

Antitrust Liability For Refusal To License Intellectual Property: A Comparative Analysis and the International Setting

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ANTITRUST LIABILITY FOR REFUSAL TO LICENSE INTELLECTUAL PROPERTY: A COMPARATIVE ANALYSIS AND THE INTERNATIONAL SETTING

RITA COCO*

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INTRODUCTION

Cyclically, with different ups and downs in time, antitrust and intellectual property (“IP”) are perceived as complementary, rather than inconsistent, bodies of laws which share the same goals of promoting innovation and enhancing consumer welfare.

Whether this is true or not, potential for conflicts does exist, such as when unilateral refusals to license, sell, use, or share IP rights by dominant firms affect the dynamics of competition. Yet, if and under what conditions this might happen is one of the thorniest facets of the IP and antitrust interface, even though it is crucial in the knowledge-driven economy and global trade in a time of exorbitant IP growth.

On the one hand, the legal monopoly based upon IP laws gives the owner the right to exclude third parties from the protected asset, subject only to the exceptions established for various purposes by the relevant domestic and international laws (e.g., experimental use). On the other hand, when the legal monopoly impacts on market competition, antitrust enforcement can outlaw or limit the exclusivity and serve as the grounds for a compulsory license order.

Three outcomes may result from these conflicting situations: 1) antitrust trumps *per se* intellectual property, giving ground to an exception to the exclusivity based upon IP laws; 2) IP trumps *per se* antitrust, justifying anticompetitive behaviors and shielding them from antitrust scrutiny; or 3) antitrust and IP are balanced, the exclusivity being limited depending on specific circumstances to be ascertained case-by-case.

A comparative analysis of the current European and American systems—the two most mature for both antitrust and IP—shows that the former tends to downplay IP rights in favor of competition, whereas the latter tends to curtail the imperative of competition to preserve the exclusivity based upon IP rights. Yet these are only trends, and on the whole the two systems are still largely unsettled on the matter.

The underlying dilemma is that a broad antitrust intervention, also through a high rate of compulsory licensing orders, may reduce the incentives to invest and thus chill the scientific and technological innovation (a risk apparently more clear in the United States). At the same time, failure to scrutinize anticompetitive behaviors can result in foreclosure of markets to the detriment of consumers, competitors, and the efficiency of the economic system (a risk apparently more clear in the European Union).

Broadening the view to the international dimension, so far rather

neglected, gives the occasion to wonder whether there is any bias for the one or the other solution, or simply to figure out alternative options to the classical *ex-post* antitrust enforcement.

Part I of this Article accounts for the legal background on monopolization claims involving IP rights. Part II provides an overview of the European and American case law and policy. Part III frames the key issues within the international setting, while making proposals on how to go ahead in this field.

I. LEGAL BACKGROUND: OVERLAPS AND DISTINCTIVENESS OF THE EUROPEAN UNION AND UNITED STATES ANTITRUST SYSTEMS

The relevant provisions governing antitrust scrutiny of unilateral refusal to license IP in the American and European systems are primarily those addressed to limit conduct by firms which hold (or attempt to gain in the United States) monopoly power (in the United States) or dominant position (in the European Union), subject to certain conditions. These provisions display a high degree of similarity in their wording and rationale, although some discrepancies do exist.

Article 82 (formerly 86) EC Treaty¹ prohibits abuses of dominant position by one or (rarely) more undertakings affecting trade among member states; § 2 of the Sherman Act² condemns any monopolization, or attempted monopolization, and conspiracy to monopolize any part of the trade or commerce among states by a firm with market power.³

Crucial, and often critical, for the enforcement of both provisions is the monopoly power or dominant position analysis, referred to concrete

1. Article 82 EC Treaty—formerly 86: the double number is due to the 1992 Treaty of Amsterdam, which modified and renumbered the articles within the EC Treaty—reads as follows: “Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market insofar as it may affect trade between Member States.” Treaty Establishing the European Community art. 82, Nov. 10, 1997, 1997 O.J. (C 340) 3 [hereinafter EC Treaty].

2. Under § 2 of the Sherman Act,

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

15 U.S.C. § 2 (2006).

3. For a thorough comparative analysis of Article 82 EC Treaty and § 2 of the Sherman Act, see Emanuela Arezzo, *Intellectual Property Rights at the Crossroad Between Monopolization and Abuse of Dominant Position: American and European Approaches Compared*, 24 J. MARSHALL J. COMPUTER & INFO. L. 455 (2006).

relevant (product and geographical) markets,⁴ whereby a wide range of contending arguments are available to both parties based on the economic analysis. Yet the possession of monopoly power or dominant position is not unlawful *per se*,⁵ since a “conduct” element is required: Article 82 EC Treaty lists, as examples, four categories of likely abuses of dominant position,⁶ whereas Sherman Act § 2 only relies on precedent to capture anticompetitive behaviors.

As for the differences, relevant for this analysis⁷ is that Sherman Act § 2 outlaws monopolization and attempted monopolization, i.e., behaviors intended to create or maintain monopoly power, whilst

4. See Case 27/76, *United Brands Co. v. Commission*, 1978 E.C.R. 207. The European “dominant position” is defined as the ability of a firm to act independently from competitors, customers, and consumers. *Id.* The American “monopoly power” (also used as synonymous to “market power”) designs the “power to control prices or exclude competition.” See *United States v. Grinnel Corp.*, 384 U.S. 563, 571 (1966). For Hovenkamp, “[m]arket power is the ability of a firm to increase its profits by reducing output and charging more than a competitive price for its product.” Technically it is “a firm’s ability to deviate profitably from marginal cost [or competitive] pricing.” HERBERT HOVENKAMP, *FEDERAL ANTITRUST POLICY. THE LAW OF COMPETITION AND ITS PRACTICE* 798 (1999). In both systems, a high market share is considered a good *proxy* to estimate both monopoly power or dominant position, due to a positive correlation between market power and market share. Sixty to sixty-five percent market share may establish a *prima facie* case of market power, although the presumptive rule is subject to many disputes. See *United States Anchor Mfg., Inc. v. Rule Industries, Inc.*, 7 F.3d 986, 999 (11th Cir. 1993). Even market share below fifty percent may ground presumption of dominant position or monopoly power if other factors are present, such as barriers to entry. See Case 85/76, *Hoffman La Roche v. Comm’n*, 1979 E.C.R. 461.

5. Implicit in the “abuse of dominance” concept, the distinction was more blurred in the American antitrust analysis until *Grinnel Corp.*, which required two elements for a breach of § 2: (1) monopoly power, and (2) “willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.” *Grinnel Corp.*, 384 U.S. at 570. See also *Berkey Photo v. Eastman Kodak Co.*, 603 F.2d 263, 274 (2d Cir. 1979).

6. The non exhaustive list includes:

- (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
- (b) limiting production, markets or technical development to the prejudice of consumers;
- (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

EC Treaty, *supra* note 1, art. 82. The concrete meaning of this conduct though lies in the European “common law” stemming from the case law of the European Commission and courts.

7. Even if not relevant in this context, the Sherman Act encompasses felonies (if the requisite state of mind exists), 15 U.S.C. § 2 (2006), while the European system only sets out administrative violations sanctioned with fines.

Article 82 EC Treaty only envisages abuses of an existing dominant position. Understandably, because any firm tends structurally towards gaining monopoly profits, the meaning of actual and attempted monopolization and the weight and length of the underlying *intent* have been the subject of much dispute since the origin of the Sherman Act.⁸

On the whole, both Article 82 EC Treaty and § 2 of the Sherman Act aim to regulate the market power concentration and pursue the goal of discouraging firms from engaging in anticompetitive conduct based upon monopoly power, resulting among others in competitors being driven out of the market, hindered in their activity, or discouraged from entering.

Besides specific differences based on monopolization laws, one must point out the “structural” distinctiveness of the E.U. and U.S. systems in the fields of antitrust and IP themselves. First and foremost, the nature of the laws and rights at stake must be emphasized. In the United States, both IP and antitrust are primarily matters for federal laws and enforcement,⁹ while IP rights—at least patents and copyrights—enjoy constitutional grounds.¹⁰ Here, moreover, patent and copyright misuse doctrines,¹¹ resulting from the common law and for patents also from

8. In general, the attempt to monopolize offense has a more severe conduct requirement than the substantive monopolization offense. See PHILLIP E. AREEDA & HERBERT HOVENKAMP, *ANTITRUST LAW. AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION* ¶ 652 (2d ed. 2002). The attempt to monopolize cases requires a specific and stronger proof of intent and a dangerous probability of success. See Arezzo, *supra* note 3, at 460-62.

9. Since Congress enacted the Patent Act of 1790, the patent law has been a wholly federal, statutory subject. Today the patent law is governed by the Patent Act of 1952, found in Title 35 U.S.C. ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY. THE LAW OF COPYRIGHT, PATENTS AND TRADEMARKS* 281 (2003). The current governing law of copyright, an exclusively federal statutory subject, is the Copyright Act of 1976, found in Title 17 U.S.C. *Id.* at 11. Federal trademarks are regulated by the 1946 Trademark Act (conventionally known as the Lanham Act) *Id.* at 545. As for antitrust laws, since the origin they sought to “federalize” the common law of trade restraints, and the 1890 Sherman Act inaugurated the pursuit of this intent. WILLIAM LETWIN, *LAW AND ECONOMIC POLICY IN AMERICA: THE EVOLUTION OF SHERMAN ANTITRUST ACT*, 85-99 (1965).

10. “The Congress shall have power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . .” U.S. CONST. art. I, § 8, cl. 8. Yet the constitutional endorsement of IP does not give any answer to the question of whether state-granted monopolies such as patents and copyrights are the exception to the free competition or the rule: The antitrust laws and primarily the Sherman Act—“the Magna Charta of free enterprise” competition—are as fundamental to the United States’ economic constitution as any IP laws. *United States v. Topco Assocs., Inc.*, 405 U.S. 596, 610 (1972).

11. The misuse doctrine, very distinctive to the American system, provides a defense (not a cause of action, as antitrust does) to intellectual property infringement claims, when

statutory provisions, limit the improper use of exclusive rights when they are used to extend the “scope” beyond the exclusivity granted by the law. With direct relevance in this context, Congress cut back misuse doctrine as applied to patents with the Patent Misuse Amendment Act of 1988, exempting expressly the case of refusal to license from the area of misuse.¹² Even if the provision is internal to the IP system, it may affect antitrust claims, as it actually did in some cases.

In contrast, the E.U. system faces an inconvenient divergence: intellectual property is still in no small part a matter for national laws, especially for patents,¹³ and IP rights are enforced mostly on a national basis,¹⁴ while competition is primarily a matter of Community law and enforcement, especially in the modernization era entered into since Reg. (EC) 1/2003. Moreover, the EC Treaty does not endorse any appraisal for patents or other IP rights; rather, it only considers IP rights, in general, as “justified” restrictions or similar to free movements

the IP right owner attempts to improperly extend the scope of the exclusivity. Where it applies, it renders unenforceable otherwise valid intellectual property rights until its owner “purges” the misuse. Patent misuse is a statutory remedy. 35 U.S.C. § 271(d). Copyright misuse is judicially created. See *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 976 (4th Cir. 1990); Tom W. Bell, *Codifying Copyright’s Misuse Defense*, 2007 UTAH L. REV. 573. Notably, even though distinct, misuse doctrine and antitrust laws are “*hopelessly entangled*”, as suggested by Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399 (2003), who also advocates for IP internal remedies vis-à-vis antitrust analysis applied through the patent misuse, due to the insufficiency of antitrust analysis to capture the full range of policy concerns embodied in patent law (such as defensive patents, patent trolls and tickets, upstream patents, reach-through royalties, over-proliferation of patent rights, etc.). *Id.*

12. The relevant provision is 35 U.S.C. § 271(d)(4), which reads as follows: “[n]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having [. . .] refused to license or use any rights to the patent.” 35 U.S.C. § 271(d)(4) (2006). Under 35 U.S.C. § 154(a)(1), the patent owner has the statutory right to exclude others from making, using, offering for sale, or selling the invention, while under 35 U.S.C. § 271, the infringement refers to making, using, offering to sell or selling any patented invention, within the United States, or importing into the United States any patented invention, during the term of the patent.

13. For example, Community Work for a Council Regulation on the Community Patent had been carried on since 2000, but the debate is still hot. See http://ec.europa.eu/internal_market/indprop/patent/index_en.htm (last visited Oct. 15, 2007). The European patents, granted under the European Patent Convention, are embedded into each national selected system after the issuance by the European Patent Office. Copyright is only to a certain extent harmonized within the Community.

14. The principle of territoriality applies even stronger among Member States after the recent ECJ decisions *GAT v. Luk* and *Roche v. Primus*, ruling that cross-border injunctions are not available in patent infringement actions. See Case C-4/03, *GAT v. Luk*, 2006 E.C.R. I-6509, Case C-539/03, *Roche v. Primus*, 2006 E.C.R. I-6535.

of goods and services among member states.¹⁵ Lastly, not even a patent or copyright misuse doctrine (statutorily or judicially created) is available as an internal instrument of the IP system, beyond antitrust intervention.¹⁶

A second landmark difference is the nature of antitrust claims: normally private in the United States,¹⁷ and likely involving infringement of IP rights, whereas generally public in the European Union, both at European and national levels.¹⁸ Federal agencies in the United States undertake only “major” antitrust litigation, such as in the case brought against Microsoft in the nineties,¹⁹ so that public antitrust enforcement is but a small part of the system. The European Commission (“Commission”), national antitrust agencies and courts and the European Court of Justice (“ECJ”) and the Court of First Instance (“CFI”) have been, so far, the main if not the only watchdog of

15. The only “intellectual property provisions” of the EC Treaty are Articles 30 (formerly 36) and 295 (formerly 222): Article 30 bans restrictions of the free movement of goods or services or equivalent measures among Member States, except if they are justified, *inter alia*, for the protection of “industrial and commercial property.” EC Treaty, *supra* note 1, art. 30. Article 295 states the Treaty “shall in no way prejudice the rules in Member States governing the system of property ownership.” EC Treaty, *supra* note 1, art. 295. The Treaty Adopting a European Constitution, signed in Rome October 29, 2004, recognizes IP rights under different provisions: II-77, III-154, III-176, III-315, III-364; however, the unfortunate destiny of such Constitution is known, since the Treaty has been ratified only by a minority of Member States. EUR. CONST. arts. II-77, III-154, III-176, III-315, III-364.

16. *But see*, the discussion on antitrust liability for acts exceeding the scope of IP rights. *AstraZeneca* might also be considered a case of patent misuse scrutinized under antitrust law. Commission Decision 2005/175, *in* COMP/A.37.507/F3, *Re AstraZeneca Plc*, 2006 5 CMLR 6.

17. Section 15(a) of the Clayton Act permits private parties to sue for injury sustained as a result of violations of the antitrust laws and to recover treble damages and their attorney fees if they win. 15 U.S.C. § 15(a) (2006). The Sherman Act, 15 U.S.C. § 4, and the Clayton Act § 16, 15 U.S.C. § 26, provide for injunctive relief.

18. To this purpose, see the *Green Paper* on damages actions for breach of the EC antitrust rules and related *Staff Working Paper* which aims to widen the debate on private alternative to the public enforcement of antitrust law, in line with the modernization process based on Regulation (EC) n. 1/2003. Commission Green Paper on Damages Actions for Breach of the EC Antitrust Rules (Dec. 2005), *available at* http://ec.europa.eu/comm/competition/antitrust/others/actions_for_damages/index_en.html. It acknowledges that damages claims for breach of antitrust laws are rare in the Community, due to many reasons, such as the hindrance of slow judicial proceedings, the difficulty to accomplish the burden of the proof, and the lack of class action in the most Member States (only a minority have such actions). *Id.*

19. The Microsoft saga in the United States ended in *United States v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001) (en banc), which partly confirmed and partly overruled the District Court’s judgment finding monopolization and attempts to monopolize for various anticompetitive conducts by Microsoft (illegal tying and others) under Sherman Act § 2. *Id.* Among such conducts, however, there was no refusal to license IP claim. *See* KENNETH L. PORT ET AL., LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE 517 (2005).

European competition laws. Consequently, the enforcement of European competition law is centralized—so that the coherence is more easily pursued—whereas antitrust laws and policy in the United States are split amidst different courts (and residual agencies). Moreover, most private U.S. antitrust cases are settled confidentially among the parties, so that the terms of the agreement cannot be known.²⁰ In turn, the differences in the kind of enforcement reflect on important procedural issues affecting, for example, the burden of proof (plaintiff *vis à vis* antitrust agencies²¹), the interests being enforced (public *vis à vis* private), and may well determine the final outcome of cases. It may also affect the consistency and reliability of the comparison, because the figures of cases compared are not consistent.

Finally, in the United States antitrust claims that involve patents may end up, depending on the circumstances, before the Court of Appeals for the Federal Circuit, specifically empowered with appellate jurisdiction on patent litigation,²² whereas no special forum is set up in the European Union for antitrust claims involving patents or other IP rights. In fact, the Commission, the CFI and the ECJ deal with both antitrust claims, general and special, involving IP rights.²³ The different “core business” of the two *fora* cannot be without meaning for the

20. According to Ilya Segal and Michael Whinston, “in the U.S. . . . there are 10 private antitrust suits filed for every public one,” and “80% or more of the private suits are settled [among the parties] on undisclosed terms.” Ilya Segal & Michael Whinston, *Public vs. Private Enforcement of Antitrust Law: A Survey* (Stanford L. and Econ. Olin Working Paper No. 335, Dec. 2006) at 1, 14, available at <http://ssrn.com/abstract=952067>.

21. The European Commission, like most European national antitrust agencies, is at the same time prosecutor and judge of antitrust cases, yet subject to the judicial review of the Court of First Instance and the European Court of Justice. Once a case, known *ex officio* or through a consumer or competitor complaint, triggers an investigation, the outcome of the case is almost unlikely in favor of the antitrust defendant. Because the Commission is not bound to investigate upon any complaint, unlike a civil court, it can evaluate the soundness of a case before any opening of a probe. Third parties, consumers, or disgruntled competitors may support the Commission, but the burden of the proof relies on the Commission itself.

22. The U. S. Congress created the Court of Appeals for the Federal Circuit with the Federal Courts Improvement Act of 1982, vesting it with exclusive appellate jurisdiction over patent matters, in order to provide uniform application and interpretation of U.S. patent laws. The Federal Circuit can exercise supplemental jurisdiction over other claims, such as antitrust; however, recent decisions have limited the appellate jurisdiction of this court only to primary claims arising under the patent laws, not counterclaims (such as antitrust). See AREEDA & HOVENKAMP, *supra* note 8, ¶ 704d. See also Barry M. Visconte, Comment, *A Bitter Pillow to Swallow: Patent Law, a True Exception to Antitrust Law* Schor v. Abbott Laboratories, 75 U. CIN. L. REV. 399, 405, 412, 416 (2006).

23. National “decentralization” is possible, such as in the Italian system, which passes antitrust claims involving the exercise of some IP rights to the jurisdiction of specialized courts. Code of Industrial Property, Act 30, art. 134 (2005).

resolution of conflicts between antitrust and IP, as the analysis below will show.

II. COMPARING THE ANTITRUST CASE LAW AND POLICY IN THE EUROPEAN UNION AND THE UNITED STATES

As seen above, monopolization rules do not deal directly with refusals to share intellectual property rights: antitrust liability for those cases in the European Union and in the United States is solely based on the judge-made law. Therefore, the analysis of the case law is essential, while considering the development of the relationship between IP and antitrust laws from a historical standpoint may account for the reasons underlying the current outcomes and the rift between the compared systems.

The starting point for both the European and American experiences is that, as a matter of principle, IP owners have no duty to share their intangible assets, unless specific conditions occur and provided no objective justifications may be relied upon. However, what these conditions are, how broadly they may derogate from the exclusivity entailed by IP rights, and what are the relevant justifications, is still a matter of contention, domestically and comparatively.²⁴

A. *The European Approach*

1. The Historical Hostility Towards IP

Historically, in the European experience, IP rights have been viewed suspiciously, due mainly to the national boundaries of their grant and scope.²⁵ Accordingly, they have been considered as barriers to entry restricting the production, partitioning off the common market, and raising prices.²⁶

24. For a comparative overview, see Daniel Kanter, *IP and Compulsory Licensing on Both Sides of the Atlantic—an Appropriate Antitrust Remedy or a Cutback on Innovation?*, 7 EUR. COMPETITION L. REV. 351 (2006); Arezzo, *supra* note 3, at 476-505; Melanie J. Reichenberger, Note, *The Role of Compulsory Licensing in Unilateral Refusals to Deal: Have the United States and European Approaches Grown Further Apart After IMS?*, 31 J. CORP. L. 549 (2006).

25. There are some exceptions, among which are the Community Trade Mark, Council Regulation 40/94, 1994 O.J. (L11) 1 (EC), and the Community Designs, Council Regulation 6/2002, 2002 O.J. (L3) 1 (EC).

26. See Valentine Korah, *The Interface Between Intellectual Property and Antitrust: The European Experience*, 69 ANTITRUST L.J. 801, 804 (2001). Korah points out that low attention has been paid to the special function of IP right of rewarding or inducing investments and to free riding risks. *Id.* See also Case 24/67, Parke, Davis and Co. v. Probel,

This view refers especially to early cases, during the sixties and seventies, when agreements containing provisions on IP rights were assessed in the light of Article 81 EC Treaty²⁷ and the same IP rights granted by national laws had to be balanced with the pillars of the European Community, such as the four freedoms of movement, the integration of the markets in the Community area, as well as the competition principles.

*Grundig*²⁸ for trademarks, *Parke Davis*²⁹ and *Centrafarm*³⁰ for patents, and *Deutsche Grammophon*³¹ for copyright, among others, endorse the original hostility towards IP rights, while laying the foundation of establishing the Community exhaustion principle.³²

Reese, Beintema-Interpharm & Centrafarm, 1968 E.C.R. 55 [hereinafter *Parke Davis*].

The national rules relating to the protection of industrial property have not yet been unified within the community. In the absence of such unification, the national character of the protection of industrial property and the variations between the different legislative systems on this subject are capable of creating obstacles both to the free movement of the patented products and to competition within the common market.

Id.

27. Art. 81.1 (formerly 85.1) EC Treaty prohibits agreements, decisions by associations of undertakings and concerted practices in so far they have as object or effect an appreciable restriction or distortion of competition within the common market and may affect trade between Member States. EC Treaty, *supra* note 1, art. 81.1. Article 81.3 allows granting individual exemption when efficiency gains outweigh anticompetitive effects, while allowing consumers a fair share of the resulting benefit. *Id.* art. 81.3. The system of “individual exemption,” currently governed under EC Reg. 1/2003 by a legal exception rule, complements the system of “block exemption.” Council Regulation 1/2003, 2003 O.J. (L1) 1 (EC).

28. Joined Cases 56 & 58/64, *Établissements Consten S.A.R.L. v. Comm’n*, 1966 E.C.R. 299, [hereinafter *Grundig*].

29. *Parke Davis*, 1968 E.C.R. 55.

30. Case 15/74, *Centrafarm BV et Adriaan de Peijper v. Sterling Drug Inc.*, 1974 E.C.R. 1147 [hereinafter *Centrafarm*].

31. Case 78/70, *Deutsche Grammophon Gesellschaft GmbH v. MetroSB-Großmärkte GmbH & Co. KG*, 1971 E.C.R. 478 [hereinafter *Deutsche Grammophon*].

32. According to the community exhaustion principle, once a product embodying an IP right is put into the EEA area directly or with the consent of the right owner (through licensees or distributors), its further circulation cannot be banned (unless justified by limited exceptions, such as for re-packaging or re-labeling), and parallel imports must be allowed. This principle is now well settled (unlike the international exhaustion) and forms the basis for any intellectual property licensing policy in Europe, besides finding statutory recognition in various provisions at both Community and national level. See TTBER Guidelines, Commission Notice—Guidelines on the Application of Article 81 of the EC Treaty to Technology Transfer Agreements, 2004 O.J. (C101) 2, at para. 6. In the trademarks context see Directive 89/104, art. 7, paras. 1, 2, EC Regulation 40/94 at paras 1,2, 1994 O.J. (L11) 1, art. 13, paras. 1, 2; and for national systems, see Italian Code of Industrial Property, *supra* note 23, Act 30/05, art. 5.

Over the same period, and within the above quoted decisions, the ECJ took care to supply the distinction between the “*existence*” or “*grant*” of IP rights and the “*exercise*,” crucial for the subsequent case law, whereby only the latter can be limited by the application of competition rules. Other key concepts are those of the “*specific subject matter*” of the IP right, intended to identify both the length of the admissible “*derogation*” from the principle of free movement of goods and the “*improper use*” of the IP right.³³

Relying on these arguments, the ECJ could strike a balance between Community fundamental tenets with the respect of national IP systems, as required under Article 30 and Article 295 EC Treaty,³⁴ while laying

33. In *Grundig*, the ECJ stated that the injunction by the Commission “to refrain from using rights under national trade-mark law in order to set an obstacle in the way of parallel imports does not affect the *grant* of those rights but only limits their *exercise* to the extent necessary to give effect to the prohibition under Article 85(1) [now 85(1)],” and it continued that this Article “does not allow the *improper use of rights* under any national trade-mark law in order to frustrate the community’s law on cartels.” *Grundig*, 1968 E.C.R. 55 (emphasis added). In *Deutsche Grammophon*, the ECJ ruled that

the *exercise of an industrial property right* falls under the prohibition set out in Article 85(1) [now 81(1)] of the Treaty each time it manifests itself *as the subject, the means* or the *result* of an agreement which, by preventing imports from other member states of products lawfully distributed there, has as its effect the partitioning of the market.

Deutsche Grammophon, 1974 E.C.R. 1147 (emphasis added). It continued “it is clear from Article 36 [now 30] that, although the Treaty does not affect the *existence* of rights recognized by the legislation of a member state with regard to industrial and commercial property, the *exercise* of such rights may nevertheless fall within the prohibitions laid down by the Treaty” and “Article 36 [now 30] only admits *derogations* from the free movement of products in order to protect industrial and commercial property to the extent to which such derogations are justified for the purpose of safeguarding rights which constitute the *specific [subject] matter* of such property.” *Id.* (emphasis added). The ECJ used also powerful expression when pointing out that the ban of parallel import through private agreements “which could legitimize the isolation of national markets, would be *repugnant* to the *essential purpose of the Treaty, which is to unite national markets into a single market.*” *Id.* (emphasis added). In *Centrafarm*, the ECJ, besides the distinction between existence versus exercise of IP right (lawful or not, “depending on the circumstances”), pointed out the *specific “subject” matter* of the patent as the

guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation *for the first time*, either directly or by the grant of licenses to third parties, as well as the right to oppose infringements.

Centrafarm, 1974 E.C.R. 1147 (emphasis added). Interestingly, the ruling established a ranking between the free movement of goods, deemed as one of the fundamental principles of the common market, and IP rights, considered as exceptions to it. *Id.*

34. Article 30 (formerly 36) and Article 295 (formerly 222) are the only provisions dealing with property and IP within the EC Treaty. See EC Treaty, *supra* note 1, arts. 30, 295.

down a powerful instrument for judicial law reform.³⁵

2. Antitrust Liability for Refusal to License in “Exceptional Circumstances” and Essential Facility Argument

Starting from the mid-eighties onwards, the focus of the European antitrust bodies shifted from the Community exhaustion to the issue of antitrust liability for unilateral refusals to license IP rights, under Article 82 EC Treaty.

First in *Volvo*³⁶ and then in *Renault*,³⁷ the first two cases within this range, the ECJ had to determine, in a preliminary ruling, whether the refusal by car manufacturers to license design rights upon spare parts to independent manufacturers was abusive under Article 86 (now 82) EC Treaty. The court established that the exercise of an IP right, in form of refusal to license, does not amount in itself to an abuse of a dominant position. However, it *obiter* argued that certain anticompetitive conducts are possibly anticompetitive: “the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in

35. Korah, *supra* note 26, at 805.

If later, [the E.C.J.] should approve of the use being made of an intellectual property right, it could say that it concerned the existence of the right, and if it disapproved, for instance, because its exercise would result in absolute territorial protection, the E.C.J. could decide that it related to exercise and was forbidden.

Id.

36. Case 238/87, AB Volvo v. Erik Veng (UK) Ltd., 1988 E.C.R. I-6211 [hereinafter *Volvo*]. Volvo was the proprietor in the United Kingdom of registered design in respect of body panels for motor vehicles. Veng imported the same body panels, manufactured without authority from Volvo, and marketed them in the United Kingdom. Volvo claimed Veng’s activity infringed its exclusive rights and refused to license such rights. The national judge referred to the ECJ for preliminary ruling. The Court said “

The right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right,” so that the obligation to grant third parties a license “would lead to the proprietor thereof being deprived of the substance of his exclusive right.

Id.

37. Case 53/87, Cicra e Maxicar v. Renault, 1988 E.C.R. I-6039 [hereinafter *Renault*]. Similarly to *Volvo*, here an Italian trade association comprising a number of undertakings which manufactured and marketed non original bodywork and spare parts for motor vehicle asked a national judge a declaration against Renault that such activity did not constitute illegal conduct. Renault counterclaimed for infringement and national court referred to the ECJ for preliminary ruling. *Id.*

circulation.”³⁸

Only ten years later, in the mid-nineties, the ECJ issued *Magill*,³⁹ the leading case on refusal to license IP rights, which laid down the “exceptional circumstances” doctrine.

The factual elements of *Magill* are well known: RTE, ITV and BBC were three television stations operating within the Community that published their guide, each covering exclusively its own programs, protected under copyright.⁴⁰ *Magill* attempted to publish a comprehensive weekly television guide, in competition with separate guides published by each station, but was prevented from doing so by the three copyright owners.⁴¹ *Magill* lodged a complaint with the Commission, which deemed the refusal as an abuse of dominant position and ordered a compulsory license of copyright on TV listings.⁴² Both the CFI and the ECJ upheld the Decision.⁴³

Although confirming the *Volvo* rule (i.e., a refusal to license IP is not in itself an abuse of dominant position), in *Magill* the ECJ shared the Commission’s view that the concrete exercise of IP rights presented “*exceptional circumstances*” for which it was abusive, because: (a) the dominant firms’ refusal to provide basic information in the upstream market impeded the emergence of a new product in a downstream market for which a potential demand existed;⁴⁴ (b) there was no justification for such a refusal;⁴⁵ and (c) by their conduct, the appellants

38. *Volvo*, 1988 E.C.R. I-6211.

39. Joined Cases C-241 & 242/91, *Radio Telefis Eireann v. Comm’n*, 1995 E.C.R. I-743 [hereinafter *Magill*]. The same special circumstances argument is used in *Case T-198/98, Micro-Leader Business v. Comm’n*, 1999 E.C.R. II-3989, although the case regards international exhaustion principle (rejected).

40. *Magill*, 1995 E.C.R. I-743.

41. *Id.*

42. Commission Decision 89/205/EEC, 1989 O.J. (L78) 43.

43. *Case T-69/89, Radio Telefis Eireann v. Comm’n*, 1991 E.C.R. II-485 [hereinafter *RTE*]; *Case T-76/89, ITP v. Comm’n*, 1991 E.C.R. II-575. In the ITP judgment, the CFI suggested that in the case the rights encompassed within the copyright on TV listings were not exercised consistently with their “specific subject matter,” aimed to protect the exclusive right to reproduce the work, and “essential function,” addressed to protect the moral right in the work and ensure a reward for the creative effort. It also argued for a primacy of principles as fundamental as those of the free movement of goods and freedom of competition, prevailed over any use of a national IP law in a manner contrary to those principles. ITP, 1991 E.C.R. II-575.

44. The refusal to provide basic information by relying on national copyright provisions was deemed as abusive because it “prevented the appearance of a new product, a comprehensive weekly guide to television programmes, which the appellants did not offer and for which there was a potential consumer demand.” *Magill*, 1995 E.C.R. I-743.

45. No justifications were found “either in the activity of television broadcasting or in

reserved to themselves⁴⁶ the secondary market of weekly television guides by excluding all competition on that market, because they denied access to the *basic information* which was the raw material for the compilation of such a guide.⁴⁷

Interestingly, both the CFI and ECJ dismissed the argument of one of the appellants (RTE), relying on the inconsistency of the Commission's compulsory license with the exclusivity entailed upon the TV programs by the Berne Convention for the Protection of Literary and Artistic Works, yet not on the merits, but only because the Convention was deemed not applicable to the case under appeal.⁴⁸

Almost a decade later,⁴⁹ the ECJ issued the controversial *IMS*⁵⁰ decision. IMS Health tracked sales of pharmaceutical products in Germany and to this purpose it created, in cooperation with the pharmaceutical industry, a structure consisting of 1,860 bricks. This structure became the industry standard, although protected as a database under the German copyright law. A competitor tried to market a competing product using an alternative structure, but due to

that of publishing television magazines." *Id.*

46. The need that the owner of the essential input is present directly or indirectly on the neighbor market of the applicant is not always clear in the community case law. See Marco Ricolfi, *Diritto D'autore ed Abuso di Posizione Dominante*, I RIVISTA DIRITTO INDUSTRIALE 149, 172-184 (2001).

47. The conduct was seen as likely to exclude all competition in the downstream market. Also relevant is the complete foreclosure of the market, referred not only to by Magill, resulting from the appellants' reliance on copyright conferred by national legislation. Magill, 1995 E.C.R. I-743. With regard to the likely effect of conduct on trade between member states, the Court confirmed the settled principle for which an actual effect is not necessary, being "sufficient to establish that the conduct *is capable* of having such an effect." *Id.* (emphasis added).

48. *Id.* RTE argued that the compulsory license conflicted with the normal exploitation of its copyright in the program listings and seriously prejudiced its legitimate interests; RTE also claimed that that Berne Convention, Article 9(1) and (2) "only allows for exceptions from authors' exclusive rights of reproduction to be made by legislation, in special cases." See *id.* The Court found that the Community is not a party of this Convention and Ireland and that the UK cannot rely on it and considered the time and circumstances of the case. See *id.*

49. Meanwhile, in Case T-504/93, Tiercé Ladbroke SA v. Comm'n, 1996 E.C.R. II-923, the objection was the refusal by French companies and their sole German licensee to give Tiercé Ladbroke, a Belgian broadcasting company, the license to broadcast in Belgium televised pictures and sound commentaries on horse races organized in France. The CFI established that this refusal was not abusive because the French companies were not present in the market where the applicant wanted to use the requested license, while the same applicant already operated there, i.e. the license was not essential. *Id.*

50. Case C-418/01, IMS Health GmbH v. NDC Health GmbH, 2004 E.C.R. I-5039 [hereinafter *IMS*].

reticence showed by potential clients in using this alternative standard, it decided to use a structure very similar to that used by IMS. This decision gave rise to a judicial battle at the national (Germany) and Community level.⁵¹ The ECJ had to decide whether the refusal by IMS to license the IP protected 1,860 brick structure was abusive since it was indispensable to operate in the downstream market.

IMS was the occasion for the ECJ to clarify that, according to the case law, for unilateral refusals to license copyright to be considered as abusive, “it is sufficient that three cumulative conditions be satisfied, namely, that refusal is preventing the emergence of a new product for which there is a potential consumer demand, that it is unjustified and such as to exclude any competition on a secondary market,”⁵² whereby this market was deemed to be also “potential” or “hypothetical” or merely consisting of two different stages of production.⁵³

Remarkably, the court stated as *sufficient*, not *necessary*, that the three conditions exist, although when it is so they must be cumulative. Moreover, it apparently mitigated the *new product test*, qualifying the refusal as being abusive “only where the undertaking which requested the license does not intend to limit itself *essentially* to duplicating the goods or services already offered on the secondary market by the owner of the IP right.”⁵⁴ It might be argued that the term *essentially* allows some kind of duplication by the newcomer, although it is ambiguous to what extent.⁵⁵ Conclusively, the court did not adjudicate on this point,

51. The multi-tiered litigation between IMS and NDC is representative of the functioning of the enforcement system in Europe. IMS sued NDC and PII before a German court claiming infringement of its 1,860 brick structure and it was granted injunction against the infringement, confirmed upon two instances of appeal. *Id.* Yet, the last court referred to the ECJ for a preliminary ruling on whether IMS’ refusal to allow NDC to use its 1,860 brick structure was an infringement of article 82 of the EC Treaty. *Id.* Meanwhile, NDC lodged a complaint with the European Commission, which found the IMS’ conduct as abusive and issued a compulsory licensing order, in form of an interim measure, in favor of all undertakings present on the market for the provision of German regional sales data. Commission Decision 2002/165, *NDC Health v. IMS Health*, 2002 O.J. (L59). The Commission’s measure was then quashed by the President of the CFI. Case T-184/01R, *IMS Health v. Comm’n*, 2001 E.C.R. II-3193. And the annulment was confirmed in appeal by the President of the ECJ. Case C-481/01, *P(R) NDC Health Corp. v. IMS Health Inc. and Comm’n*, 2002 E.C.R. I-3401. Following the CFI judgments and in the light of the reference made by the German court to the ECJ, the Commission withdrew its Decision 2002/165. Commission Decision 2003/741, *NDC Health/IMS Health: Interim measures*, 2003 O.J. (L268) 69 (EC).

52. *IMS*, 2004 E.C.R. I-5039.

53. *Id.*

54. *Id.*

55. The Court did not use the same term in the balancing test:

but it left it to the referring national court to decide the existence of the listed conditions. *IMS* expressly applied the *Magill* and *Bronner*⁵⁶ rulings.

Even without involving IP, *Bronner* plays an important role in the case law on unilateral refusal to license IP, in that it unveiled and refined the European paradigm on the essential facility (“EF”), previously applied in *Magill*, although the words “essential facility” were never spoken by the Commission or the ECJ within these decisions.⁵⁷

In *Bronner*, Mediaprint, an Austrian publisher with a large share of the daily newspaper market, operated the only nationwide newspaper home-delivery scheme in that Member State, consisting of delivering the newspapers directly to subscribers in the early hours of the morning. Mediaprint refused to allow Oscar Bronner, publisher of a rival newspaper, access to that scheme for an appropriate remuneration.

in the balancing of the interest in protection of the intellectual property right and the economic freedom of its owner against the interest in protection of free competition, the latter can prevail only where refusal to grant a license prevents the development of the secondary market to the detriment of consumers.

Id.

56. Case C-7/97, *Oscar Bronner v. Mediaprint Zeitungs*, 1998 E.C.R. I-7791 [hereinafter *Bronner*].

57. The underlying principle that dominant firms have a duty to grant access to their essential facilities, at non discriminatory conditions, has been used especially for physical properties, in sectors interested by situation of legal monopoly, such as telecommunication, transport, and energy. Over the years, the EF argument has taken the role of a general principle of European competition law, both at community and national level, in order to introduce or reinforce the competition in (downstream or connected) markets whose competitive dynamic could be conditioned by the dominant firm. Yet the CFI and ECJ have never named explicitly the EF doctrine in antitrust cases involving IP rights, while rarely they use the name in other cases. See Case T-128/98, *Aéroports de Paris v. Comm’n*, E.C.R. 2000 II-3929; Joined Cases T-374, 375, 384 & 388/94, *European Night Services Ltd (ENS) and others v. Comm’n*, 1998 E.C.R. II-3141 Case 311/84, *Centre Belge D’études de. Marché-Télémarketing v. SA Compagnie Luxembourgeoise de Télédiffusion*, 1985 E.C.R. 3261 [hereinafter *CBEM*]. The Commission recalled the EF in some cases during the nineties, such as Commission Decision 94/19 (EC), see *Container v. Stena / Sealink*, 1994 O.J. (L15) 8, and most recently in Commission Decision 2004/33, *GVG / FS*, 2004 O.J. (L11) 17 (EC), in which the Commission found that *Ferrovie dello Stato (FS)*, the Italian national railway company, abused its dominant position because it prevented *GVG*, a small German railway company, from providing rolling stock and tracks for an international rail passenger transport service between Basle and Milan. See *GVG/FS 2004 O.J. (L11) 17*. See also M. Siragusa & M. Beretta, *La Dottrina Delle Essential Facilities nel Diritto Comunitario e Italiano Della Concorrenza*, in *CONTRATTO E IMPRESA/EUROPA* 260, (1999). On the scarce fortune of this doctrine in the United States and for a comparative perspective, see A. Stratakis, *Comparative Analysis of the US and EU Approach and Enforcement of the Essential Facilities Doctrine*, 27 *EUR. COMPETITION L. REV.* 434 (2006).

Oscar Bronner lodged a complaint with the national antitrust court, which referred to the ECJ for a preliminary ruling.

This refusal did not trigger any antitrust liability upon Mediaprint, because the scheme was deemed not essential for the claimant publisher, since other methods of newspaper distribution were available, and thus the refusal was not likely to eliminate all competition on the part of the person requesting the service.

The ECJ came to this conclusion mostly by relying on *Magill*. It argued that, for the *Magill* judgment to be effectively relied upon, in order to plead the existence of an abuse of dominant position with reference to “the exercise of “*any property right whatever*” –i.e. not only IP– it would still be necessary that: (a) the refusal of the upstream input is “likely to eliminate all competition in the daily newspaper market on the part of the person requesting in the downstream market; (b) the refusal is unjustified; (c) the input is indispensable for the lack of any “actual or potential substitute.”⁵⁸ As stated above, in *Bronner* this latter condition, the indispensability of the input, was not met, but the decision had the effect of expanding the IP right-based case law to all refusals to share “whatever” asset, as long as it is essential.

Conversely, *Commercial Solvents*⁵⁹ and *CBEM*,⁶⁰ cases of refusals to supply products and services respectively, were also recalled. The court reminded that ordinary refusals by dominant undertakings to supply “raw materials and services respectively, which were indispensable to carrying on the rival’s business, . . . [were considered as abusive] to the extent that the conduct in question was likely to eliminate all competition on the part of that [rival] undertaking.”⁶¹

Lastly, just one month before the *IMS* decision the Commission ruled on *Microsoft*, the hottest and most controversial European decision later confirmed by the CFI,⁶² ordering the American company

58. *Bronner*, 1998 E.C.R. I-7791.

59. Joined Cases 6 & 7/73, *Istituto Chemioterapico Fisioterapico Italiano s.p.a. and Commercial Solvents v. Comm'n*, 1974 E.C.R. 223 [hereinafter *Commercial Solvents*]. The case concerned a firm controlling the supply of raw material, which integrated downstream in the derivative product market and cut supply of the raw material to its customers. *Id.*

60. *CBEM*, 1985 E.C.R. 3261. Here the dominant firm (a TV broadcasting company) integrated downstream, with the effect of excluding a downstream competitor, a firm offering its telemarketing services on television, which was considered an ancillary activity on a neighboring but separate market. *Id.*

61. *Bronner*, 1998 E.C.R. I-7791 (citations omitted).

62. Commission Decision 2007/53, COMP/C-3/37.792 *Microsoft*, 2007 O.J. (L32). 23 (EC) [hereinafter *Microsoft*]. The CFI adopted its opinion, which confirmed the view taken by the Commission, on September 17th, 2007 (not yet reported, but see the full text at

to share with its competitors the interoperability information on its Windows operating system for PC clients in order to allow them to access the market of small intranet systems, regardless of the IP protection on the information and despite the fact the new product requirement was not met. The alternative standard used was the “incentives balancing test” (i.e., the balance between the possible negative impact of the compulsory order on Microsoft’s incentives to innovate and its positive impact on the level of innovation of the whole industry), which led to the compulsory licensing order.⁶³

Note that none of the refusal to license IP cases dealt with by the ECJ, the CFI, and the Commission refers to patents; this is a big difference from the U.S. experience, as seen below. Rather, the IP rights time after time at issue have been design, copyright, database, software and trade secret protection, to some extent more trivial or lower-protected assets than patents. Indeed, the only compulsory licenses ordered by the Commission and upheld on appeal involved an odd national copyright upon basic information, without any creative added-value, and interoperability information for operating systems. While this shows the scarce sympathy by European bodies for the exorbitant (*weak* or *bad* or *utilitarian*)⁶⁴ IP rights, it poses the question whether antitrust intervention is the most appropriate instrument to deal with it.

Moreover, when the Commission and the ECJ had to decide whether they are empowered to apply patent laws and to determine the validity and the scope of patents for the purpose of applying competition law, they properly declined to do so. For example, in *Windsurfing*,⁶⁵ a case of patent tying through licensing agreements, the

<http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=EN&Submit=rechercher&numaff=T-201/04>), coinciding with the time of proofreading; for that reason, the CFI decision can only be mentioned here. The same attempt of bypassing the new product test was done by the Commission in the compulsory license imposed upon IMS, but the order was quashed in appeal. See Case T-184/01, *R IMS Health v. Comm’n*, 2001 E.C.R. II-3193. See also Arezzo, *supra* note 3, at 490-93. At the national level, the Italian Competition Authority issued a compulsory license order toward Merck beyond the new product requirement. See Rita Coco & Paolisa Nebbia, *Compulsory Licensing and Interim Measures in Merck: A Case for Italy or for Antitrust Law?*, 2 J. INTELL. PROP. L. & PRAC. 452 (2007).

63. Coco & Nebbia, *supra* note 62, at 458.

64. In this latest sense, the copyright protection upon the content, instead of only upon the form, of the TV listings and the consequent extension of the legal monopoly downstream (for all derivatives) explains the antitrust corrective adopted in this case. Ricolfi, *supra* note 46, at 174.

65. Case 193/83, *Windsurfing Int’l Inc. v. Comm’n*, 1986 E.C.R. 611 [hereinafter *Windsurfing*].

ECJ held that, although the Commission is not competent to determine the scope of a German patent, “it may not refrain from all action when the scope is relevant” in order to enforce competition law.⁶⁶

Nonetheless, this flaw of the system did not prevent the Commission and the courts from including among the tests for antitrust liability the *scope* or the *essential function* of IP rights time by time at stake.

To sum up, the European jurisprudence on refusals to license IP is inextricably sealed with the EF doctrine, which in turn can be seen as a specific development of the refusal to deal case law, and it suffers its same shortcomings.⁶⁷

3. The 2005 Discussion Paper on the Application of Article 82 of the EC Treaty

The recent Commission’s Discussion Paper⁶⁸ concerning exclusionary abuses of dominant position has a specific section addressed to the refusal to license IP rights, largely influenced by the modern pro-Chicago bent.⁶⁹

Drafted in the style of non-binding guidelines,⁷⁰ it lays down two general principles to consider in abuses of dominant position: from the one side the protection of competition, and not of competitors as the means of enhancing consumer welfare and to avoid competition

66. *Id.* The Court yet specified that such assessment by the Commission does not preempt any determinations made later by the national courts in actions brought before them. In the Commission Decision 79/86/EEC, IV/c-29.290 *Vaessen/Moris*, 1979 O.J. (L19) 32, even the patent at issue, a patent tying through licensing agreements, was contested among the parties, but the Commission “presumed” the patent to be valid for the purpose of the proceeding, while it left the matter to be settled by the national courts. *Id.*

67. It is not easy to identify the applicable standards for refusal to deal under Article 82 EC Treaty, also due to the lack of a coherent theory of precedent in the European common law. See Case T-162/ 94, *NMB-Minebea, NMB UK and Italia v. Comm’n*, 1996 E.C.R. I-427; AG La Pergola in Case C-262/96, *Sema Sürül v. Bundesanstalt für Arbeit*, 1998 E.C.R. I-2685, 2698; Case C-94/04, *Cipolla v. Portolese (Poiares Maduro, AG)*; Case C-202/04, *Macrino, Capodarte v. Meloni*, 2006 E.C.R. I-11421.

68. The DG Discussion Paper on the Application of Article 82 of the Treaty to Exclusionary Abuses, issued in December 2005, triggered a public consultation on the application of Article 82. *DG Discussion Paper on the Application of Article 82 of the Treaty to Exclusionary Abuses* (Dec. 2005), available at <http://ec.europa.eu/comm/competition/antitrust/art82/discpaper2005.pdf> [hereinafter *DG Discussion Paper*] The purpose of the debate is to build up sound legal and economic framework envisaged to a wiser application of Article 82. The most important topics raised by the replies to the DG Discussion Paper were discussed in a public hearing in June 2006. See <http://ec.europa.eu/comm/competition/antitrust/art82/index.html> (last visited Oct. 14 2007).

69. *DG Discussion Paper*, *supra* note 68, at paras. 237-240. See also *id.* at paras. 207-42.

70. *Id.* at para. 7.

harms;⁷¹ on the other side, the efficiency defense,⁷² complemented with rules on the allocation of the burden of proof.⁷³

At odds, the DG Discussion Paper draws up a distinction between unjustified *termination* of existing supply relationships and unjustified *refusal to start* supplying an input;⁷⁴ the main difference between them

71. *Id.* at para. 54.

The essential objective of Article 82 when analysing exclusionary conduct is the protection of competition on the market as means of enhancing consumer welfare and of ensuring an efficient allocation of resources. The concern is to prevent exclusionary conduct of the dominant firm which is likely to limit the remaining competitive constraints on the dominant company, including entry of newcomers, so as to avoid that consumers are harmed. This means that it is competition, and not competitors as such, that is to be protected.

Id. at para. 54. Article 82 does not protect

competitors from dominant firms' genuine competition based on factors such as higher quality, novel products, opportune innovation or otherwise better performance, but to ensure that these competitors are also able to expand in or enter the market and compete therein on the merits, without facing competition conditions which are distorted or impaired by the dominant firm.

Id. "[T]he central concern of Article 82 with regard to exclusionary abuses is thus foreclosure that hinders competition and thereby harms consumers." *Id.* at para. 55.

72. In this sense, "if the conduct of a dominant company generates efficiencies and provided that all the other conditions of Article 81(3) are satisfied . . . such conduct should not be classified as an abuse." *Id.* at para. 8.

73. *Id.* at para. 60.

Where a certain exclusionary conduct is clearly not competition on the merits, in particular conduct which clearly creates no efficiencies and which only raises obstacles to residual competition, such conduct is presumed to be an abuse. However, the dominant company will have the possibility to rebut that presumption. Such rebuttal can be brought by providing convincing evidence that the conduct does not and will not have the alleged likely exclusionary effect, or that the conduct is objectively justified.

Id.

The dominant company may be able to show that the conduct concerned is objectively necessary, for instance because of reasons of safety or health related to the dangerous nature of the product in question. Such necessity must be based on objective factors that apply in general for all undertakings in the market. On the basis of these factors the dominant company must be able to show that without the conduct the products concerned cannot or will not be produced or distributed in that market. In these situations the Community Courts apply strictly the condition of indispensability. It is considered not the task of a dominant company to take steps on its own initiative to eliminate products which it regards, rightly or wrongly, as dangerous or inferior to its own product.

Id. at para. 80.

74. A "*termination of a supply relationship*" is "normally" considered abusive under a four-part test: (1) the behavior is a proper termination; (2) "the refusing undertaking is dominant; (3) the refusal is likely to have a negative effect on competition; and (4) the refusal is not justified objectively of by efficiencies." *Id.* at paras. 218-24. For a *refusal to start* supplying to be considered abusive, "normally" a five-part test applies: "(i) the behavior can

being the indispensability of the input, required additionally for the latter. Refusal to license IP rights is embedded in the “refusal to start” supplying an input. Whether this means that terminations to supply indispensable inputs should be assessed under the lower standard is not clear.

Section 9 of the Paper considers refusal to license IP rights as one of the exclusionary practices qualified as “vertical foreclosure,” which occur when “a dominant company denies a buyer access to an input in order to exclude that buyer from participating in an economic activity”;⁷⁵ competition problems arise when the excluded buyer is also a rival to the dominant company in the economic activity for which the input is needed. “As a result, [the competitor] is either driven out of the market, marginalized or prevented from entering the market. For a refusal to supply to be abusive, it must, however, have a likely anticompetitive effect on the market which is detrimental to consumer welfare.”⁷⁶ A distinction between an upstream market (“for access to the input”) and a downstream market (“for which the input is needed in order to manufacture a product or provide a service”) is stated as useful.⁷⁷

Going through the special regime, the DG Discussion Paper limits itself to summarize the case law seen above: a refusal to license IP can be considered as abusive “only in *exceptional circumstances*,” when the “five conditions [for standard refusal to supply] are all fulfilled and, furthermore,⁷⁸ the refusal to grant a license prevents the development of the market for which the license is an indispensable input, to the detriment of consumers.”⁷⁹

The DG Discussion Paper goes on to clarify that the rule applies only provided that (“[t]his may only be the case”⁸⁰) the applicant does not limit itself “essentially to duplicate the goods or services already

be properly characterized as a refusal to supply; (ii) the refusing undertaking is dominant; (iii) the input is indispensable; (iv) the refusal is likely to have a negative effect on competition; and (v) the refusal is not objectively justified.” *Id.* at para. 224. For the likely market distorting effect, see *id.* at paras. 231-33. When a dominant firm wants to defend from an alleged abuse for refusal to deal, it has to show and prove that consumers are better off with the supply refused or terminated. *Id.* at para. 234.

75. *Id.* at para. 209.

76. *Id.* at para. 210.

77. *Id.* at para. 212.

78. See *id.* at para. 237. “In the case of a refusal to license an IPR an additional condition may have to be met.” *Id.*

79. *Id.* para. 239.

80. *Id.*

offered [by the IPR owner,] but intends to produce new good or services not offered by the owner of the right and for which there is a potential consumer demand.”⁸¹ These standards clearly echo the *Magill*, *Bronner* and *IMS* rulings.

The DG Discussion Paper also identifies the rationale for requiring additional conditions and exceptional circumstances to limit IP rights: the special protection provided thereof would be “eroded” if a successful IP right holder would be required to grant a license to competitors, and imposing the obligation to grant a license for the supply of products incorporating the IP right would lead “to the holder being deprived of the substance of the exclusive right.”⁸²

Notably, according to the DG Discussion Paper, the new product requirement does not apply to refusals to license “protected technology which is indispensable as a basis for follow-up innovation”;⁸³ and a lower standard applies to leveraging market power through refusal to grant access to interoperability information⁸⁴ and to aftermarkets, both distinct from the standards for refusal to start supplying indispensable inputs and terminate existing relationships.⁸⁵ With these special cases,

81. *Id.*

82. *Id.* at para. 238.

There is no general obligation for the IPR holder to license the IPR, not even where the holder acquires a dominant position in the technology or product market. The very aim of the exclusive right is to prevent third parties from applying the IPR to produce and distribute products without the consent of the holder of the rights. This protection would be eroded if the holder of a successful IPR would be required to grant a licence to competitors from the moment the IPR or the product incorporating the IPR becomes dominant in the market. Imposing on the holder of the rights the obligation to grant to third parties a licence for the supply of products incorporating the IPR, even in return for a reasonable royalty, would lead to the holder being deprived of the substance of the exclusive right.

Id.

83. *Id.* at para. 240. This point may turn out to be very controversial, should the thought of Ricolfi, for whom the exclusive rights upon technological creation should extend to equivalent and dependent innovations, be shared. Ricolfi, *supra* note 46, at 158.

84. *DG Discussion Paper*, *supra* note 68, at paras. 241-42. “Leveraging market power from one market to another by refusing interoperability information may be abusive” and “[e]ven when the IP right to rely upon is a trade secret it may not be appropriate to apply to such refusals to supply information the same high standards for intervention as those described in the previous subsection.” *Id.* at para. 242. It can be named as the “*Microsoft* rule.”

85. *Id.* at paras. 247-65. This part grounds the presumption that it is abusive for a “dominant company to reserve the aftermarket for itself by excluding competitors from the market,” and this is either for tying or refusal to deal, such as a “refusal to supply information needed to provide products or services in the aftermarket; a refusal to license intellectual property rights; or a refusal to supply spare parts needed in order to provide aftermarkets

the Commission confirmed its attempt to go further than the check list of *Magill* and *IMS*, at least for selected purposes (for example bypassing the new product/market test, as already done in *IMS* compulsory license and *Microsoft* decision⁸⁶).

Lastly, the DG Discussion Paper also contains a balancing test⁸⁷ intended improperly to suggest to the Commission, to national agencies, and to courts, a micromanagement approach to IP rights,⁸⁸ not viable in practice and almost ineffective, if not awkward.

B. The American Approach

1. The Cycles of Antitrust Applied to Intellectual Property

As effectively noted, in the United States the conflict between antitrust law and IP rights “has ebbed and flowered over time, often moving in cycles depending to some extent upon the philosophies of the incumbent policy makers.”⁸⁹

services.” *Id.* at para. 264.

86. *See supra*, notes 51 and 62.

87. *See DG Discussion Paper, supra* note 68, at paras. 234-36. To take into account the risks of failure and sunk investments when assessing a refusal to supply an indispensable input, which brings to keep a “lead time,” i.e., a period of exemption where no abuse would be found, even when this eliminates effective competition. *See id.* at para. 236. In refusal to deal cases, it is possible to evaluate *ex post facto* whether the dominant firm would have made the investment had it known at the time that a duty to deal would be imposed. Investments behind innovations leading to intellectual property rights are specifically considered, when they “may not have been particularly significant, in which case it may be likely that the investment would have been made even knowing that a duty to supply would be imposed.” “In making such assessment, the Commission will take account of the respective values that are at stake, including the possible effects on incentives to follow-on investment from allowing access.” *See id.* at para. 237.

88. *See* Derek Ridyard, *Compulsory Access under EC Competition Law—A New Doctrine of “Convenient Facilities” and the Case for Price Regulation*, 2004 EUR. COMPETITION L. REV. 669, 671.

[T]he Commission [...] appears to have departed from the ‘last resort’ intervention philosophy of the essential facilities cases, and has instead adopted a micromanagement approach, whereby the competition authority is presumed to have the ability to identify the right balance between the benefits of creating incentives for winners, and the benefits of competitive rivalry. No one can say definitively that this is wrong as matter of economic or industrial policy, but one must wonder whether the Commission is really capable of making this key judgment.

Id.

89. Ilene Knable Gotts & Howard W. Fogt, Jr., *Clinton Administration Expresses More Than Intellectual Curiosity in Antitrust Issues Raised by Intellectual Property Licensing*, 22 AIPLA Q.J. 1 (1994), reported in KENNETH. L. PORT ET AL. LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE 473 (2005). For these authors, a distinction between

The modern endorsement of a benign attitude, also inflated by the economic theories of the Chicago School, is reflected in this area by the DOJ-FTC Guidelines for the Licensing of Intellectual Property (“Antitrust-IP Guidelines”).⁹⁰ They embed the rule of reason, as opposed to *per se* rule, and presume that pro-competitive effects arise from IP licensing, while rejecting the notion that IP rights create market power for antitrust purposes.⁹¹ Moreover, focusing on the possible anticompetitive use of IP, they exclude that “market power imposes on the intellectual property owner an obligation to license the use of that property to others.”⁹² Symmetrically, licensing arrangements involving exclusivity can encourage licensees to invest in the products embodying the licensed IP and to engage in follow-on innovation.⁹³

Finally, the Antitrust-IP Guidelines clarify that, “[a]s with any other tangible or intangible asset that enables its owner to obtain significant supra-competitive profits, market power or (even monopoly) that is solely the ‘consequence of a superior product, business acumen, or historic accident,’ does not violate [per se] antitrust laws.”⁹⁴

Similarly, as shown below, more recent documents issued by the same Agencies encompass an open approach towards IP. Yet it is the case law that has primarily shaped the refusal-to-license-IP law.

three periods can be drawn up: the first one, roughly from 1914 to 1940, was “a period of benign antitrust enforcement,” when the government encouraged the formation of cartels as a way to move away from the great depression; in the second one, during the post World War II modernization, cartels were vigorously attacked through a rigid application of the *per se* rule and conducts of IP rights holders were viewed suspiciously (this is the era of the “Nine No-Nos” by the DOJ); the third one started “approximately in 1980 and reached its peak during the Reagan and [first] Bush administration,” with a benign attitude towards firms’ freedom of action. *Id.*

90. DOJ AND FTC ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (April 6, 1995), *reprinted in* 4 TRADE REG. REP. (CCH) 13, 132 (1995) [hereinafter ANTITRUST-IP GUIDELINES].

91. *Id.* § 5.3, which states that “the Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power on its owner” when assessing tying agreements. *Id.* § 5.3. In the same sense, now *Illinois Tool Works Inc. v. Independent Ink, Inc.* overruled a long standing presumption that patent equals market power. 547 U.S. 28, 31 (2006).

92. ANTITRUST-IP GUIDELINES, *supra* note 90, § 2.2 (“[a]s in other antitrust contexts, however, market power could be illegally acquired or maintained, or, even if lawfully acquired and maintained, would be relevant to the ability of an intellectual property owner to harm competition through unreasonable conduct in connection with such property.”)

93. *Id.* § 2.3.

94. *Id.* § 2.2 (quoting *U.S. v. Grinnell Corp.*, 384 U.S. 563, 571 (1966)). *See also* *United States v. Aluminum Co. of America*, 148 F.2d 416, 430 (2d. Cir. 1945) (holding that the Sherman Act is not violated by the attainment of market power solely through “superior skill, foresight and industry”).

2. IP Rights as Shield from Antitrust, but a Shifting Test Applies to Patents

Tracing the development of the American case law is not an easy task. This scenario is much more scattered than the European one, with dozens of cases having been assessed. The courts' progression is not straight: different courts have granted IP owners diverse degrees of immunity from antitrust enforcement, ranging from absolute immunity to the denial of any immunity whatsoever,⁹⁵ although with a clear bias in favor of IP.⁹⁶ Reviewing significant cases may help to shed light on the matter, but the final outcome is not easy to figure out.⁹⁷

To start with Supreme Court cases, *Aspen*⁹⁸ and *Trinko*⁹⁹ must be recalled because, although not IP related, they highly condition the refusal to license IP jurisprudence.

At the outset, as a matter of principle under the *Colgate* rule,¹⁰⁰ no one has a duty to share his or her assets with third parties and to deal or cooperate with competitors. Yet the right to refuse to deal is not unqualified: it may face limits in some circumstances, such as those that occurred in *Aspen*. In this famous case, an all-Aspen ski ticket—valid at any mountain in Aspen—had been developed and jointly marketed when the three (later four) areas in Aspen were owned by independent

95. See M.A. Carrier, *Refusal to License Intellectual Property After Trinko*, 55 DEPAUL L. REV. 1191, 1199 (2006).

96. Authoritative scholars support these options. “[B]oth patent and antitrust policy provide formidable reasons against compulsory licensing of intellectual property rights against a firm whose only offence is the refusal to license itself.” AREEDA & HOVENKAMP, *supra* note 8, ¶ 709a. These authors then divide unilateral refusals to license into two groups: (1) simple or unconditional refusals, which are virtually never an antitrust violation (“and the reasoning of the tiny handful of courts that have thought otherwise cannot withstand scrutiny”) and (2) conditional refusal to license, nearly always assessed under antitrust provisions other than the Sherman Act § 2, such as tying and exclusive dealing. *Id.* See also HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* ch. 13 (2002) (discussing antitrust concerns related to conglomerate mergers).

97. See Herbert Hovenkamp, Mark D. Janis & Mark A. Lemley, *Unilateral Refusal to License in the US*, in *ANTITRUST, PATENTS AND COPYRIGHT: EU AND US PERSPECTIVES* 12 (François Lévêque & Howard Shelanski eds. 2005).

98. *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985) [hereinafter *Aspen*].

99. *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004) [hereinafter *Trinko*].

100. In *United States v. Colgate & Co.*, the Supreme Court held that, in “[i]n the absence of any purpose to create or maintain a monopoly, the [Sherman Act] does not restrict the . . . right of a trader or manufacturer . . . freely to exercise his own independent discretion as to parties with whom he will deal.” 250 U.S. 300, 307 (1919).

entities. Some time after, Aspen Skiing Company gained control of three of the four ski areas, and it refused to continue a joint agreement with the other competitor, owner of the fourth area. Although the EF doctrine was not involved, the court found that it was exclusionary for Aspen Skiing Company, as a monopolist, to refuse to continue a presumably efficient pattern of distribution that had originated in a competitive market and had persisted for several years. The Supreme Court affirmed the liability of the dominant firm under a refusal to deal theory based on § 2 of the Sherman Act and found it “unnecessary to consider the possible relevance of the ‘essential facilities’ doctrine”¹⁰¹

In the other famous case, *Trinko*, the Court attacked the controversial EF doctrine¹⁰² (“[w]e have never recognized such a doctrine . . . , and we find no need either to recognize it or to repudiate it here”)¹⁰³ even though it was not a genuine case of EF.¹⁰⁴ Here, a consumer—a New York City law firm—filed a class action suit against Verizon, the incumbent local telephone company acting also as local exchange carrier (LEC), for its delays in carrying on certain actions (processing orders) required for the supply of telecommunication

101. *Aspen*, 472 U.S. at 611 n.44.

102. The EF (or “bottleneck”) exception to the rule “no share obligation” was created in the United States by the Supreme Court with the leading case *United States v. Terminal Railroad Ass’n*, in which a group of railroads jointly owned a key bridge over the Mississippi River and accompanying rail yard for traffic from the West into St. Louis and refused to give competing railroads use of the facilities. The applied four-part test was: (1) control of the facility by a monopolist; (2) competitors’ inability practically or reasonably to duplicate the facility; (3) a refusal to grant the use of the facility to a competitor; and (4) the feasibility of providing the facility, in the absence of any justifications for denying the access. 224 U.S. 383 (1912). The legitimacy of this doctrine has been intensely disputed in the academic and legal communities for its amenability to being easily used by would-be competitors as a short-cut method for proving “seeming abuses” of monopoly power. Very critical is Areeda, who refers to it as the “so-called essential-facility’ facilities doctrine” resulting in “judging by catchphrase” and suggests very restrictive criteria for its application in order to get to the real goals of antitrust law, i.e., the maximum productive and allocative efficiency. Phillip Areeda, *Essential Facilities: An Epithet in Need of Limiting Principles*, 58 ANTITRUST L.J. 841, 841 (1989) (emphasis added). See also Allen Kezsbom & Alan V. Goldman, *No Shortcut to Antitrust Analysis: The Twisted Journey of the “Essential Facilities” Doctrine*, 1996 COLUM. BUS. L. REV. 1, 2; Hovenkamp, Janis & Lemley, *supra* note 97, at 18; AREEDA, & HOVENKAMP, *supra* note 8, ¶ 771 (with specific references to the IP bottleneck and the EF doctrine).

103. *Trinko*, 540 U.S. at 411.

104. The EF doctrine has been used expressly by American courts, which along the years added requirements to the original paradigm. See *Otter Tail Power Co. v. United States*, 410 U.S. 366 (1973); *Alaska Airlines v. United Airlines*, 948 F.2d 536 (9th Cir. 1991); *MCI Commc’ns Corp. v. AT&T*, 708 F.2d 1081 (7th Cir. 1983).

services by competing newcomer telephone companies.¹⁰⁵ Neither denial of access to indispensable assets nor any refusal to grant access to (just useful) assets was involved.¹⁰⁶ Then, the form of monopolization alleged—delays in processing orders needed to get telecommunication services from newcomers—had already been dealt with and sanctioned by the bodies in charge of applying the specific discipline of the sector, i.e., the Telecommunications Act of 1996.¹⁰⁷ Thus, it was properly a case about bad services or, to use the words of the Court, “insufficient assistance in the provision of service to rivals,”¹⁰⁸ while a new discipline was being implemented. Neither was it a case of refusal to deal or monopolization. The key element of the case was the relationship between antitrust and other forms of regulation of the market, far away from being a refusal to share IP issue.

Nonetheless, the Court used *Trinko* as a pretext to affirm strong economic-based antitrust policy,¹⁰⁹ as well as a clear disfavor towards the EF doctrine. The Court gave a narrow reading of *Aspen*,¹¹⁰ saying it was only limited to “unilateral termination of a voluntary (*and thus presumably profitable*) course of dealing” because such unilateral termination “suggested a willingness to forsake short-term profits to achieve an anticompetitive end.”¹¹¹ Notably, the Court also supported its decision by recalling the risks and costs of “false positives” in antitrust enforcement, led case by case,¹¹² and stating that it has been “very cautious” in recognizing the exception to the rule of firms’ freedom of action “because of the uncertain virtue of forced sharing and the difficulty of identifying and remedying anticompetitive conduct by a single firm.”¹¹³

105. *Trinko*, 540 U.S. at 398.

106. *Id.*

107. *Id.*

108. *Id.* at 410.

109. *Id.* The opinion pointed out three reasons why requiring firms to share their assets is in tension with the underlying purpose of antitrust law based on the incentive argument (“it may lessen the incentive for the monopolist, the rival, or both to invest in those economically beneficial facilities”), the proper role of antitrust courts (which act as regulators), and the risk of the supreme evil of antitrust, i.e., collusion. *Id.* at 408. Also remarkable is the holding that sometimes the monopoly price is not only justified but positive for competition. *Id.* at 412.

110. It concluded that refusal to deal is the rule, and the principle set up in *Aspen* is the exception “at or near the outer boundary of § 2 liability.” *Id.* at 409.

111. *Id.*

112. *Id.* at 414.

113. *Id.* at 408.

The rejection of the EF doctrine as applied to IP was affirmed even before *Trinko* in *Intel*.¹¹⁴ Here, the Court of Appeals for the Federal Circuit reversed a compulsory license order¹¹⁵ to Intel to continue to supply Intergraph with the existing and future devices, computer microprocessors (CPUs) and information available, denying they could be deemed as essential facilities.¹¹⁶

Intergraph developed and sold computer workstations used in computer-aided graphics and alleged it could not survive in this highly competitive business without the products, services, and benefits it had obtained previously from Intel.¹¹⁷ The Federal Circuit quashed the order and rejected the EF argument, finding that Intergraph and Intel were not competitors either upstream or downstream: namely, it noted that “essential facility theory does not depart from the need for a competitive relationship in order to incur Sherman Act liability and remedy.”¹¹⁸

Regarding the allegation that Intel used its IP rights (copyright and patent) in restraint of trade, the Federal Circuit distinguished the case from refusal to license case law in that Intergraph was seeking a preferred position, not merely the grant of a license, and declined to scrutinize Intel’s *intent* in order to evaluate its behavior, since it considered the intent an imprecise test for antitrust purposes.¹¹⁹

As for the residual monopoly leveraging claim, the court declined to apply the monopoly leveraging theory, since “Intel’s action affected only Intergraph, in a heavily populated competitive market”¹²⁰

114. *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346 (Fed. Cir. 1999) [hereinafter *Intel*].

115. *Intergraph Corp. v. Intel Corp.*, 3 F. Supp. 2d 1255 (N.D. Al. 1998).

116. *Intel*, 195 F.3d at 1358.

117. *Id.* at 1350-51.

118. *Id.* at 1356. The court adds:

no court has taken [the essential facility theory] beyond the situation of competition with the controller of the facility, whether the competition is in the field of the facility itself or in a vertically related market that is controlled by the facility. That is, there must be a market in which plaintiff and defendant compete, such that a monopolist extends its monopoly to the downstream market by refusing access to the facility it controls.

Id. at 1357.

119. *Id.* at 1362.

120. *Id.* at 1360. “Absent an adverse effect in the second market, the Sherman Act would serve to restrain competition rather than promote it.” *Id.* at 1359. A complementary relationship between patents and antitrust laws is also affirmed: “the patent system serving to encourage invention and the bringing of new products to market by adjusting investment-based risk, and the antitrust laws serving to foster industrial competition. . . . The patent and antitrust laws serve the public in different ways, both of importance to the nation.” *Id.* at

downstream, while the show of tangible harms to competition on the whole, not only unrelated harms to individual competitors or consumers, is necessary in these cases.

The argument that the Sherman Act “is a law in the public, not private, interest,” also supports these findings.¹²¹

Yet it is the split between *Kodak II*¹²² and *Xerox*,¹²³ concerning the same facts, i.e., a refusal to license patented spare parts to independent service organizations (ISOs) by producers of equipment and related spare parts, that is the hottest area of contention.

In the earlier *Kodak I*,¹²⁴ the Ninth Circuit found a refusal to continue to sell patented spare parts for photocopiers to be a presumptively illegal means of leveraging market power in the aftermarket under Sherman Act § 2 by heavily relying on the exclusionary intent of the refusal.

The action was brought by ISOs against Kodak, an equipment manufacturer, based on the allegation that by disrupting the previous level of supply, as ISOs grew more competitive, Kodak leveraged its monopoly power in the market of patented spare parts into the market for repairing services, where ISOs would be competing with Kodak. The relevant markets were found to be the single “all parts” markets,

1362.

121. *Id.* at 1356. Another case in which the judge had to gauge IP with the EF test was *David L. Aldridge Co. v. Microsoft Corporation*, in which the EF doctrine was excluded on the basis that, at that time, the specific Microsoft operating system was considered not essential to compete in the downstream market of utility programs. 995 F. Supp. 728 (S.D. Tex. 1998). *See also* Arezzo, *supra* note 3, at 482.

122. *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1218 (9th Cir. 1997) [hereinafter *Kodak II*]. The case has a long history. It was originally heard by the Northern District of California, which granted summary judgment for Kodak, then reversed by the judge of appeal, and lastly dealt with by the Supreme Court, which affirmed the appeal judgment, and remanded to district court. Upon a jury verdict for ISOs, the district court granted a permanent injunction. *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992) [hereinafter *Kodak I*]. It was assessed as illegal tying under § 1 of the Sherman Act and monopolization, attempt to monopolize, and conspiracy under § 2 of the Sherman Act. *Kodak I*, 504 U.S. at 479, 486. After remand before the trial court, the district court, which was asked to evaluate only the monopolization and attempt to monopolize claims, granted a ten year permanent injunction requiring Kodak to sell “all parts” to ISOs at “reasonable prices.” *Kodak II*, 125 F.3d at 1224, 1226-28. Noteworthy, *Kodak I* assessed a tie-in consisting in the sale of equipment parts conditioned on the sale of Kodak’s equipment services under § 1 Sherman Act as well as “naked” aftermarket monopolization and attempt to monopolize claims under § 2 Sherman Act but without any patent defense. *Kodak I*, 504 U.S. at 477, 485-86.

123. *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000) [hereinafter *Xerox*].

124. *Kodak II*, 125 F.3d at 1195.

including patented and unpatented parts, respectively, for photocopiers and for micrographic equipment, whereby Kodak was found to be the monopolist, no matter that in the primary equipment market Kodak faced strong competition.¹²⁵

The Ninth Circuit held that, although valid intellectual property rights create a presumption of a legitimate business justification for anticompetitive conduct, ISOs submitted sufficient proof to reject Kodak's business justification, "as the record reflects evidence of *pretext*" to mask anticompetitive conduct because the defendant refused to sell both patented and unpatented parts and was not even thinking about its patent rights when it did so.¹²⁶

However, in rejecting the patent defense, the court recalled two limits to the exclusivity granted by patent rights, which are (a) unlawful acquisition through fraud and (b) misuse, i.e., extension of the monopoly into separate markets. It then added that "Section 2 of the Sherman Act condemns exclusionary conduct that extends natural monopolies into separate markets. Much depends, therefore, on the definition of the patent grant and the relevant market."¹²⁷ No inquiry though was conducted on the definition of the patent grant.

In contrast, in *Xerox*¹²⁸ the Court of Appeals for the Federal Circuit granted a patentee a near-immunity from Sherman Act § 2. The facts were very similar to *Kodak II* and involved Xerox, which manufactured, sold, and serviced high-volume copiers, and CSU, an ISO. The case arose because CSU claimed that Xerox, changing its previous supplying policy, refused to sell patented spare parts and copyrighted manuals and to license copyrighted software used to serve its equipment copier, in breach of antitrust laws.¹²⁹

Unlike the Ninth Circuit, the Federal Circuit did not consider unlawful the refusal to sell patented spare parts because the refusal was deemed within the scope of the IP right,¹³⁰ even if actually the court did not determine what this scope was.

125. *Id.* at 1226.

126. *Id.* at 1213. "The ISOs presented evidence that: (1) Kodak adopted its parts policy only after an ISO won a contract . . . ; (2) Kodak allowed its own customers to service their machines; (3) Kodak customers could distinguish breakdowns due to poor service from breakdowns due to parts; and (4) many customers preferred ISO service." *Id.*

127. *Id.* at 1216.

128. *Xerox.*, 203 F.3d 1322.

129. *Id.* at 1324.

130. "We answer the threshold question of whether Xerox's refusal to sell its patented parts exceeds the scope of the patent grant in the negative." *Id.* at 1328.

Here, the court declined to consider the patentee's subjective motivation and to apply the *Kodak II* test based on "pretext" because "[t]his logic requires an evaluation of the patentee's subjective motivation for refusing to sell or license its patented products," which was held not admissible, "even though [the] refusal . . . may have an anticompetitive effect, so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant."¹³¹

The Federal Circuit also distinguished the case from *Kodak I*, which applied the monopoly leverage theory, because—it said—this was a case of illegal tying through unlawful extension of patent monopoly, and no patents had been asserted in defense for the refusal to license claims.¹³²

Notably, the immunity granted in *Xerox* was a near-immunity because some exceptions were carved out in dictum, e.g., illegal tying, fraud in the Patent and Trademark Office procedures, or sham litigation.¹³³

The applicable law for the issue concerning the patented spare parts was found to be the Federal Circuit law because it "clearly" involved the exclusive jurisdiction of this court.¹³⁴ Yet the outcome was not different, in the same dispute, the ISO claim referred to the copyrighted manual and software, which was decided not on the Federal Circuit but rather on Tenth Circuit case law and precedent.¹³⁵

The main precedent recalled in *Xerox* to assess the copyright claim is *Data General*.¹³⁶ Here, the First Circuit found the refusal to continue to supply copyrighted software for aftermarket services as presumptively legal because copyright was deemed a valid business justification.¹³⁷

Data General and Grumman were competitors in the supply of service for computers manufactured by Data General. Grumman was given the same Data General tools and software for its activity as a third party maintainer (TPM).¹³⁸ Due to the evolving nature of their relationship (Data General claimed infringement of copyright and misappropriation of trade secrets by Grumman), Data General

131. *Id.* at 1327-28.

132. *Id.* at 1326-27.

133. *Id.* at 1326.

134. *Id.* at 1325. For the jurisdiction of the Federal Circuit over patent/antitrust cases, see *supra* note 22.

135. *Id.* at 1328.

136. *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994) [hereinafter *Data General*].

137. *Id.* at 1187.

138. *Id.* at 1152-53.

disrupted its previous practices of supplying Grumman with input necessary to carry on its business.¹³⁹

Beyond the specific facts, interest in the opinion lies in the fact that it conducted a thorough review of the principles governing unilateral refusal to deal¹⁴⁰ and suggested weighing potential anticompetitive effects of refusals to license patents and copyrights against the pro-competitive effects of both paradigms of protection, especially in the form of countervailing long-term benefits of a strong protection.¹⁴¹

As for copyright law, the court argued that Congress “made an empirical assumption that allowing copyright holders to collect license fees and exclude others from using their works creates a system of incentives that promotes consumer welfare in the long term by encouraging investment in the creation of desirable artistic and functional works of expression.”¹⁴² The pursued interest was thus not only the author’s, but also the public’s, and “[w]e cannot require antitrust defendants to prove and reprove the merits of this legislative assumption in every case where a refusal to license a copyrighted work comes under attack.”¹⁴³

In the specific case, the court found that Grumman did not present sufficient proof to rebut this presumption and to support its contention that Data General “acted in an exclusionary fashion in discontinuing its liberal policies allowing TPM access to diagnostic software.”¹⁴⁴

Although arguing in favor of distinct balancing standards for patents and copyrights, *Data General* largely relied on precedent referring to patents, so that patent and copyright end up being governed by a convergent regime, although formally assessed under different rules.

Finally, it must be noted that, if *Xerox* is certainly not the only judicial patent exception from antitrust,¹⁴⁵ the split between this case

139. *Id.* at 1153-54.

140. “[W]hile exclusionary conduct can include a monopolist’s . . . refusal to license a copyright, an author’s desire to exclude others from use of its copyrighted work is a presumptively valid business justification for any immediate harm to consumers” and “there may be rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act.” *Id.* at 1187, 1187 n.64. The “pursuit of efficiency and quality control might be legitimate competitive reasons for an otherwise exclusionary refusal to deal, while the desire to maintain a monopoly market share or thwart the entry of competitors would not.” *Id.* at 1183.

141. *See id.*

142. *Id.* at 1186-87.

143. *Id.* at 1187.

144. *Id.* at 1182.

145. *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981) [hereinafter *SCM*].

and *Kodak II* is not isolated. In fact, it has been recently replicated in two district cases: whereas in *Schor v. Abbott Laboratories*¹⁴⁶ the Court of Appeals for the Seventh Circuit dismissed the “naked” monopolization claim and granted an absolute immunity to the patent owner, in *In re Abbott Laboratories Norvir Anti-trust Litigation*,¹⁴⁷ the District Court for the Northern District of California (whose court of appeals is the Ninth Circuit) held that there was sufficient evidence that the defendant had abused its patents and monopolized the neighbor market to deny its motion for summary judgment.¹⁴⁸

To summarize, the clear trend of the U.S. system is towards shielding IP rights against antitrust. Few exceptions to the immunity were expressly listed, while a big question mark remains on the relevance of the intent of the IP owner. On the whole, though, it is difficult to forecast the future of this muddled area of law.¹⁴⁹

Some scholars have considered *Trinko* as almost barring antitrust scrutiny upon refusal to share IP.¹⁵⁰ While good arguments support this conclusion, the specific facts and the legal reasoning in *Trinko* seem to not allow strictly to share that view. In any case, the same *Trinko* intended to affirm antitrust liability under the “termination rule” devised in *Aspen*. A recent report by the DOJ and the FTC deals specifically with the matter.

According to the Second Circuit, when antitrust and patent law clash, “the primary purpose of the antitrust laws—to preserve competition—can be frustrated, albeit temporarily, by a holder’s exercise of the patent’s inherent exclusionary power during its term.” *Id.* at 1203. In fact, the court argued, because “[t]he heart of [the patentee’s] legal monopoly is the right to invoke the State’s power to prevent others from utilizing his discovery without his consent,” “a patent holder is permitted to *maintain* his patent monopoly through conduct permissible under the patent laws.” *Id.* at 1204 (quoting *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135). A diverse conclusion is permitted only when a “patent holder abuses his patent by attempting to enlarge his monopoly beyond the scope of the patent granted him.” *Id.* at 1204. This solution is stated as able to strike “an adequate balance between the patent and antitrust laws.” *Id.* at 1206. Otherwise, the court reasons, the efficacy of the patent system would be seriously undermined by the threat of potential antitrust liability.

146. *Schor v. Abbott Labs.*, 457 F.3d 608 (7th Cir. 2006).

147. *In re Abbott Labs. Norvir Anti-Trust Litig.*, 442 F. Supp. 2d 800 (N.D. Cal. 2006). The principal case is still pending for discovery on fact and a jury verdict.

148. See Rita Coco, *Patent Immunity from Antitrust: The Abbott Cases in the United States.*, 2007 EUR. COMPETITION L. REV. 404-500.

149. Remarkably, the Supreme Court denied certiorari for *Xerox* on February 20, 2001. *CSU, L.L.C. v. Xerox Corp.*, 531 U.S. 1143 (2001). And, on February 20, 2007, the Court also denied certiorari for *Schor v. Abbott Labs.*, giving up on tackling the split between this case and *In re Abbott Labs. Norvir Anti-Trust Litig.* 127 S. Ct. 1257 (2007).

150. See Carrier, *supra* note 95, at 1199.

3. The 2007 DOJ–FTC Report on Antitrust Enforcement and IP Rights

The DOJ-FTC Report on antitrust enforcement and IP rights (Joint Report),¹⁵¹ issued in April 2007, addresses various facets of the relationship between antitrust and IP, among others the refusal to license patents (exclusively, not other IP rights), and offers an overview of the policy the Agencies will likely pursue on the hottest issues within this area.

Similar to the previous Antitrust-IP Guidelines¹⁵² and the FTC report on the balance of competition and patent law and policy,¹⁵³ the Joint Report is strongly inspired by economic analysis¹⁵⁴ and supports the idea that IP and antitrust are complementary and pursue consistent goals.¹⁵⁵

Very notably, the Joint Report acknowledges that many of the difficulties the Agencies face “stem from differences between the characteristics of intellectual property and other forms of property,” such as greater ease of misappropriation compared with tangible assets, potentially an infinite number of times without interfering with its owner, the high fixed cost to create IP rights *vis-à-vis* the low marginal cost to use them, the difficulty of determining their exact boundaries, the dependence of their value on a combination of other factors or production or distribution, and finally their limited duration.¹⁵⁶ The

151. U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007) at 9, <http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf> [hereinafter JOINT REPORT]. The awareness of the dilemma underlying the IP and antitrust interface, and “[r]ecognizing that both robust competition and intellectual property rights are crucial to a well-functioning market economy,” the Agencies conducted a series of Hearings (in which 300 hundred people were heard), beginning in February 2002, collected written comments, and analyzed the relevant literature, in order to better understand “how best to reward innovation while encouraging competition.” *Id.* at 32. This Report is almost entirely dedicated to licensing practices, with specific focus on hard-core restrictive practices, such as patent pool, crosslicensing, grantback, etc., but also on Standard Setting Organizations and tying. It saves expressly the Antitrust-IP Guidelines, which are declared still valid in the integrity. *Id.* at 4-5.

152. See ANTITRUST IP GUIDELINES, *supra* note 90.

153. See TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY. A REPORT BY THE FEDERAL TRADE COMMISSION (2003), <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

154. “[I]t is well understood that exercise of monopoly power, including the charging of monopoly prices, through the exercise of a lawfully gained monopoly position will not run afoul of the antitrust laws. The same principle applies to monopoly power that is based on intellectual property rights.” JOINT REPORT, *supra* note 151, at 1-2.

155. *Id.*

156. *Id.* at 4. The Agencies stated that, for the purpose of antitrust analysis, they

Agencies thus state that “[t]he application of antitrust law to intellectual property requires careful attention to these differences.”¹⁵⁷

“Unilateral refusals to license patents” are assessed as a form of “strategic use of licensing” in Chapter 1 of the Joint Report.¹⁵⁸ Most parts of the discussion regard the split between *Kodak II* and *Xerox*. Neither one nor the other are seen, in the light of different panelists’ opinions, as providing sufficient guidance on potential antitrust liability for unilateral refusal to license patents; moreover, the Joint Report underlines that they create uncertainty for licensors and licensees.¹⁵⁹

The intent-based test of *Kodak II* especially attracted a lot of critiques, as it is considered out of step with modern antitrust law’s focus on objective economic aspects of conduct, unworkable because it is inextricably linked with the legitimate intent to protect IP and to create or maintain monopoly, and very difficult to use as a basis to ensure certainty to business practices.¹⁶⁰ Over this debate, the Agencies stated that their “focus is upon the effect of [the] conduct, not upon the intent behind it,”¹⁶¹ although they add “[k]nowledge of intent may help [courts] to interpret facts and to predict consequences.”¹⁶²

In turn, *Xerox* also had its foes among panelists: while the refusal to license is acknowledged as an absolute statutory right, the *Xerox* approach is blamed for being inconsistent with the trend of antitrust analysis, which moved away from a rigid formalism “in favor of a fact-based analysis that applies rigorous economic principles to distinguish anticompetitive from procompetitive conduct.”¹⁶³

One crucial point is underlined in the Joint Report: the importance of the scope of the patent grant, but also its ambiguity,¹⁶⁴ as shown by

regard intellectual property as being essentially comparable to any other form of property. Thus, intellectual property is considered “neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them.” ANTITRUST IP GUIDELINES, *supra* note 90, § 2.1. Nonetheless, they acknowledge that IP has special distinctive characteristics, such as the ease of misappropriation, that distinguish it from any other forms of property. *Id.*

157. JOINT REPORT, *supra* note 151, at 4.

158. *Id.* at 5.

159. *Id.* at 16.

160. *Id.* at 17.

161. *Id.* at 18 (citing *United States v. Microsoft Corp.*, 253 F.3d 34, 59 (D.C. Cir. 2001)).

162. *Id.* (citing *Chi. Bd. of Trade v. United States*, 246 U.S. 231, 238 (1918)).

163. *Id.* at 19 (citing A. Douglas Melamed & Ali M. Stoepelwerth, *The CSU Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law*, 10 GEO. MASON L. REV. 407, 425 (2002)).

164. Chapter 6 of the JOINT REPORT focuses on practices that firms may use to extend the reach of a patent beyond the expiration of a patent’s statutory term, such as collecting royalties beyond the statutory term, the use of exclusive contracts that deprive rivals or

Kodak II and *Xerox*. It pointed out that these cases show that “the patent grant is not coterminous with . . . the relevant market, so the right to exclude may permit a patent holder to maintain a monopoly over not just the market for the patented parts but possibly also over closely related markets,” although both cases omitted to define the scope of the patent grant.¹⁶⁵

Key policy issues relating to unilateral refusals to license are discussed,¹⁶⁶ while the legal analysis that closes the Chapter confronts two basic issues. The first one is the threshold question of whether the 1988 Congress amendment to the Patent Act, which cut back patent misuse, excluding from its scope the refusal to license,¹⁶⁷ refers directly to antitrust laws. The answer of the Joint Report is negative: “immunity from antitrust laws is both exceptional and disfavored. . . . [Section 271(d)(4)] can perhaps be said to shed some light on Congress’s view of the nature of the patent right. But the Agencies do not read the statute to create antitrust *immunity* for such refusals to license.”¹⁶⁸ The second question is the definitive one, i.e., when refusals to license patents violate antitrust laws.

After restating that “antitrust liability for refusal to assist competitors—whether by licensing patents or otherwise—is a rare exception to the ordinary rules of antitrust,”¹⁶⁹ the Joint Report points out that “refusals to deal are rarely anticompetitive, whether or not they involve patents.”¹⁷⁰ It also went on significantly: “[*Aspen*] will not support liability for unilateral refusals to license patents to rivals,

potential entrants of a source of supply or access to customers, or bundling trade secrets with patents. *Id.* at 115-16.

165. *Id.* at 20.

166. *Id.* at 20-25. These are (1) whether antitrust should have a special treatment for patents; (2) whether patents entail per se market power (the issue is overcome after *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006), which excluded this possibility); (3) whether compulsory licensing is an appropriate remedy were an antitrust violation is found; and (4) the likely effects of liability for refusal to license patents on incentives to innovate and its competitive effects. *Id.* On the last issue, one panelist pointed out that at this kind of *marginal* refusal to deal liability, doubtful innovation incentives are sufficiently sensitive so that there should not be any “significant incentive diminution at all.” *Id.* at 24. On the other side, another panelist “argued that the ability to exploit an intellectual property bottleneck may generate important incentives to innovate and cautioned that regulating the exploitation of intellectual property amounts to regulating the return on R&D investment and is a very difficult economic exercise.” JOINT REPORT, *supra* note 151, at 25.

167. *Id.* at 25. The relevant provision is 35 U.S.C. § 271(d)(4).

168. JOINT REPORT, *supra* note 151, at 26-27.

169. *Id.* at 27.

170. *Id.* at 28.

except, perhaps, when a patent owner refuses to continue to license under circumstances paralleling those presented in *Aspen*.”¹⁷¹ This endeavor by the Agencies reflects clearly *Trinko*’s theories. Other parts of the Joint Report are in the same direction and likewise quote *Trinko* as the applicable precedent.¹⁷² For example, after noting that the right to exclude is the “essence” of a patent grant, it restated that a long line of Supreme Court and courts of appeals cases “suggests that exercising [IP rights] by refusing to license a patent, without more, would not violate the antitrust laws.”¹⁷³ Moreover, none of the Supreme Court cases squarely holds immunity from antitrust for unilateral refusal to license patents or that antitrust should be applied differently in IP-related cases, but the strong statements in these cases are indicative of the traditional understanding that the unilateral right to decline the grant of a license is a core part of the patent grant. Prior to *Kodak II*, no reported federal antitrust decision had imposed liability for the refusal to license a patent. Even in the controversial *Kodak II* case itself, the outcome might be explained as a result of Kodak’s refusal to sell thousands of unpatented parts.¹⁷⁴

The conclusion of the Joint Report is thus that “liability for mere unconditional, unilateral refusals to license will not play a meaningful part in the interface between patent rights and antitrust protections,” although “numerous imaginable scenarios [might] involve conduct that goes beyond a mere refusal to license a patent and could give rise to antitrust liability,” such as conditional—i.e., contractual or cooperative, under Sherman Act § 1—refusals to license, which cause “competitive harm.”¹⁷⁵

Between the two solutions arising from the discussion, i.e., absolute immunity *vis-à-vis* refusals assessed on a case-specific, fact-intensive basis without safe harbor, the Agencies were biased substantially for the first, endorsing much of the *Trinko* reasoning while formally escaping from the debate on Sherman Act § 2 and hiding their position behind the potential of Sherman Act § 1.

It remains to be seen how this policy will be implemented and to what extent it will influence the judicial private enforcement of antitrust

171. *Id.*

172. *See id.*

173. *Id.* at 29. *See id.* at 29 n. 106 for a list of these cases.

174. *Id.* at 30.

175. *Id.* at 30-31. *See also supra* note 96 (explaining the distinction between *conditional* and *unconditional* refusals).

from now onwards.

III. OPEN ISSUES AND THE INTERNATIONAL SETTING

A. *The European and American Systems: A Summary*

In the European Union, refusal to share IP rights is possibly considered vertical foreclosure, consistently with the case law on mere refusal to deal and the EF doctrine, requiring the distinction between an upstream market of the IP-protected asset and a downstream market of the product embodying this asset (two different stages of production are also sufficient).¹⁷⁶ However, an additional test applies to refusals to share IP rights: not only must the intangible asset be an EF-like asset, but also a “new product” requirement should be met.¹⁷⁷ Yet the balancing test applied in *Microsoft* makes the binding nature and the extent of this standard more uncertain, while its implications for the future antitrust enforcement and policy involving IP rights in Europe remain unclear.¹⁷⁸ In any case, beyond the applicable test, a mismatch between the national enforcement of IP rights, and the (primary) community enforcement of antitrust, in combination with the European antitrust bodies’ lack of power to assess (validity and interpretation of) IP rights marks a significant limit of the system.

In the United States the clear trend is towards shielding IP rights against antitrust. Few exceptions to the immunity are expressly admitted, although to what extent is not clear.¹⁷⁹ Unlike their European counterpart, U.S. courts and agencies are clearly inclined to think that IP deserves a special regime, distinct from ordinary property; indeed, on many occasions they declined to apply the EF standards for refusal to deal with IP rights.¹⁸⁰ Moreover, not only are IP rights seen as being in need of special governing rules, but also each IP right is given its own regime (so stated expressly for patents and copyrights).¹⁸¹ A question mark remains on the relevance of intent in refusal to license patents, at least since the split between the Courts of Appeals for the Federal

176. See *supra* Part II.A.1-2.

177. See *supra* Part II.A.1-2.

178. See *supra* Part II.A.1-2 and note 62.

179. See *supra* Part II.B.1-2.

180. See, e.g., *Trinko*, 540 U.S. 398.

181. See generally 35 U.S.C. §§ 101-376 (2006)(governing patents); 17 U.S.C. §§ 101-1332 (2006)(governing copyrights).

Circuit and the Ninth Circuit.¹⁸² Also the formula of the “scope” of the patent, likely coterminous with the safe harbor area, is open to different interpretations. The split between different courts, with the Federal Circuit’s (and several other Circuits’) bias for patents and the lack of specific opinions by the Supreme Court, renders the system unsettled.

On the whole, it is clear that European antitrust bodies are more worried than their American colleagues about anticompetitive risks arising from borderline uses of IP rights and the risk that those borderline uses will lead to loss of innovation incentives; the reverse is also arguably true.

This divide has its roots in the history of the antitrust/IP interface, respectively in the European Union and United States, and is conditioned upon the previously seen structural differences between the two experiences. Moreover, it reflects distinct approaches to antitrust law and policy, the American system being traditionally more libertarian and open to the Chicago School’s theories, while a distinctive trait of the European system has been, since its origin, the pursuit of the integration of national markets.

However, things are changing rapidly, with the European system converging towards the American economic-based model. The recent Discussion Paper on the application of Article 82 is but one example of this relative convergence; only relative, though, because the European documents expressly list the pursuit of consumers’ welfare among ultimate goals of antitrust law, and with specific reference to IP rights, the DG Discussion Paper is very far away from the strands envisaged by the Joint Report, while *Magill*, *IMS*, and *Microsoft* are not consistent with *Trinko*’s philosophy.¹⁸³

B. Open Issues

Neither the case law nor the guidance supplied by recent policy documents offer a definitive answer to the issue of when and under what conditions refusals to share IP rights trigger antitrust liability. Many questions remain open, a provisional checklist of which can be drawn up as follows:

- whether the distinction between the existence and exercise of IP rights (European Union) has any analytical relevance for

182. See *infra* Part II.B.1-2.

183. DG Discussion Paper, *supra* note 68; JOINT REPORT, *supra* note 151; *Magill*, 1995 E.C.R. I-743; *IMS*, 2004 E.C.R. I-5039; *Trinko*, 540 U.S. 398.

the purposes of applying antitrust rules¹⁸⁴ and if so what it is (e.g., its role in determining the market power/dominance of the IP rights holder);

- whether it is viable to apply equally the EF doctrine to IP rights and to any other physical property (opposite solutions in the European Union and United States);
- when EF doctrine does apply to IP (in the European Union), whether only vertical competition matters or also horizontal competition may play a role—this question involves the issues of the need that the IP owner be present, directly or indirectly, in the same market where the applicant operates, the new product test, and the degree of foreclosure required, absolute or relative (not settled in the European Union);
- in general, whether IP deserves a different regime than other forms of property (partially opposite solutions in the European Union and United States);
- whether different legal standards should apply to refusals to start to supply and refusals to continue to supply (apparently, affirmative answers in the European Union and United States);
- whether patents and other IP rights (e.g., copyright, trademark) each deserve special tailored regimes, rather than a standardized one, when attacked under antitrust rules (affirmative answer in the United States);¹⁸⁵
- whether and how determining the scope of the IP rights at issue is essential for the purpose of defining the area of exclusivity, coterminous with the area of immunity, and who can make that determination (United States and European Union theoretically used the concept, but they did not define it, nor infer the consequences);
- whether and how the intent of the IP owner is relevant in antitrust cases (split in the United States), and, if so, whether it is possible to consider its two dimensions, subjective and objective;
- whether a balanced system of presumptions, complemented with fine-tuned procedural rules on the burden of proof,

184. Very critical of this distinction are Ricolfi and Korah. Ricolfi, *supra* note 46, at 169; Korah, *supra* note 26, at 805.

185. Ricolfi, *supra* note 46, at 169.

might answer satisfyingly the quest for clarity and certainty in the field;

- whether additional guidance to draw the distinction between lawful and unlawful refusals rests on whether they are conditional (contractual) or unconditional;
- whether antitrust enforcement is a proper instrument to fight against “bad,” “weak” or “utilitarian” IP rights (European Union de facto inclined to answer affirmatively) instead of acting via other instruments (e.g., internal to the IP system), which triggers the further question whether antitrust enforcement can be effectively used to react to or contain the IP expansionistic trend;
- linked with the previous issue, when misuse doctrine is applicable in infringement claims (in the United States), what are the boundaries and proper domains respectively of antitrust defense and misuse defense; and
- whether compulsory licensing is an appropriate remedy when antitrust liability is found (affirmative answer in the European Union), and related issues (e.g., are courts and agencies equipped enough to set fees at a level which do not frustrate the expected revenue from R&D investment? Doing so, do they not transform themselves improperly into regulators?)

C. The International Setting

The latest issue introduces a new facet: if unilateral refusals to share IP rights were found to violate the antitrust laws, one appropriate remedy likely would entail compulsory licensing. However, as the above analysis of the case law showed, so far this problematic measure has been adopted mostly under domestic rules, whereas the international dimension has been neglected.¹⁸⁶

Among applicable treaties,¹⁸⁷ first and foremost, the TRIPs Agreement,¹⁸⁸ the dominant instrument in the current international IP

186. The question arose in *Magill*, in which one appellant against the compulsory license alleged that the order was inconsistent with the Berne Convention, but the issue was solved procedurally, since this Convention was deemed as non applicable to the case. *Magill*, 1995 E.C.R. I-743.

187. See HOVENKAMP, JANIS, & LEMLEY, *supra* note 96, §§ 40.1-40.2.

188. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Results of the Uruguay Round, 33, I.L.M. 1125, 1197 [hereinafter TRIPs

scenario, must be taken into account, the relevant provisions being Article 31, on patent compulsory licensing,¹⁸⁹ as well as Articles 7, 8, 40, and possibly others dealing more broadly with antitrust.¹⁹⁰ This set of rules tackles both the control of anticompetitive practices in contract licenses and the remedy against anticompetitive unilateral behaviors by dominant firms. Yet the language of all such provisions is always fluid, at the outer boundaries of ambiguity. So it is for the specific regime of patent compulsory license, as is made clear from what follows.

Under Article 31 of the TRIPs Agreement, when a patent is exploited in anticompetitive manners, WTO Member States may provide for the grant of compulsory licenses.¹⁹¹ This provision lays down a much more complex regime, for both substantive and procedural matters, than does the earlier regime on compulsory license within the 1883 Paris Convention, under Articles 5, 5A(2), and 5A(3).¹⁹²

It is worth noting that Section 5 of the TRIPs Agreement (from Article 27 through Article 34) sets forth the minimum substantive standards for patents, which—among all the standards for IP—are probably the most significant in the specific context of the IP/antitrust interface.¹⁹³ Amid the rights conferred upon the patentee, Article 28(1)(a) lists the rights to “prevent third parties not having [the owner’s] consent from the acts of: making, using, offering for sale, selling, or importing for these purposes” the product that is the subject matter of the patent. Similar rights are conferred by Article 28(1)(b) upon the patentee of a process. Moreover, under Article 28(2), “[p]atent owners “shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts.”¹⁹⁴

Article 30 identifies a first set of “limited exceptions” to the exclusivity so conferred, which might come from the choice of individual member states “provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.”¹⁹⁵

A second set of limits to the exclusive rights of the patentee comes

Agreement]. Both the United States and European Union adhere to this Agreement.

189. *Id.* art. 31.

190. *Id.* arts. 7, 8, 40.

191. *Id.* art. 31.

192. *Id.*; HOVENKAMP, JANIS, & LEMLEY, *supra* note 96, § 40.2a2.

193. TRIPs Agreement, *supra* note 188, arts. 27-34.

194. *Id.* art. 28.

195. *Id.* art. 30.

from the compulsory license regime. Broadly speaking, the grant of compulsory license, in favor of either private parties or governments, might stem either from an “abuse” of the patent (e.g., for failure to work), or from public interests (e.g., a pandemic). The compulsory license for anticompetitive conducts is squared away in the latter category of the pursuit of public interest.

Although the general framework is clear, what remains unclear is which and when anticompetitive behaviors may trigger compulsory license. With this regard, the TRIPs Agreement only provides for some procedural aspects.

In fact, under Article 31(k), where the law of a Member State allows for “use other than that allowed under Article 30”¹⁹⁶ of the subject matter of a patent without the authorization of the right holder, Member States are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases.¹⁹⁷

Hence the specific provision only exempts the compulsory license for antitrust purpose from the observation of subparagraph (b) of Article 31 (which asks for “efforts” to be made in order to get a negotiated license prior to the application for the compulsory license) and subparagraph (f) of Article 31 (which limits the authorized use “predominantly for the supply of the domestic market of the Member authorizing such use”), while all other requisites provided under Article 31 for any kind of compulsory license must apply.¹⁹⁸ Moreover, it establishes that the remuneration for such license can be tailored upon the need to correct the anticompetitive practices; whether this “need” might include punitive curtailments of royalties in order to deter other patentees from acting against competition is not clear.¹⁹⁹

On the whole, Article 31 of the TRIPs Agreement is neutral regarding any anticompetitive conduct that may trigger compulsory license. Nor does it give any insight on the definition of the relevant market, a factor which is very crucial in all cases of unilateral anticompetitive conduct.

196. *Id.* art. 31 n. 7.

197. *Id.* art. 31(k).

198. *Id.* art. 31.

199. *Id.*

However, this does not mean at all that each court or administrative body of Member Countries enforcing antitrust laws can grant as many and as broad compulsory licenses as they like: at minimum, the TRIPS Agreement works on top as a general ceiling as for the minimum standards provided.

In other words, when granting a compulsory license, courts and competition agencies have to refrain from impinging upon exclusive “minimum” rights conferred upon the patentee by the TRIPS Agreement. The interpretation of these standards in the occasion of international disputes arising under Parts V-VII of the TRIPS Agreement is also relevant to this purpose. Arguably, other international treaties have the same function, only provided the acting state is an adhering Member.

This framework has a direct impact on antitrust enforcement involving IP rights: all discussions on the scope of these rights cannot avoid considering the international dimension set forth by applicable international treaties.

However, the logic of the *negative limit* is neither the only, nor perhaps the most important part of the international setting of IP and antitrust interplay. With this regard, an intriguing theory²⁰⁰ suggests to use integrally the antitrust portions of the TRIPS Agreement, including Articles 7 and 8, as well as Recitals 5 and 6, to envisage generalized *ex ante* measures in such a way so as to permanently incorporate pro-competitive features (such as access, requirements, scope of protection, limitations, and exceptions) intended to preserve competitive openness in downstream innovation markets.²⁰¹ This opinion, warning against risky case-by-case, *ex post* interventions, might provide a finer balance of the interests at issue, of the IP owners and the actors in the markets, without contradicting the basic premises of TRIPS-mandated minimum protection.

This proposal seems to deserve more attention by scholars and antitrust enforcers.²⁰² The *ex ante* method offers a remedy which has the

200. Marco Ricolfi, *Is There an Antitrust Antidote Against IP Overprotection Within TRIPs?*, 10 MARQ. INTELL. PROP. L. REV. 305 (2006).

201. *Contra* Hanns Ullrich, *Expansionist Intellectual Property and Reductionist Competition Rules: A TRIPs Perspective*, 7 J. INT'L ECON. L. 401 (2004).

202. Another attempt to reconcile antitrust and IP is that of Ghidini, for whom antitrust acts like a thermostat, checking IP rights if and when the market power or conduct of the IP owner exceeds that inherently linked to their essential function, i.e., protection of innovators' achievements against free riders and protection of firms' identities and renown. GUSTAVO GHIDINI, INTELLECTUAL PROPERTY AND COMPETITION LAW. THE INNOVATION

advantage, among others, of being more predictable in its outcome, avoiding likely discrimination among competitors acting in the market while reacting more effectively against the gradual ratcheting up of IP protection.²⁰³

To this purpose, a new proactive approach by all institutions involved is required: the advocacy power granted to antitrust bodies has a crucial role within this solution,²⁰⁴ while also collateral institutions, such as bodies that grant IP rights and influence competition, should play their part and recognize the value of non-litigation instruments in formulating competition policy.²⁰⁵

CONCLUSION

The practice gives a long array of approaches on when and to what extent the use of a patent triggers antitrust liability (with or without compulsory license), with opposite solutions not only among different countries but also within one single country.

So it is for the United States, comparing the rule adopted by the Ninth Circuit in the *Kodak II* case and the opposite rule adopted by the Federal Circuit in the *Xerox* case. Notably, so far, none of the Supreme Court cases have either squarely granted immunity from antitrust to unilateral refusals to license or clarified whether IP rights deserve a special antitrust regime. However, there is a clear bent towards IP, and

NEXUS (2006). Moreover, IP often contains built in “antibodies that promote competitive innovation” and “antitrust law, while discouraging rent-seeking position [This] gives the green light to IP rights exploitation against free-riding of innovators’ achievement.” *Id.* The same author carries on: “the two branches of law show a multifaceted, dialectic and ultimate convergence towards an *industrial policy goal*: that of the enhancement of competitive dynamics of innovation” and then concludes “It is this convergence that on the legal side justifies, indeed requires, that the framework of IP law be interpreted in the light of the *same* principle, of constitutional rank, that guides antitrust law, i.e., freedom of competition.” *Id.* at 7-8.

203. On the trend towards IP over-protectionism and “privatization” of common goods in the context of a global intellectual property regime, see INTERNATIONAL PUBLIC GOODS AND TRANSFER OF TECHNOLOGY UNDER A GLOBALIZED INTELLECTUAL PROPERTY REGIME 227-264 (Keith E. Maskus & Jerome H. Reichman eds., 2005) and all the line of thought of Reichman. See, e.g., Jerome H. Reichman, *Legal Hybrids Between the Patent and Copyright Paradigms*, 94 COLUM. L. REV. 2432 (1994).

204. Interestingly, the JOINT REPORT also underlines the importance of the interaction between patent and competition communities through cooperation between competition agencies and patent offices and an increased use of the competition advocacy role by these agencies. JOINT REPORT, *supra* note 151; GHIDINI, *supra* note 202, at 17-18, ch. 6.

205. See William E. Kovacic, *Competition Policy and Intellectual Property: Redefining the Role of Competition Agencies*, in ANTITRUST, PATENTS AND COPYRIGHT: EU AND US PERSPECTIVES 2 (Francois Lévêque & Howard Shelanski eds., 2005).

the antitrust policy and philosophy embodied in *Trinko* stand more for a permissive than restrictive approach towards dominant firms.

In turn, the European experience is going towards a system of competition at any cost—even at the cost of discouraging internal and international investments—as the escalation starting from *Magill* to *Microsoft* makes it clear. Yet a caveat is needed here: so far, the European competition courts and agencies have never challenged any patents; moreover, they are not even empowered to interpret patents or other IP rights or decide their validity, creating a mismatch between the Community competition enforcement and the national IP enforcement. In contrast, the assessment of the scope of protection is crucial in these cases.

It is not easy to hold a favor for one or the other solution.²⁰⁶ Abstractly, they are both consistent with the international intellectual property setting, which is scattered and in any case neutral on the matter, at least for the *ex-post* antitrust control option. More promising appears the suggestion to explore the potential for *ex-ante* limitations for the same purposes, if a cooperative climate could be established among all institutions involved.

In this perspective, the delicate balance between the right to exclude held by the IP owner and the possible duty to share intangible assets for antitrust purposes might be more easily achieved by replacing the issue within a virtuously read international dimension.

All possible options to answer the open issues reported above in the not-exhaustive checklist should be assessed,²⁰⁷ while the relationship between the concepts of the abuse of IP rights, under Article 8.2 of the TRIPs Agreement, and the abuse of (absolute or relative) market power should be explored more in depth.²⁰⁸ Perhaps the answer on how to avoid the pitfalls of IP and antitrust interplay stems from this additional effort.

206. More in favor of the flexible European approach is Arezzo, *supra* note 3, at 505. In contrast, for the enlightenment of the benefits of the American way, *inter alia* to preserve incentives for innovation, see Reichenberger, *supra* note 24, at 564.

207. See *supra* Section III.B.

208. TRIPs Agreement, *supra* note 188, art. 8.2.