Reconstructing the IP-Antitrust Boundary

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Note to readers: This paper, which in an earlier version was entitled “Intellectual Property, Economic Leveraging, and Legal Leveraging,” has been revised to take a somewhat different focus, one that is less conceptual and more practical. The revision is incomplete, and there may still remain vestiges of the original paper that seem out of place here.

I. INTRODUCTION

Once upon a time, intellectual property law and antitrust law were thought to be in conflict. The monopolies granted by intellectual property law were thought to be antithetical to antitrust’s goal of preserving competition.1 More recently, however, courts and commentators have argued that antitrust and intellectual property are complementary means of serving the same goal. Both, it is said, serve to promote innovation and dynamic competition that advance consumer welfare.2

This conceptual shift has been accompanied by doctrinal change. In the U.S., for example, the early Supreme Court cases that involved the use by patentees of tying arrangements and territorial restrictions were primarily patent infringement cases, and the Court decided them on the basis of whether the patentee had exercised rights within “the

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1 The focus has most often been on patent law:

The conflict between the antitrust and patent laws arises in the methods they embrace that were designed to achieve reciprocal goals. While the antitrust laws proscribe unreasonable restraints of competition, the patent laws reward the inventor with a temporary monopoly that insulates him from competitive exploitation of his patented art.

SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1203 (2d Cir. 1981).

2 Atari Games Corp. v. Nintendo of America, Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990) (“[W]hen the patented product is so successful that it creates its own economic market or consumes a large section of an existing market, the aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition.”); Locite Corp. v. Ultraseal, Ltd., 781 F.2d 861, 876-77 (Fed. Cir. 1985) (“The patent system . . . serves a very positive function in our system of competition, i.e., ‘the encouragement of investment based risk.’ By so doing, it ‘encourages innovation and its fruits: new jobs and new industries, new consumer goods and trade benefits.’ In that sense, therefore, and because the underlying goal of the antitrust laws is to promote competition, the patent and antitrust laws are complementary.”) (citations and footnote omitted); Timothy J. Muris, Chairman, Federal Trade Commission, Competition and Intellectual Property Policy: The Way Ahead, Remarks at the American Bar Association Antitrust Section Fall Forum (Nov. 15, 2001), available at http://www.ftc.gov/speeches/muris/intellectual.htm (“The tensions between the doctrines tend to obscure the fact that, properly understood, IP law and antitrust law both seek to promote innovation and enhance consumer welfare.”)
scope of its patent monopoly.”3 Later, though, the Court began to address many of these issues in antitrust cases, and to apply antitrust rules. Congress has followed suit, incorporating an antitrust market power test into a patent statute defining patent misuse.

More recently, the Court of Appeals for the Federal Circuit, which is the court that ultimately decides most patent issues in the United States, has gone even further. In a leading case, it interpreted the Supreme Court cases as restricting patentee conduct only with respect to what it called “per se antitrust and misuse violations,” such as price-fixing and tying.4 Although it held out the possibility that other conduct that is not “within the scope of the patent grant” could be impermissible, the court held that the legality of such conduct would be determined by antitrust law’s rule of reason.

A somewhat analogous pattern can be seen in Europe.5 Initially, the European Court of Justice seemed to suggest that there was an inherent IP right with which competition law would not interfere.6 More recently, the court has moved away from this approach, even in the context of unilateral refusals to deal. Indeed, in that area the Court appears to apply a test based more on competition law than on IP law, as is evidenced by the fact that the test appears to be the same regardless of whether the refusal involves IP or other property. And quite recently the Court of First Instance in the GlaxoSmithKline decision appears to have adopted a test that explicitly balances the anticompetitive effects of territorial distribution restraints against procompetitive IP incentive effects.

Of course, the European courts are in a very different position from the U.S. courts on these issues. Although much of European competition law is EC law, IP law in Europe is still primarily national. Consequently, EC decisions at the interface of IP and antitrust must be made in the context of competition law. That does not necessarily require, however, that the principles applied be those of competition law.

The purpose of this paper is to argue for a return to IP-based decision rules for cases at the interface of IP and antitrust.7 There are several reasons for this position. First, although both the U.S. and European IP-based approaches have been criticized for their

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3 See, e.g., Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917); see also, e.g., Adams v. Burke, 84 U.S. 453 (1873) (“That so far as the use of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent.”).


6 Parke Davis; DG; Volvo.

7 There have been several other recent approaches proposed for resolving cases at the intersection of IP and antitrust. See Michael A. Carrier, Unraveling the Patent-Antitrust Paradox, 150 Univ. Penn.L.Rev. 761 (2002); Mark R. Patterson, When Is Property Intellectual? The Leveraging Problem, 73 S. Cal. L. Rev. 1133 (2000); David McGowan, Networks and Intention in Antitrust and Intellectual Property, 24 J. Corp. L. 485 (1999); Aaron Xavier Fellmeth, Copyright Misuse and the Limits of the Intellectual Property Monopoly, 6 J. Intell. Prop. L. 1, 3 (1998).
vagueness, they have more content than an antitrust approach that tries to take into account IP incentives. There is simply insufficient evidence of the magnitude of IP incentive effects in particular cases (or even generally) to use them as decision rules. Moreover, antitrust rules currently are not applied consistently in the IP context, even where the effects related to the IP are similar.

Furthermore, IP protection is not intended to produce an optimum level of protection in individual cases. Instead, it is intended to produce an appropriate level of protection overall, which means that there will be over-protection in some instances and under-protection in others. The antitrust rule of reason, the primary antitrust rule, seeks to evaluate overall anticompetitive effect in an individual case, and would presumably find an IP owner’s conduct anticompetitive when it produced greater returns than necessary to compensate for the owner’s investment in the IP or to produce the incentive for creation of that IP. To impose a case-by-case antitrust cap on returns when they are greater than necessary is in some sense antithetical to IP.

This paper contends that one of the basic reasons that legal rules are controversial in this area is that they do not consistently focus on the fundamental intellectual property issue. The purpose of IP law is to provide legal protection that can create market power. One would expect, therefore, that the legal rules at the intersection of IP and competition law would focus on issues of power. In fact, though, the rules often focus on particular prohibited forms of conduct. That is so, moreover, even though most forms of conduct that are prohibited to IP owners are also prohibited to other sellers. For example, the rules applicable to tying arrangements are similar for ties that employ patented tying products and for those that employ other products. Therefore, the law often fails to confront the real power-related issues that are at the interface of IP and antitrust.

This paper argues that when courts evaluate an antitrust challenge to an exercise of intellectual property rights, they should focus more directly on whether that exercise advances the goals of the intellectual property. That does not require, however, that a


9 Judgment of the Court of First Instance of 27 September 2006, Case T-168/01, GlaxoSmithKline Services Unlimited v. Commission. Even commentators that often favor IP over antitrust sometimes support this balancing approach. See Valentine Korah, Intellectual Property Rights and the EC Competition Rules 137 (Hart 2006) (“In the situations mentioned [in paragraph 9 of Volvo v. Veng, where the court described hypothetical circumstances in which a denial of IP might be a violation], however, the interest of current consumers in access being granted is particularly strong and the intervention of the competition rules does not completely destroy the ipr. So, the trade-off between the dynamic and static considerations was more favourable to granting a licence in these circumstances.”).

10 As Josef Drexl has put it, “IPRs aim at enabling right-holders to win so much market power that they can offer their products successfully to consumers.” Josef Drexl, The relationship between the legal exclusivity and economic market power: Links and limits. See also Hanns Ullrich, Expansionist Intellectual Property Protection and Reductionist Competition Rules: A TRIPS Perspective, 7 J. Int’l Econ. L. 401, 402 (2004) (“The major goal here is to safeguard the incentive and reward rationales of intellectual property protection while at the same time controlling the risks of an undue extension of legal exclusivity.”).

11 Josef Drexl has advanced an approach that is similar in some respects. See Josef Drexl, Abuse of Dominance in Licensing and Refusal to License: A “More Economic Approach” to Competition by Imitation and to Competition by Substitution, in Claus Dieter Ehlermann & Isabela Atanasiu, eds., European Competition Law Annual 2005: The Interaction between Competition Law and Intellectual Property Law, Hart Publishing 2007). Drexl also focuses on whether the source of an IP owner’s power is
balance of costs and benefits be struck in individual cases—that is not the approach taken by intellectual property law.\textsuperscript{12} Instead, this paper argues that the test should be whether the source of the power exercised by the IP owner is its innovative contribution. If so, the use of the IP rights should be permissible; if not, it should be subject to limitation, either by antitrust law or by IP law itself.

One application of this principle, and a key point of this paper, is that to allow an IP owner to enforce its IP rights in a market where its innovation plays no role is to accord it an inappropriate form of legal leverage. In a market where there is no consumer demand for the IP owner’s innovation, any market power of the IP owner is not economic power attributable to that innovation. Yet some cases, particularly in the U.S., have permitted IP owners to enforce their legal IP rights even in markets where competition is unrelated to the innovation that is the justification for those legal rights. Neither the law in U.S. nor that in Europe focuses carefully on this issue.

The next section of the paper discusses the frequent reference by the courts to market relationships in the IP-antitrust context, and points out that treatment of these relationships is not consistent. The subsequent section follows up this point with a description of how the courts’ emphases on conduct-based tests often overrides, and undercuts, market-relationship issues. The paper then discusses the occasional explicit, but problematic, focuses of the courts and agencies on IP incentives and proposes a more objective approach. The final section outlines some specific applications of this approach.

II. TECHNOLOGIES, CORE MARKETS, AND SECONDARY MARKETS

Courts both in the U.S. and in the EU have drawn distinctions between markets in which patentees are entitled to returns on their rights to exclude and markets in which they are not entitled to those returns.\textsuperscript{13} IP rights do not, however, grant the right to exclude in economic markets. Instead, patents grant the right to exclude others from technologies, and copyright grants the right to exclude others from particular expression.\textsuperscript{14} Hence, the first step, in an antitrust context, is to determine how to make the transition from the statutory scope of IP protection to the market focus of antitrust.

\textsuperscript{12} Heike Schweitzer, while also advocating an approach that would continue to apply competition-law principles, also rejects a case-by-case balancing of economic effects. See Heike Schweitzer, \textit{Controlling the unilateral exercise of intellectual property rights: A multitude of approaches but no way ahead?}


\textsuperscript{14} Trademarks present different issues, and will not be discussed here.
It is important to note that such a determination seems to be required even if the goal is to apply an IP-oriented approach. Even if one wants to apply an IP-oriented test, such as one emphasizing the “scope of the patent,” it is still necessary to determine how that test is to be applied in the context of an antitrust challenge to an exercise of IP. Although it might be possible to simply exclude any use of IP within its scope from antitrust scrutiny, an antitrust challenge to such a use would be couched in terms of antitrust markets. Therefore, there would still be a need to analyze the relationship between the market concepts of antitrust and the statutory monopolies of IP law.

Initially, it seems clear that it is insufficient to point to the difference between (to emphasize patent law) technologies and markets and conclude that because antitrust law focuses on markets, it cannot interfere with patent law’s focus on technologies. This appears to be the approach for which Gustavo Ghidini contends:

\[E\text{ven in principle}\] that pro-competitive ‘interference’ by antitrust law could in no way be seen as an encroachment of IPRs’ function. This, in systematic terms, is to protect inventors against free riding by granting them a micro-monopoly i.e. on the given specific technological solution they developed, not a macro-monopoly on the industrial sector to which that solution belongs. . . . Thus a fortiori no encroachment of IPRs’ function can reasonably be affirmed when antitrust law intervenes to grant third parties’ [sic] access on reasonable terms in case in which the otherwise ‘normal’ exercise of IPRs would prejudice the competition scenario on a whole sector of the market.\[16\]

Although the import of this passage is not entirely clear, it appears to contend that preservation of competition in a “sector” (which presumably is a relevant antitrust market, since it is antitrust intervention that is being advocated) cannot interfere with patent law because patent law does not grant monopolies over markets. But the fact that patent monopolies are not statutorily defined in terms of markets does not mean that they cannot coincide with them. Relevant markets are determined by the presence or absence of substitutes, so if there is demand for a technology has no substitutes, that technology could constitute a relevant market.

It is possible that Ghidini intends only to argue that there should be no objection to antitrust intervention if a patentee seeks to exclude competitors from entering into competition with its technology by providing alternative technical solutions. He states that his argument for intervention “is comforted by the undisputable principle that patent protection cannot cover a type of function even if the patented solution might be, at the date of filing, the first and only to satisfy that kind of usefulness.”\[17\] In one sense, this

\[15\] In the context of refusals to deal, the Federal Circuit has come close to this approach. In re Independent Service Organizations Antitrust Litigation (CSU, L.L.C. v. Xerox Corp.), 203 F.3d 1322, 1327 (Fed. Cir. 2000) (“In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws.”).


\[17\] Id.
statement is false: So long as the patented invention is the only means of performing the function at issue, then indeed patent protection can cover that function.

But perhaps Ghidini means only to say that protection for a particular approach to serving a function does not, in itself, entitle the patentee to exclude all other approaches. Then antitrust law could serve a role by preventing such efforts to exclude.\textsuperscript{18} The problem with that approach is that Ghidini does not make clear what sorts of actions by a patentee he believes would be impermissible. Generally speaking, it is not clear how a denial of IP could prevent others from creating alternative technologies that would compete with that IP.

There could, however be effective exclusion in the IP market itself. Such exclusion could arise where even if competitors can create alternatives to the IP owner’s product, those alternatives, even if superior in themselves, cannot succeed in the market. Josef Drexl makes this point with regard to circumstances like those in *IMS Health*. As he describes, market failures external to the intellectual property itself, such as standardization or network effects, can prevent competitors from succeeding.\textsuperscript{19}

Ghidini also addresses this point in referring to lock-in:

This leads us also to reckon that the antitrust ‘correction’ properly concerns not the IPR’s exercise as such, but the market situation of competitive bottleneck that has grown ‘around’ the IPR be it due to owner’s manoeuvring or to objective circumstances such as the growth and maximization of ‘locking-in’ network effects.\textsuperscript{20}

It is not clear, though, what he means by referring to “owner’s manoeuvring.” Surely not all conduct by an IP owner should give rise to antitrust liability, and what is needed is a means to distinguish procompetitive, incentive-producing profits from anticompetitive “manoeuvring.” This is especially problematic in that Ghidini advocates compelled access in cases “in which the otherwise ‘normal’ exercise of IPRs would prejudice the competition scenario on a whole sector of the market,” suggesting, as noted above, that the legality of conduct can turn on whether IP is successful enough to take over a market.

The fundamental point here is that the relationship between technologies and markets is not always kept clear in this area. IP owners are given the right to exclude from technologies, which may or may not provide the right to an economic monopoly. If the technology itself is what excludes others from a market, antitrust should not interfere. But if the exclusion takes place in a market in which the technology does not play a role, or in a market where the technology plays a role but the source of exclusion is some other factor, antitrust could interfere.

\\textsuperscript{18} See Josef Drexl, Abuse of Dominance in Licensing and Refusal to License: A “More Economic Approach” to Competition by Imitation and to Competition by Substitution 2, in Claus Dieter Ehlermann & Isabela Atanasiu, eds., European Competition Law Annual 2005: The Interaction between Competition Law and Intellectual Property Law, Hart Publishing 2007) (“A patent right holder my hold a market-dominant position, but only so long as no competitor comes up with new technology that can ‘substitute’ for the product protected by that patent.”).

\textsuperscript{19} *Id.* at 5-8.

In the discussion below, the markets in which the intellectual property owner is entitled to exclude will be called the “core” markets, and other, related markets will be called “secondary” markets, a terminology that the cases also sometimes use. Courts also often refer to the “scope” of the IP right; in that case, the core markets are within the scope of the right, and the relevant question is whether a secondary market is also within that scope. The classic example involves tying arrangements, where the courts’ focus is on the use of power derived from a patent in one market—the core market—to force purchases in a market for unpatented products in secondary markets. The difficult question is how to determine which category a market falls into.

III. HOW CONDUCT TESTS OBSCURE MARKET ISSUES

Despite their focus on core and secondary markets (or on the “scope” of IP rights), the courts both in the U.S. and in Europe have not always applied rules that reflect those market relationships. The reason for that failure, this paper suggests, is that the legal rules, particularly in the U.S., retain an emphasis on conduct that overrides the importance of market relationships. This conduct focus, derived from antitrust law, obscures the limits of intellectual property protection.

Indeed, his focus on conduct obscures the fundamental difference between cases that involve IP and those that do not. Because of the focus on conduct, the legal rules applicable to IP owners are often the same as those that are illegal for other firms. In the U.S., the rules for tying are the same for patented and unpatented products. In the EC, the cases challenging unilateral refusals to deal apply similar principles whether or not the property at issue is intellectual property. And in the U.S., this approach is supported explicitly by the antitrust agencies, which state that “for the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property.”

Yet market power, while undesirable in non-IP contexts, is the means by which IP protection works. Hence to impose the same limits on uses of market power derived

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21 See Joined Cases C-241/91 P and C-242/91 P, RTE and ITP v. Commission, [1995] ECR I-743 ("Magill"), ¶ 28 (“The application of the concept of the specific subject matter is an expression of the reasoning that for each intellectual property right it is possible to identify a number of core rights which the owner of that right enjoys under national law and whose exercise is not affected by the Treaty rules.”).

22 In re Independent Service Organizations Antitrust Litigation (CSU, L.L.C. v. Xerox Corp.), 203 F.3d 1322, 1327 (Fed. Cir. 2000) (“[T]he holder cannot use his statutory right to refuse to sell patented parts to gain a monopoly in a market beyond the scope of the patent.”).

23 The paper will often refer to patents and patentees, but the points generally apply more broadly to copyright as well. Some of the key cases in the U.S. and particularly Europe are copyright cases, but the issues arise more frequently in the patent context.


26 In theory, perhaps intellectual property law could be effective even if it provided the IP owner only with returns sufficient to cover its investment. Patent and copyright are not calibrated that precisely,
from IP as are imposed in other contexts may be inappropriate. The key point is that when conduct by an IP owner in a secondary market is challenged, the question that should be asked is whether the IP owner’s source of power is its IP. If so, conduct made possible by that power should be permissible, in order to further creation of IP incentives. If, on the other hand, the power derives from some other source, the IP owner’s use of it should be subject to normal antitrust rules.

As is discussed below, conduct rules fail to meet this goal in several ways. First, there is no clear definition, and often no attempt at a definition, of the specific sorts of conduct that would constitute a violation by an intellectual property owner. This might make sense if the rules for IP owners were exactly the same as for owners of other property; in that case, no specific definition of the rules would be necessary. But in fact the cases sometimes do treat IP differently, without defining exactly what the implications of the differences are. Second, it is not at all clear that the rules applicable to IP should be the same as those applied to other property. On the contrary, it seems that the incentive purposes of IP might require some special consideration. With respect to these incentive effects, the rules as currently applied result in both overinclusion and underinclusion in antitrust liability.

A. Vague Conduct Tests

The U.S. antitrust agencies’ Antitrust Guidelines for the Licensing of Intellectual Property refer to the possibility of illegal conduct by IP owners, but they do little to define it:

If a patent or other form of intellectual property does confer market power, that market power does not by itself offend the antitrust laws. . . . However, market power . . . would be relevant to the ability of an intellectual property owner to harm competition through unreasonable conduct in connection with such property.28

The guidelines then go on to discuss various forms of licensing, generally concluding that they are procompetitive. In the few instances where they indicate that a licensing practice could be a violation, the guidelines do not provide clear rules but rely instead on conclusory concepts such as “adverse effects on competition” and “anticompetitive foreclosure.”

More importantly, the guidelines do not make entirely clear whether the rules that they advance are the same as those that would apply in non-IP contexts. MORE

27 Note, though, that there can be somewhat similar incentive effects for monopoly. See [Trinko footnote].

The position in the courts is even less clear. Perhaps the leading U.S. case on refusals to license intellectual property, *Data General Corp. v. Grumman Systems Support Corp.*,\(^{29}\) establishes a rebuttable presumption of legality for refusals to license:

[W]e hold that while exclusionary conduct can include a monopolist’s unilateral refusal to license . . . , an author’s desire to exclude others . . . is a presumptively valid business justification for any immediate harm to consumers. . . . Wary of undermining the Sherman Act, however, we do not hold that an antitrust plaintiff can never rebut this presumption, for there may be rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act.\(^{30}\)

Although one example of a rebuttal of this presumption is discussed below, the *Data General* test itself, like the U.S. IP guidelines, provides no real guidance.\(^{31}\)

**B. General Conduct Tests that Result in Overinclusive Liability**

Conduct tests that are applied in the same way to IP as to other property can interfere with the incentive goals of IP. It is true that in principle the same incentive goals exist in the absence of IP. For example, the U.S. Supreme Court take the view that “[t]he opportunity to charge monopoly prices—at least for a short period—is what attracts ‘business acumen’ in the first place; it induces risk taking that produces innovation and economic growth.”\(^{32}\) But this incentive issue should be even more significant in the IP context, where it is the product of another, presumably valid body of law. As is discussed below, antitrust law has recognized this in some circumstances, but not in others.

1. **Price-Fixing in Licenses: Preserving Returns on Intellectual Property**

In *General Electric, MORE*

2. **Tying: Eliminating Returns on Intellectual Property**

To the extent that antitrust is viewed as a means of limiting the exercise of market power, tying law makes sense. By eliminating the ability to tie, tying law eliminates one means of exploiting market power. As the U.S. Supreme Court has said, “the law draws a distinction between the exploitation of market power by merely enhancing the price of the tying product, on the one hand, and by attempting to impose restraints on competition in the market for a tied product, on the other.”\(^{33}\) Without taking a position on whether leveraging is always more harmful than a price increase, the prohibition on the use of market power to impose a tie is at least conceptually sensible.

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\(^{29}\) 36 F.3d 1147 (1st Cir. 1994).

\(^{30}\) 36 F.3d at 1187 & n.64.

\(^{31}\) The *Data General* court did suggest that the presumption of validity could be rebutted if the IP owner acquired its IP in an unlawful manner. See 36 F.3d at 1188 (citation omitted).


In the intellectual property context, however, it is not at all clear that the goal should be to impose a restriction on the exercise of market power, at least if that power derives from innovation. After all, intellectual property law operates by giving intellectual property owners the right to exclude in order to provide them with market power. Therefore, to impose limits on the exercise of that power seems contrary to the purpose of intellectual property.

Both patent law and antitrust law have avoided confronting this problem by taking the position that when a patentee ties an unpatented product to a patented one, the patentee is extending its power into the secondary market, where it has no legal protection—*i.e.*, has produced no innovation entitling it to protection. But that is true only in a sense. That the patentee is exercising power in a secondary market does not necessarily mean that the patentee has, or threatens to gain, power in that secondary market. The question that should be asked is whether there are any market-power implications that extend beyond the core market.

In fact, many ties—and more specifically many patent ties—serve to allow the patentee to price-discriminate among uses of its patented innovation. That is, they allow it to exploit more fully the power that patent law provides over the tying product. These ties often serve merely as metering devices to match the overall price paid by buyers to their demand for the patented tying product. Although the power is exercised in the tied-product market, the source of the power remains the patentee’s innovation. So long as there is no threat of the patentee gaining power in the tied product market, it seems counterproductive to deny it a means of using the power granted to it by patent law.

There are some ties, of course, with which the patentee does threaten to achieve power in the tied-product market. In the European *Windsurfing* case, for example, it appears that the patentee was seeking to gain power in the sailboard market, though its patent covered only the sail rigs for such boards. And in the U.S. cases involving durable equipment and independent service organizations, which are discussed below, the patentees were seeking to gain or retain power in the service markets for their durable equipment. But establishing that a patent tying arrangement is anticompetitive should require a showing of at least a threat of power in the downstream market.

It is important to emphasize that the point here is not the usual criticism of tying law. The point is not to question whether the use of leverage is anticompetitive in general, or to argue that a threat of power in the tied market should be proven in all tying challenges. The point instead is that there is procompetitive potential for patent ties that is not present in other ties. Even though tying law developed in the U.S. in the patent context, and even though it is often thought that using a patented product to impose a tie is more harmful than using a non-patented product, the argument here is that in the price-discrimination context the opposite is true. The U.S. *per se* condemnation of ties when the seller has market power is *more*, not less, problematic in the patent context.

C. **IP-Specific Conduct Tests that Result in Underinclusive Liability**

In contrast to the U.S. Supreme Court, the Court of Appeals for the Federal Circuit, which handles appeals of patent cases in the U.S., has treated cases involving IP as presenting unique issues. Indeed, it has referred to the incentive effects of IP in taking a distinctive approach to it. However, instead of seeking to determine whether those incentive effects are in fact important in the cases at issue, it has relied on conduct labels.
Because forms of conduct are not entirely correlated with incentive effects, the court’s approach sometimes provides spurious returns on IP.\textsuperscript{34}

1. **Unilateral Refusals to Deal: Providing Spurious Returns on Intellectual Property**

When the power that is being exploited by an IP owner is not truly provided by its innovation, there is no IP rationale for upholding that exploitation. This describes some circumstances in which IP owners use a refusal to deal in order to gain an advantage in a downstream market. As an example, consider the U.S. cases involving independent service organizations (ISOs) that provide service for the products of durable-goods manufacturers. In these cases, the manufacturers often refuse to provide patented parts to the ISOs or to equipment owners that use ISOs to provide service. They deny those parts despite the fact that often the patented invention contributes nothing to the actual services provided in the service market.

In these cases the manufacturers—the IP owners—choose to exclude others from their patented parts not to prevent those others from competing in the core parts market, where the IP owners have innovated, but to prevent them from competing in a secondary service market unrelated to the innovation. In the U.S., courts have allowed this conduct. For example, the *Xerox* district court opinion stated that a patentee’s rights are defined by the “patent monopoly” defined by the claims of the patent, “not by the limits of what a court determines is the most analogous antitrust market.”\textsuperscript{35} The court then concluded that the service market was within the parts patent monopoly, apparently because the patentee’s competitors needed access to patented parts to compete in the service market.

The Federal Circuit affirmed the district court decision, focusing on the patent owner’s right to exclude. It acknowledged limits to that right, noting that “the patent holder cannot use his statutory right to refuse to sell patented parts to gain a monopoly in a market beyond the scope of the patent.”\textsuperscript{36} Nevertheless, it apparently viewed those limits as inapplicable largely because “[t]here is ‘no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent . . . .’”\textsuperscript{37} If any unilateral refusal to deal is permissible, though, then the patentee can deny its patented product in any market, so long as it does so unilaterally. There is then no role for the determination of whether the market at issue was related to the patentee’s innovation. Indeed, this is presumably the result expected by the Federal Circuit, as it mentioned the scope inquiry only “within the framework of a tying case.”\textsuperscript{38}

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\textsuperscript{34} In theory, the mismatch between conduct and incentive analyses could result either in excessive or insufficient returns (as in the tying cases discussed above), but before the Federal Circuit it is the former result that occurs.


\textsuperscript{36} 203 F.3d at 1327 (emphasis in original).

\textsuperscript{37} Id. at 1326 (quoting Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1362 (Fed. Cir. 1999) (citing Image Technical Services v. Eastman Kodak Co., 125 F.3d 1195, 1216 (9th Cir. 1996))).

\textsuperscript{38} Id. at 1327.
The ISO cases closely resemble tying cases, except that in the ISO cases the exclusion in the secondary market is caused not by contract but by unilateral action. Yet the legal result is dramatically different. Thus, “tying,” construed as an agreement requiring the purchase of a second product, is per se illegal where the manufacturer has market power over its patented parts, but a “unilateral refusal to deal,” even if it has exactly the same effect, is permissible because “the antitrust laws do not negate the patentee’s right to exclude others from patent property.”

In Europe, on the other hand, the basic principle has been applied in both contexts, though in somewhat different ways. Tying law is perhaps somewhat less clearly defined in Europe than in the U.S., but the general approach in patent tying cases is similar, and with regard to the role of the scope of patent protection in a tying arrangement, the ECJ has conducted a more focused inquiry than is typical in U.S. tying cases. In Europe, though, the treatment of unilateral refusals to deal is somewhat similar. In those cases, the law focuses explicitly on market relationships with the “new product” test of Magill and IMS Health. Under IMS Health, though, access must be provided only if the IP owner is not itself participating in the downstream market. That is, whether the IP owner must provide access to its IP turns on the owner’s presence in a secondary market that may be unrelated to its innovation or to its incentives for producing the IP.

To preserve a role for the “scope of the patent” inquiry, the courts should focus less on the form of conduct at issue—whether it is a “tying arrangement” or a “unilateral refusal to deal”—and more on the relationship between the market at issue and the IP owner’s contribution. Only by doing so can the law conform to the goals of preserving IP incentives while minimizing competitive harm. As the next part of this paper illustrates, there are several approaches to this goal.

IV. POSSIBLE APPROACHES TO IP AND MARKET RELATIONSHIPS

The general approach advocated in this paper is that antitrust should not interfere in an IP owner’s efforts to reap profits, even monopoly profits, from its innovative contribution. That is true, moreover, whether the IP owners is charging monopoly prices or refusing to license its intellectual property. But not all exercises of IP are related to

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40 In re Independent Service Organizations Antitrust Litigation (CSU, L.L.C. v. Xerox Corp.), 203 F.3d 1322, 1325 (Fed. Cir. 2000) (quoting Intergraph Corp. v. Intel Corp., 195 F.3d 1346, 1362 (Fed. Cir. 1999)).


42 The assumption here is that the “new product” is sufficiently distinct to be considered a separate market for the purposes of this analysis, even if it might be considered to be in the same relevant antitrust market. The intellectual property analysis has a technical element, defined by the scope of the intellectual property protection, that does not necessarily correspond exactly to an economic antitrust analysis.

43 Douglas Melamed and Ali M. Stoeppelwerth would apparently apply different rules to these two activities. They say that “one may enjoy the fruits of her lawfully obtained [intellectual] property, including whatever monopoly profits that property enables her to earn, but she may not sacrifice such profits strategically, by using that property in ways that serve no legitimate purpose (i.e., one that neither benefits consumers nor promotes efficiency) in order to create additional market power.” Douglas Melamed and Ali M. Stoeppelwerth, The CSU Case: Facts, Formalism and the Intersection of Antitrust and Intellectual
the innovation that is the basis of the IP. The goal, then, should be to focus carefully on
the nature of the intellectual property at issue. More specifically, the goal should be to
focus on the relationship between the market power that the IP owner is exercising and its
innovation.

One could approach this problem from either an ex ante or an ex post perspective.
Taking the ex ante approach, one would seek to determine whether the market at issue
was one that the patentee anticipated as a source of profits when it engaged in its
innovative efforts. Looking at the problem ex post, the question that should be asked is
not quite so clear. One possibility would be to ask whether the patentee is in fact seeking
to profit from its innovative contribution in the market. An alternative would be to ask
whether, even if the patentee is seeking to profit from its innovative contribution, that
contribution is too far removed in some sense from the market at issue to entitle the
patentee to returns from it. Each of these possibilities is discussed below.

A. **An ex ante Approach: The EC Article 82 Discussion Paper**

The European Commission suggests an ex ante approach in its discussion paper
on article 82. In its discussion of refusals to supply, it says that such a refusal could be
abusive if “the original investment primarily was made for reasons not related to the
market in which the company asking access to the input intends to use the input.” The
Commission says little more about this approach, which seems to have some very
fundamental problems. This can be seen by considering various possible relationships
between the patentee’s original investment and the markets in which it later seeks to
enforce its patent rights. There are at least four possibilities, leaving aside the core market
in which the patented innovation applies most directly.

First, the patentee might seek to enforce its patent in a market that, though distinct
from that of its patented innovation, is the one in which it anticipated receiving all its
profits. Although this might at first glance seem rare, it probably is in fact quite common.
The IMS Health case seems a typical example, though in the copyright context. There,
there was no real “market” for brick structures, and IMS Health presumably expected to
reap the profits from its creation of the 1860 brick structure in its sales of data based on
that brick structure. Second, the patentee might seek to enforce its patent in a market
distinct from its core invention market while also receiving profits in that core invention
market. This would seem to describe the U.S. ISO cases. In those cases, the patentee-
manufacturers sell their parts, and thus reap profits in that market, but they also use
control over access to those parts to gain an advantage in the service market.

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Property Law, 10 Geo. Mason L. Rev. 407, 427 (2002). But in the U.S. at least, there is no obligation on an
IP owner to use or license its intellectual property. Therefore, this approach seems inconsistent with U.S. IP
law, at least if Melamed and Stoeppelwerth mean to include simple refusals to deal in their sacrifice-of-
profits category (and they do not describe any narrower criterion). I have also advocated a sacrifice-of-
profits test, see Mark R. Patterson, The Sacrifice of Profits in Non-Price Predation, Antitrust (Fall 2003), at
37, but I would not apply it to denials of IP where the power is truly a result of innovation as described in
this paper.

European Commission, Directorate-General for Competition, DG Competition discussion paper
on the application of Article 82 of the Treaty to exclusionary abuses (Dec. 2005)

Id. ¶ 236.
Third, the patentee might seek to enforce its patent in a market that it considered when deciding whether to invest in innovation, but in which it did not anticipate receiving profits. Whether such a market really exists is unclear, as will be discussed below. Fourth, the patentee might seek profits in a specific related market that it did not consider at all in its investment decision. Here there are two sub-possibilities. On the one hand, it might be that although the patentee did not consider the specific market at issue, its investment decision assumed the general possibility of profits in related markets. On the other hand, it might be that not only did the patentee not consider the specific market at issue, but its investments would have been made regardless of the possibility of profits in related markets.

The question is whether it is really possible to develop administrable rules based on these distinctions. For the first two possibilities, where profits in the markets at issue were part of the patentee’s investment decision, it appears that the Commission’s approach would allow the patentee to reap profits in those markets. (In the second case, where the patentee also anticipated receiving profits in the “core” market, the Commission’s test appears to turn on which market “primarily” motivated the investment, but for present purposes we can assume that the investment was primarily motivated by the secondary market.)

There are at least two problems with this approach. The first is that the secondary market may be much more profitable than the core market would be. As a result, the distortion produced by the patentee’s monopoly pricing may be greater than it would otherwise be, and greater than necessary to produce the incentive required for its innovation.46 This could have been the case, for example, in IMS Health. To the extent that the 1860 brick structure was not inherently significantly better than alternatives, but only became more valuable when customers became locked in to it, IMS Health gained the ability to charge a higher price than it otherwise would have for data. In that respect, the case resembles those involving the adoption of patented technology in industry standards, where patentees similarly gain more power in the downstream market than they would have had, at least initially, in the upstream technology market.47

The second problem is that there may be considerable economic activity, and even innovative activity, in the secondary market that is unrelated to the patentee’s core innovation. Therefore, by allowing the patentee to control the secondary market, we allow it to extend its control to economic contributions made by others. In other words, it extends its power beyond the “scope” of its intellectual property.

The third case is also problematic. In that case, where the patentee considered a market, but did not expect to profit in it, it might be reasonable, as the Commission indicates, to deny it profits in that market. But such a market may not exist, at least in a way that could be helpful here. Why would the patentee not expect to profit in the market? If the answer is for legal reasons, then reliance on this test would be circular. And it is difficult to imagine any other reason. That is, it is difficult to imagine a patentee saying, either to itself or to a courtroom, “Yes, when I made my investment decision, I saw that

\[46\] Alternatively, the profits might have been necessary to create an incentive for the innovation, but the harm in the secondary market might outweigh the benefits of the innovation.

my product would play a role in this other market, but I did not expect to be able to take advantage of that role.”

Finally, for the fourth case, we have to consider whether, even if a patentee did not consider a market, we can determine that fact with confidence. In many cases, it seems that no evidence would be available bearing on this question. In other cases, perhaps there would be internal documentation regarding the sources of expected profits, and some markets might not be mentioned. The question then would be whether we are willing to adopt a *per se* rule that patentees would not be entitled to profits in such markets.

It is possible, of course, that the Commission does not intend to rely on the patentee’s own views, but on some more objective indicator of whether the market was part of the patentee’s incentive. Consider, for example, a U.S. case discussed by Eleanor Fox in a recent article. In *New York Mercantile Exchange, Inc. v. Intercontinental Exchange, Inc.*, the parties were commodity exchanges, and customers demanded that their contracts employ settlement prices that were set, allegedly by formula, by the incumbent. The incumbent argued that its settlement prices were copyrighted, and it refused to provide them in a timely manner to the challenger. By this means, as Fox describes, the incumbent was able to deny “a necessary input which was merely mechanistic, not creative” in order to harm competition in “the principal market.”

One cannot conclude, however, from the fact that little effort is required to produce copyrighted information that copyright was not part of the incentive calculus. Even where—perhaps especially where—copyrights or patents are granted too easily, they surely affect decision-making. Although it would be possible to use antitrust law to remedy the defects of intellectual property law in situations that Josef Drexl labels “inherent regulatory failures of the IP system,” that would not reflect the incentive-based approach that the Commission describes in the discussion paper.

It is also possible that, instead of the subjective *ex ante* approach apparently advocated in the discussion paper, the Commission could apply a more objective one. In the *Microsoft* case, in fact, a different incentive-based approach was applied by the Commission in the context of an effort by Microsoft to show an objective justification for its practices. As noted below, though, it is not clear that there was really sufficient evidence to evaluate incentives in the *Microsoft* case. The difficulty of making an incentive calculation in an objective context suggests that a subjective incentive inquiry would be even more difficult.

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50 Fox, *supra* note 48, at 963-64. The court rejected the plaintiff’s section 2 claims. Although it did not focus on the intellectual property aspect of the case, it did note that “NYMEX has a legitimate business interest in preventing its competitor, ICE, from free-riding on NYMEX’s settlement prices.” 323 F. Supp. 2d at 571. It is not clear, however, whether it was referring to intellectual property in its reference to free-riding, because it then said “NYMEX’s settlement prices have value because they are viewed as proxies for market prices, and NYMEX has a legitimate interest in preventing rivals from free-riding on this reputation.” *Id.*
In the end, then, the Commission’s approach is problematic for a number of reasons, which may account for the fact that no U.S. case has relied on this criterion. The closest that a U.S. court has come is a statement in the district court opinion in *Xerox*:

Although most patented inventions likely will be marketed in a single antitrust market, some inventions may be useful in multiple markets. [Confining returns to a single market] would discourage the invention of such products.

The court offers no evidence for this claim, which, although it seems intuitively plausible, achieves that plausibility by looking at only one side of the IP-antitrust balance. It is true that limiting a patentee’s profits will likely discourage some innovation, but that is not the relevant question. The question that we should ask is whether it will discourage socially desirable innovation, which is innovation whose social benefits outweigh its social costs. If allowing a patentee to profit in multiple markets serves primarily, or even significantly, to allow it to control economic activity for which it was not responsible, the balance has shifted too far from the competition side of the balance to the IP one.


The most notable, if not the only, example of a court’s adoption of a subjective *ex post* approach is the Ninth Circuit Court of Appeals decision in *Image Technical Services, Inc. v. Eastman Kodak Co.* The court in *Kodak* adopted the general approach of the First Circuit in *Data General*, which as discussed above established a rebuttable presumption for an IP owner’s exclusion. *Kodak*, however, allowed the presumption to be rebutted by evidence of the patentee’s subjective intent:

The presumption may also be rebutted by evidence of pretext. Neither the aims of intellectual property law, nor the antitrust laws justify allowing a monopolist to rely upon a pretextual business justification to mask anticompetitive conduct.

The court specifically allowed a rejection of the patentee’s reliance on its patent rights:

Evidence regarding the state of mind of Kodak employees may show pretext, when such evidence suggests that the proffered business justification played no part in the decision to act. Kodak’s parts manager testified that patents “did not cross [his] mind” at the time Kodak began the parts policy. Further, no distinction was made by Kodak between “proprietary” parts covered by tooling or engineering clauses and patented or copyrighted products.

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52 125 F.3d 1195 (9th Cir. 1996).

53 *Id.* at 1219.

54 *Id.*
The court also noted that of the “thousands” of parts for Kodak’s equipment, “only 65 were patented,” yet it refused to license both the patented and unpatented parts. The court concluded that the jury would have found Kodak’s IP justification pretextual.

The court’s basic conclusion, then, was that the patentee Kodak was not actually denying its patented parts to ISOs in order to vindicate its patent rights. Therefore, Kodak’s reliance on its patent rights was not a valid business justification that would prevent liability under Sherman Act § 2. The question, though, is what constitutes an actual vindication of patent rights. An initial problem is evidentiary: are we really confident that we can distinguish those cases in which a patentee’s employees really meant to reap profits on the patentee’s innovation? Although there was some evidence on this issue in Kodak, it seems likely that there would not always be such evidence. And what if the employees proffering the justification were not really thinking of the firm’s profits on its patented innovation, but others in the firm believed that the enforcement at issue would promote the company’s innovative activity?

Moreover, even if it were true that the justification, when offered, had little or nothing to do with the patentee’s patents, is that really relevant? Suppose that a patentee initially sold a product at a low price, not realizing that it was covered by patent protection. If it later discovered the relevance of its patent rights, should its failure to rely on those rights earlier prevent it from enforcing them later? Perhaps it would be reasonable in such a case to infer that the possibility of enforcement had no effect on the patentee’s ex ante incentives. After all, if the patentee did not realize the profit potential of the invention in a market even after the invention was created, it is very unlikely that it realized it before. As in the ex ante discussion above, though, it is not clear that we would want to adopt a rule that prohibited a patentee from enforcing its patents in any market that it did not initially consider.

In any event, the court’s concern in Kodak appears to have been motivated at least in part by the parts-to-service leveraging at issue in the case. One wonders if the court would have found evidence of pretext relevant had Kodak simply been refusing to sell its parts without regard to advantages in the service market. Indeed, one wonders how the court would have responded had Kodak only denied access to the 65 patented parts. Or if it had explicitly asserted its patent rights initially. These do not seem like the sorts of factors on which antitrust liability should turn. Antitrust generally relies on more objective considerations, like those discussed in the next section.

C. An Objective ex post Approach

An objective approach could focus explicitly on the relationship between the patentee’s innovation and the market or markets in which its enforcement efforts have their effect. This is arguably the “scope of the patent” inquiry called for by the Federal Circuit in Xerox: a patentee can exclude others in multiple markets, but only if those markets are within the scope of the patent.

This, of course, is the principle at issue in the cases that involve the tying of unpatented to patented goods. As discussed above, however, in those cases the tied market is outside the scope of the patent claims, but is not outside the economic “scope” of the patented invention. If the tie is used as a price-discrimination mechanism, to meter use of the patented invention, it is the market power of the invention that is being
exploited. It is for that reason that prohibition of price-discrimination ties is contrary to the goal of encouraging innovation.

In other cases, though, the issue is not exploitation of the economic power of a patent outside the technical scope of the invention. In these other cases, such as those involving ISOs, the issue is the legal exploitation of a patent in a related market, outside both the scope of the invention’s technical claims and the scope of the invention’s economic significance. The basic situation involves two markets, A and B, where A is the intellectual property market. The situation requires two further characteristics: (1) participation in market B requires access to the IP from market A, and (2) the actual basis on which sellers compete in market B is independent of that IP. This describes a situation in which IP from market A is an essential facility for market B, but is economically distinct from the goods or services provided in market B.

In these circumstances, the IP owner in market A is able to exclude because its legal patent rights allow it to choose with whom it will deal, regardless of the economic importance of its inventions in market B. One might ask why, if the patentee’s invention is indeed economically unimportant in market B, potential buyers cannot turn to other sources. But alternatives might be unavailable for reasons unrelated to patent protection, as Josef Drexl has discussed. For example, the IP owners might have economies of scale that prevent others from providing alternatives at competitive prices. This is the likely explanation for the absence of competition in the parts market in the ISO cases. There could also be consumer preferences for the IP owner’s product that are independent of the actual innovative benefits that the product provides. This is the likely explanation for the failure of competitors to emerge in the market for block structures in IMS Health.

Indeed, the European Commission’s IMS Health decision relied on exactly these sorts of factors in requiring IMS Health to provide access to its 1860 brick structure. The Commission said that “the costs, competitive disadvantages and other problems . . . which pharmaceutical companies would incur if they were to switch from this structure to buy regional sales data services formatted in another structure would be unacceptably high, so creating a very significant obstacle to their doing so.”55 The ECJ, however, chose not to follow this approach, but to rely on the “new product” test derived from Magill. The “new product” test does not, however, successfully distinguish between refusals to deal that advance IP incentives and those that do not. This is particularly evident in its focus on whether the IP owner is participating in the downstream market: If the products or services offered in the secondary downstream market are independent of the IP owner’s innovative contribution in the core upstream market, the owner should not be entitled to use its IP rights to exclude downstream competition.56


56 In this respect, Volvo v. Veng seems to take a better approach. The ECJ there permitted the automobile manufacturer to deny others the right to manufacture replacement parts, which were in its core market, but indicated that a denial of the parts to “independent repairers” would be abusive. Case C-238/97, AB Volvo v. Erik Veng (UK) Ltd., [1988] ECR 6211, ¶ 9. This appears to reflect a careful focus on the distinction between core and secondary markets, though the court also referred to an “arbitrary refusal to supply spare parts,” which suggests that a refusal could perhaps be justified, even in a secondary market. Id.
As described above, the U.S. antitrust courts also have not carefully focused on the source of power in IP-antitrust cases. Their failure to do so is rather odd, because U.S. patent law does in fact consider these sorts of factors. In at least two areas, patent doctrine turns on whether a patentee’s power derives from its innovation or from some other factor. First, in making determinations of patentability, the law uses commercial success as an indication that an invention was not obvious. It requires, however, that the success be due to the invention, not to some other factor, like the general market position of the patentee’s brand or economies of scale. Second, in calculating damages for patent infringement, U.S. patent law awards only “the portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements.” Despite the general relevance of these principles, they have not been applied in the antitrust context.

In sum, the point here is that IP owners that seek to justify their refusal to provide access to their IP in a secondary market should be required to show that their innovative contribution entitles them to returns in that market. If instead they are merely taking advantage of their legal right to exclude in a market where their IP is not the source of power, the exclusion should be impermissible. For example, if the IP owner’s power is due to lock-in of buyers, as described above with reference to IMS Health, the IP should provide no right to exclude in the downstream market. The same is true if the right to exclude is due to economies of scale, as may be so in the ISO cases, or to a regulatory grant, as in Magill.

V. Determining the Source of Market Power in the Presence of IP

The principles described in the preceding section do not provide a clear method for establishing the impermissible use of legal leverage in litigation. This section outlines one possible approach. However, that this is only an initial attempt to design a structure for this inquiry. These suggestions should be understood more as a call for future work than as a conclusive exploration of the issue. Moreover, there are several recurring scenarios for which specific rules are proposed here, and such rules could also be designed for other scenarios.

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57 See Chisum on Patents, § 5.05[2].

58 See, e.g., Cable Electric Products, Inc. v. Genmark, Inc., 770 F.2d 1015, 1027 (Fed. Cir. 1985) (“[F]or commercial success of a product embodying a claimed invention to have true relevance to the issue of nonobviousness, that success must be shown to have in some way been due to the nature of the claimed invention, as opposed to other economic and commercial factors unrelated to the technical quality of the patented subject matter.”); Chisum on Patents, § 5.05[2][f].


60 Andreas Heinemann has advocated a “scope of the reward” test that seems similar in principle to the approach proposed here. See Andreas Heinemann, Compulsory Licences and Product Integration in European Competition Law — Assessment of the European Commission’s Microsoft Decision, 36 IIC: International Review of Intellectual Property and Competition Law 63 (2005). With the exception of the example discussed below in the text, though, Heinemann also does not offer a detailed exploration of the approach.
It can be noted at the outset that although a focus on the scope of intellectual property rights has been criticized as vague, no real alternative approach to evaluating the significance of IP rights in the antitrust context has arisen. Instead, as described above, the approaches used by the courts often adopt a strategy of declining to strike a balance between IP and antitrust. An approach like that of the Xerox district court in the U.S. simply declares any refusal to license IP permissible, and one like that of Magill/IMS Health in Europe declines to give IP any special status. Neither approach offers the benefits of a considered effort to preserve IP incentives while still recognizing that IP rights are limited.

Moreover, it is not clear why the scope inquiry is thought to be so vague. The first step of the inquiry, described in more detail below, is in fact very similar to the basic IP infringement inquiry. If the IP is being used to restrict activity that would not be infringing, then it is being applied outside its scope, at least formally. The second step then asks whether the use of the IP is also outside the economic scope of the IP economically. In other words, the inquiry has both a technical inquiry—looking to the scope of the patent claims, in the patent context—and an economic one—looking to the “reasonable reward” of the patentee.

Under the approach advocated here, these steps would constitute a sufficient prima facie showing by one challenging an IP owner’s exercise of its IP rights. That showing would establish both that the use of the IP is restricting other economic activity and that the IP owner’s returns on its investment do not require such a use of the IP. As is described below, though, there are still circumstances in which eliminating the outside-the-scope use of the IP would not in fact provide the benefits expected. So, either in the antitrust context or in the pure misuse one, the IP owner would have a chance to rebut the showing of the use of legal leverage.

A. Establishing the Use of Legal Leverage

In order to establish the improper use of legal leverage, an injured party—referred to here as the “challenger”—should be required to show that the IP owner’s exercise of its rights is outside the scope of its protection both technically and economically. Neither of these showings, as will be discussed below, requires reference to relevant antitrust markets. Both can be shown through reliance on IP issues alone.

1. The Use of IP Beyond Its Technical Scope

The challenger’s first burden should be to show that the IP owner’s exercise of its rights is outside the scope of its protection, in a technical sense. In the patent context, this showing could be made by demonstrating that the patentee is seeking to extend its control beyond the claims of the patent. It should be sufficient for the challenger to show that there is some area of economic activity that is being restricted by the IP owner, and that that activity is not covered by the claims of the patent.

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For example, in the U.S. ISO cases, the challenger could have pointed out that whatever patents the manufacturers had on the parts for their equipment, those patented inventions had no effect, so far as the cases show, on the manner in which service was performed. *Magill* is another example, as combining television listings from several sources is the same task regardless of the actual content of those listings (and presumably *Magill* TV Guide would have been willing to receive the listings in whatever form they were provided).

The technical inquiry will in some cases also be able to be supplemented by an economic one. If the power that is being exploited by an IP owner is actually the product of its IP, one would expect differences in the terms on which the owner will provide the IP to reflect differences in the use to which the IP is put. This is not the case regarding access to patented parts in the ISO cases. Whichever service organization—the manufacturer itself, the equipment owner, or an ISO—installs the parts, the parts are used in the same way. Yet in these cases the manufacturers have been unwilling to provide the parts to ISOs, confining access to themselves and, in some cases, to equipment owners that perform their own service.

The inquiry advocated here does not ask simply whether the IP is an input into the economic activity being restricted. It may be the case that the activity requires as an input either the IP or the substitute for it. Although this has been viewed in the U.S. as sufficient to bring the activity within the scope of the IP protection, as described above, the inquiry called for here focuses on the nature of the invention itself. The question is whether the activity would be fundamentally different with an alternative to the IP, regardless of whether there in fact exists such an alternative.

There are some instances in which the patented invention or copyrighted expression may in fact play a role in the related market. For example, in the U.S. *Data General* case, which resembles in other respects the other ISO cases, the IP at issue was not parts but copyrighted software that was used in servicing the manufacturer’s equipment. In that case, the IP played a formal, or technical, role in the service market, as well as in the service-software market.

The difficult question, though, is what to do when the source of the IP owner’s power appears to be a combination of its contribution and other factors. For example, in *IMS Health*, it might have been that the specific nature of the 1860 brick structure had an effect on the process of gathering the pharmaceutical sales data to be provided in the format determined by that brick structure. That seems unlikely, in that it seems more likely that the gathering of the data would be more-or-less independent of the format in which it was provided, but perhaps the nature of the consolidation of the data in the brick structure made it possible to gather the data in a more efficient manner.

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64 This topic is explored in more detail in Mark R. Patterson, *When Is Property Intellectual? The Leveraging Problem*, 73 S. Cal. L. Rev. 1133 (2000).


66 It is worth emphasizing here that the question is a technical one, not the frequent focus on lock-in in *IMS Health*. If *IMS Health*’s brick structure did indeed play a substantive role, then the question of lock-in would become important. At that point, though, the question becomes one of whether the buyers were aware of the lock-in possibility at the time they committed to the brick structure. That question, which
A final example could be Microsoft’s interoperability information. That information was not just necessary to the design of workgroup server operating systems, but might have had a significant effect on how those server operating systems were designed. On the other hand, it is also possible that although the specific interoperability information would affect the ultimate design of the server operating system, it would not do so in a way different from alternative interoperability techniques. That is, the choices made in the interoperability techniques would not themselves play more than a de minimis role in the design of workgroup server operating systems.  

It is worth distinguishing the approach proposed here from that in the European Commission’s decision in Microsoft. Although that decision adopted a focus on IP incentives, and appeared to place the burden of establishing an incentive justification on the IP owner, the incentive test it applied appears to be different from the one outlined here. Specifically, the Microsoft decision focused directly on incentive levels in the two markets at issue, interface information (or perhaps operating systems) and workgroup server operating systems. Although the decision concluded that Microsoft had not established a negative overall effect on incentives, it is not really clear that the information for the incentive determination was available.

The approach proposed in this paper would not turn directly on incentive levels, but on market relationships. The central issue would be whether the workgroup server operating system market is within the scope of Microsoft’s contribution to interface information. The problem with this determination in the case of interface information is analogous to that raised in cases involving adoption of patented technologies as industry standards, turns on the possibility of deception, rather than any fundamental IP issue.

Even in the absence of deception, though, it might be viewed as desirable to limit the IP owner’s power to that provided by its innovative contribution. In the standard-setting context, I have previously advocated placement of the burden of proof on the IP owner. That is, where the IP owner’s power could derive both from its creative contribution and from another factor or factors, the IP owner should, as a condition of using its IP to pre-empt antitrust scrutiny, be required to show that the power it is exercising does indeed derive from its IP. Although this will not always be an easy burden to meet, the IP owner should have better access to the relevant information. Moreover, requiring the IP owner to meet this burden is likely to encourage it to ensure that information on the value of its IP is available.

Hovenkamp, Janis, and Lemley refer to circumstances involving “intellectual property rights that are incidental to a facility that would be essential even without such a right.” Herbert Hovenkamp, Mark D. Janis & Mark A. Lemley, Unilateral Refusals to License in the U.S., at 26, http://ssrn.com/abstract=703161. In such circumstances they would allow application of the essential facilities doctrine, but it is not clear which IP rights they would call “incidental.” They mention “the context of a regulated or natural monopoly,” but they say that “it seems fair to characterize the law as distinguishing between cases in which the intellectual property right itself is that facility to which the plaintiff wants access and cases in which intellectual property rights exist but are incidental to the control of the facility itself.” Id. It is not clear, though, that this is an accurate characterization of the law in the U.S.


Id. at ¶ 783.

Id. at ¶¶ 709, 783.

See Vezzoso, 386-89.
that it could both contribute (potentially) to improvements in workgroup server functioning and be simply a means of communication with the operating system that works similarly with every workgroup server. Under the approach advocated here, Microsoft would have the burden of showing that the power that it was using derives from the former effect, rather than the latter.

Although this would no doubt be a difficult task, one way that Microsoft could do it would be to split its interface into two parts, one which embodied the interactions with its operating system and another that incorporated the specific improvements in workgroup servers. So long as the workgroup portion of the interface operated only through the operating system portion, and the latter portion was available to other firms providing workgroup servers, Microsoft would be entitled to the benefits of its workgroup server interface and should not have to share them. This approach would ensure that Microsoft was not using general interface information—i.e., interface information that does not contribute to workgroup server operation—to gain an advantage in the workgroup server market.

It is true that this approach could require Microsoft to reconfigure its interface, or at least to explain why such reconfiguration is not possible.72 In the U.S. Microsoft decision, the “commingling” of the two aspects of the interface between Windows and Internet Explorer was one of the activities that was found to have an anticompetitive effect.73 Although IP was not a central inquiry with regard to that issue, the U.S. case at least provides some support for the feasibility of the inquiry. It is simply an application of the more general principle that IP owners are entitled to returns from their innovation, but are not entitled to use their IP to gain advantages in other, unrelated markets.

It is certainly true that this conception of what it means for a denial of IP to be outside the scope of the IP is not one universally accepted by the courts. As noted above, one U.S. court has effectively treated a market as within the scope of IP if access to the IP is needed as an input in that market. The approach advocated here is also different from the approach in tying cases, where the question is whether the tying and tied products are two separate products, based on consumer demand. The approach here is focused on the supply side, not the demand side.

The larger point here is that these issues are not antitrust ones. They are not focused on consumer demand or on market power or on competitive effect, but on the nature of the intellectual property at issue. As a result, whether a particular activity is within the scope of an IP right turns on the specific contribution made by the IP owner. The owner should not be required to license its IP right to those who seek to take advantage of that contribution, but if it is seeking to use that right to control even those who would not benefit from its contribution, licensing may be required, if the additional considerations discussed below are met.

Josef Drexl argues that “a duty to license under Article 82 in such situations [involving considerations external to the IP] enables the petitioner [i.e., the challenger] to imitate.”74 But the purchase of another’s IP would not generally be viewed as imitation of

72 see infra
74 Josef Drexl, Abuse of Dominance in Licensing and Refusal to License: A “More Economic Approach” to Competition by Imitation and to Competition by Substitution 14, in Claus Dieter Ehlermann
that IP. As described here, licensing could only be required if the economic activity at issue did not require use of the IP. As such, the challenger is making its own contribution, independent of the IP, and no imitation of it is required.

The distinction here is similar to that applied in the EC’s Technology Transfer Block Exemption Regulation (TTBER). The TTBER applies only to “technology transfer agreements entered into between two undertakings permitting the production of contract products.” The TTBER Guidelines explain the scope of this provision:

It follows from Article 2 that for licence agreements to be covered by the TTBER they must concern ‘the production of contract products’, i.e. products incorporating or produced with the licensed technology. In other words, to be covered by the TTBER the licence must permit the licensee to exploit the licensed technology for production of goods or services (see recital 7 of the TTBER).

Thus, the licenses advocated here, because they would be to those who do not “exploit the licensed technology for production of goods or services,” would not be viewed as a transfer of technology at all, and thus should not be viewed as permitting imitation of the IP owner’s innovative contribution.

2. **The Use of IP Unnecessary to Reap Reward**

The second part of the challenger’s burden should be to show that the IP owner’s return on its IP investment could be maintained even if it were prevented from exercising its IP in the secondary market. That is, the challenger should be required to show that it is not only the case that the IP does not play a technical role in the secondary market, in the sense that the activity there does not depend on the invention, it is also the case that the IP does not play a necessary economic one, in that the IP owner’s returns on its IP do not depend on that secondary market.

An example of a situation where the IP owner may use a secondary market to increase its returns is tying. Even if production of the tied product does not depend on the tying-product invention, returns in the tied market may enable price discrimination, so the exercise of tying power in that market can be economically significant for returns on the IP. Moreover, where tying is used for metering, it is the power of the invention—that is, for the IP owner’s innovative contribution—that is used to impose the tie, and there may be no impact on competition in the market for the tied product.

The question, though, is whether those returns can be achieved in any other way. Even if harm in the related market is unlikely, there is no reason to allow the IP owner to involve that market if there is no gain to the incentive goals of IP. In some cases, it would

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76 TTBER, art. 2 (emphasis added).

be possible for the IP owner to license its IP in such a way as to obtain the same returns that it achieves by restraints in the secondary market. For example, in many typical cases, such as *Magill* and *IMS Health*, there appears to be no reason why the IP owners’ returns, if the owners licensed their IP, could not be made satisfactorily through royalties based on sales of the licensees.

The situations where IP owners might argue that they need to maintain control over their IP to reap returns are likely to be those where tying or a similar practice is used. In such cases, the practice may serve a metering function, and thus provide greater returns on the IP. But some ties clearly do not involve metering. For example, in the ISO cases the patented parts are often those that need to be replaced frequently, so that all of the metering advantages can be achieved in the pricing of those parts. Moreover, in some of those cases the manufacturer is willing to sell its parts to equipment owners that service their own equipment, but not to those that use ISOs, indicating that it is not metering in the IP market but exclusion in the related market that is its goal.

Other cases, though perhaps consistent with metering, offer other possibilities for achieving that goal. For example, in a recent U.S. case, *Monsanto Co. v. Scruggs*, the patentee, Monsanto, had licensed its patented genetic material to seed producers for the production of seed to be sold to farmers. Monsanto required the seed producers to enter into agreements with farmers that prohibited the farmers from replanting seed harvested from plants grown from the patented seed. As a result, farmers were required each year to purchase not only Monsanto’s patented genetic material but also the contributions of the seed producers.

In other countries, however, Monsanto allowed replanting, simply charging a “technology fee” each year to farmers who used its patented genetic material. The technology fee allowed Monsanto to reap whatever reward it sought from its innovation, without interfering with competition in the secondary market for the contributions of seed producers. In other words, it allowed Monsanto to meet its legitimate IP goals, without any need for it to extend its reach outside the scope of its IP.

An objection could be raised to this approach on the basis that IP owners should not be restricted in the techniques they use to maximize their returns. But IP owners are not entitled to particular returns on their innovation, only to exclude others, and only to exclude them from the IP, not from secondary markets. Moreover, analogous limitations

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78 Note that the discussion here does not assume that this metering use of price discrimination for IP is permissible. In the U.S., the ban on the tying of unpatented products to IP with market power may indicate that a judgment has been made that such price discrimination is undesirable. On the other hand, the cases seem to focus on the exercise of power beyond the scope of the IP, not on the economic effect of that exercise. The point here is not to take a position on price discrimination, but merely to point out that if the goal of price discrimination can be achieved without involvement of a secondary market, there is no reason for the patentee to use leveraging.

In any event, the permissibility of such price discrimination should be determined for IP specifically. That is, as discussed above in the context of tying, a prohibition on tying used for metering seems to conflict directly with the incentive rationale of IP protection. In non-IP contexts, the argument for maximizing returns is not so clear.


80 See id.
have evolved without antitrust intervention. Participants in standard-setting processes often agree to limit themselves to fair, reasonable, and non-discriminatory (FRAND) licensing terms for patented inventions incorporated in their standards. By doing so, the patentees are denied the ability to take advantage of the greater demand created by the standard. In an analogous way, the approach advocated here seeks to limit IP owners to the returns that are truly a product of their innovative contributions.

B. Defenses Against Claims of Legal Leverage

If the challenger makes the two showings described in the previous section—that the IP plays no technical role in the area of economic activity in which its exercise is challenged, and that the economic role, if any, that it plays can be served in other ways—it should be viewed as having shown an improper use of the IP. That does not mean, though, that the IP owner should be prevented from countering the showing. Even if, *prima facie*, there appears to be an improper use of IP, in some cases that use could be justified.

Evaluation of this possibility depends on whether the claim at issue is an antitrust one or is a pure misuse-of-IP claim. The discussion in the previous section describes when an IP owner’s use of its IP is outside the scope of its IP. That in itself does not, however, necessarily create a claim. On the contrary, it will generally be the case that the showing would be made as part of an antitrust claim, in response to the IP owner’s use of its IP rights as a defense. In that case, the use of the IP would not itself be sufficient to make out an antitrust violation. It is also possible that the use of the IP could be alleged to be misuse, which might also require additional showings. Both of these possibilities are discussed below.

1. Antitrust Claims

IP owners often invoke their IP rights in defense against antitrust claims. The showing outlined above could then be used by the antitrust plaintiff to show that the IP defense is invalid. For present purposes, it can be assumed that the plaintiff can prove the normal elements of its antitrust claim, assuming that the IP does not constitute a valid defense; the pure antitrust issues are beyond the scope of this paper. The question to be addressed here is whether there are any additional requirements that the plaintiff should be required to establish in the IP context, even if the IP is used outside its scope.

Consumer welfare is the antitrust touchstone. Therefore, for the IP owner to be prohibited from using its IP in a particular way, even outside its scope, that use should reduce consumer welfare. Or, to put it another way, the prohibition of the use should in fact advance consumer welfare, by lowering prices or increasing product quality. This will not always be the case.

The IP scope inquiry, focused as it is on IP alone, merely indicates whether the practice at issue is needed to allow the IP owner to reap returns on its innovative contribution. The scope inquiry does not address the question of whether the practice at issue might have other benefits, beyond those related to the IP. If it does, it might be that eliminating the practice would also eliminate those benefits, and leave consumers worse off. Those benefits might be of types that would be cognizable in any antitrust case, but
they might also be related to the IP in some other way than is captured by the scope inquiry.

A typical example of these sorts of benefits is the quality-control justification raised by IP owners that tie their unpatented products to their patented inventions. The argument here is that the use of other producers’ versions of the unpatented products could cause the performance, and thus the reputation, of the patented product to deteriorate. Although the U.S. Supreme Court has objected to this justification, on the ground that contractual specifications can accomplish the same goal, it is not clear that that is so. Creating such specifications, and monitoring compliance with them, could be possible but expensive enough to counter any benefit that would otherwise be received.

It is clear that this sort of justification is not unique to the IP context, and it is therefore quite appropriately handled as part of the antitrust case. It is also clear that the information relevant to such a justification will generally be in the hands of the IP owner. Consequently, the burden of establishing the justification should be on the IP owners. This is consistent with the usual placement of the burden in antitrust law, since the justification would be a procompetitive effect raised in response to the antitrust claim.

Other types of IP-related procompetitive effects are also possible. For example, in the Monsanto case referred to above, it was suggested that Monsanto, instead of prohibiting the replanting of seeds, could simply charge a fee to those farmers that replant the patented seeds. It is possible, though, that this would require a more expensive monitoring program. By prohibiting replanting, Monsanto would ensure that only those who purchase seeds in a given year have the authority to plant those seeds, and it is possible that this would simplify any efforts to detect infringement. But it seems that the same benefits would be possible if it knew which farmers had paid technology fees for a given year.

Perhaps, though, Monsanto’s concern would be with the possible resale of seeds, and with the fact that buyers might not know of their obligations to pay the technology fees. As with the quality justification for ties noted above, Monsanto should be given the opportunity to establish that if were prohibited from using its no-replanting restriction, the additional costs to Monsanto, when added to the price for its patented invention, would eliminate any benefits that consumers would receive from confining its use of its IP rights to their proper scope.

A similar argument could be made in terms of quality rather than price. This was in fact the argument accepted by the court in United States v. Microsoft Corp., though the court there did not focus specifically on IP. The court rejected a per se tying analysis, because “[r]ule of reason analysis . . . affords the [seller] an opportunity to demonstrate that an efficiency gain from its ‘tie’ adequately offsets any distortion of consumer choice.” This efficiency gain would presumably be the improved performance that would be achieved by having the two products working together. It is an efficiency gain that would not generally be achieved through contractual tying but that could be possible

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81 International Salt
82 253 F.3d 34 (D.C. Cir. 2001).
83 Id. at 92.
through technological tying.\textsuperscript{84} The obligation would be on Microsoft, as the court required, to demonstrate such efficiencies.

As noted above, the court did not connect this analysis specifically to Microsoft’s IP claims. The reference to the distortion of consumer choice implicitly refers to the potentially anticompetitive effect of tying, but the court did not attempt to determine whether Microsoft’s tie was within the scope of its IP.

The justifications advanced by Microsoft in its recent appeal before the Court of First Instance were somewhat different. In objecting to the requirement of the disclosure of interoperability information, Microsoft’s primary justification was simply that the disclosure would remove its incentive to innovate. This is an IP argument, not an antitrust one. The court rejected the argument, primarily by looking to Microsoft’s incentives to innovate in all its products, including workgroup server operating systems, rather than just in the interoperability interfaces.\textsuperscript{85} Although this approach seems implicitly to assume that Microsoft is not entitled, by its interoperability innovation, to advantages in the workgroup server operating system, the court does not make clear why this is so.

If the patentee has performed this conduct contractually, there would seem to be no difficulty in prohibiting the relevant contractual provisions.

If the patentee has linked the two markets technologically, rather than contractually, it seems more difficult.

Finally, if the patentee is not itself practicing the invention, but refuses to let others do so,

\textbf{C. Misuse Challenge}

If the claim is not an antitrust one, but is merely directed at misuse, then there should be no need to define relevant markets. On the other hand, the misuse doctrine is not well-defined, and even the purpose of the misuse doctrine is not clear.\textsuperscript{86} Although the doctrine is intended to prevent improper uses of IP rights, all uses outside the technical and economic scope of the IP rights could be viewed as improper, so those instances identified by the two-part test above could all be viewed as misuse. But it is also possible that it would be seen as appropriate to define the misuse category more narrowly.\textsuperscript{87}

\textsuperscript{84} quote court on this point

\textsuperscript{85} ¶¶ 724-25.

\textsuperscript{86} The Federal Circuit has described the misuse doctrine as a competition doctrine: “To sustain a misuse defense involving a licensing arrangement not held to have been per se anticompetitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market.” Windsurfing International, Inc. v. AMF, Inc., 782 F.2d 995, 1001-02 (Fed. Cir. 1986). “The concept of patent misuse arose to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy. The policy purpose was to prevent a patentee from using the patent to obtain market benefit beyond that which inheres in the statutory patent right.” \textit{Mallinckrodt}, 704. However, this understanding is not entirely consistent with the same court’s occasional statements that the misuse doctrine is broader than the antitrust laws.

\textsuperscript{87} It might also be desirable to define the category more broadly. One could view the U.S. treatment of IP ties as an instance of such a broader definition. As described in the text above, such ties may involve an exploitation of the economic power of the invention, so they would not be viewed as
For example, in the U.S. section 271(d) of the patent laws provide that “[n]o patent owner . . . shall be . . . 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.” Although the history of this provision is not entirely clear, there is some evidence that it was intended to distinguish selective refusals to license from blanket refusals, which are generally permissible in the U.S. Hence, one could view the two-part approach outlined above for identifying conduct outside the scope of the patent as establishing a prima facie case for misuse, which could be rebutted by the patent owner by showing that it has not licensed its patent to anyone, and thus under the statute could not be guilty of misuse.

More generally, the structure of section 271(d), with its exclusion of five different forms of patentee conduct for which that “[n]o patent owner . . . shall be . . . deemed guilty of misuse” suggests that other conduct that goes outside the scope of the patentee’s rights could be misuse. On the other hand, the statute’s definitions of acts that are not misuse were to some extent responses to particular court decisions, so it could be argued that it is not intended as an exhaustive list.

The situation in Europe is somewhat different. Because in Europe IP law is generally national, EC competition law approaches to IP-antitrust issues have been confined to competition law, rather than misuse-like approaches. In particular, this perhaps accounts for the willingness of the EC courts and the Commission to rely on balancing approaches, which have not generally been adopted in the U.S., where presumptions have been preferred, as discussed above.

Interestingly, though, the test for the legality of refusals to license under article 82 could be viewed as more of a misuse test than an antitrust one. The IMS Health test (which seems to have been made less exclusive under the CFI’s decision in Microsoft) has three elements:

(i) the undertaking which requests the license must intend to offer a new product or service not offered by the IP owner and for which there is a potential consumer demand;

outside the scope of the invention under the approach advocated here. Yet such ties are condemned where the IP owner has market power.


89 No 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 done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

(ii) the refusal to license is not justified by objective considerations; and

(iii) the refusal is such as to reserve to the IP owner the new market by eliminating all competition on that market.

Although the references to consumer demand and competition suggest an antitrust focus, one can also look at what is needed for the IP owner to disprove these elements. From that perspective, the IMS Health test looks more like an IP test than an antitrust one. The first element could apparently be countered by a showing that the product at issue is not “new.” Given the possibility of hypothetical demand for the new product described by the court in IMS Health, it seems that showing that the product is not “new” would require a showing that it is simply a variation on the IP owner’s current product or, what will often be the same thing, that it is within the scope of the IP owner’s IP rights.

What sorts of objective justification would satisfy the second section is not entirely clear. But if the necessity of the refusal to gain a reasonable reward on the IP would be an objective justification (and it has been contended that metering would indeed be a valid objective justification90), this would be primarily an IP issue, not an antitrust one. A similar justification would be possible in non-IP contexts, also, but, as discussed above, the justification is particularly important for IP.

The third element also could be viewed as an IP test rather than an antitrust one. To disprove it, the IP owner would have to show that competition in the new market is possible. To do so, it would presumably have to show that competition in the new market is not dependent on the IP or, in other words, that it is not the IP right that is preventing competition. For example, suppose that in Magill the television stations had been willing to share their copyrighted program listings, but that those listings were not available soon enough for Magill TV Guide (or anyone else) to compete.91 In that case, the refusal to deal would not be the source of competitive harm—that is, the IP would not be source of competitive harm—and the IMS Health test presumably would not compel access.

Thus, the three elements of the IMS Health test can be seen as adopting more of an IP focus than a traditional antitrust one. That is not to say that they cannot be viewed as a more traditional antitrust test, also, especially as the same approach is apparently applied in non-IP cases. But the absence of any reference to market power is somewhat surprising for an antitrust test.92 The third element of the test, asking whether competition is eliminated, could be viewed as having an implicit market power aspect,93 but the focus is more on the leveraging to the downstream market, where competition is eliminated.

90 Steven Anderman and Hedvig Schmidt have argued that metering could be an objective justification. See Steven D. Anderman & Hedvig Schmidt, EC competition policy and IPRs 76, in Steven D. Anderman, ed., The Interface Between Intellectual Property Rights and Competition Policy (Cambridge Univ. Press 2007) (citing Vaassen/Morisse, commission decision 79/86).

91 Cf. Hanns Ullrich, Expansionist Intellectual Property Protection and Reductionist Competition Rules: A TRIPS Perspective, 7 J. Int’n Econ. L. 401, 417 (2004) (“In such cases [involving refusals to license information as such], the concern underlying the illegality ruling seems usually (though not always) to be the restraint on add-on or value-added innovation in adjacent markets, with market power serving only as a connecting factor for the application of rules rooted in competition law.”) (footnotes omitted).

93 Patterson, EUI paper
than on power in the upstream one, where the IP owner has power. Ultimately, the test, like other versions of essential-facility-like tests, is distinctly different from much of antitrust law. It might in fact be accurate to view the essential-facility approach as focused on misuse of property, either intellectual or not, rather than on conduct per se.

Another possible decision principle has been offered by Andreas Heinemann in his discussion of the Microsoft case:

Copyright (and in part also patent) protection for the Windows client PC operating system does not necessarily imply that the market for server software also has to be attributed to Microsoft. This market was created by other enterprises ... why should their prospects be destroyed only because Microsoft decides to employ a strategic position on the market for client PC operating systems to conquer the market for server software? The least one could say is that the scope of reward of Microsoft’s IP rights for the client PC operating system does not exclude an ordinary Art. 82 EC application ... 94

It appears here that the factor relied upon by Heinemann to conclude that the server market is outside the scope of Microsoft’s IP rights is that the “market was created by other enterprises.”

It does not really follow from that, however, that Microsoft would not be entitled to any improvements that it makes in that market. If, for example, Microsoft introduced improvements in server functioning that were made possible only by innovation in the PC-to-server interface, it should not be denied IP protection merely because others had sold servers previously. The initial question should still be whether the advantages that its use of its IP is providing are a result of demand for its innovation or a result of some other factor.

VI. CONCLUSION

This paper has advocated a more careful and consistent focus on the relationship between economic markets and innovative contributions as a means of resolving the IP-antitrust problem. The way in which courts fail to maintain such a focus can be seen in one of the district court’s statements made in rejecting the antitrust claim in Xerox:

[The ISO] does not explain as a practical matter how Xerox could exercise its right to exclude competitors in the parts market while simultaneously selling patented parts to competitors in the service market. Also, the rule which [the ISO] proposes would significantly reduce the incentives otherwise provided by the Patent Act. 95

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A careful focus on the first sentence provides a response to the second. Excluding competitors in the parts market should not require a denial of parts to competitors in the service market (or, as is actually the case in the ISO cases, to customers of competitors in the service market). So long as Xerox is able to prevent its competitors from selling parts, which is the subject of its patents, the right to exclude granted by those patents is vindicated. Allowing Xerox to exclude also, as the court writes, “competitors in the service market” is to allow it to extend it patent rights over parts into a market that is related to parts only incidentally.

This paper has offered some techniques for determining when an IP owner’s contribution should entitle it to profits in a particular market. Because IP rights are specifically defined by reference to non-economic criteria, it is those criteria that should be applied. That is, it should not be enough that exploitation of an IP right is economically profitable; it should be required that the exploitation be related to the reasons—for patents, the technical contribution—that the IP rights were granted. When that is not the case, antitrust should step in to prevent exploitation of the IP right outside its proper scope.