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The Transatlantic Search for a New Approach

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Abstract

The complex interface between intellectual property law and competition law is currently under review both in the US and the EU. One field of contention is the unilateral exercise of intellectual property rights. This paper presents the different approaches recently taken by different US courts, critically reviews the ECJ's jurisprudence in the much-debated decisions *Magill* and *IMS Health* and discusses the test proposed by the EU Commission in its Discussion Paper on Exclusionary Abuses, finding that none of the approaches has addressed the problem convincingly so far. In searching for a way ahead, the paper attempts to systematize the different positions taken in the literature, contrasting in particular an "IP law approach" and a "competition law approach". It argues that a pure "IP law approach", popular in the US, is not fully applicable in the EU where IP law remains national and must respect the supremacy of the EU competition rules which must be applied uniformly in all Member States. Other theories which strive to take both IP and competition law rationales into account – e.g. *Heinemann's* "scope of reward"-theory – leave open the criteria on the basis of which this shall be done. The most promising approach, then, may be to shift back attention towards competition policy rationales and to focus on the concept of "contestable markets", as by *Heinemann* and *Drexl* have recently proposed. The threshold for antitrust intervention must, however, remain high. The three criteria used in the telecommunications sector to decide when regulation is justified may be of help to determine cases of legitimate intervention

Keywords

Intellectual Property Rights – Refusal to license – Magill – IMS Health – Microsoft – Abuse of dominant position – Efficiency defence – Data General – Kodak – Xerox – Trinko – Follow-on innovation

Controlling the Unilateral Exercise of Intellectual Property Rights: A Multitude of Approaches but No Way Ahead?

The Transatlantic Search for a New Approach

Heike Schweitzer

I. Introduction

The complex interface between intellectual property law and competition law is currently under review both in the US and the EU.[1] One field of contention is the unilateral exercise of intellectual property rights (IPRs). In the US, there is disagreement between different courts of appeals on the appropriate application of the antitrust laws to unilateral refusals to license patents.[2] In the EU, two cases in which the ECJ has dealt with unilateral refusals to license intellectual property rights – *Magill*[3] and *IMS Health*[4] – are much debated and criticized. The EU Commission has proposed an approach different from both the US courts' and the ECJ's.[5]

There is, therefore, cause for revisiting a debate which is led on both sides of the Atlantic, but too rarely transatlantically.[6] Do the doctrines that guide the application of

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1 For the US see: *U.S. Department of Justice / Federal Trade Commission*, Antitrust Enforcement and Intellectual Propert Rights: Promoting Innovation and Competition, 2007. For the EU see *DG Competition,* Discussion paper on the application of Art. 82 EC to exclusionary abuses (December 2005), *available at* http://ec.europa.eu/comm/competition/index_en.html (Discussion Paper).

2 *Image Technical Services, Inc. v. Eastman Kodak Co.* („Kodak"), 125 F.3d 1195 (9th Cir. 1997); *In re Independent Service Organizations Antitrust Litigation* („Xerox"), 203 F.3d 1322 (Fed. Cir. 2000).

3 *Magill (ITP, BBC and RTE v. Commission)* Cases C 241/91 and C 242/91, [1995] ECR I-743.

4 *IMS Health and NDC Health v. Commission* Case C-418/01, [2004] ECR I-5039.

5 *DG Competition*, Discussion paper on the application of Art. 82 EC to exclusionary abuses (December 2005), *available at* http://ec.europa.eu/comm/competition/index_en.html (Discussion Paper). See also: *EU Commission*, Decision of 24 March 2004, Case COMP/C-3/37.792 *Microsoft*, available at http://ec.europa.eu/comm/competition/index_en.html.

6 For transatlantic comparisons see: *Arezzo,* Intellectual Property Rights at the Crossroad between Monopolization and Abuse of Dominant Position: American and European Approaches Compared, 24 J. Marshall J. Computer & Info L. (2006) 455; *Czapracka*, Where Antitrust Ends and IP Begins – On the Roots of the Transatlantic Clashes, 9 Yale J. L. & Tech. (2007) 44.

competition law to the unilateral exercise of IPRs converge? Can European competition law learn from the US experience? This paper shall first map the common ground and the shared uncertainties between the EU and the US (II). It then summarizes the U.S. and the EU experience in applying competition law rules to the unilateral exercise of IPRs, with a particular focus on the unilateral refusal to license (III and IV). In comparing the different approaches, and particularly in evaluating the more recent ECJ's jurisprudence and EU Commission's proposals, it shall draw upon insights from the parallel debate in the US to identify likely impasses and ways ahead (V).

II. The IP-Antitrust interface: Common ground and open questions in the US and the EU

A comparative review of the IP/antitrust debate in the US and the EU first of all reveals both a broad consensus on fundamental issues regarding the IP-antitrust interface and broad agreement on the designation of the areas of uncertainty.

Both jurisdictions today regard competition policy and IP law as essentially complementary policies,[7] providing different means to promote dynamic competition as a common goal.[8] Intellectual property rights are granted to enable or facilitate the commercialization of inventions and creative works.[9] At the same time, the right to exclusive use inherent in the creation of intellectual property rights creates the prospect to reap rewards, and thereby economic incentives to innovate.[10] Competition law, on the

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[7] For the US see, *inter alia*: *DOJ/FTC,* Antitrust Enforcement and Intellectual Property Rights, 2007, p. 1; *Hovenkamp / Janis / Lemley,* Unilateral Refusal to Deal, 2 J. Compet. L.. & Econ. (2006), 1, at 2; *Melamed/Stoeppelwerth*, The *CSU* Case: Facts: Formalism and the Intersection of Antitrust and Intellectual Property Law, 10 Geo. Mason L. Rev. 407 et seq.; *Antitrust Modernization Commission*, Report and Recommendations, April 2007, p. 118. For the EU: *EU Commission*, Guidelines on the application of Art. 81 of the EC Treaty to technology transfer agreements, OJ EC 2004 No. C 101/2, para. 7: "Intellectual property rights promote dynamic competition by encouraging undertakings to invest in developing new or improved products and processes. So does competition by putting pressure on undertakings to innovate. Therefore, both intellectual property rights and competition are necessary to promote innovation and ensure a competitive exploitation thereof"

[8] More cautious: *Ghidini,* Intellectual Property and Competition Law, 2006, p. 115: „one should recognize *a dialectic exchange* between the two disciplines which aim at *different but often synergic objectives*, and therefore often interact to eliminate situations which would obstruct both innovation and competitive dynamics. Thus, through this dialectical exchange, each discipline, by fulfilling ist function, can also *indirectly* serve the aims of the other".

[9] See *Mestmäcker/Schweitzer,* Europäisches Wettbewerbsrecht, 2004, § 28 para. 9 (p. 702); *Hanns Ullrich,* Wissenschaftlich-technische Kreativität zwischen privatem Eigentum, freiem Wettbewerb und staatlicher Steuerung, 1996, p. 203, at 210 et seq.; *Hanns Ullrich,* Lizenzkartellrecht auf dem Weg zur Mitte, GRUR Int. 1996, 555, at 565 et seq. In the US, the „reward"-rationale of IPRs is mostly taken as the primary rationale; the facilitation of the commercialization is mentioned as an additional goal – see DOJ/FTC, Antitrust Enforcement and Intellectual Property Rights, 2007, p. 1.

[10] The „reward-theory" as main rationale for the creation of IPRs is dominant in the US – see DOJ/FTC, Antitrust Enforcement and Intellectual Property Rights, 2007, p. 1. It is criticized by others – see particularly *Hanns Ullrich,* Lizenzkartellrecht auf dem Weg zur Mitte, GRUR Int. 1996, 555, at 565 et seq.: the real source of incentives to innovate and of economic progress is not the existence of IPRs in itself, but competition. The exclusive rights inherent in IPRs transform public goods into appropriable

other hand, is meant to keep markets open and contestable. It ensures, *inter alia,* that "new proprietary technologies, products and services are bought, sold, traded and licensed in a competitive environment."[11] The older view according to which competition law and IP laws are in fundamental tension, has been overcome both in the US and the EU. It was based on the perception that IPRs are essentially rights to monopoly. Today it is generally accepted that the right to exclude inherent in IPRs cannot be equated with market power of any legally relevant kind: an IPR excludes competition by imitation, but competition by substitution remains permissible. Frequently, close-enough substitutes for the protected substance matter will exist.[12] This has been stressed by the ECJ early on.[13] In the US, a Supreme Court precedent according to which a valid patent created a rebuttable presumption of market power over the patented product or process[14] was overruled in *Illinois Tool Works, Inc. v. Independent Ink, Inc* in 2006.[15] Relevant markets must now be defined with a view to consumer demand, and market power in the relevant market must be proved and will no longer be presumed. This approach has been adopted by the DoJ and the FTC already in 1995.[16]

Significant commonalities in the US and the EU's competition law approach towards the unilateral exercise of IPRs exist also in other respects. Namely, both jurisdictions assume that the existence or mere exercise of an IPR as such cannot violate competition rules; additional factors will be needed to find an infringement of competition rules. Most instances in which the unilateral exercise of an IPR can constitute an infringement imply some type of exclusionary conduct the prohibition of which does not eliminate the essence of the exclusivity right as such. Types of conduct which are examined critically in the US like under EU competition rules include, *inter alia*: tying a patented product to an unpatented product, where the patent owner is dominant in the market for the patented product, and the tying practice can be used to leverage market power into a second and separate market not covered by the IPR;[17] conditional refusals to license

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and tradeable goods – and therefore into goods that can be subject to competition. The „reward"-rationale should therefore not be used to justify exemptions from competition.

[11] *DOJ/FTC*, Antitrust Enforcement and Intellectual Property Rights, 2007, p. 1.

[12] *Ullrich/Heinemann*, in: Immenga/Mestmäcker (eds.), Wettbewerbsrecht EG Teil II, GRUR B. para. 43. See also *Drexl's* contribution in this volume.

[13] *Parke, Davis & Co. v. Probel*, Case C-24/67 [1968] ECR 55: a patent does not necessarily result in a dominant position – there can be substitutes. See also *Magill (ITP, BBC and RTE v. Commission)* Cases C 241/91 and C 242/91, [1995] ECR I-743, at para. 46: IPRs do not necessarily confer market power. For a more detailed overview of the ECJ's relevant jurisprudence see *Anderman,* EC Competition Law and Intellectual Property Rights, 1998, pp. 169 et. seq. Also: Ullrich/Heinemann, in: Immenga/Mestmäcker (eds.), Wettbewerbsrecht EG Teil II, GRUR B. para. 42: the exclusivity characteristic of IPRs does not imply an exception from competition, but is a means of competition – competitors have to compete by substitution, not by imitation.

[14] *United States v. Loew's, Inc.*, 371 U.S. 38, at 45-46 (1962) (in the context of tying claims).

[15] *Illinois Tool Works Inc. v. Independent Ink, Inc.,* 126 S.Ct. 1281, at 1284 (2006): "the mere fact that a tying product is patented does not support [a market power] presumption".

[16] See *DOJ/FTC*, Guidelines for the Licensing of Intellectual Property (Antitrust-IP Guidelines) § 2.2: "The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner".

[17] For the EU see: *EU Commission*, Decision of 24 March 2004, Case COMP/C-3/37.792 *Microsoft*, appeal pending, T-201/04 *Microsoft Corp. v. EU Commission*. For the US: DOJ/FTC, Antitrust

where they cause competitive harm;[18] threatening or conducting spurious litigation for the purpose of stifling or impeding competition; or systematic acquisitions of IPRs and withholding them from third parties in order to block the ability of potential rivals to develop alternatives. The common trait of these types of conduct is the use of IPRs to maintain, strengthen or extend a dominant position.

In the US like in the EU, one of the most controversial issues in dealing with the IP-antitrust interface is whether, and under what preconditions, unilateral refusals to license can infringe competition rules. The fundamental principle that each undertaking, including a dominant one, is generally free in the choice of its trading partner or in its choice not to deal at all,[19] applies both to tangible property and to IPRs. Duties to license IPRs – like duties to share physical facilities – must remain narrowly circumscribed exceptions to this fundamental principle. Despite a general tendency to liken intellectual property rights to the rights of the owners of physical property, there is a notion that limitations of the right of IPR owners to refuse to license require particular legal circumspection, since a duty to license cuts to the heart of the intellectual property right's owner's right to exclude.[20] The preconditions for finding a unilateral refusal to license to violate competition laws are controversial, however, and the approaches diverge in the US and in the EU. The following remarks shall focus on this debate.

III. Controlling unilateral refusals to license IPRs – the US experience

In the US, there is broad agreement that, as a general rule, no antitrust obligations either to use or license an IPR exist, but no consensus on how to formulate the limits to this rule. The question whether and under what specific special circumstances a unilateral refusal to license can exceptionally violate antitrust law, has become controversial in the patent and copyright context. The different approaches taken by different Circuit Courts illustrate the fundamental uncertainty in the conceptualization of the IP-antitrust interface.[21]

Enforcement and Intellectual Property Rights, Promoting Innovation and Competition, April 2007, Chap. 5.

[18] DOJ/FTC, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition, April 2007, p. 6, p. 19 and p. 32.

[19] For US law see *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko*, LLP, 540 US 398, at 407-408 (2004): Requiring firms to „share the source of their advantage" with rivals is „in some tension with the underlying purpose of antitrust law". See also *United States v. Colgate & Co.*, 250 U.S. 300, 307 (1919): The Sherman Act generally „does not restrict the long recognized right of [a] trader or manufacturer engaged in an entirely private business, freely to exercise [its] own independent discretion as to parties with whom [it] will deal". For EU law see *AG Jacobs,* conclusions, para. 56, in: *Oscar Bronner GmbH & Co. v. Mediaprint,* Case C-7/97, [1998] ECR I-7791.

[20] *Hovenkamp / Janis / Lemley*, Unilateral Refusals to License in the U.S., Working Paper, April 2005, p. 17: finding a unilateral refusal to license to violate antitrust laws would "make illegal precisely the same conduct that the intellectual property laws explicitly authorize. Doing so would significantly reduce the innovation incentive intellectual property provides ...". The authors also stress the "practical problems" with a compulsory licensing scheme.

[21] See *DOJ/FTC*, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition, April 2007, p. 16. According to *Hovenkamp / Janis / Lemley*, Unilateral Refusals to

The Court of Appeals for the First Circuit was confronted with a unilateral refusal to license-scenario[22] in the *Data General* case.[23] Data General was in the business of manufacturing and reparing PCs. In an effort to increase its own share in the market for servicing its PCs, it discontinued the licensing of a copyrighted software program designed to diagnose dysfunctions of its PCs to third parties, namely to independent computer hardware repairers. When these independent organizations gained access to the software without permission, Data General sued for copyright infringement. The independent repairers counterclaimed for violation of Sec. 2 Sherman Act, alleging that the software was essential for repairing Data General's PCs. In dealing with these claims, the First Circuit dealt with the relationship between copyright law and antitrust law in depth.[24] It found that neither policy should be given primacy over the other; rather, both statutes should be interpreted in the light of each other. It therefore rejected an irrebuttable presumption that a unilateral refusal to license a copyright would be legal. On the other hand, the First Circuit emphasized the importance of preserving the system of incentives established by copyright law, even if the exercise of the rights which copyright law grants – including the refusal to license – would not always amount to an entirely „'procompetitive' [conduct] within the ordinary economic framework of the Sherman Act".[25] Also, requiring antitrust defendants to prove, in every single case in which a refusal to license a copyrighted work would come under attack, the merits of the copyright law's assumption in favor of the right to exclude would not be feasible.[26] In order to give adequate weight to both policies, the First Circuit then formulated the following rule: „[W]hile exclusionary conduct can include a monopolist's unilateral refusal to license a copyright, an author's desire to exclude others from use of its copyrighted work is a *presumptively* valid business justification for any immediate harm to consumers".[27] In applying this rule, the First Circuit made clear that the presumption in favor of the legality of a monopolist's unilateral refusal to license an IPR is strong: it did not inquire into Data General's motivation in enforcing its copyrights; nor did it matter that Data General, by withholding the license, had reversed a prior policy. In summary, the court found no evidence to rebut the presumption in favor of the unilateral refsual to deal's legality in this case. Nor did it further specify the preconditions under which the presumption could be overcome.

The 9th Circuit of Appeals had to deal with a unilateral refusal to license scenario in the famous *„Kodak"* case.[28] An independent service organization (ISO) had sued Kodak,

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License in the U.S., Working Paper, April 2005, p. 32, the issue is "ripe for review by the Supreme Court".

[22] According to *Hovenkamp / Janis / Lemley*, Unilateral Refusals to License in the U.S., Working Paper, April 2005, p. 33, the scenario in *Data General* as well as in the other cases discussed here was not really a typical refusal to license scenario, but rather a tying arrangement which was litigated in an unusual procedural and factual setting. The differences in the approaches taken by the courts could be explained by this unusual "factual hybrid". For the relevance of the antitrust law on tying for evaluating the *Kodak-, Xerox-* and *Data General*-case see also: *Patterson*, When is Property Intellectual? The Leveraging Problem, 73 S.Cal. L. Rev. 1133, at 1142 et seq. (2000).

[23] *Data General Corporation v. Grumman System Support Corporation*, 36 F.3d 1147 (1st Cir. 1994).

[24] Id., at 1184 et seq.

[25] Id., at 1185

[26] Id., at 1187.

[27] Id., at 1187.

[28] *Image Technical Serv. Inc. v. Eastman Kodak Co.,* 125 F.3d 1195 (9th Cir. 1997)

alleging that Kodak had a monopoly in the parts markets for the copying machines it produced, and that its refusal to sell patented parts extended this monopoly position into the servicing of its equipment. A jury held Kodak liable under Sec. 2 Sherman Act, and the court of appeals confirmed. In doing so, the court endorsed the rebuttable presumption established by the *Data General* court: generally, an IPR owner will not be subject to antitrust liability when he refuses to sell or license protected work. According to the 9th Circuit, the presumption in favor of the legality had been rebutted in the *Kodak* case, however, because the intellectual property justification was only pretextual:[29] Kodak had referred to its IPRs only long after the fact, and of the many thousands of parts it refused to sell, only a small number was patented.[30] The IPRs were therefore apparently not the true motive for the refusal to deal. Whereas the First Circuit had refused to inquire into the motivation of the IPR owner, the 9th Circuit thus relied on the patent owner's motive or intent in refusing to license or sell to overcome the pro-legality presumption.

The Federal Circuit, when confronted with a very similar fact-pattern in „*Xerox*", [31] rejected the 9th Circuit's approach. And while not directly challenging the 1st Circuit's rebuttable presumption in favor of the legality of refusals to license in *copyright* cases, it refused to apply it in a patent case. For patent cases, it established an effectively irrebuttable presumption of per se legality, and thus antitrust immunity, absent an indication of illegal tying, fraud, or sham litigation.[32] The existence of a patent is taken as a conclusive business justification of a refusal to license or sell.

The divergence between the Appelate Courts has triggered an intense debate.[33] The *Kodak*-decision is frequently criticized as being out of step with modern antitrust analysis which focuses on objective economic evidence instead of subjective intent.[34]

[29] Id., at 1219.

[30] Id., at 1219-1220.

[31] *In re Indep. Serv. Org. Antitrust Litigation,* 203 F.3d 1322 (Fed. Cir. 2000), cert. denied, 531 U.S. 1143 (2001). Plaintiff CSU – an ISO – had filed action against Xerox claiming that Xerox, by discontinuing to sell parts necessary to service its copiers and printers to ISOs, and by thereby driving ISOs out of the business of servicing Xerox copiers, had infringed Sec. 2 Sherman Act. The district court had dismissed the claim and held that, if a patent or copyright is lawfully acquired, the refusal to sell or license cannot constitute exclusionary conduct under Sec. 2, even if it impairs competition in more than one market and is motivated by a desire to exclude rivals. The Federal Circuit affirmed.

[32] Id., at 1327: „In the absence of any indication of illegal tying, fraud …, 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 [Section 2]".

[33] For contributions to this debate see, for example: *Hovenkamp / Janis / Lemley*, Unilateral Refusals to License in the U.S., Working Paper, April 2005; *Patterson*, When is Property Intellectual? The Leveraging Problem, 73 S. Cal. Rev. 1133 (2000); *McCullen,* The Federal Circuit and Ninth Circuit Face-Off: Does a Patent Holder Violate the Sherman Act by Unilaterally Excluding Others from a Patented Invention in More than One Relevant Market?, 74 Temple L. Rev. 469 (2001); *Melamed/Stoepplewerth,* The CSU Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law, 10 Geo. Mason L. Rev. 407 (2002); *Pate,* Refusals to Deal and Intellectual Property Rights, 10 Geo. Mason L. Rev. 429 (2002).

[34] *DOJ/FTC*, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition, April 2007, p. 17, with further references; *Melamed/Stoeppelwerth*, The CSU Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law, 10 Geo. Mason L. Rev. 407, at 426. For a more cautious evaluation see *Patterson*, When is Property Intellectual? The Leveraging

Xerox, on the other hand, is criticized for effectively construing an antitrust immunity for patent and copyright holders – against the widely acknowledged notion that antitrust law and intellectual property law are not inconsistent, but complementary fields of law.[35] Nonetheless, the Department of Justice and the FTC, while rejecting an outright antitrust immunity for unilateral refusals to license, have declared in their recently published report on „Antitrust Enforcement and Intellectual Property Rights" that „[a]ntitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections", emphasizing that the unilateral right to refuse to license, i.e. the right to exclude, is a core part of the patent grant.[36]

The DOJ and FTC thereby appear to neglect – at least for the time being – attempts by practitioners and academics to formulate a more differentiated basis for antitrust liability for the unilateral refusal to license or sell that would reach beyond the *Kodak-Xerox* controversy. Both *Kodak* and *Xerox* have recognized that intellectual property rights, and the right of exclusion inherent in them, do not „protect an attempt to extend a lawful monopoly beyond the grant of a patent".[37] Referring to the „grant" or „scope" of the patent in determining the scope for the application of antitrust rules to unilateral refusals to deal is ambiguous. It is sometimes taken to stand for the exclusive use of IP law categories to define a „safe harbor" for unilateral refusals to license in antitrust law.[38] Viewed from a different perspective, the phrase may suggest the application of the „leverage theory" in a manner that takes both IP law rationales and antitrust rationales into account.[39] This is, it seems, the approach that the district court had taken

Problem, 73 S.Cal. L. Rev. 1133, at 1139-1140 (2000) who finds the *Kodak*-rationale to be plausible (although he also points to the difficulties of determining subjective intent).

[35] See, *inter alia*, *Melamed/Stoeppelwerth*, The CSU Case: Facts: Formalism and the Intersection of Antitrust and Intellectual Property Law, 10 Geo. Mason L. Rev. 407, at 409 and at 414-415.

[36] *DOJ/FTC*, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition, April 2007, p. 6: „Antitrust liability for refusals to license competitors would compel firms to reach out and affirmatively assist their rivals, a result that is ‚in some tension with the underlying purpose of antitrust laws' [Trinko, 540 U.S. at 407-408]. …".

[37] *Kodak*, 125 F.3d at 1216. See also *Xerox*, 203 F.3d at 1327 and at 1328-1329: A copyright holder's refusal to sell or license its works does not violate the antitrust laws absent any evidence that the relevant copyrights were unlawfully obtained or „used to gain monopoly power beyond the statutory copyright granted by Congress". See also *Hovenkamp / Janis / Lemley*, Unilateral Refusals to License in the U.S., Working Paper, April 2005, p. 18: exceptions to the rule that no duty exists to use or license IPRs „normally involve circumstances in which an intellectual property owner has sought to expand the scope of its right beyond what the intellectual property laws grant it".

[38] For references see *DOJ/FTC*, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition, April 2007, p. 20 Fn. 38. Such an approach is criticized by *Melamed / Stoeppelwerth*, 10 Geo. Mason L. Rev. at 425-426: asking whether the injury to competition which results from the refusal to deal is within the patent grant would ignore „the reality that patents are granted for inventions, not markets, and the difficulty of distinguishing, for market definition purposes, between a product and its components. In addition, such a formalistic rule could create incentives for intellectual property holders to avoid otherwise efficient vertical integration in order to make suer that they stay in the safe harbor".

[39] Some support for this view can be taken from *Eastman Kodak Co. v. Image Technical Servs.,Inc.,* 504 U.S. 451, 480 n. 29 (1992), where the US Supreme Court found that „power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to [antitrust] liability if a seller exploits his dominant position in one market to expand his empire into the next". For a more in-depth exploration of the interconnection between IP law and the law of leveraging in antitrust see *Patterson*, When is Property Intellectual? The Leveraging Problem, 73 S.Cal. L. Rev. 1133 (2000).

in *United States v. Microsoft* when it held on summary judgment that „copyright does not give Microsoft blanket authority to license (or refuse to license) its intellectual property as it sees fit. A copyright does not give its holder immunity from laws of general applicability, including the antitrust laws. Copyright holders are restricted in their ability to extend their control to other markets. They may not prevent the development and use of interoperable programs by competitors. …“.[40]

To use both IP and antitrust principles in specifying how antitrust law can be applied to unilateral refusals to license or sell has significant support by leading IP and antitrust scholars in the US. *Douglas Melamed* and *Ali M. Stoeppelwerth* have emphasized the commonalities between intellectual property law and antitrust law: both the antitrust laws and the intellectual property laws distinguish between earning monopoly profits, which property owners are entitled to, and sacrificing profits in order to create additional power, which is proscribed by the doctrines of patent and copyright misuse where IP owners engage in efforts to extend their monopoly beyond the terms of the statutory grant, and by Sec. 2 Sherman Act where the conduct lacks a valid business purpose, i.e. where it makes no business sense apart from its tendency to exclude and create or maintain market power.[41] According to these principles, successful antitrust challenges to unilateral refusals to deal will be, and are in fact, rare. Some unilateral refusals to deal are, however, very anticompetitive and damaging. By way of example, *Melamed* and *Stoeppelwerth* refer to AT&T's initial refusal to connect MCI to its network.[42] Any kind of antitrust immunity for unilateral refusals to license or sell IPRs would risk to create incentives for firms to immunize its anticompetitive behavior by designing its systems such that access to networks and interfaces are patented, and also to seek to expand the boundaries of the immunity, particularly because the line between simple refusals to deal and other kinds of exclusionary conduct is difficult to draw.[43] *Melamed* and *Stoeppelwerth* therefore propose to apply general antitrust rules: IPR owners may enjoy the fruits of their lawfully obtained property, including whatever monopoly profits that property enables them to earn, but they may not sacrifice such profits strategically, by using that property in ways that serve no legitimate purpose (i.e. in ways that neither benefit consumers nor promote efficiency) in order to create additional market power. IPRs do not grant a legal entitlement to extend the IPR owner's power „beyond the intellectual property grant or to create additional market power“.[44]

Against an approach which gives greater weight to the leveraging doctrine in mediating the IP/antitrust interface: *Pate*, 10 Geo. Mason L. Rev. at 441: „A patent holder can lawfully acquire more than one economic monopoly by exercising the exclusionary power of a single patent, and should not be found liable for exercising its unilateral right to refuse to license or use its invention in the markets where he holds these monopolies. There is no unlawful extension of monopoly power when a patent holder merely exercises its rights inherent in the patent grant“.

[40] 1998 WL 614485, at 15 (DDC Sept. 14, 1998).

[41] *Melamed/Stoeppelwerth*, The CSU Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law, 10 Geo. Mason L. Rev. 407, at 418-419.

[42] Id., at 424

[43] Id., at 424

[44] Id., at 427; citing *William F. Baxter*, The Definition and Measurement of Market Power in Industries Characterized by Rapidly Developing and Changing Technologies, 53 Antitrust L.J. 717, 725.726 (1984), according to which the technology owner's entitlement does not allow him to use his invention to 'erect entry barriers' or to 'suppress(..) rivalry between different technologies'.

Mark Patterson has proposed a different approach. He agrees that an IPR entitles the IPR owner to fully reap the profits – including monopoly profits – from its invention. Drawing on the utilitarian rationale of IP law to reward inventions, he argues, however, that IPRs should provide special protection from the antitrust laws only when the owner of the IPR is denying access to the innovation inherent in the intellectual property.[45] No special protection should be granted where an IPR owner refuses to deal with a third party who will not make use of the invention as such, but needs access to IPR-protected parts only to compete in a completely different market – like do ISOs who compete in the services market and request access to the IPR-protected equipment only to install it for the benefit of the equipment owners.[46] And the IPR owner should not be allowed to use the right to exclude inherent in an IPR to leverage market power if he cannot show that it is exactly the legal right – and not distinct economic market conditions – that are the source of the leveraging power he posesses.[47]

The debate is still ongoing. Widespread agreement exists among US scholars that purely structural approaches are inadequate to address unilateral refusals to license IPRs.[48] No court has so far qualified IPRs as „essential facilities".[49] The fact that an IPR confers significant market power, or even monopoly power, upon its owner, and that the IPR owner exercises this power by refusing to license or sell, will not suffice to find a violation of Sec. 2 Sherman Act. In *Trinko* – a non-IP-related case – the US Supreme Court has held that the mere possession of monopoly power, and the concomitant charging of monopoly prices, is not unlawful „unless it is accompanied by an element of anticompetitive conduct".[50] The general perception is that, where the unilateral exercise of IPRs is at issue, the case for requiring the antitrust plaintiff to cleary specify an element of anticompetitive conduct beyond the mere refusal to license or sell is

[45] *Patterson*, When is Property Intellectual? The Leveraging Problem, 73 S.Cal. L. Rev. 1133, at 1134 (2000).

[46] Id., at 1135.

[47] Id., at 1156.

[48] Against the application of the essential facilities doctrine in the IP context, *inter alia*: *Hovenkamp/Janis/Lemley*, Unilateral Refusals to License in the U.S., Working Paper, April 2005, p. 19 et seq., particularly pp. 23-24: „We believe the better view is that an intellectual property right itself cannot constitute an essential facility, and that the doctrine should not be applied to cases that seek access to an intellectual property right in any but the most unusual circumstances". For a narrow interpretation of the „essential facilities doctrine" in the light of general antitrust principles, but in favor of a possible application of such a narrow doctrine in the IP context, see *Melamed/Stoeppelwerth*, The CSU Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law, 10 Geo. Mason L. Rev. 407, at 421-422. Specifically with regard to the application of the essential facilities doctrine to software: *McGowan*, Regulating Competition in the Information Age: Computer Software as an Essential Facility Under the Sherman Act, 18 Hastings Comm. & Ent. L.J. 771, 1995-1996.

[49] In *Intergraph Corporation v. Intel Corporation* 195 F.3d 1346 (Fed. Cir. 1999) the qualification of the relevant patented „clipper technology" as an „essential facility" was rejected because Intergraph and Intel were not competing in the same market – this was considered to be a precondition for an „essential facility"-claim, or even more broadly for any successful antitrust claim: „unrelated harm to an individual competitor or consumer is not sufficient" to show an infringement of Sec. 2 Sherman Act which aims to protect competition and not competitors. For a discussion of an application of the essential facilities doctrine in the IP-context see also *Aldridge v. Microsoft Corporation*, 995 F.Supp. 728 (S.D. Tex. 1998). None of these cases categorically excluded the possibility that an IPR, or a facility protected by an IPR, could be an „essential facility".

[50] *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko*, LLP, 540 US 398, 407 (2004).

particularly strong.[51] This notion extends to those cases in which a plaintiff requests access to interface information protected by an IPR.

IV. Controlling unilateral exercises of IPRs in the EU

The European approach towards unilateral refusals to license differs significantly from any of the approaches so far taken by US courts. There are various reasons for the specificities of the European discourse on unilateral refusals to license. First of all, the US and EU competition law rules on single-firm conduct – Sec. 2 Sherman Act and Art. 82 EC – are different rules.[52] Secondly, the difficult interface between IP and competition rules is further complicated in the EU by the fact that, despite important initiatives to harmonize,[53] patent law and copyright law remain essentially national law for the time being.[54] Where US scholars almost uniformly maintain that overbroad IP protections should preferably be addressed by reforming IP law itself,[55] and where US courts call for an interpretation of federal antitrust laws and federal patent and copyright laws in light of each other, the ECJ must apply EU competition law rules against the background of different national IP laws and policies. On the one hand, the EU must respect the different policy choices reflected in national copyright and patent laws.[56] On

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[51] Stressed by *DOJ/FTC*, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition, April 2007, p. 22; also p. 31.

[52] Further to the differences in wording, history, interpretation and underlying attitudes see: *Heike Schweitzer*, Parallels and differences in the attitudes towards single-firm conduct: What are the reasons?, Paper presented at the European Competition Law Workshop in Florence in June 2007.

[53] See, *inter alia*: Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society, [2001] OJ L 167/10; Directive 96/9/EC on the legal protection of databases, [1996] OJ L 77/20; Directive 2006/116/EC on the term of protection of copyright and related rights, [2006] OJ L 372/12; Directive 91/250/EEC on the legal protection of computer programs, [1991] OJ L 122/42; Directive 2004/48/EC on the enforcement of intellectual property rights, [2004] OJ L 157. For the state of action regarding patent law see: *EU Commission,* Communication: Enhancing the patent system in Europe, Brussels, 3.4.2007, COM(2007)165 final, at http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0165en01.pdf.

[54] In the absence of harmonization, the ECJ has rejected to develop a supranational framework for patent law and copyright law based on an interpretation of the fundamental freedoms and their exceptions – see: *Keurkoop BV v. Nancy Kean Gifts Co.,* Case C-144/81, [1982] ECR 2583. For further discussion see *Mestmäcker,* Die Vereinbarkeit der Leerkassettenabgabe und der Geräteabgabe (§ 53 Abs. 5 UrhG) mit dem europäischen Gemeinschaftsrecht, in: Riesenhuber (ed.), Ernst-Joachim Mestmäcker: Beiträge zum Urheberrecht, 2006, p. 211, at 218 et seq.

[55] See, *inter alia,* Antitrust Modernization Committee, Report of April 2007, pp. 122-123; *Landes/Posner*, The economic structure of intellectual property law, 2003, p. 392 (with regard to access to copyrighted interfaces that have become a standard): "… this is a monopoly problem that can be and is handled by copyright law, without need to invoke antitrust law" (with reference to relevant case law).

[56] *Magill (ITP, BBC and RTE v. Commission)* Cases C 241/91 and C 242/91, [1995] ECR I-743, para. 49. Propositions in the CFI's *Magill* decision which argued in favor of a delimitation of national IPRs where they were so broadly construed as to be in systemic tension with the EC Treaty's competition and free movement rules were not taken up by the ECJ on appeal (see para. 58 of the ECJ's decision). The CFI had argued that it followed from Art. 30 EC-Treaty that only those restrictions on freedom of competition, free movement of goods or freedom to provide services which were inherent in the protection of the actual substance of the IPR were permitted. I.e. derogations from the fundamental

the other hand, EU competition rules must be applied harmoniously across all Member States – and it follows from this latter imperative that national IP laws cannot immunize IP owners from the application of EU competition rules.[57] It is against this background that the ECJ has consistently held that the exclusive rights inherent in IPRs and their exercise, including a refusal to license or sell, cannot in themselves constitute an abuse.[58] However, the exercise of an IPR by a dominant undertaking can involve an abuse given "exceptional circumstances".[59] Like most US courts, the ECJ thus appears to have adopted some kind of "rebuttable presumption" in favor of the legality of refusal to license. In specifying the preconditions for a rebuttal, or for finding "exceptional circumstances", the ECJ has, however, taken a novel approach. It does not require a showing of anticompetitive intent, as the *Kodak*-court did. Nor does it require a completely separable actionable abuse, like the *Xerox*-court. The "exceptional circumstances" as developed by the ECJ rather reflect an "essential facility"-rationale, plus an additional requirement that the unilateral refusal to license must prevent the appearance of a new product. The "new product"-requirement is apparently meant to protect an adequate reward for the IP-owner, and thus to mediate between the respect for the underlying rationale of national IP laws and the application of EU competition law. It is, however, questionable whether the "new product"-criterion is adequate to perform this task. In fact, the "new product"-requirement can be criticised both from a competition law point of view as from an IP law point of view.

1. The ECJ's case law

a) General principles regarding refusals to deal and refusals to license

In the EU, like in US law, the freedom to deal or not to deal is a fundamental part of freedom of trade.[60] It extends to all undertakings, including dominant ones. The pro-competitive justification for a policy in favor of freedom of contract and the free exercise of property rights has been summarized by AG Jacobs in *Bronner* (paras. 57): If companies were not allowed to retain their facilities which they have developed for the purpose of their business for their own use, and instead access to production, purchasing or distribution facilities were granted too easily, there would be no incentive

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freedoms should be admitted only to the extent that it was justified for the purpose of safeguarding those rights which constitute the specific subject-matter of a given type of intellectual property. Also, when applying Art. 82, it should be subject to scrutiny whether an IPR was not being exercised in such ways and circumstances as to pursue an aim manifestly contrary to Art. 82. The possibility to constrain the Member States' discretion through a strict application of Art. 30 – although legally available – has only rarely been used.

[57] The Federal Circuit's approach towards unilateral refusals to license in *Xerox* would therefore not be viable in EU competition law.

[58] See, for example, *IMS Health and NDC Health v. Commission* Case C-418/01, [2004] ECR I-5039, para. 34: "the exclusive right of reproduction forms part of the rights of the owner of an IPR, so that refusal to grant licence, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute abuse of a dominant position" (with reference to *Volvo v. Veng,* Case C-238/87, [1988] ECR 6211, para. 8; *Magill* [1995] ECR I-743, para. 49).

[59] *IMS Health* [2004] ECR I-5039, para. 35 ; *Volvo v. Veng* [1988] ECR 6211, para. 9; *Magill* [1995] ECR I-743, para. 50.

[60] *AG Jacobs,* conclusions, para. 46 and para. 53, in: *Oscar Bronner* [1998] ECR I-7791.

for competitors to develop competing facilities. An open-access policy would increase competition in the short term, but reduce it in the long term. At the same time, the incentive for a dominant undertaking to invest in efficient facilities would be reduced if its competitors were to share the benefits. The mere fact that by retaining a facility for its own use a dominant undertaking retains an advantage over a competitor thus cannot justify a duty to deal. Exceptional circumstances must be fulfilled in order to find a refusal to deal to constitute an abuse. Mostly, the ECJ has found an abuse based on a conduct separate from, and in addition to the mere refusal to deal, namely a termination of an existing supply relationship without objective justification, or tying which led to the elimination of competition in a related market. In a limited number of cases, the ECJ has found a refusal to deal itself to constitute an abuse where a company owned or controlled a facility or input which was objectively indispensable to compete on a downstream market, and which was impossible to duplicate, and where the refusal to contract would eliminate competition in the downstream market.[61] In the words of AG Jacobs, a dominant undertaking must have "a genuine stranglehold on the related market" to justify the application of Art. 82 to a "pure" refusal to deal (conclusions in Bronner, para. 65).

The same general principles apply to the refusal to license. Some commentators have suggested that no difference exists, or should exist, between the competition law treatment of refusals to deal with goods or services, and the refusal to license an IPR.[62] In *Bronner* – a non-IPR-related case – the ECJ cited *Magill* – a refusal to license-case – as a relevant precedent regarding refusals to deal.[63] In refusal-to-license cases, the ECJ has, however, particularly emphasized the necessity to strictly delimit the application of Art. 82 EC, and has pointed to the potential tension with the essence of an IPR – the right to exclude imitation.[64] In two cases that have dealt specifically with refusals to license – *Magill* and *IMS Health* – the ECJ has therefore introduced an additional criterion for finding a violation of Art. 82 EC: the "new product"-requirement.[65]

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[61] For a discussion of the ECJ's relevant case law see, *inter alia*, *AG Jacobs,* conclusions, paras. 37-42, in: *Oscar Bronner* [1998] ECR I-7791

[62] See, *inter alia, Cyril Ritter,* Refusal to Deal and Essential Facilities: Does Intellectual Property Require Special Deference Compared to Tangible Property?, 28 World Comp. (2005), pp. 281 et. seq.

[63] *Oscar Bronner* [1998] ECR I-7791, para. 39-41. Emphasized by *Mestmäcker*, Schnittstellen von Wettbewerb und Regulierung im europäischen Recht, in: Mestmäcker, Wirtschaft und Verfassung in der Europäischen Union, 2nd ed. p. 767, at 775: "... Eine Erklärung könnte darin liegen, dass in Magill die urheberrechtlichen Fragen im Ergebnis von nur untergeordneter Bedeutung waren".

[64] See, for example, *IMS Health* [2004] ECR I-5039, para. 34: "the exclusive right of reproduction forms part of the rights of the owner of an IPR, so that refusal to grant licence, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute abuse of a dominant position" (with reference to *Volvo v. Veng* [1988] ECR 6211, para. 8; *Magill* [1995] ECR I-743, para. 49).

[65] The two more recent cases in which the ECJ had to deal with unilateral refusals to licence –*Magill* and *IMS Health* – concerned copyrights. Typically, copyrights create less tension with competition than patents since they protect only a particular expression, and not the underlying idea. The fact that the copyrights at issue in the two cases could nonetheless block competition in adjacent markets were due to the fact that in *Magill,* the copyrighted information was the unique source of information, and in *IMS Health* the copyrighted brick structure had become a de facto standard in the industry and customers were unwilling to switch. In both cases, the tension between IPR protection and competition was therefore similar to the type of tension that will more typically be found in cases involving patents. It is likely, therefore, that the ECJ would apply similar criteria in cases involving patents. However, the question whether the test for unilateral refusal to license should distinguish between patents, copyrights and trademarks has not been explicitly addressed so far by the ECJ.

b) Magill and IMS Health

In *Magill,* the ECJ was confronted with a somewhat unusual fact-pattern:[66] Magill TV Guide, Ltd. intended to publish the first comprehensive weekly TV guide for Ireland and Northern Ireland. Although not in the business of publishing comprehensive TV guides themselves, the relevant TV stations refused to license their copyrighted TV listings to Magill. In this situation, the ECJ found the TV channels' refusal to licence to constitute an abuse under Art. 82(b), and based its finding on the following special circumstances: (1) Each of the three TV channels was the only source of the basic information on its own programme scheduling and thus enjoyed a de facto monopoly over the information needed to compile a comprehensive listing for TV programmes (para. 47). Access to this information was indispensable for offering a weekly TV guide (para. 53). (2) The refusal to provide the requested information prevented the appearance of a new product – a comprehensive weekly TV guide – which the TV channels themselves did not offer and for which there was a specific, constant and regular potential consumer demand (para. 52 and 54). (3) By refusing to license the information, the TV channels reserved to themselves the secondary market of weekly TV guides and excluded all competition on that market (para. 56). (4) There was no justification for the refusal to license "either in the activity of television broadcasting or in that of publishing television magazines" (para. 55).

Magill initiated an intense debate. One of the most important and controversial questions raised was whether the new product requirement and the exclusion of all competition on a secondary market are alternative or cumulative criteria. This issue was addressed in the ECJ's next decision on unilateral refusals to license: *IMS Health*.[67] IMS, a company engaged in marketing regional sales data on pharmaceutical products in Germany and owner of a copyright in a certain format (so-called brick structure) used for tracking such sales, had refused to licence its copyright to its direct competitor, NCD. The brick structure, consisting of 1860 bricks, where each brick corresponded to a designated geographic area, had been developed by IMS with significant input of the pharmaceutical industry, and had become a de facto industry standard. Different structures for tracking sales were not accepted by clients, since they had adapted their information and distribution systems to the 1860-brick structure and would have faced high switching costs. When NCD used a brick structure based on IMS's 1860-brick structure, IMS sued NCD for violation of its copyright. NCD counterclaimed that IMS's refusal to grant a license to the use of the brick structure constituted an infringement of Art. 82 EC. The Landgericht Frankfurt asked the ECJ to clarify the relevant criteria for determining whether the refusal to licence an IPR can constitute an abuse within the meaning of Art. 82.

The ECJ confirmed the *Magill*-criteria[68] and held that these criteria must be *cumulatively* present in order for a refusal to license to constitute an abuse (para. 38). It

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[66] Emphasized by *Heinemann*, Compulsory Licences and Product Integration in European Competition Law – Assessment of the European Commission's Microsoft Decision, IIC 2005, 63, at 73.

[67] *IMS Health* [2004] ECR I-5039.

[68] The input to which access is requested must be indispensable for taking up economic activity in a secondary market; refusal to license must prevent the appearance of a new product for which there is potential consumer demand; the refusal must eliminate all competition in a secondary, market; and there is no objective justification for the refusal.

thus apparently established an extremely high threshold for unilateral refusals to license to fall under Art. 82 EC: not only must a leveraging situation be shown; in addition, the refusal to licence must prevent the appearance of a "new product" and thus limit production as required under Art. 82 lit. b. A refusal to license shall only constitute an abuse "where the undertaking which requested the licence does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the IPR, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand" (para. 49). At the same time, the ECJ lowered the threshold for finding an abuse by interpreting the preconditions for leveraging leniently. According to the ECJ, it is not necessary to identify the existence of two actual separate markets – a market for the upstream input and a downstream market for which the input is indispensable. The identification of a "potential" or "hypothetical market", i.e. the identification of two different stages of production and an actual demand for the input to engage in an economic activity downstream, shall suffice for the determination of a leveraging scenario.[69]

Based on these criteria it was for the national courts to decide whether the preconditions for finding the refusal to license to constitute an abuse under Art. 82 EC were fulfilled.

c) Open questions after Magill and IMS Health

Magill and *IMS Health* have triggered an avalanche of comments.[70] Both the application of a "hypothetical market" concept in the leveraging context and the "new product"-requirement for finding a unilateral refusal to licence to constitute an abuse have been heavily criticised.

The concept of a "hypothetical market" implies that a competitor's demand for access to an input or a production stage which is indispensable for engaging in economic activity

[69] "… it is sufficient that a potential market or even hypothetical market can be identified. Such is the case where the products or services are indispensable in order to carry on a particular business and where there is an actual demand for them on the part of undertakings which seek to carry on the business for which they are indispensable" (para. 44). "Accordingly, it is determinative that two different stages of production may be identified and that they are interconnected, inasmuch as the upstream product is indispensable for the supply of the downstream market" (para. 45).

[70] See, inter alia: *Mestmäcker*, Schnittstellen von Wettbewerb und Regulierung im europäischen Recht, in : Mestmäcker, Wirtschaft und Verfassung in der Europäischen Union, 2nd ed. p. 767 ff.; *Körber*, Geistiges Eigentum, essential facilities und 'Innovationsmißbrauch'. Überlegungen zum Microsoftfall im Lichte der EuGH-Entscheidung IMS Health, RIW 2004, 881-891; *Drexl*, Intellectual Property and Antitrust Law – IMS Health and Trinko, IIC 2004, 788 et seq.; *Drexl*, Abuse of Dominance in Licensing and Refusal to License: A 'More Economic Approach' to Competition by Imitation and to Competition by Substiution, in: Ehlermann/Atanasiu (eds.), European Competition Law Annual 2005: The Interaction between Competition Law and Intellectual Property Law, 2007, pp. 647 et. seq.; *Ahlborn / Evans / Padilla,* The Logic and Limits of the 'Exceptional Circumstances Test" in Magill and IMS Health, 28 Fordh. Int'l L. J. (2005) 1109; *Venit,* Article 82 EC: Exceptional Circumstances. The IP/Antitrust Interface After *IMS Health,* in: Ehlermann/Atanasiu (eds.), European Competition Law Annual 2005: The Interaction between Competition Law and Intellectual Property Law, 2007, pp. 609 et. seq.; *Conde Gallego*, Die Anwendung des kartellrechtlichen Missbrauchsverbots auf „unerlässliche" Immaterialgüterrechte im Lichte der IMS Health und Spundfass-Urteile, GRUR Int. 2006, 16 et seq.; *Höppner,* Missbräuchliche Verhinderung „neuer" Produkte durch Immaterialgüterrechte, GRUR Int. 2005, 457 et seq.; *Meinberg,* From Magill to IMS Health: The New Product Requirement and the Diversity of Intellectual Property Rights, 28 EIPR (2006), 398.

downstream, but has never been marketed separately, suffices to consider a unilateral refusal to deal or to license-claim under Art. 82 EC. Implicitly, this idea has been relevant in the liberalisation of network industries where indeed services markets that depended on the use of the network had to be opened up for the first time. Outside the context of the liberalisation of historical monopolies, the fact-pattern is usually a different one: here, a dominant undertaking which owns or controls a de facto standard frequently allows third parties the use of the standard at first but refuses to grant access or license later once a promising secondary market has evolved. The refusal to deal then becomes an instrument of leveraging market power into already existing secondary markets. The concept of a "hypothetical market" is not necessary to cover these cases of leveraging. The special case of historical monopolies aside, the extension of the leveraging scenario to "hypothetical markets" is indeed problematically broad: there is a real danger that competition law will pursue regulatory aspirations instead of protecting a competitive environment in the longer run.[71] The input owner's decision to open or not to open a market at a certain production stage will frequently result from his assessment at what stages of production markets can profitably be developed, and thus follow a legitimate individual profit-maximization rationale.[72] Where the definition of a leveraging situation is solely left to (potential) competitors' demand, the indispensability of the input tends to become the only limiting principle for an input owner's duty to share – a duty which then no longer depends on the business rationality of the input owner's decisions but on structural criteria alone.[73]

No less contentious than the concept of a "hypothetical market" is the "new product" requirement.[74] The controversies surrounding its rationale and rationality may be partly due to the fact that it has been applied in very different factual settings. In *Magill,* the "new product" criterion was important in finding that the preconditions of Art. 82(b) were fulfilled: since the refusal to license impeded the offering of a new product for which there was obvious consumer demand, it led to a limiting of "production, markets

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[71] See: *Mestmäcker*, in: Mestmäcker, Wirtschaft und Verfassung in der Europäischen Union, 2nd ed. p. 767, at 779-780.

[72] The relevance of the fact that a dominant company has found it in its interest to supply an input to one or more customers in the past is acknowledged by the *EU Commission*, Discussion Paper, para. 217.

[73] Criticizing the ECJ's "hypothetical market" concept as a basis for leveraging claims does not imply that an input owner cannot be held liable for the refusal to license an IPR which has not been marketed before. *Magill* is an example of a case in which the refusal to license an IPR was limiting production in the sense of Art. 82 lit. b EC.

[74] Supportive of the „new product requirement": *O'Donoghue / Padilla*, The Law and Economics of Art. 82 EC, 2006, p. 445-446: The "new product requirement" ensures that access will be granted only where it will significantly expand the market, rather than simply steal market share from existing product. For critical comments regarding the „new product requirement" see, *inter alia*: *Drexl*, Abuse of Dominance in Licensing and Refusal to License: A 'More Economic Approach' to Competition by Imitation and to Competition by Substiution, in: Ehlermann/Atanasiu (eds.), European Competition Law Annual 2005: The Interaction between Competition Law and Intellectual Property Law, 2007, p. 647, at 653-655*Korah*, Intellectual Property Rights and the EC Competition Rules, p. 145; *Nothhelfer*, Die leverage theory im europäischen Wettbewerbsrecht, 2006, p. 116, pleading instead for a normative test of how much protection an IPR deserves in a given case. For further criticism see: *Geradin*, Limiting the Scope of Article 82 : What Can the EU Learn from the US Supreme Court's Judgment in Trinko, in the Wake of Microsoft, IMS and Deutsche Telekom ?, (2004) 41 CMLRev. 1519, 1531; *Ridyard*, Compulsory Access under EC Competition Law, ECLR 2004, 670.

or technical development" and resulted in consumer harm.[75] In *IMS Health,* by contrast, the ECJ used the "new product" requirement in what was essentially a leveraging case.[76] The new product criterion is, however, to some extent at odds with the essence of a typical leveraging claim that the anticompetitive conduct at issue is a means to crowd out competitors on a downstream market,[77] and thus presupposes that direct competitors exist – competitors that offer identical products or close substitutes. The European *Microsoft* case may be an example.[78] In a leveraging scenario, the logic apparently underlying the "new product"-criterion – namely that IPRs grant protection against imitation for all products or services which the IPR owner has decided to produce, a protection which Art. 82 EC must respect[79] – is unconvincing as a matter both of IP and of competition policy. Patent and copyright law grants protection for inventions, not for business decisions to make use of them in a certain way. To make the scope of the IPR-protection turn on whether the IPR owner has already decided to produce and offer a certain product at the time an access request is made does not fit well with IP law rationales. Competition law, on the other hand, protects even direct competitors against exclusionary abuse. In order to bring both IP and competition law rationales to bear, one might attempt to delineate the "scope of reward" [80] that a given IPRs is meant to protect from the IP law side, and ask to what extent competition for the market remains possible from a competition law perspective. The "new product"-criterion does none of this, or only unsatisfactorily so. It cuts back IP protection where the party requesting access purports to engage in innovation of sufficient size (the rationale of Art. 82 lit.b EC), but denies protection to competition in its own right. It pursues more an innovation than a competition policy rationale.

Considering these serious objections to the "new product" requirement as a principled basis for solving the tension that may, in a broad variety of fact-patterns, arise between IP law and competition policy, *IMS Health* should be read narrowly: The "new product" requirement in *IMS Health* can be understood as a necessary precondition for finding an

[75] For the relevance of the „new product" requirement in the context of Art. 82 lit. b see *Ullrich/Heinemann*, in: Immenga/Mestmäcker (eds.), Wettbewerbsrecht EG Teil II, GRUR B. para. 59.

[76] See *IMS Health* [2004] ECR I-5039 para. 48. For the view that *Magill* and *IMS Health* deal with two different forms of abuse – limiting of production in the case of Magill, and leveraging in the case of IMS Health – see *Heinemann*, IIC 2005, p. 63, at 72.

[77] See also *Ullrich/Heinemann*, in: Immenga/Mestmäcker (eds.), Wettbewerbsrecht EG Teil II, GRUR B. para. 63.

[78] For a discussion of the *Microsoft* case against the background of the ECJ's jurisprudence in Magill and IMS Health see, *inter alia, Heinemann*, IIC 2005, p. 63 et seq.; *Heinemann,* Gefährdung von Rechten des geistigen Eigentums durch Kartellrecht? Der Fall Microsoft und die Rechtsprechung des EuGH, GRUR 2006, 705; *Körber,* Geistiges Eigentum, essential facilities und ‚Innovationsmissbrauch', RIW 2004, 881.

[79] According to *IMS Health* [2004] ECR I-5039 para. 48, the „new product"-requirement is the result of balancing the freedom of the IPR owner to refuse a license against the interest in protecting competition.

[80] For the term „scope of reward" see *Heinemann*, Compulsory Licences and Product Integration in European Competition Law …, IIC 2005, p. 63, at 71. For a very critical view of the „new product" requirement in the aforementioned respect see *Ullrich/Heinemann*, in: Immenga/Mestmäcker (eds.), Wettbewerbsrecht EG Teil II, GRUR B. para. 63 (commenting on the EU Commission's Microsoft decision).

abuse in those cases in which access to a purely "hypothetical market" is claimed.[81] It then serves to delimit an otherwise obviously overbroad scope for liability for refusals to license.[82] In this view, *IMS Health* leaves open the preconditions for liability under Art. 82 EC in all those cases in which an actual market for the input already exists.[83]

2. The Discussion Paper on the application of Art. 82 to exclusionary abuses – a critical appraisal of the Commission's proposals for developing the EU's approach

In contrast to the ECJ which has attempted to delimit the application of Art. 82 EC to refusals to deal and to license, the EU Commission has in different contexts favored the implementation of "open access"-policies on the basis of a broadly construed "essential facilities"-doctrine.[84] The Commission further pursues this approach in its Discussion Paper on the application of Article 82 to exclusionary abuses ("Discussion Paper").[85] The Discussion Paper takes the ECJ's case law into account, but in important, though subtle respects it softens the preconditions for finding an abuse under Art. 82. A somewhat laxer definition of the preconditions of an abusive refusal to license and more generally refusals to deal is coupled with the introduction of an open efficiency defence which amounts to an open balancing of interests once the threshold criteria for an abuse are met. Whereas so far the presumption of the case law on refusals to license / refusals to deal has been that the right to freely decide whether and with whom to deal deserves strong protection, under the efficiency defence it is for the dominant company to prove that it deserves a protection of its property rights.

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[81] Such an interconnection between the concept of the hypothetical market and the new product requirement is insinuated by *Mestmäcker*, in: Mestmäcker, Wirtschaft und Verfassung in der Europäischen Union, 2nd ed. p. 767, at 776. For the close interconnection between the two concepts see also *Venit,* Article 82 EC: Exceptional Circumstances. The IP/Antitrust Interface After *IMS Health,* in: Ehlermann/Atanasiu (eds.), European Competition Law Annual 2005: The Interaction between Competition Law and Intellectual Property Law, 2007, pp. 609, at 628.

[82] It remains questionable whether the replacement of the „2-actual-markets"-requirement by the „new product"-requirement is sound as a matter of policy. It allows to pursue refusals to license even in cases where the IPR owner has not voluntarily opened a market for the input before. This may be relevant in some cases where a de facto standard is protected by an IPR. In those situations, the test can be taken as a compromise between allowing access to the standard / interface, but at the same time granting some protection against imitation. The „new product requirement" makes the „scope of reward" that is protected against competition depend entirely on the business decisions which the IPR owner has taken up to the day of the access request – and not on the nature and scope of the IPR at issue and/or competitive effects. Even in those cases where access to a purely hypothetical market is at issue, the „new product" requirement is therefore unsatisfactory.

[83] See also *Korah*, Intellectual Property Rights and the EC Competition Rules, 2006, p. 150 : The categories of cases in which a refusal to licence can constitute an abuse "... are probably not closed".

[84] See, *inter alia, Ghidini,* Intellectual Property and Competition Law. The Innovation Nexus, 2006, p. 106-107.

[85] *DG Competition,* Discussion paper on the application of Art. 82 EC to exclusionary abuses (December 2005), *available at* http://ec.europa.eu/comm/competition/index_en.html (Discussion Paper).

a) Overview of the Commission's approach towards unilateral refusal to deal / to license

aa) Summary of the Discussion Paper

At first sight, the Commission's approach towards unilateral refusals to deal and refusals to license appears to follow familiar categories. According to the Discussion paper, a **refusal to start supplying an input** will constitute an abuse within the meaning of Art. 82 where five conditions are met (see 9.2.2.; particularly 9.2.2.6.): (1) The conduct must be properly characterized as a true refusal to supply;[86] (2) the undertaking refusing to supply must be dominant on a defined market – frequently the upstream input market,[87] but possibly also a distinct market to which access is needed to enter a related market, e.g. a market for interface information;[88] (3) the input requested must be indispensable to carry on normal economic activity in the downstream market. Where a compulsory license to an IPR is sought, it must be impossible for competitors to turn to any workable alternative technology or to "invent around"; (4) the refusal to supply must be likely to have a "negative effect on competition"; and (5) the refusal to supply must not be objectively justified. A **refusal to licence an IPR** will only be qualified as an abuse if, in addition, it prevents the development of the market for which the licence is an indispensable input, to the detriment of consumers. The "new product requirement" established by the ECJ in *Magill* and *IMS Health* is described as flowing from this rationale.[89]

In formulating the test, the Commission has been visibly concerned with possible applications of Art. 82 in the IT industries, or more broadly in industries characterized by strong network effects. The Discussion Paper stresses that the control over interface information can imply dominance (para. 226) and that access to IPRs will likely be considered indispensable where IPR protected technology has become a standard, or where interoperability with the rightholder's IPR protected product is necessary for a company to enter or remain on the product market (para. 230). Also, the Commission has added a specific section on the refusal to supply interoperability information (9.2.3.) which it apparently regards as a separate category of refusals to deal. While the Commission confirms that there is no general obligation for dominant companies to ensure interoperability, it suggests that the refusal to provide interoperability information shall constitute an abuse where it results in leveraging market power from one market to another. "Even if such information may be considered a trade secret it may not be appropriate to apply to such refusals to supply information the same high standards for interventions" as previously described (para. 242). The Commission does not clarify which of the criteria for finding an abuse in refusal to licence-cases shall be alleviated, and in what way. It appears likely that in such cases the Commission intends to drop the "new product" requirement.[90] The Commission leaves open what standards

[86] See Discussion Paper, para. 225.

[87] The Commission subscribes to the *IMS Health* jurisprudence that an actual market for the input need not necessarily exist. It suffices that a potential or even a hypothetical market exists which is created by actual demand for the input (Discussion Paper, para. 227).

[88] Discussion Paper, para. 226.

[89] Discussion Paper, para. 239.

[90] If the new product requirement were replaced by a refined test which would better capture and balance the need to protect IPR ownership and the advantages of allowing for competition in none-core

shall apply if the interoperability information is protected not by trade secrets, but by patents or copyrights.

bb) Deviations from the ECJ's case law

Although the Discussion Paper clearly links to, and also cites, the ECJ's jurisprudence in *Bronner*, *Volvo, Magill* and *IMS Health*, it deviates from this case law in important respects.

Instead of requiring an elimination of all competition on the secondary market before a refusal to deal can be held to infringe Art. 82 EC, a "negative effect on competition" shall suffice.[91] With this threshold significantly lowered, the handling of refusal to deal cases then turns on the interpretation of the indispensability requirement.[92] The Discussion Paper gives no particular guidance in this respect.

In stating that a refusal to license will only constitute an abuse if it "prevents the development of the market for which the licence is an indispensable input, to the detriment of consumers", the Commission essentially restates the preconditions of Art. 82(b). It thus links to *Magill,* where the fact that Magill intended to offer a new product for which there was specific, constant and regular potential consumer demand was an important element of finding a violation of Art. 82. *IMS Health* is also cited, but only as an example that the intention to offer a new product *may* be necessary to establish that the refusal to license prevents the development of a market to the consumers' detriment. Clearly, the Commission does not want to exclude other possibilities to show that a refusal to license leads to consumer harm. The Commission's inclination towards a narrow interpretation of the "new product" requirement is made explicit in para. 240, which creates a privilege for access to IPRs for the purpose of follow-on innovation. According to the Commission, "[a] refusal to licence an IPR protected technology which is indispensable as a basis for follow-on innovation by competitors may be abusive even if the licence is not sought to directly incorporate the technology in clearly identifiable new goods and services". A refusal to licence should not impair consumers' ability to benefit from innovation brought about by the dominant undertaking's competitors.[93]

The Commission thus alleviates the preconditions for applying Art. 82 to refusals to deal generally, and to refusals to license in particular, in various ways. At the same time, the Commission broadens the scope for possible defences. To the "objective

markets, the refusal to supply information needed for interoperability would likely not form a legally separate category as the Discussion Paper currently suggests.

[91] The Commission argues that this lower threshold is appropriate because the elimination of one of several competitors by way of refusal to deal might already have a significant detrimental effect, even if other competitors stay in the market. For example, the tendency towards collusion might be strengthened, or a "maverick" firm might be eliminated (Discussion Paper, paras. 231-232).

[92] Note, for example, that according to the EU Commission's *Microsoft* decision, indispensability of the interoperability information was found, despite the fact that competitors could reverse engineer. The reason brought forward by the Commission was one of timing. While the Commission's assessment may well be correct, it shows that the line between indispensability and non-indispensability can be a fine one, and can be charged with policy choices.

[93] *O'Donoghue / Padilla*, The Law and Economics of Art. 82 EC, 2006, p. 446 fn. 152 find the Commission's position in para. 240 of the Discussion Paper "highly questionable".

justifications" which have always been accepted by the ECJ,[94] the Discussion Paper adds a separate and new "efficiency defence" (paras. 235-236). According to the Commission, opening a "efficiency defence" against a presumptively anti-competitive refusal to deal / refusals to license results from the recognition that an indispensable input – be it a raw material, an essential facility or an intellectual property right – often is the result of substantial investments entailing significant risks, and that in order to maintain incentives to invest and innovate, the dominant firm must not be unduly restricted in the exploitation of valuable results of the investment (para. 235). A dominant firm which controls an indispensable input can therefore argue that its refusal to deal / to license is justified by its investments and risks in the specific case, or by the necessity to maintain investment incentives more generally. The Commission proposes to assess the positive and negative effects of imposing a duty to deal, inter alia the negative incentive effects and the possible positive effects on incentives for follow-on investments resulting from allowing access (para. 236). In doing so, it will, *inter alia*, take into account whether the investments that have led to the creation of the indispensable input would likely have been made even if the investor had known that it would have a duty to supply – for instance where the input was created under a regime of special or exclusive rights, where the investments behind the innovations were not particularly significant,[95] or where 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.[96] The Commission contemplates the possibility to grant a dominant firm the right to exclude others from access to the input for a certain period of time", sufficient to ensure an adequate return on the investment (para. 235). Where a compulsory license is imposed, a dominant firm should therefore "normally be free to seek compensation for successful projects that is sufficient to maintain investment incentives, taking the risk of failed projects into account" (para. 235).

It results from this passage in the Discussion Paper that the Commission envisages a full-fledged cost-benefit analysis once the (alleviated) preconditions for an anticompetitive refusal to deal / refusals to license have been established. It follows from the general part of the Discussion Paper, where the new concept of an "efficiency defence" in the context of Art. 82 EC is introduced, that the burden of proof for an objective justification or efficiency defence will be on the dominant company (para. 77). Once the threshold criteria for a presumptively anti-competitive refusal to deal / refusal to license are established, a dominant company shall therefore prove that its facilities or IPRs are the result of substantial investments and risks, that it needs its exclusivity rights and discretion in the choice of trading partners in order to ensure an adequate return on its investment, and ideally that its original investments were primarily made with a view to getting returns in the market in which competitors are now seeking access to the input. It will also have to show that the negative effects on its incentives to

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[94] See *Loewenthal,* The Defence of "Objective justification" in the application of Article 82, 28 World Comp. (2005), pp. 455 et. seq.

[95] For critical remaks on this aspect of the proposed test see: *Glazer,* The IMS Health Case: A U.S. Perspective, 13 Geo. Mason L. Rev. (2006) 1197 at 1212.

[96] Discussion Paper, para. 236. For critical remarks see *O'Donoghue /Padilla*, The Law and Economics of Art. 82 EC, 2006, p. 454: "In practice …, there are likely to be enormous problems in trying to disentangle the sources of funding for a facility. Passing value judgments on IPRs based on the level of monetary investment is also problematic, since this is often a matter of perspective. Moreover, valuable inventions result from creativity, which is not merely or mainly a function of financial investment".

invest in R&D in the future, should a compulsory license be imposed, would outweigh possible positive effects on incentives to follow-on investments from allowing access. For the introduction of such an "efficiency defence", the Commission cannot rely on the ECJ's jurisprudence in the context of "refusal to deal".[97] Until now, the ECJ has relied on the incentive function of property rights generally, and IPRs in particular, to justify its restrictive approach towards applying Art. 82 EC to refusals to license / refusals to deal: maintaining incentives and respecting the reward function of IPRs has been the reason to strictly and narrowly construe the preconditions for finding a violation of Art. 82. In introducing the efficiency defence, the Discussion Paper fundamentally reconceptualizes the approach towards refusals to license / refusals to deal. A strong presumption against a duty to license / a duty to deal is turned into a significantly laxer test of abuse at the core of which is the determination of the indispensability of access to an input to compete in a secondary market, and once this threshold is met, an open balancing of interests. Imposing the burden of proof for showing a superior interest in protecting the right to exclude on the dominant firm ensures the competition authorities' and courts broad discretion in imposing "open-access" policies.

b) Evaluation of the Discussion Paper's approach

In developing its position on refusals to license, the Commission was confronted with an uncertain state of law. The *Microsoft*-case had raised its awareness of the shortcomings of the approach developed by the ECJ in *Magill* and *IMS Health*: typical leveraging situations can be difficult to address when applying the *IMS Health*-criteria; and the current doctrine may not be well-suited to adequately address the variety of access and interoperability problems raised especially in those industries characterized by strong network effects. In light of such new developments and experiences, the Commission has a mandate to provide direction and to pro-actively shape competition policy within the limits drawn by Art. 81 and Art. 82. Nonetheless, the question arises whether the Commission's proposal indeed stays within these limits, and whether it is wise as a matter of policy. The Commission's attempt to de-emphasize the "new product"-requirement outside the "limiting of production"-scenario covered by Art. 82 lit. b and to develop criteria which are open enough to deal with the multitude of new factual situations that might arise clearly deserves support. But the approach proposed by the Commission meets with objections of its own.

The Commission fails to explain the economic basis of the broad presumption in favor of access of competitors to IPRs for the purpose of follow-on innovation which the Commission postulates (para. 240). In practice, the proposed follow-on innovation privilege could well undermine the generally restrictive approach towards refusals to deal / refusals to licence: It does not only abandon the "new product" requirement but can easily make inroads into the indispensability test. It is unclear how the

[97] The only indication in this direction are the interim proceedings in *Microsoft,* where the President of the Court of First Instance has considered it is at least arguable that substantial investments made in order to create an indispensable input, and the significant risks that may have gone along can be considered as an objective justification. He noted that, unlike the IP rights in Magill and IMS Health, Microsoft's IP "relates to secret and valuable technology" – Order of the President of the Court of First Instance on Dec. 22, 2004, T-201/04 R, *Microsoft Corp. v. Commission* [2005] ECR II-4463 paras. 222-224..

indispensability of access to an IPR shall be established where the contours of the new product or service to be developed are not yet clear. From a policy viewpoint, the crucial question is whether the positive effects that can result from such a follow-on innovation privilege will outweigh the possibly negative effects on the incentives to innovate that result from the weakening of the exclusive rights inherent in an IPR. It appears that this difficult question should normally be answered by IP law itself. The Commission relegates this question to the efficiency defence that is applied case by case.

The Discussion Paper's proposal to have refusal to deal / refusal to license cases turn on a broad efficiency defence, the essence of which is an open balancing of interests once the indispensability of an input has been shown is, however, questionable. According to the general parts of the Discussion Paper, the proposed efficiency defence is an attempt to transfer Art. 81(3) to the sphere of Art. 82. Once an abuse of a dominant position is presumptively established, it is open to the dominant company to demonstrate that the efficiencies brought about by the relevant conduct outweigh the likely negative effects on competition and are likely to enhance the ability and incentive of the dominant company to act pro-competitively for the benefit of consumers (para. 87). However, the efficiency defence in Art. 81(3) is based on a different conception of rule and exception compared to Art. 82. Within the scope of Art. 81, an agreement in restraint of competition can be justified by a showing that the efficiencies outweigh the anti-competitive effects. Within the realm of Art. 82, the underlying presumption is and should be that dominant undertakings are allowed to compete on the merits, like non-dominant undertakings are. It is for the competition authorities to show that the conduct of a dominant undertaking constitutes an abuse, and not for the dominant undertaking to prove the efficiency of its conduct. Primarily, the efficiency of the dominant firm's conduct has to be considered in defining abuse.[98]

Furthermore, an analogue application of Art. 81(3) in cases of unilateral refusal to deal / to license must fail because, according to a consistent line of case law, one of the preconditions for finding a "refusal to deal/ license" to constitute an abuse is that the refusal eliminates all competition in a secondary market. This is inconsistent with one of the important preconditions for applying Art. 81(3), namely that "competition in respect of a substantial part of the products concerned is not eliminated".[99] Also for this reason, the countervailing interests implicated in refusal to deal / refusal to license cases, which the Discussion Paper aptly summarizes, including the potential efficiencies of any refusals to deal / to license, must be taken into account at the level of defining the abuse, not at the level of an efficiency defence. This is particularly true for the investment incentives which the fundamental right to freely decide on one's trading partner protects and which argue for a narrow construction of duties to deal.

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[98] In *British Airways,* the ECJ has permitted the consideration of efficiency gains as part of an „objective economic justification" for otherwise potentially abusive rebate schemes (15.3.2007, Case C-95/04 P *British Airways* v *Commission*, at paras. 69 et. seq.). Some have seen herein an acknowledgement of an "efficiency defence" modelled along the lines of Art. 81(3) in the context of Art. 82 EC generally – see *Zimmer,* The objectives of competition policy, Paper presented at the European Competition Policy Workshop in Florence, June 2007. Clearly, *British Airways* did not mean to redistribute the burden of proof for the finding of anticompetitive conduct however. Yet, this is the effect of the introduction of an efficiency defence in refusal to deal-cases, as proposed in the Discussion Paper.

[99] For the intended transfer of this precondition to the envisioned efficiency defence in Art. 82 see the Discussion Paper, paras. 91-92.

The Discussion Paper's approach to relax the requirements for finding an abuse, and then to perform a general balancing of interest within the framework of an efficiency defence, thus appears contrary to existing case-law on Art. 82 EC. It weakens the current presumption in favor of the legality of a refusal to license / to deal. The discretion of those institutions that apply Art. 82 EC to implement open-access policies is enhanced by the shifting of the burden of proof for the efficiency defence to the dominant firms. The Discussion Paper's approach would thus create a risk of a significant number of "false positives" and of the implementation of an overly regulatory approach to industries characterized by network effects. This is of even greater concern in a system where Art. 82 is now to be mainly applied and enforced decentrally, i.e. by national competition authorities and courts.[100]

The Discussion Paper's approach would confer uncontrollable discretion on competition authorities. The proposed concept of an efficiency defence consisting in a general balancing of effects on innovation and competition presupposes the availability of information and a capacity to predict future developments which – not only as a practical matter, but as a matter of principle – may not exist.[101] This is the reason why an open-balancing test has been rejected in the US.[102] Insights into the impossibility of such predictions and measurements in each single case also underly the creation of typified IPRs.[103] The approach proposed in the Discussion Paper stands for an

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100 See *Czapracka*, Where Antitrust Ends and IP Begins – On the Roots of the Transatlantic Clashes, 9 Yale J. L. & Tech. (2007) 44 with further reference in Fn. 247.

101 See for the relevance of the limits of knowledge generally: *von Hayek*, Die Anmaßung von Wissen, (1975) 26 ORDO 12 et seq. For a critique of the general balancing approach proposed in the Discussion Paper see: *O'Donoghue/Padilla*, The Law and Economics of Art. 82 EC, 2006, p. 452 et. seq.: "… there is no reliable way in which a competition authority or court can balance ex post the benefits of a duty to deal against its adverse effects on ex ante incentives for innovation and investment." *O'Donoghue/Padilla* propose as a "second best" solution, in the absence of useful quantitative techniques to rely on some rough presumptions: There are some industries, e.g. the pharmaceutical industry, in which empirical evidence shows that the principal parameter of competition is R&D. Large profits are necessary to fund research efforts on potential products. In such circumstances, a general duty to share essential IPS, even when limited to the development of new products, might not be appropriate as a matter of public policy. Where empirical evidence, experience, or logic suggest that general duties to share valuable assets would discourage more competition than they create, a defence should be accepted. Such rough presumptions based on highly general intuitions may, however, frequently not be adequate in individual cases. Both Magill and IMS Health show how highly case specific the tension between IPRs and competition can be. A rule which relates to the IPR at issue in a given case is therefore to be preferred to an efficiency defence based on highly generalized presumptions. Against the feasibility of an explicit balancing of the cost and benefits of the IP grant in each case, as compared to the costs and benefits of granting access, see also *Kaplow*, The Patent-Antitrust Intersection: A Reappraisal, 97 Harv. L. Rev. 1813 (1984).

102 For a description of a possible variant of such a test see: *Antitrust Modernization Commission*, Report, 2007, at p. 102-103, with reference to Salop. For objections to the test see, *inter alia*, *Melamed*, Exclusive Dealing Agreements and other Exclusionary Conduct – Are there Unifying Principles?, 73 Antitrust L.J. (2006) 375, at 387: A "static market-wide balancing test … would still pose a daunting challenge to any decision maker and would place a costly and often impossible burden on th edefendant when deciding in real time how to conduct its business".

103 See *Landes/Posner,* The economic structure of intellectual property law, 2003, p. 310, with regard to the question whether the patent system on balance increases or reduces economic welfare.

"innovation policy rationale"[104] – an attempt to tailor the application of competition law such as to maximize innovation on a case-by-case basis. Considering the complex effects of IPRs on innovation incentives and competition, and the acknowledged difficulties of defining and delimiting IPRs generally, this endeavour appears over-ambitious. Dominant firms will not be able to discern ex ante whether they are under a duty to licence, or whether they enjoy full freedom of trade.

V. The transatlantic search for a way ahead

The preceding survey of US antitrust and EU competition law approaches towards refusals to license reveals how daunting a task it remains to moderate the IP/antitrust interface. IP and competition policy may be complementary in principle, but areas of tension remain. In a so far limited number of cases, US courts, the ECJ and the EU Commission have developed different approaches to deal with refusal to license-scenarios.[105] None of them gives definite answers. Both jurisdictions are still in search of an adequate rule. With a view to the disagreement among US scholars and courts regarding an economically sound approach, the FTC and the DOJ have recently resigned themselves to a "wait-and-see"-position: They will not actively pursue refusals to license under the US antitrust laws.[106] In the EU, the application of Art. 82 EC to refusals to license remains relevant. Industries with strong network effects, the growing importance of standards and de-facto standards, resulting needs for access to interface information, and the ubiquitousness of IPRs in these areas ensure that the problem will not disappear.

The various approaches developed so far and the shortcomings they display should not cover up the broad consensus on the level of principles. This consensus, as well as the insights to be gained from the relevant case law and debate give direction to the search for a way ahead. Its largely uncontroversial starting point is the principle that duties to share private property – including intellectual property – must be the exception, rather than the rule. In *Trinko,* the US Supreme Court has summarized the reasons why mandating firms to share the sources of their advantage with rivals is generally in tension with the underlying purpose of antitrust law:[107] the duty to share may lessen the incentive for the monopolist, the rival, or both to invest in economically beneficial facilities; enforced sharing requires antitrust courts to act as "central planners" – a role for which they are badly qualified; and compelling negotiations between competitors may faciliate collusion – the "supreme evil of antitrust". These reasons caution against broad antitrust doctrines that assume duties to share. In addressing cases that implicate a

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[104] For the „innovation policy rationale" as a guideline for the Commission's competition policy in the IP sector in different contexts see *Hanns Ullrich*, Expansionist Intellectual Property Protection and Reductionist Competition Rules: A TRIPS Perspective, Journal of International Economic Law 7(2), 401, at 421.

[105] For a conceptualization of these approaches see *Mark Patterson*'s contribution in this volume.

[106] *DOJ/FTC*, Antitrust Enforcement and Intellectual Property Rights, April 2007, p. 32.

[107] *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko*, LLP, 540 US 398, at 407-408 (2004).

duty to license, it should first be examined whether the dominant undertaking has engaged in a kind of anticompetitive conduct that is separable from the refusal to deal[108] – even if a duty to license may in the end be the remedy. In such cases, no fundamental tension between competition law and the protection of IPRs exists.

As far as "pure" refusal-to-deal cases are concerned, there is some debate on whether the presumption against duties to share should be stronger where access to IPRs is involved; to what extent this presumption should be relaxed or abandoned where IPRs are an essential input for follow-on innovation or protect interfaces the use of which is indispensable to access ancillary markets; or whether tangible property and intellectual property should simply be treated alike.[109] On the one hand, the protection of all property rights against duties to share serves the important purpose to protect incentives to invest and innovate both by the property owner and by competitors. On the other hand, there are important differences between tangible property and intellectual property.[110] Whereas the content and scope of rights to physical property is to some extent predetermined by the nature of the object, content and scope of IPRs have to be, and are, defined by law. Frequently, the precise determination of an IPR's scope is a matter of interpretation. The uncertainties regarding the boundaries of IPRs are a major cause of the difficulties inherent in the IP-antitrust interface. The right to exclude is the core of IPRs. Legal duties to license affect the essence of an IPR. In this respect, IPRs appear to justify particular protection against antitrust interference. While IPRs do not automatically, and not even typically, confer monopoly power, they do so more frequently than physical property. And where there are no good substitutes for an IPR, full protection of the right to exclude may technically enable the IPR owner to

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108 Examples are the termination of an apparently profitable business relationship without justification, or the tying of unrelated goods or services.

109 See, for example, DOJ/FTC, US Antitrust-IP Guidelines, § 2.1: "The Agencies apply the same general antitrust principles to conduct involving intellectual property that they apply to conduct involving any other form of tangible or intangible property". On the other hand, the *DOJ/FTC* Report on "Antitrust Enforcement and Intellectual Property Rights" of April 2007, p. 4, acknowledges that "many of the difficult questions that the Agencies encounter in the application of antitrust principles to intellectual property stem from differences between the characteristics of intellectual property and other forms of property." For the necessity of considering IP-specific normative value-judgments in interpreting competition law norms when applying these norms in the IP context see *Heinemann*, Immaterialgüterschutz in der Wettbewerbsordnung, 2002, p. 624. For further contributions to the debate see, *inter alia*: *Cyril Ritter,* Refusal to Deal and Essential Facilities: Does Intellectual Property Require Special Deference Compared to Tangible Property?, 28 World Comp. (2005), pp. 281 et. seq. (arguing against special deference to IPRs).

110 For a summary of the most relevant differences see *Mestmäcker/Schweitzer,* Europäisches Wettbewerbsrecht, 2004, § 28 para. 7 et. seq. (pp. 701 et. seq.). See also *DOJ/FTC,* Antitrust Enforcement and Intellectual Property Rights, April 2007, p. 4: intellectual property is more easily misappropriated than many other forms of property, due to its public good characteristics; the boundaries of IPRs are often uncertain and more difficult to define, so that neither the IP owner nor competitors know the precise extent of protection; the value of intellectual property typically depends more on its combination with other factors of production than does tangible property; and IPRs are of limited duration. On the difference between intellectual property and other forms of property more generally see also: *Henry E. Smith,* Intellectual Property as Property: Delineating Entitlements in Information, 116 Yale L.J. (2007), 1742 et. seq.; *Lemley,* Property, Intellectual Property, and Free Riding, 83 Texas L.Rev. (2005), 1031 et. seq.; *Easterbrook*, Intellectual Property is Still Property, 13 Harvard J.L. & Public Policy 108 (1990).

monopolize not one, but various markets. The goal of competition law to keep access to markets open may be compromised.

According to a strong view in the US, antitrust law should take these specificities of IPRs into account by strictly enforcing the limits of IPRs that follow from IP law itself: the IPR owner must accept that full force is given to any exceptions to the right to exclude that follow from the misuse doctrine, fair use exceptions etc. Any attempt to restrain the force of these exceptions may not only violate IP law, but may also be interpreted as an attempt to extend the IPR "beyond the scope" of the IPR and thus leverage monopoly power in violation of Sec. 2 Sherman Act.[111] Under this approach, it is first and foremost the task of IP law to draw the line between protection of innovation and protection of competition. The problem of access to standards,[112] indispensable interface information and the use of IPRs for the purpose of follow-on innovation should then be solved by IP law. While this approach has much to recommend itself,[113] it is not fully applicable in the EU where IP law remains national and must respect the supremacy of the EU competition rules which must be applied uniformly in all Member States. Nonetheless, this approach is not without relevance in the EU: where general legal principles common to the Member States can be discerned, they can be given weight in mediating the IP/antitrust interface.

There are proposals to apply the general test for anticompetitive single-firm conduct, namely whether the refusal to license can be interpreted as a rational profit-maximizing conduct, or whether profits are sacrificed strategically in order to create additional market power.[114] The test does not explain to what extent and in what ways the specificities of IPRs and their underlying policy rationales will be taken into account. The need to interpret competition law and IP law in light of each other and to refer to their policy rationales to resolve the latent tension between the two regimes has been the conceptual starting point of the US Court of Appeals (1st Circuit) in *Data General*. Underlying the "new product" requirement in *IMS Health* may be a similar attempt.[115] This applies as well to the EU Commission's approach in its Discussion Paper.

A number of US and European scholars have taken up this thread and developed it into different directions.[116] In Europe, the challenge in unilateral refusal to license cases has

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111 See, *inter alia, Hovenkamp / Janis / Lemley*, Unilateral Refusals to License in the U.S., Working Paper, April 2005, p. 28 and pp. 37-38.

112 See, for example, *Koelman*, An exceptio standardis: Do we need an IP exemption for standards?, IIC 2006, 823 et. seq.

113 See also *Ghidini,* Intellectual Property and Competition Law. The Innovation Nexus, 2006, p. 111. For a more skeptical view see *Anderman,* EC Competition Law and Intellectual Property Rights, 1998, p. 249: it would be „overly optimistic to expect that IPR legislation by itself can regulate the exercise of IPRs so comprehensively that it meets the objectives of public policy generally and competition policy in particular in relation to markets".

114 *Melamed/Stoeppelwerth,* 10 Geo. Mason L. Rev. 407, at 427.

115 See *Drexl*, Abuse of Dominance in Licensing and Refusal to License: A 'More Economic Approach' to Competition by Imitation and to Competition by Substiution, in: Ehlermann/Atanasiu (eds.), European Competition Law Annual 2005: The Interaction between Competition Law and Intellectual Property Law, 2007, p. 647, at 653: the "new product"-requirement attempts to trace the distinction between competition by imitation (against which IPRs protect) and competition by subsitution (which should remain possible).

116 See, for example, *First,* Microsoft and the Evolution of the Intellectual Property Concept, 2006 Wis. L. Rev. 1369 et. seq.; *Heinemann*, Schutzrechte in der Informationsgesellschaft und ihr Verhältnis

been said to lie in defining the "scope of reward" that a given IPR protects.[117] The major goal of this inquiry – as *Hanns Ullrich* has noted – "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".[118] New theories of abuse beyond the leveraging theory and the essential facilities theory are to be based on the identifaction of the effects of a refusal to license on competition by substitution and competition by imitation in a given market.[119]

In the US, *Mark Patterson* assumes that granting a degree of market power or even monopoly power is part of the reward rationale underlying IPRs.[120] However, he carefully delimits this rationale: an IPR owner should be entitled only to those gains that result from the technological superiority of its invention, and should therefore have a right to exclude where a third party strives to use an IPR, or a product protected by IPRs, in order to appropriate the added value that results from the protected invention as such. A duty to license should exist, on the other hand, where access to an IPR is requested not in order to appropriate the merits of the invention, but merely because, due to certain market circumstances, like strong network effects and/or the existence of a de facto standard, access is indispensable in order to be able to compete. *Patterson* thus proposes to inquire in each case into the reasons why access to an IPR is sought.

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zum Kartellrecht, in: Behrens (ed.), Stand und Perspektiven des Schutzes Geistigen Eigentums in Europa, 2004, p. 105, at 121 et seq. Also: *Ullrich/Heinemann*, in: Immenga/Mestmäcker (eds.), Wettbewerbsrecht EG Teil II, GRUR B. para. 61.

117 See *Heinemann*, IIC 2005, 63, at 71; see also *Heinemann,* Interne und externe Begrenzungen des Immaterialgüterschutzes am Beispiel des *IMS Health*-Falls, in: Hilty/Peukert (eds.), Interessenausgleich im Urheberrecht, 2004, p. 207, at 217; *Eilmansberger,* EWS 2003, 12, at 17. Also *Drexl's* contribution to this volume: „in IP-related cases one is … in need of an IP-related justification for the application of Art. 82 EC"; and on p. 11 of the conference paper: Law enforcers must assess whether a duty to license would contradict the economic rationale of the IPR and would thereby reduce its contribution to dynamic efficiency.

118 Hanns Ullrich, Expansionist Intellectual Property Protection and Reductionist Competition Rules: A TRIPS Perspective, *J. Int'l Econ L.* 7(2), 401, at 402 (2004).

119 *Drexl*, Abuse of Dominance in Licensing and Refusal to License: A 'More Economic Approach' to Competition by Imitation and to Competition by Substiution, in: Ehlermann/Atanasiu (eds.), European Competition Law Annual 2005: The Interaction between Competition Law and Intellectual Property Law, 2007, p. 647, at 662.

120 This is widely accepted in the US – See already *United States v. Grinnell*, 384 U.S. 563, 571 (1966): „If a patent or other form of intellectual property does confer market power, that market power does not by itself offend the antitrust laws. As with any other tangible or intangible asset that enables its owner to obtain supracompetitive profits, market power (or even a monopoly) that is solely a consequence of a superior product, business acumen, or historic accident does not violate the antitrust laws. Nor does such market power impose on the intellectual property owner an obligation to license the use of that property to others". See furthermore *Posner*, Antitrust in the New Economy, 68 Antitrust L.J. 925, 930-931 (2001); *Melamed/Stoeppelwerth*, The CSU Case: Facts: Formalism and the Intersection of Antitrust and Intellectual Property Law, 10 Geo. Mason L. Rev. 407, at 416-417: "It is now beyond doubt that antitrust law – whether it cherishes or merely tolerates monopoly – explicitly permits firms to charge monopoly prices and otherwise to profit from their lawfully obtained monopoly. It does so for the same reason that intellectual property laws create property rights – to create and protect ex ante incentives for entrepreneurship, innovation and commercial success. That is what the antitrust laws mean when they say that one who gains a monopoly by "skill, foresight and industry" is permitted to reap the fruits of the monoply". For a discussion whether conferring the reward of monopoly profits is optimal as a matter of IP policy see *Ian Ayres / Paul Klemperer*, Limiting Patentees' Market Power Without Reducing Innovation Incentives: The Perverse Benefits of Uncertainty and Non-Injunctive Remedies, 97 Mich. L. Rev. 985, 987 (1999).

Patterson's approach starts from a pure "reward"-rationale of IPRs and proposes to separate merit from other causes of power that result from the market setting. Success in competition very often depends on both, however, and whether an IPR is an indispensable input for third parties due to the one or the other may be difficult to tell. Another potential concern with *Patterson's* approach may be that it attempts to solve the tension by looking at the IP rationale only, but neglects the competitive effects. On the other hand, the great attraction of *Patterson's* approach lies in the fact that the inquiry – contrary to the EU Commission's proposal – refers directly to the rationales of IP law, and that it maintains a legal structure, instead of reverting to an open balancing of speculative causes and effects.

The proposal by *Heinemann* to determine the "scope of reward" for each IPR with a view to both IP and competition law rationales leaves open the criteria on the basis of which this exercise shall be done. Since IPRs do not necessarily and not normally define markets, an IPR may be relevant, and even essential, in a number of different markets.[121] A "core" market and "ancillary" markets may be difficult to discern. Also, any such finding would not justify a finding that certain markets have been "allocated" to the IPR owner based on the grant of the IPR.[122] Nor is an open balancing of likely welfare effects along the lines of the Discussion Paper feasible, as has been shown.[123] Against this background, both *Heinemann* and *Drexl* have recently proposed to shift attention towards competition policy rationales and to focus on the concept of "contestable markets" in mediating the IP/antitrust interface:[124] in unilateral refusal to license-cases, competition law should intervene when a market become non-contestable without access to an IPR.[125]

This review of approaches towards the control of unilateral refusals to license under competition rules confirms that the law is still in a state of flux. Despite their general complementarity, IP law and competition can come into tension where an IPR is an indispensable input for the activity in downstream markets due to its technical superiority, due to the position of the IPR owner on an upstream market, and/or due to the fact that it protects what has become a de facto standard. Solving the tension requires to take IP law rationales into account, and integrate them into competition law categories. This will lead to context-specific solutions: a case-by-case analysis of the specificities of the IPR at issue and of the market situation will be relevant to determine whether the protection of the IPR is indeed incompatible with the protection of open markets, and to what extent. Nonetheless, the inquiry must respect the normative structures. It should not revert to an open balancing of likely overall economic effects. Art. 82 should be applied to unilateral refusals to license only in exceptional circumstances. Competition *for* the market can be an important part of the competitive process. To determine the exceptional circumstances under which competition law

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121 See *DOJ/FTC*, Antitrust Enforcement and Intellectual Property Rights, April 2007, p. 20.

122 See also *Drexl's* contribution in this volume.

123 See also *Drexl's* contribution in this volume.

124 See *Drexl's* contribution in this volume (particularly under 5.4.); citing *Heinemann,* The contestability of IP-related markets, in: Drexl (ed.), Research Handbook on Intellectual Property and Competition Law (forthcoming).

125 See *Drexl's* contribution in this volume, under 6.: „intervention may well be necessary in cases in which, for instance, network effects lead to IP-protected de facto standards and exclude competitors from market access".

intervention is justified, guidance can be taken from the first two of the three criteria used in the telecommunications sector to decide when regulation is justified: there must be high, non-transitory barriers to entry; and the market must not tend towards competition in the medium term.[126] Any more broadly conceived bias for protecting competition *in* the market may create overly regulatory tendencies and risk to turn IPRs into public utilities.

[126] The third criterion is that competition law remedies are not sufficient to solve the problem and therefore a regulatory regime appears justified.