as long as antitrust concerns such as market structure, intent, and anticompetitive effect are met. Yet the misuse doctrine may limit the validity of an IP right for behavior that does not rise to the level of an antitrust violation. With the exception of non-economic reasons why the doctrine should apply (e.g., fraud on the patent office), this effect represents a serious flaw in the doctrine itself.<sup>41</sup> The test the Federal Circuit uses in its patent misuse jurisprudence examines

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<sup>39</sup> *HMallinckrodt Inc. v. Medipart Inc.*, 976 F.2d 700 (Fed. Cir. 1992)H.

<sup>40</sup> See Roger B. Andewalt, *Competition Policy and the Patent Misuse Doctrine, Remarks Before the D.C. Bar Association*, 1982 PAT. TRADEMARK & COPYRIGHT J. (BNA) 41, 42.

<sup>41</sup> *HZenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969)H.

whether “the patentee has impermissibly broadened the physical or temporal scope of the patent with anti-competitive effect.”<sup>42</sup>

Two recent US cases shed light on the danger to eliminate competitive products from a secondary market through the imposition of IP rights. *Lexmark International, Inc. v. Static Control Components, Inc.*<sup>43</sup> referred to ink for printers. *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*<sup>44</sup> involved the market-control of remote controls for automatic garage doors. In each case the competitors of the copyright owner at the secondary market first needed access to the protected computer program – only possible after circumvention of the technical precautionary measures – and then needed the reproduction of the program in order to offer competitive ink for printers or remote controls. The Sixth Circuit doubted the copyrightability of the relevant computer programs. Where external factors like technical specifications, hardware and software standards, programming practices, or even efficiency considerations limit the choice of possible alternatives on the specific computer program, the Sixth Circuit held that a merger (“*merger doctrine*”<sup>45</sup>) of the (non-copyrightable) idea and the expression occurs. As a result, there is no copyrightability for the computer program. Unlike US law, the European copyright regime does not have any merger or misuse doctrines that could facilitate flexibility in the legal judgment of a case. This absence seems problematic in light of the relatively shallow threshold, particularly for the protection of computer programs.

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<sup>42</sup> *HWindsurfing Int’l Inc. v. AMF, Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986)H.

<sup>43</sup> 387 F. 3d 522, (6th Cir. 2004), *reh’g denied*, No. 03-5400, 2004 U.S. App. LEXIS 27422, *reh’g, en banc, denied*, No. 03-5400, 2005 U.S. App. LEXIS 3330.

<sup>44</sup> 381 F. 3d 1178, (Fed. Cir. 2004), *reh’g, en banc, denied*, No. 04-1118, 2004 U.S. App. LEXIS 27232, *cert. denied*, 544 U.S. 923 (2005).

<sup>45</sup> See *Baker v. Selden*, 101 US 99 (1879).

## D. EU Law

### I. First Principles

Due to institutional and structural impediments, EU law approaches the interaction between IP and competition law through Article 82 EC.<sup>46</sup> The flexible misuse doctrine cannot apply EU-wide because it is difficult for the varying national intellectual property policies to be incorporated into the construction of Union-wide competition law. In addition, it is impossible for the national courts to incorporate European competition policy concerns into their national intellectual property laws.

Under Article 82 EC, competition law can only act in “exceptional circumstances” to limit the lawful exercise of intellectual property rights. The existence or the essence of intellectual property rights is not affected by the rules on competition.<sup>47</sup> Under EU law today, the *Volvo* decision still defines the core principle in applying Art. 82 EC to intellectual property matters: the refusal to license a right as such does not constitute an abuse of a dominant position.<sup>48</sup> In other words, EU law, like US law, disturbs the balance between the strong IP protection and competition law in favor of the latter only in “exceptional circumstances.” Otherwise, the rule remains that IP rights should be enforced.

### II. Refusal to Deal Cases

In the *Oscar Bronner*<sup>49</sup> case the ECJ identified the required “exceptional circumstances” as involving the following conditions: (1) that the refusal would be likely to eliminate all competition in the daily newspaper market by Oscar Bronner;

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<sup>46</sup> ANDREAS HEINEMANN, IMMATERIALGÜTERSCHUTZ IN DER WETTBEWERBSORDNUNG [INTELLECTUAL PROPERTY IN A COMPETITIVE MARKET ORDER], 303 (2002).

<sup>47</sup> INGE GOVAERE, THE USE AND ABUSE OF INTELLECTUAL PROPERTY RIGHTS IN EC LAW, 104 (1996).

<sup>48</sup> Case 238/87, AB Volvo v. Erik Veng (UK), Ltd., 1988 E.C.R. 6211, ¶ 8.

<sup>49</sup> Case C-7/97, Oscar Bronner GMBH v. Mediaprint Zeitungs-UND Zeitschriftenverlag GMBH, 1998 E.C.R. 1-7817.

(2) that the refusal could not be objectively justified; and (3) that the service be indispensable to carrying on Oscar Bronner's business, in that there was no actual or potential substitute.

The ECJ then ruled in its *Magill* decision<sup>50</sup> that to find an abuse there must be three cumulative conditions: (i) the product to which the refusal to supply relates is an indispensable input required for the marketing of a new product which the holder of the IPR does not offer and for which there is a potential demand; (ii) there is no justification for such refusal; and (iii) the dominant company reserves for itself a secondary downstream market.<sup>51</sup> The ECJ's first condition requires two elements: the indispensability of the input and the failure of the IP right owner to exploit its rights to offer the downstream product. The status of the second condition identified by the ECJ depends on whether "objective justification" includes the reward for innovation that underlies the grant of a monopoly under IP law. The third condition identified by the ECJ is arguably the only condition inconsistent with the existence of the IP right, since a refusal to license is inherent in the legal monopoly conferred by the IP right.

The ECJ noted that the dominant position of the TV companies was based on the de facto monopoly enjoyed by them by force of circumstances over the information used to compile listings for TV programs.<sup>52</sup> The decision emphasized that the true test of market dominance was possession of economic strength in a market (i.e., the ability to behave independently of competitors and consumers<sup>53</sup>). Yet that test presupposes an economic analysis of market strength. If mere ownership of the IP right occurs in conjunction with a de facto monopoly on a market, and that is

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<sup>50</sup> Joined cases C-241/91 and 242/91, *Radio Telefis Eireann v. Comm'n*, 1995 E.C.R. I-743, at ¶¶ 52-58.

<sup>51</sup> See among others Matthias Leistner, *The European Development from Magill to IMS Health compared to recent German and US Case Law*, 2005 ZEITSCHRIFT FÜR WETTBEWERBSRECHT (ZWER) [J. COMPETITION L.] 138, 144.

<sup>52</sup> See ANDERMAN, *supra* note 10, at 209.

<sup>53</sup> Case 322/81, *NV Nederlandsche Banden Indus. Michelin v. Commission* 1983 E.C.R. 3461, ¶ 30.



sufficient to justify a finding of dominance, then the existence of ownership alone can confer dominance.

In *IMS Health*,<sup>54</sup> the ECJ concluded that it is possible to interfere with the specific subject matter of an IP right on the basis of Article 82 EC, imposing compulsory licensing on the right holder when four special circumstances exist: (a) the protected product or service must be indispensable for carrying on a particular business; (b) the refusal would exclude any competition on the secondary market; (c) the refusal prevents emergence of a new product for which there is potential consumer demand; and (d) the refusal is not objectively justified.<sup>55</sup> In reaching this conclusion, the ECJ stated that it was sufficient that “a potential market or even a hypothetical market can be identified,” noting that these circumstances would occur when “the products or services are indispensable in order to carry on a particular business and where there is an actual demand for them on the part of undertakings which seek to carry on the business for which they are indispensable”.<sup>56</sup> The consumers’ interest in *IMS Health* did not consist in getting a new product, but in having a larger number of competing supplies in the downstream service market to offer a comparable service using the same brick structure.<sup>57</sup>

In *Microsoft*,<sup>58</sup> the Commission examined the indispensability of interface information against the existence of actual or potential substitutes. According to the Commission, neither reverse engineering nor open industry standards nor the access ensured by the communication licensing program created in the US were alternative ways for Microsoft competitors to achieve interoperability of their products. The

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<sup>54</sup> Case C-418/01, *IMS Health*, E.C.R. I-5039.

<sup>55</sup> See also among others Daniel Kanter, *IP and Compulsory Licensing on Both Sides of the Atlantic-An Appropriate Antitrust Remedy or a Cutback on Innovation*, 2006 E.C.L.R. 27(7) 351, 355; Leistner, *supra* note 51 at 148.

<sup>56</sup> *Id.* at ¶ 44.

<sup>57</sup> See Drexler, *supra* note 3 at 803.

<sup>58</sup> Commission decision in case COMP/C-3/37.792, *EC Commission/Microsoft*.

Commission advocates that “Microsoft’s refusal puts Microsoft’s competitors at a strong disadvantage in the workgroup server operating system market, to an extent where there is a risk of elimination of competition.”<sup>59</sup> Yet the crucial question for the Commission seems to be, if the refusal to license reduces the incentives to innovate in the whole industry. Microsoft’s incentives to innovate in the workgroup server operating system will be reduced in case of non-disclosure because of the absence of competitive pressure. The European case concentrated on the problems of server software markets and integration of the media player into the operating system, whereas the US case focused on the browser and the Java problem.<sup>60</sup> Due to these differences, no further analysis of *Microsoft* is included here.

## **E. The Way of Converging the Two systems by Speaking the Same Language of Law and Economics**

### **I. Introduction**

The above analysis demonstrating how the U.S.’s and E.U.’s law systems approach the interface between IP and competition law with regard to refusal to deal cases has shown one thing. Even if there are institutional, procedural and structural differences, there is a language that can be similarly spoken by the US and EU courts. This language consists of commonly understood legal terms and economic analysis.<sup>61</sup> The proposed common language that could be applied by the courts on both sides of the Atlantic for refusal to deal cases includes two steps. First, the courts should

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<sup>59</sup> *Id.* at recital 589. See also VALENTINE KORAH, INTELLECTUAL PROPERTY RIGHTS AND THE EC COMPETITION RULES 155 (2006).

<sup>60</sup> Andreas Heinemann, *Compulsory Licensing and Product Integration in European Competition Law*, IIC 2005, 63, 75. There could be a comparison of the US and EU case only with regard to the remedies imposed; see *id.* at 78.

<sup>61</sup> See Part E. III.

examine if there is the “possibility of competition by substitution”<sup>62</sup> and a “de facto monopoly on the downstream market”<sup>63</sup>. These two legal terms should be the first two criteria for finding an anti-competitive abuse of IP rights.<sup>65</sup> The second step of the proposed analysis consists of an economic balancing between the pro- and anti-competitive effects of the refusal of the IP owner to deal.<sup>66</sup>

Especially now that both US and EU competition laws (Section 2 Sherman Act and Art. 82 EC<sup>67</sup>) seem to gravitate toward an economic-based approach, the possibility of aligning the legal and economic language of the Supreme Court and the ECJ seems more feasible than ever. This proposed common language is not only a game with words, as its application to the hypothetical resolution of two current cases before the ECJ and the US Supreme Court shows.<sup>69</sup> It is a method of communication between the two legal systems; a way for them to see the same things similarly through a common legal treatment. It is a method of converging two legal systems that have the most developed IP and Antitrust laws. This convergence could bring some legal certainty in this area of law, especially through the application of the proposed two-step test. Finally, it would become an example for the resolution of refusal to deal cases in IP and competition law for other developing countries.

## **II. The Current Discussion in the EU for the Application of Art. 82 EC on an “Economic Approach” Basis**

The EU Commission has begun lately to reflect internally on the policy underlying Article 82 EC and the way in which the Commission should enforce that

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<sup>62</sup> See Part E. IV.

<sup>63</sup> See Part E. V.

<sup>64</sup> See Part E. V.

<sup>65</sup> Similarly for an abandonment of the “new product” requirement, *see* Leistner, *supra* note 51, at 161.

<sup>66</sup> See Part E. VI.

<sup>67</sup> See Part E. II.

<sup>68</sup> See Part E. II.

<sup>69</sup> See Part E. VII.

policy.<sup>70</sup> The resulting paper suggests a framework for the continued rigorous enforcement of Article 82. The framework builds on the economic analysis used in recent cases and sets out one possible methodology for the assessment of some common abusive practices. An economic-based approach to the application of Article 82 implies that the assessment of each specific case will not be undertaken based on the form that a particular business practice takes (for example, exclusive dealing, tying, etc.). Rather, the approach will be based on the assessment of the anti-competitive effects generated by business behavior. This implies that competition law authorities will need to identify a competitive harm and assess the extent a negative effect on consumers is potentially outweighed by efficiency gains. Identifying a competitive harm requires finding a consistent business behavior based on sound economics and supported by facts and empirical evidence. An economics-based approach will naturally lend itself to a “rule of reason” approach to competition policy since careful consideration of the specifics of each case is needed; therefore, this approach is likely to be especially difficult under per se rules.

In an effects-based approach, the focus is on the use of well-established economic analysis. The ultimate goal is to focus on the important competitive harms while preserving and encouraging efficiency. The economic approach to Article 82 EC is supposed to provide a flexible framework that fosters increased productivity and growth to the benefits of consumers. The standard for assessing if a given practice is detrimental to competition or if it is a legitimate tool of competition should be determined from the effects of the practice on consumers.

Moving from a form-based to an effects-based approach has important implications for procedure. While under a form-based approach, it is enough to verify

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<sup>70</sup> See Press Release, European Commission, Competition: Commission publishes discussion paper on abuse of dominance, IP/05/1626 (December 12, 2005), available at <http://europa.eu/rapid/searchAction.do>

(i) that a firm is dominant and (ii) that a certain form of behavior is practiced, an effects-based approach requires verification of competitive harm. To verify competitive harm, the authority must analyze the practice in question to see whether there is a consistent and verifiable economic account of significant competitive harm. This verification should be both based on sound economic analysis and grounded on fact; however, it is necessary to ensure the consistency of the treatment of the various practices that produce the same anticompetitive effect. This also helps enhance the predictability and, consequently, the effectiveness of competition policy enforcement.

Once a competitive harm has been identified and the relevant facts established, the next step should be to see if pro-competitive effects might serve as a counterbalance. Again, an economic approach first identifies the nature of the benefit for competition and the facts that need to be established. It is only after these steps that a proper balance can be assessed. It is obvious from the above-mentioned that the general framework, under which Art. 82 EC is applied, is quickly approaching the way Section 2 Sherman Act is applied. EU competition law distances itself from the normative approach, encompassing the principles of “objective justification” and “proportionality”, which were mainly followed, until recently, to apply Art. 82 EC on competitive conduct.<sup>71</sup> Presently, the law seems willing to follow the economic effects-based approach of the US law.

### **III. The Courts Should Finally Speak a Common Legal and Economic Language**

As shown above, the courts on each side of the Atlantic have not managed to use a common legal nor economic language; although it is possible given that the basic application of concepts such as innovation, competition, and indispensability are

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<sup>71</sup> WHISH, *supra* note 6, at 189; MESTMAECKER & SCHWEITZER, *supra* note 6, at § 15, nr. 39.

seemingly the same.<sup>72</sup> In particular, the Supreme Court and the ECJ have omitted sound economic analysis, which tends to be internationally understood and recognized, from its decisions. Moreover, the two court systems use a legal language with terms that cannot be understood nor adopted by the other. For example, the ECJ ruled in *IMS Health* that “the refusal in question must concern a product that is indispensable for the production of a new product for which there is an unsatisfied consumer demand.” Instead, it could rule “the refusal in question must concern a product that creates a de facto monopoly for the competition by substitution in the downstream market and thus causes anticompetitive effects in the market.”<sup>73</sup> The substitutions of “indispensability” with “de facto monopoly on the downstream market” or “new product in the downstream market” with “possibility of competition by substitution” commonly conceptualize objectively these ideas both in the US and EU. The next section will analyze the legal terms proposed and commonly understood by US and EU enforcers and their definitions.

#### **IV. The Distinction Between Competition by Substitution and Competition by Imitation and Its Implications**

In its Guidelines on the Transfer Technology Regulation (TTBER)<sup>74</sup>, the Commission has sufficiently made clear that IP rights and competition law coincide in promoting innovation and dynamic competition by excluding imitation.<sup>75</sup> The objective of the IP right is to prevent others from imitating so as to encourage them to

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<sup>72</sup> Kanter, *supra* note 55, at 363.

<sup>73</sup> In that sense, Leistner, *supra* note 51, at 152, discusses “a new and economically orientated indispensability-test.”

<sup>74</sup> EU Council Regulation No. 772/2004; *see generally* Carlin & Pautke, *The HLast of its Kind: The Review of the Technology Transfer Block Exemption Regulation*, 24 NW. J. OF INT’L LAW & BUS. 601 (2004)HHH; Cyril Ritter, *The New Technology Transfer Block Exemption Under EC Competition Law*, 31(3) LEGAL ISSUES OF ECON. INTEGRATION 161 (2004), available at SSRN: [Hhttp://ssrn.com/abstract=726703H](http://ssrn.com/abstract=726703H).

<sup>75</sup> Ullrich, *supra* note 3, at 1101-1114.

compete by substitution. Intellectual property protection reacts to the phenomenon of copying intangible goods by restricting the freedom to compete by imitation, but does not exclude the possibility of developing a superior intangible good that would compete with the prior good (i.e., competition by substitution). Dynamic efficiency, creating incentives for innovation and competitive behavior, is enhanced by competition by substitution and requires the exclusion of competition by imitation.<sup>76</sup>

Two decisions of the ECJ illustrate the distinction between competition by substitution and competition by imitation. The competitor who simply intends to imitate the achievements of the right holder does not deserve any protection by competition law (*IMS Health*), whereas, a competitor would be prevented from placing a new product in the market without the grant of the license (*Magill*). It is difficult however to imagine that the ECJ's "new product rule" would work in a case, where the IP system is not deficient but rather external circumstances prevent the competitor from placing a new product in the market. In these situations, such as cases involving software licensing agreements, competition by substitution (i.e., a new product) is not hindered by the refusal to grant the license<sup>77</sup>, but rather by the lock-in effect and possible network effects in the given market. Thus if there are network and lock-in effects limiting any market access, the examination requires a concrete market analysis.

Network effects arise when the value of a network increases with the number of its users. A single firm, perhaps because it is the first mover, may become the only supplier of certain products or services because of the value of compatibility or interoperability. Consumers are more likely to remain with the established network because of their sunk costs (sometimes referred to as "lock-in"), and the suppliers of

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<sup>76</sup> Drexler, *supra* note 3, at 805.

<sup>77</sup> See, e.g., the copyright in the *IMS Health* case, *supra* note 54.

complementary products will tailor those products to the established network while they resist preparing products for would-be challengers. In that event, network dominance itself becomes a formidable barrier to entry. In Europe, the Commission stated that where a de facto industry standard emerges such as the software or the phone service industry,

the main concern will then be to ensure that these standards are as open as possible and applied in a clear non-discriminatory manner. To avoid elimination of competition in the relevant market(s), access to the standard must be possible for third parties on fair, reasonable and non-discriminatory terms.<sup>78</sup>

The ECJ uses a concept of innovation which applies to some cases but not others.<sup>79</sup> If the net effect of compelling a license is “a positive level of innovation of the whole industry, then intervening is considered welfare enhancing”.<sup>80</sup> Currently, protection has moved upstream to give right holders control over a particular innovation opportunity in exchange for contributing the insight that created it. Therefore, competition law must be structured to prevent right holders from leveraging control over the innovation opportunity in one product market into control over innovation opportunities in other product markets.

The first criterion of “possibility of *competition by substitution*”, which is proposed here, presupposes that there is no technical or de facto possibility of substitution. For example, the copyright-protected TV-listings in the *Magill* case could not be substituted. A substitution is especially more difficult by copyrights than by other rights, such as patents. A bottleneck situation can result not only due to the technical impossibility of substitution, but also because a substitute is economically

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<sup>78</sup> Commission Notice, *Guidelines on the Applicability of Article 81 of the EC Treaty to horizontal cooperation agreements*, OJ C 3 (2001).

<sup>79</sup> Josef Drexler, *Abuse of Dominance in Licensing and Refusal to License*, EUROPEAN COMPETITION LAW ANNUAL 2005: THE INTERACTION BETWEEN COMPETITION LAW AND INTELLECTUAL PROPERTY LAW, (Claus-Dieter Ehlermann & Isabela Atanasiu eds., 2007).

<sup>80</sup> See *Microsoft*, *supra* note 58, at ¶ 783.



impossible. This does not depend on subjective intentions but rather on objective economic criteria. The development of a profitable substitute must be objectively impossible in order to find abuse of IP rights.

## V. The Leveraging Element and De Facto Monopoly

By refusing to license the intellectual property right, the dominant company is not merely using the right in the market for the product or service, with which the right is primarily concerned, but the company is also using the right to obtain leverage or to protect itself from competition in another market.<sup>81</sup> This so-called “monopoly leveraging”<sup>82</sup> applies in two-market situations where a competitor in the downstream market gains control over a necessary input and does *not* offer a better or a cheaper product in the downstream market, but only uses its power to harm consumers in that market by shutting out its competitors.<sup>83</sup>

The main function of the IP rights in such cases is to exclude third parties from the secondary market, which stands closest to the primary market.<sup>84</sup> When a

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<sup>81</sup> See Temple Lang, *Compulsory Licensing of Intellectual Property in European Community Antitrust Law*, DOJ/FTC Hearings 19 (Washington D.C., May 2002), available at <http://www.ftc.gov/opp/intellect/020522langdoc.pdf>.

<sup>82</sup> When a monopolist abuses its monopoly power in one market to gain an improper advantage or to destroy threatened competition in an adjacent market in which it also operates. See, e.g., *HAdvanced Health-Care Servs., Inc. v. Radford Cmty. Hosp.*, 910 F.2d 139, 150 (4th Cir. 1990)H (“The central concern in an essential facilities claim is whether market power in one market is being used to create or further a monopoly in another market.”); *HTwin Labs., Inc. v. Weider Health & Fitness*, 900 F.2d 566, 568 (2d Cir. 1990)H (“The policy behind prohibiting denial of an essential facility to a competitor ... is to prevent a monopolist in a given market ... from using its power to inhibit competition in another market.”).

<sup>83</sup> According to Robert Pitofsky, Donna Patterson & Jonathan Hooks, compulsory licensing can be required under US law where the IP right is deemed to be an essential facility without market leveraging. See Robert Pitofsky, Donna Patterson & Jonathan Hooks, *The Essential Facilities Doctrine Under US Antitrust Law*, 70 ANTITRUST L.J. 443, 462 (2002). Paul Marquardt & Mark Leddy, *The Essential Facilities Doctrine and IP Rights: A Response to Pitofsky, Patterson and Hooks*, 70 ANTITRUST L.J. 847, 851 (2003) have a different opinion. To the extent that Section 2 of Sherman Act prohibits monopolization as opposed to the mere existence of market power, it would appear that the possibility of successful leveraging in a downstream market is an indispensable requirement in an IP case brought under Section 2 if the existence of IP rights is to be maintained.

<sup>84</sup> The abuse of third markets includes conduct, where an entity attempts to expand its monopoly in one market to a neighboring one. See Cases 6 and 7/73, *Instituto Chemioterapico Italiano u. Commercial Solvents/Commission* (1974), H223H E.C.J.; CaseH 311/84H, *Centre Belge d’études de marché*

dominant firm tries to transfer its market power to another neighboring market to shield against any competition, there is certainly an influence on the competition process. In the primary market, the exclusionary effect of the IP right takes precedence over competition law. There should be control over the IP right through competition law only when the IP owner prevents access to a secondary market. Without acknowledging that the *IMS Health* case was a typical, leveraging case, the ECJ ruled that a refusal to license IMS Health could very possibly lead to a total cut-off of a secondary market.<sup>85</sup>

The competitor must also require the IP right in order to access the secondary market. The second criterion, proposed here, is the “de facto monopoly on a downstream market” referring to the phenomenon, where the IP right cannot be substituted and blocks access to another market. The abuse in this case consists of monopoly leveraging, the transfer of market power to other markets.<sup>86</sup> When there are one or two markets related to each other, the formula of “functional interchangeability” applies. Only if the product of the competitor is not functionally interchangeable with that of the dominant firm, can one speak about two separate markets. There should be a case-by-case market analysis. The switching costs, analyzed by way of thorough market analysis including eventual network and lock-in effects, will be the decisive factor in assessing the indispensability of the de facto monopoly standard.<sup>87</sup>

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(*Télémarketing*)/*SA Compagnie luxembourgeoise de télédiffusion (CLT) u. Information publicité Benelux (IPB)* (1985), E.C.J. H3261H.

<sup>85</sup> Heinemann, *supra* note 60, at 73. The need for two markets is also stressed by Lang, *supra* note 81, at 11.

<sup>86</sup> Similarly Leistner, *supra* note 51, at 150.

<sup>87</sup> *Id.*, at 154.

## **VI. Economic Balancing**

An economic analysis at this level should include a balance between the ex post allocative efficiency gains, which can be realized by mandating access, with the ex ante dynamic efficiency gains, which can be protected by refusing access.<sup>88</sup> On the one hand, requiring a dominant firm holding an IP right, as an essential facility, to share it with one or several competitors will stimulate competition in downstream markets, thus promoting ex post (allocative) efficiency. On the other hand, mandatory sharing may reduce the return of the IP right holder and thus decrease its ex ante incentives to invest and compete dynamically.<sup>89</sup> At this point, a difficult and controversial, among economists, economic balancing between the pro- and anti-competitive effects of a refusal to deal should take place.<sup>90</sup> There must be an overall balancing, especially taking into consideration the seriousness of hindering access to the secondary market.

## **VII. Hypothetical resolution of cases through the common language**

This section of the article will examine how the above-mentioned ideas apply in practice. Specifically, the article proposes a hypothetical resolution to two cases before the ECJ and the Supreme Court through the use of the proposed common language. These cases are both fairly recent and have caused a great deal of discussion.

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<sup>88</sup> The rather limited knowledge of the author on economics does not allow him to propose a specific economic model of analysis, but just the general framework that this analysis should pursue.

<sup>89</sup> See Damien Geradin, *Limiting the Scope of Article 82 EC: What Can the EU Learn From the US Supreme Court's Judgment in Trinko in the Wake of Microsoft, IMS and Deutsche Telekom?*, 41 COMMON MKT. L. REV. 1519, 1539 (2004).

<sup>90</sup> See the general review of the criterion of economic efficiency by Carl Christian von Weizsäcker, *Abuse of a dominant position and economic efficiency*, 2003 ZEITSCHRIFT FÜR WETTBEWERBSRECHT (ZWER) 59.

## 1. IMS Health

In *IMS Health*<sup>91</sup>, the European Court of Justice (ECJ) ruled, on a reference, under what circumstances a dominant company's refusal to grant a copyright license will amount to the abuse of that company's dominant position. In this case, two German Companies, IMS Health ("IMS") and NDC Health ("NDC") both collected various data on pharmaceutical sales and prescriptions. The data provided by IMS to pharmaceutical laboratories was formatted in a particular structure and was distributed free of charge. In the late 1980's, a director of IMS left to set up another company, which sold similar data to that sold by IMS and which worked with very similar structures to IMS. NDC subsequently acquired this company. In an action before the local courts in Germany, it was held that the IMS structure system for data collection was protected by copyright. However, the national court held that IMS could not refuse to grant a copyright license to NDC if such refusal would, under EU law, amount to an abuse of a dominant position. The national court referred certain questions to the ECJ regarding the circumstances under which such behavior would constitute an abuse of a dominant position.

The first requirement of the "possibility of competition by substitution" is present here since in practice there is a competitor's inability to duplicate the product. IMS had acquired a normal industry standard through its brick structure. Without access to this structure, there was no technical or economical possibility for NDC to compete.<sup>92</sup> However, the second requirement of "de facto monopoly on the downstream market" seems to be absent here. There is no other secondary market in this case, not even for a different product.<sup>93</sup> The brick-structure does not prevent the

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<sup>91</sup> *IMS Health*, *supra* note 54.

<sup>92</sup> *Id.*, at ¶ 28.

<sup>93</sup> In the above-mentioned *Magill* case for example the plaintiff wanted to bring a TV-program listing for the whole week, in contradiction to the daily TV-programs that the defendants were offering.

access to another downstream market because there is only one market, which is for pharmaceutical products. Since the second requirement for finding an abuse of IP rights is absent, there would be no need to proceed to the third requirement, which is an economic balancing of the pro- and anti-competitive effects of the refusal; therefore, the refusal is legitimate.

If we applied the above-mentioned analysis on the *IMS Health* case of the ECJ, there would be no possibility of an antitrust violation.<sup>94</sup> Even if one could identify two different markets, one in the sales-data of the pharmaceuticals<sup>95</sup> and the other in the structure of the databank, the requirements would not be met to excuse an antitrust violation. A flexible solution of such a problematic situation, taking into account IMS Health's huge investments in the structure for at least 30 years, could eventually emerge, not in competition law, but in copyright law, through a narrow application of the idea/expression distinction at the copyrightability level. A similar solution is offered in the US law by the merger and *scene-a-faire* doctrines.

## 2. Verizon v. Trinko

Before analyzing this case, the article will briefly reexamine the facts of the case.

The Telecommunications Act of 1996 imposes upon an incumbent local exchange carrier (LEC) the obligation to share its telephone network with competitors, (see 47 U.S.C. § 251(c)), including the duty to provide access to individual network elements on an “unbundled” basis, (see § 251(c)(3)). New entrants, so-called competitive LECs, combine and resell these unbundled network elements (UNEs). Petitioner Verizon Communications Inc., the incumbent LEC in New York State, has signed interconnection agreements with rivals such as AT&T, as § 252 obliges it to do, detailing the terms on which it will make its network elements available. Respondent Trinko LLP, a New York City law firm, was a local telephone service customer of AT&T. The day after Verizon entered its

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<sup>94</sup> Similarly, Dr. Matthias Casper, *Die wettbewerbsrechtliche Begründung von Zwangslizenzen*, 166 ZHR 685, 703 (2002).

<sup>95</sup> Even though the sales-data are not usable without the structure; in other words, there is no independent product.

consent decree with the FCC, respondent filed a complaint in the District Court for the Southern District of New York, on behalf of itself and a class of similarly situated customers. The complaint alleged that Verizon had filled rivals' orders on a discriminatory basis as part of an anticompetitive scheme to discourage customers from becoming or remaining customers of competitive LECs, thus impeding the competitive LECs' ability to enter and compete in the market for local telephone service. Complainant sought damages and injunctive relief for violation of § 2 of the Sherman Act, pursuant to the remedy provisions of §§ 4 and 16 of the Clayton Act.<sup>96</sup>

The peculiarity of this case is the existence of a regulatory scheme (Telecommunication Act), which Justice Scalia assumed was sufficient for the resolution of this case and avoided any further antitrust analysis. Apart from the Telecommunication Act's regulation, it would be interesting to see how the common legal language proposed here could be applied in this case. The first requirement of "possibility of competition by substitution" is present here, since competitor is unable in practice to duplicate the interconnection service. As the decision clearly states, "the services allegedly withheld are not otherwise marketed or available to the public." Without access to Verizon's platform, there was no technical or economical possibility for AT&T to compete. Moreover, the second requirement of "de facto monopoly on the downstream market" is present here. As the decision notes, "[t]he sharing obligation imposed by the Telecommunication Act created 'something brand new' – 'the wholesale market for leasing network elements.'"<sup>97</sup> In other words, there is another secondary downstream market, in this case, where competition is de facto prohibited because of the monopoly of Verizon in the upstream market. The Court then should proceed to the third requirement and engage in an economic balancing of the pro- and anti-competitive effects of Verizon's refusal to share interconnection services. The economic analysis would probably result in an order for Verizon to

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<sup>96</sup> Abstract from the Supreme Court decision, *supra* note 35, 540 U.S. at 404-405.

<sup>97</sup> 540 U.S. at 410 (quoting *Verizon Communications Inc. v. FCC*, 535 U.S., 467, 528 (2002)).

share its services with AT&T and several other competitors since that would stimulate competition in the downstream market for leasing network elements. The stimulation of competition would promote ex post allocative efficiency, outweighing any short-term ex ante dynamic efficiency gains, which can be protected by refusing access to Verizon's services.

## **F. Conclusion**

The EC competition law is becoming increasingly economically orientated with the application of Art. 82 EC approaching US law, where an element of anticompetitive conduct must be present. The idea of an economics-based antitrust regime is no longer a greatly controversial concept. This approach facilitates objectivity, predictability, and transparency, although even economic theory does not have all the answers and probably never will.<sup>98</sup>

Competition law and IP law are converging in their aims of ensuring an optimum balance between access to markets and protection of invention. A model with narrower IP protection and strong competition policy intervening only under exceptional circumstances suggests an alternative model for innovation. The IP rights are thus not protected *in abstracto*, but as a substantial medium of competition. If the advantages of the IP system are outweighed by disadvantages on the competition by substitution, only negative effects of competition by imitation remain. If the resolution of an absence of any competition is offered either by IP internally, like in the US through the doctrines of merger and misuse, or externally through competition law, like in EU law, the resolution becomes the matter of a systematic approach. The best solution would consist of limiting the IP right to its appropriate scope through a

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<sup>98</sup> K. Heyer, *A World of Uncertainty: Economics and the Globalization of Antitrust*, 72 ANTITRUST L.J. 375, 378 (2005).

flexible IP-related approach, such as the misuse doctrine, relying on the complementary goals of IP and competition law.

However, an American-type synthesis of intellectual property and competition law is more difficult in Europe because the European Union currently possesses a Union-wide competition law in contrast to mostly national intellectual property laws. As a result, it is more difficult for the varying national intellectual property policies to be incorporated into the construction of Union-wide competition law. It is also difficult, albeit not impossible, for the national courts to incorporate European competition policy concerns into their national intellectual property laws. These impediments to the harmonization of intellectual property law with competition law in Europe mean that the interactions of these two sets of laws are likely to produce a less than efficient result.

It is clear that this use of common legal language between US and EU law can also be used to describe cases involving both IP and competition law. Common terms may be used to describe and resolve cases where IP law has to take into account competition policy issues. These situations are numerous, including cases referring to the misuse, merger, and scene-a-faire doctrines and functionality problems.

In the case of network effects, where competition by substitution is not possible, the right holder's freedom to license would result in overbroad protection. The IP right does not have the capacity to promote dynamic competition, and the law has to impose a duty to license the IP right to competitors at reasonable fees. In the rare market situations where IP protection does not reach its goal of promoting dynamic efficiency, a duty to deal should be accepted so as to guarantee at least allocative efficiency. From an economic point of view, compulsory licensing should occur if exploitation by the licensee has allocative advantages in comparison to



exploitation by the right owner, and there is no de facto competition by imitation anymore.<sup>99</sup>

Even in the market for the copyright of the brick structure, the copyright was not the cause of IMS Health's dominant position. The problem is that the lock-in effect excludes any other method of collecting data from the relevant market. When a company holds market power, this company by definition will not feel pressure to innovate. Also, it may attempt to create barriers for potential competitors and forget to improve its own products by continuing to introduce superior technology in the market. Still, competition may be restored by allowing imitation. Although the exclusive right is not the cause of market power, the competition problem may be cured by restricting the exercise of the exclusive right.<sup>100</sup>

The rationale for the imposition of a duty to deal under these circumstances is not to create competition in the market subject to intellectual property protection because exclusivity is within the statutory monopoly conferred by the patent or copyright statutes. Rather, it is to allow competition in complementary markets that are not within the scope of the patent or copyright monopoly. Patent and copyright owners will continue to be able to fully exploit the monopoly conferred by those grants, and they will be limited only in attempts to extend that monopoly beyond the proper scope of the grant. Therefore, the holder of a dominant position must make considerable efforts to keep the barriers to entry into the neighboring markets as low as possible. The solution is to keep the relevant markets as open as possible.<sup>101</sup> That result would best advance the principal goal of the antitrust laws, to increase competition and maximize consumer welfare; a goal that is hardly inconsistent with the goals of patent or copyright law.

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<sup>99</sup> Drexl, *supra* note 3 at 807.

<sup>100</sup> Ullrich, *supra* note 3, at 1250-1252.

<sup>101</sup> Heinemann, *supra* note 60, at 82.