Monopolists' Refusal to Deal in IP: US Courts and EU Institutions line up along some Cultural and Jurisdictional Cleavages

Abstract: Nowadays US courts and EU antitrust institutions concur in appreciating that the effect on innovation plays a critical role in the enforcement of antitrust law towards monopolists who refuse to license their IPRs. They disagree, however, in establishing whether such conduct by monopolists either encourages or impairs innovation. Whereas US courts deem that refusing to license proprietary innovations cannot harm innovation, EU institutions consider that obliging monopolists to share their IPRs furthers innovation.

Such a divergent scenario stems from different circumstances, of which this paper does not seek to make either an exhaustive or a conclusive list. Rather it maintains that, as economics does not offer a conclusive answer about the conditions under which monopolists' refusal to deal can harm (static and dynamic) efficiency, US courts and EU institutions lack a reliable and common yardstick, so that their divergent decisions are ultimately affected by some cultural interrelated factors. Namely, the two jurisdictions have dissimilar interpretations of the division of power argument, of the false-positive mistakes issue, and of the role that IP culture should play in determining the interface with competition law. This last feature, in particular, entails a jurisdictional divergence between the US and EU experiences that conditions the antitrust-IP interface. Whereas EU institutions can only enforce competition law against IPRs that allegedly stifle innovation, US courts can deal with those problematic IPRs by applying federal IP law.

1. Introduction

Both the economic and the legal literature recognize that innovation furthers social welfare more than any policy that drives prices to marginal costs.[1] Therefore, it would not be surprising if

[1] See, e.g., Robert M. Solow, *Technical Change and the Aggregate Production Function*, 39 Rev. of Economics and Statistics 312 (1957); Edwin Mansfield, *Microeconomics of Technological Innovation*, *in* Technology and Global Industry 311 (Bruce R. Guile & Harvey Brooks eds, 1987); Charles I. Jones & John C. Williams, *Measuring the Social Return to R&D*, 113 Q. J. Econ. 1119 (1998); Timothy F. Bresnahan, *The Mechanisms of Information Technology's Contribution to Economic Growth*, *in* Institutions, Innovation and Growth: Selected Economic Papers, 135-137 (Jean-Phillipe Touffut ed., 2003); Richard J. Gilbert & Willard K. Tom, *Is Innovation King at the Antitrust Agencies? The Intellectual Property Guidelines Five Years Later*, University of California, Berkeley, Working Paper No. CPC01-20 (2001); Joseph F. Brodley, *The Economic Goals of Antitrust: Efficiency, Consumer Welfare, and Technological Progress,* 62 N.Y.U..L. Rev. 1020 (1987); Richard J. Gilbert & Steven C. Sunshine, *Incorporating Dynamic Efficiency Concerns in Merger Analysis: The Use of Innovation Markets,* 63 Antitrust L. J. 569 (1995); and Thomas M. Jorde & David J. Teece, *Rule of Reason Analysis of Horizontal Arrangements: Agreements Designed to Advance Innovation and Commercialized Technology,* 61 Antitrust L. J. 579 (1993).

antitrust law fought practices that harm dynamic efficiency[2].[3] In effect, in dealing with cases about monopolists who refused to license their IPRs, both the US courts and the EU antitrust institutions (i.e.. the European Commission, the Court of First Instance, and the Court of Justice) have acknowledged that the boosting of innovation represents a crucial issue for the enforcement of antitrust law. However, while EU institutions stroke those refusals stating that they restricted innovation, US courts deemed them *quasi per se* legal, maintaining that they enhance innovation. Hence, the resulting transatlantic scenario is idiosyncratic; it being established that innovation plays a critical role in the enforcement of antitrust law regarding monopolists' refusals to license IPRs, US courts and EU institutions endorse two opposite approaches towards the IP law principle that refusals to share IP proprietary resources never hint innovation.

Three sets of circumstances have combined to create such a scenario.

First, economics does not offer US courts and EU institutions a reliable benchmark[4] about the conditions under which monopolists' refusals to deal can harm dynamic efficiency.[5] Second, notwithstanding the fact that the European 2005 Discussion Paper[6] intends to overcome the dualism between the Chicago and the Freiburg schools about competition law's aims and methodologies,[7] US courts and EU institutions still have a divergent approach towards some topics that affect the enforcement of antitrust law as well as the shaping of the interface between antitrust law and IP law. For instance, they still have a dissimilar interpretation of: (i) the division of power argument; (ii) the

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[2] Whereas allocative efficiency is reached by pushing prices towards marginal costs, dynamic efficiency is achieved through the invention, development, and distribution of new products and processes that either reduce costs or increase wealth.

[3] This paper does not address a different issue, which is whether antitrust law should prosecute behaviors that impair *only* dynamic efficiency, i.e., behaviors that do not produce any short-run harm. After all, in the case law considered, US courts and EU institutions have always dealt – not so expressly, however – with the alleged harm to dynamic efficiency only after having analyzed the occurrence of the harm to allocative efficiency.

[4] After all, economic models have two opposite faults that prevent judges and officers relying on them *completely*. On the one side, since they result from abstract hypotheses, models cannot address each peculiar set of circumstances that occur in the real world, leaving judges and officers without an applicable economic teaching; on the other, the closer an economic model moves to the real world, the more complex it becomes, so that judges and officers are ill-equipped to administer it.

[5] Better, as the on-going debate about the reliability and enforceability of the most sophisticated versions of the leveraging monopoly theorem shows, economic models do not offer a final answer even about the conditions under which monopolists' refusals harm allocative efficiency. For the same opinion, see, e.g., Alexandros Stratakis, *Comparative Analysis of the US and EU Approach and Enforcement of the Essential Facilities Doctrine*, 27 E.C.L.R. 434, 436 (2006).

[6] See the DG Competition Discussion Paper on the application of Article 82 of the Treaty to exclusionary abuses, Brussels, December 2005, available at www.europa.eu.int.

[7] Arguably, therefore, it can be stated that the actual EU competition law is moving towards the US (better, the Chicago) approach to antitrust law. Yet that should not be surprising as "such a movement" rests on several factors, such as the US economic success, the simplicity of the Chicago principles, and the US refrain: "We applied your antitrust theories before you and now we know that they do not work". See, e.g., David J. Gerber, *Competition Law* in The Oxford Handbook of Comparative Law 1, 10-17 and 22-23 (2005), available at www.ssrn.com.

false-positive mistakes issue;[8] and (iii) the role that the IP culture should play in determining the interface with competition law. Third, while EU institutions can only enforce competition law against the existence of IPRs that seem to restrain innovation, US courts can face those problematic IPRs by applying federal IP law.

Therefore, the paper encompasses two parts. The first will briefly compare the actual US and EU doctrines about monopolists' refusal to deal (§ 2) and will consider whether and how these two doctrines change when IPRs are involved (§ 3); the second will discuss the cultural and jurisdictional issues that surround and affect the US and EU approaches to monopolists' refusal to deal (§ 4), to conclude that the existing divergences have their roots in a general cultural background[9] that is not completely specific to either the antitrust or the IP realm (§ 5). To be sure, a twofold premise nourishes such a conclusion: first, the list of issues that the paper presents in connection with the US and EU approaches to monopolists' refusal to deal does not aim to be either conclusive or exhaustive. Second, as the analysis focuses on the US and EU case law developing over a long period of time, the different factors that the paper discusses so to explain the divergences between the two jurisdictions did not play the same role, at the same time, in any case.

2. The US and EU refusal to deal doctrines: a reminder

The general principle in force on both sides of the Atlantic Ocean is that even dominant firms must be free to contract.[10] Indeed, in both the US and EU jurisdictions the refusal to deal doctrine is described as a list of "*certain*"[11] or "*exceptional*"[12] circumstances in which the monopolist's refusal

[8] Indeed, as paragraph 4 will show, US courts are more risk averse than EU institutions. Such an approach is wide-ranging: it arises not only from the analysis of the antitrust cases that involved IPRs (i.e., it is not IP-specific), but from a more general examination of the US and EU attitudes towards monopolists' conduct. For instance, in assessing the anticompetitive harm, EU institutions give more consideration to the *potential* and *future* anticompetitive effects of a monopolist's behavior than US courts do.

[9] For a concurring opinion about the role that cultural principles play in shaping competition policy, see Dieter De Smet, *The Diametrically Opposed Principles of US and EU Antitrust Policy,* 29 E.C.L.R. 356 (2008).

[10] True, the US antitrust judges have dealt with this principle since the first half of the twentieth century thanks to the so-called "Colgate doctrine". See *United States v. Colgate & Co*., 250 U.S. 300, 307 S.Ct. (1919), where the Court stated: "In the absence of any purpose to create or maintain a monopoly … a trader or manufacturer engaged in an entirely private business [has the right] … to exercise his own independent discretion as to parties with whom he will deal". See also, e.g., *Associated Press v. United States*, 326 U.S. 1, 15, 65 S.Ct. 1416, 89 L.Ed. 2013 (1945). In the EU jurisdiction, instead, a clear official statement of this principle goes back to the Discussion Paper, *supra* note 7, at § 207. There the DG Competition stated: "Undertakings are generally entitled to determine whom to supply and to decide not to continue to supply certain trading partners. This is also true for dominant companies". Nevertheless, this principle is pivotal for the legal cultures of the Member States, so that it would be a mistake to disregard it. Indeed, usually principles that are common to the legal culture of the Member States can even receive a constitutional status.

[11] Indeed, in *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko, LLP* 540 U.S. 398, 124 S.Ct. 872, 157 L.Ed.2d 823 (2004) (hereinafter, "*Trinko*") the Supreme Court held: "Under certain circumstances, a refusal to cooperate with rivals can constitute anticompetitive conduct".

to deal is harmful to competition as such. The two jurisdictions, however, do not identify the same circumstances.

The present US approach to dominant firms' refusal to deal follows from *Trinko*,[13] The conclusions of which "apply to all the legal theories for treating simple, or unconditional, refusals to deal under Section 2 of the Sherman Act".[14] Here the US Supreme Court held that a judge can oblige a dominant firm to share its proprietary input only if two conditions occur: first, the market in question cannot be realistically capable of producing this input;[15] second, the dominant firm had already full developed and marketed the claimed input.[16] Further, in *Trinko* the Supreme Court avoided any broader interpretation of *Aspen Skiing*[17] and its three requirements[18]; termination of a previous business relationship,[19] harm to competition as such,[20] and absence of any business justification.

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[12] See *Magill TV Guide/ITP, BBC and RTE* (89/205/EC), 21 December 1988, OJ 1989, L78/43, upheld in Joined Cases C76, 77 and 91/89 R, *Radio Telefis Eireann and others v Commission*, 11 May 1989, 1989 ECR I-1141, upheld in Joined Cases C241 and 242/91 P, *Radio Telefis Eireann and Others v Commission*, 6 April 1995, 1995 ECR I-743. Hereinafter, "*Magill TV*".

[13] This case arose when a dominant firm failed to provide a rival with some elements of its network promptly, notwithstanding that the rival needed them to offer new services arguably for the consumers' good. Importantly the case took place in a regulated industry – telecommunications –, where an authority was already in charge of establishing when, and under which conditions, the incumbent local telephone company had to share its network with new entrants. Through this relevant circumstance, the Supreme Court decided to verify whether Section 2 could represent a further legal source of the dominant firm's duty to deal with rivals. Its answer was negative for several reasons. Some of them are reported in the previous and following footnotes.

[14] See Phillip Areeda & Herbert Hovenkamp, *Antitrust Law. An Analysis of Antitrust Principles and their Application*, ¶ 773g (suppl. 2005). To be sure – as explained by Edward D. Cavanagh, *Trinko: A Kinder, Gentler Approach To Dominant Firms Under the Antitrust Laws?*, 14 (2006) available at www.ssrn.com – *Trinko* can be read in a narrower way, considering it as a case decided in the context of a heavily regulated telecommunications industry where access to rivals' facilities is mandated by statute. Under this view, *Trinko* stands for the proposition that violations of the Telecommunications Act itself do not create separate claims for relief under the antitrust laws. Nor should a dominant firm's refusals to deal be condemned under traditional antitrust principles where, as in the case of telecommunications, the industry has a heavy regulatory overlay, which includes mandated access to rivals' facilities, particularly where the regulatory authorities have already sanctioned the dominant firm for the conduct in question.

[15] Even after *Trinko*, hence, a duty to deal could still apply to inputs that either belong to a natural monopoly, or represent both public facilities managed by third parties and structures created as a part of a regulatory regime.

[16] The Court, indeed, kept on saying that the requested input "exist[s] only deep within the bowels of Verizon; they are brought out on compulsion of the 1996 Act and offered not to consumers but to rivals, and at considerable expense and effort. New systems must be designed and implemented simply to make that access possible – indeed, it is the failure of one of those systems that prompted the present complaint". 124 S. Ct. 872, 880.

[17] *Aspen Skiing Co. v. Aspen Highlands Skiing Corp*., 472 U.S. 585 (1985). This is the famous judgment where the owner of three of the four major ski areas in Aspen made it more expensive for the owner of the fourth ski area to continue a joint lift ticket arrangement, so that such a demand was tantamount to a refusal to continue the joint venture.

[18] Indeed, the Court relegated Aspen Skiing to "at or near the outer boundary of Section 2 liability". 124 S. Ct. 872, 879.

[19] Made the existence of a previous voluntarily relationship very close to dispositive, as observed by Areeda & Hovenkamp, *supra* at note 14, ¶ 773g (suppl. 2005).

[20] It is well known that scholars are struggling in connection with the proper test to detect anticompetitive behaviors. Some have observed that *Trinko* means that a refusal to deal is anticompetitive when it implies a short-run sacrifice for the monopolist, i.e., when the dominant firm forsakes profitable sales in order to harm its rival. See, e.g., for a positive answer Areeda & Hovenkamp, *supra* at note 14, at ¶ 773g (suppl. 2005) and Marina Lao, *Aspen Skiing and Trinko: Antirust Intent and Sacrifice*, 73 Antitrust L.J. 171 (2005). Instead, according to Andrew I. Gavil,

Overall, nowadays the US duty to deal doctrine is inapplicable when the refusal: (i) is not anticompetitive; and (ii) is justifiable; and when satisfying the request of rivals would require the dominant firm to (iii) share an input that the market can otherwise offer (i.e. an input that is not indispensable); or (iv) produce an input (or a combination of them) that it does not use to employ; or (v) enter in a new joint venture with its competitors.

The actual EU perspective is quite different and less strict. It follows from the preliminary judgment of the ECJ in *Oscar Bronner*.[21] There the Court held that a refusal to deal is illegal when: (a) it is likely to eliminate all competition in the secondary market, and (b) cannot be objectively justified; and when (c) the claimed input is indispensable for rivals to carry on their own business, inasmuch as there are no actual or potential substitutes in existence for that input.[22]

Therefore, though there are points in common,[23] the *Oscar Bronner* test looks more to the potential than to the actual effects of the monopolist's conduct[24] and omits both the *Trinko* requirement about the full development and marketing of the claimed input,[25] and the *Aspen* condition about the disruption of precedent levels of supply. Indeed, in *Oscar Bronner* the monopolist was obliged to enter into a new joint-venture with its rivals.[26]

Not by chance, thus, the 2005 Discussion Paper of the EU DG Competition distinguished the refusal-to-deal scenarios in two categories: the *Aspen*-like refusals, which concern the "termination of an existing supply relationship"; and the *Oscar Bronner*-like refusals, which concern the "refusal

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Exclusionary Distribution Strategic by Dominant Firms: Striking a Better Balance, 72 Antitrust L.J. 3, 42-51 (2004), the profit-sacrifice test may be a *sufficient* condition of non-price exclusionary behavior, considering that nowhere does the Supreme Court affirm that it is a *necessary* condition. Differently, Eleanor Fox, *Is There Life After Trinko? The Silent Revolution of Section 2 of the Sherman Act*, 73 Antitrust L.J. 153, 161 (2005) observed that the profit-sacrifice test does not fit the facts of *Trinko* because "there were no profits to be made from giving access to the rivals". The same skepticism has been shared by Thomas E. Kauper, *Section 2 of the Sherman Act: The Search for Standards*, Third Annual Miles W. Kirkpatrick Antitrust Lecture 20 (2004) and by Nicholas Economides, *Vertical Leverage and the Sacrifice Principle: Why The Supreme Court Got Trinko Wrong*, New York University Annual Survey of American Law, vol. 63, no. 3, 379-413 (2005), available at www.ssrn.com. Beyond this debate, it has been noticed that "unquestionably, the lower courts even after Trinko remain suspicious of exclusionary behavior by dominant firms and continue their search for a principled basis upon which distinguish lawful from unlawful exclusionary behavior by dominant firms. Accordingly, *Trinko* does not mark an abrupt departure from the doctrine of prior cases but rather underscores the lack of clarity on the issue of when non-price exclusionary behavior by a monopolist is unlawful under section 2". See Cavanagh, *supra* at note 14, 4-5.

[21] Case C-7/97, *Oscar Bronner GmbH & Co. KG v* Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG, Mediaprint Zeitungsvertriebsgesellschaft mbH & Co. KG and Mediaprint Anzeigengesellschaft mbH & Co. KG, 26 November 1998, [1998] ECR I-7817. This case was about the owner of the only Austrian nationwide home-delivery network, which used that scheme to distribute its own daily newspapers, and refused the publisher of a rival daily newspaper access to its network, depriving its competitor of a means of distribution.

[22] See *Oscar Bronner*, § 41.

[23] Prongs (ii) and (b) and prongs (iii) and (c) of the previous two lists adress the same phenomena.

[24] Compare prong (i) and prong (a) of the previous two lists.

[25] See prong (iv) of the next to last list.

[26] See prong (v) of the next to last list.

to start supplying input".[27] Then, the Discussion Paper assumed that while both categories of dominant firms' refusals are normally[28] abusive when two conditions occur – namely: (A) the refusal is likely to have a negative effect on competition as such; and (B) the conduct does not have any objective justification – the unlawfulness of the *Oscar Bronner*-like refusals rests with a further requirement, i.e., (C) the indispensable nature of the claimed input.

2.1. A quick comparison between the US and EU doctrines

Hence, assuming that the omission of the *Trinko* requirement is not really witting because EU institutions have not faced a *Trinko*-like scenario yet,[29] the US and EU refusal to supply doctrines diverge in at least three points.

First, the EU approach is more focused upon the potential rather than upon the actual anticompetitive effects of the refusal, though forecasting the allocative harm is more difficult than appreciating whether the market price is really increased.

Second, in the EU jurisdiction the indispensability requirement must be fulfilled only when a new supplying relation is to be established, as if the existence of a past business relation between the dominant firm and its rivals proved and entailed that only the dominant firm is capable of producing and marketing the requested input.[30]

Third, the Discussion Paper and the relevant EU judgments do not suggest how to solve the administrability problems that the creation of a new joint-venture between the dominant firm and its rivals will produce. To be sure, even assuming that a duopoly upon a proprietary resource is better than a monopoly upon it,[31] whereas it is conceivable that the European Commission will find a way to establish how to share the input, asking its economists to indicate at what price and at which conditions the duty to deal should be carried on, it is more questionable that national courts will be able to do the same. Not by chance, indeed, does this EU attitude conflict with the *Trinko* view that

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[27] Discussion paper, *supra* at note 6, § 229.

[28] Unfortunately, it seems that the Discussion Paper allows an extensive interpretation of these conditions as it states that "normally" they have to be fulfilled. See, e.g., *Id.*, §§ 218, 224 and 237.

[29] The *Trinko* requirement, indeed, cannot be compared with the new product/new market conditions that are proper of the EU refusal to license doctrine (see, *infra*). These criteria, in effect, address the development of products that the monopolist has not produced and marketed yet, but do not ask to the monopolist to develop them. Also in the scenarios that the new product/new market requirements regard the dominant firm is called to share an input that it already use and produce.

[30] In this regard, the Discussion Paper seems quite meaningful, as the DG Competition observed that the fact that "the dominant company in the past has found it in its interest to supply an input to one or more customers shows that the dominant company at a certain point in time considered it efficient to engage in such supply relationships. This and the fact that its customers are likely to have made investments connected to these supply relationships create a rebuttable presumption that continuing these relationships is pro-competitive". See *Id.*, § 217.

[31] Indeed, one should argue that a monopolist that is obliged to share its input with its rival will still sell the input at the monopoly price, splitting the monopoly profits with the rival.

forcing a dominant firm to share its input is cumbersome. Indeed, a duty to deal imposes not only cooperation between rivals, when "cooperation is a problem in antitrust, not one of its obligations"[32] but it also forces courts to act as regulators.[33]

Now, these differences between the US and EU refusal to supply doctrines – differences that are clearly independent from any IP concern but which could have affected the refusal to license doctrines as well, at least in their antitrust-specific soul – stem from a magma of circumstances that play different roles over time: sometimes a minor role, sometimes a significant role. Three of them deserve to be recalled here, namely: (i) the different consideration that US courts and EU institutions give to the leveraging monopoly theorem when they asses the competitive harm that a dominant firm can cause by preventing its rivals from using an input in a related market;[34] (ii) the divergent idea of the task that public powers should have in presiding over the market development and dominant firms' conduct, and of the costs of this interference (see *infra* § 4); and (iii) the diverse belief about antitrust aims and methodologies. Indeed, it should be recalled that some of the oldest European decisions about monopolists' refusal to supply[35] date back to a period – now *almost*[36] past – when the European competition law was highly influenced by the Freiburg school,[37]

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[32] See *Schor v. Abbott Laboratories*, 457 F.3d 608, 610 (7th Circ. 2006). Besides, the Supreme Court in *Trinko* stated: "Compelling negotiation between competitors may facilitate the supreme evil of antitrust: collusion" – 124 S. Ct. 872, 878.

[33] Such a skepticism about federal judges' ability to deal with complicated economic evidence – a skepticism that recalls Justice Marshall's cautionary words in *United States v. Topco Associates*, 405 U.S. 596 (1972), when he stated that Congress did not intend to leave federal judges "free to ramble through the wilds of economic theory" – has been criticized by the same Supreme Court in some cases, such as *Continental T.V., Inc. v. GTE Sylvania, Inc*., 433 U.S. 36 (1977) and *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc*., 429 U.S. 477 (1977). There courts showed that economics can be a very effective tool in informing antitrust decisions. Nevertheless, the present Supreme Court could be more susceptible to the idea that judges are ill-equipped to apply sophisticated economic models. At least, this is what arises from reading several judgments where the Court stresses the false-positive mistakes issue, such as *Trinko* and *Credit Suisse Securities (USA) Llc v. Billing*, 127 S.Ct. 2383 (2007).

[34] In other words, in dealing with refusals to deal involving firms operating in related markets, even assessing whether allocative efficiency has been impaired is difficult, as such an inquiry requires understanding of whether the peculiar circumstances occur under which it is rational for a monopolist to acquire monopoly power in related markets.

[35] The traces of an ordoliberal school can be found in many early decisions, among the non-pricing abuses, such as Joined Cases 6 & 7/73, *Istituto Chemioterapico Italiano SpA and Commercial Solvents Corp v* Commission, March 6 1974, 1974 ECR 223 (hereinafter, "*Commercial Solvents*") and Case 22/78, *Hugin Kassaregister AB and Hugin Cash Registers Ltd v* Commission, March 31 1979, 1979 ECR 1869 (hereinafter, "*Hugin*"). However, the Chicago School approach directed to the protection of consumer welfare has gradually made its presence felt also in Europe as, for instance, in *Oscar Bronner*. See, e.g., Liza Lovdahl Gormsen, *Article 82: Where are We Coming From and Where are We Going to?*, 2(2) Comp L. Rev. 5, 7-8 (2006); Duncan Sinclair, *Abuse of Dominance at a Crossroads – Potential Effect, Object and Appreciability under Article 82 EC*, 8 E.C.L.R. 491, 494 (2004), James S. Venit, *Article 82: The Last Frontier – Fighting Fire with Fire?*, 28 Fordham Int'l L.J. 1157 (2005); and J. Bruce McDonald, *Section 2 and Article 82: Cowboys and Gentlemen*, available at www.usdoj.gov/atr/public/speeches/210873.htm.

[36] With the 2005 Discussion Paper, the DG Competition announced its firm intention to modify both the purpose of Article 82 and the analytical framework under which the EU institutions enforced it. Respectively, "the protection of competition on the market as a means of enhancing consumer welfare and of ensuring an efficient allocation of resources" is going to become the new goal of Article 82 enforcement, and a sound economic analysis will be the new method employed in the study of dominant firms' practices. *Prima facie*, therefore, it seems fair to forecast that the gap between the EU and US experiences will significantly lessen thanks to the movement of the EU approach towards the US one. Nevertheless, the Discussion Paper has not yet been approved. Moreover, EU courts are not obliged to

and[38] by a formalistic approach to the study of dominant firms' conduct.[39] If the main concern of EU antitrust authorities was that of protecting the numbers of competitors so as to preserve economic pluralism, and if they did not pay a great deal of attention to the real efficiency consequences of a dominant firm's conduct, monopolists' rivals might well receive a more deferential treatment than the monopolist itself.

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comply with it. Indeed, it has already been argued that with *Microsoft V* the CFI showed its aversion to the Discussion Paper's view to the consumer welfare standard, and economic analysis. Further, given the general statements about the new aims and methodology of the EU competition law, in dealing with specific offences the Discussion Paper endorses peculiar legal standards that are different from those that US courts apply. Consider, for instance, the abovementioned conditions for a duty to deal and a duty to license to be applied, which are illustrative of the divergences between the US and EU approaches. See, e.g., Frank Montag & Alicia Van Cauwelaert, *The Article 82 Review Process and Its Impact on Compulsory Licensing of IP Rights*, 2(1) Competition Policy International 83, 89 (2006); Christian Ahlborn et al., *DG Comp's Discussion Paper on Article 82: Implications of the Proposed Framework and Antitrust Rules for Dynamically Competitive Industries*, 5, 24 and 27 (2006), paper available at www.ssrn.com; David B. Sher, *The Last of the Steam Powered Trains – Modernizing Article 82*, 5 E.C.L.R. 243 (2004), and John Vickers, *Abuse of Market Power*, 115 Economic J. 244 (2005)

[37] Whereas Section 2 is supposed to strike at practices that threaten or cause harm to *consumers*, by diminishing market competitiveness, for a long time Article 82 was supposed to protect *market players' economic freedom of action*, striking both at any restrictions of economic agents' opportunities and at any behavior that resulted in a market structure's changing. Because of the Ordoliberal School, indeed, the protection of political pluralism and democratic freedom required the public enforcement of competition rules against behaviors that preserved and strengthened any concentration of economic power to the detriment of the opportunities of monopolists' rivals and the customers' choices. On the topic see, e.g., Wernhard Möschel, *Competition Policy from an Ordo Point of View*, in.), German Neo-Liberals and the Social Market Economy, 146 (Peacock & Willgerodt eds, 1989); David J. Gerber, *Law and the Abuse of Economic Power in Europe*, 62 Tulane L. Rev. 85 (1998); Thomas Eilmansberger, *How to Distinguish Good from Bad Competition under Article 82 EC: In search of Clearer and More Coherent Standards for Anti-competitive Abuses*, 42 C.M.L.Rev. 129, 132 (2005) and Eleanor M. Fox, *We protect competition, you protect competitors*, 26 World Competition 149 (2003). Besides, for a clear explanation of the way in which consumer welfare protection diverges from the preservation of economic freedom and from the attempt to avoid private companies from using their power to impair market structure see, e.g., Gormsen, *supra* note 30, at 15.

[38] See *Id.*, 6 note 6, where Gormsen observes soundly how "objectives and methodology are two separate points", so that there is no peculiar connection between Article 82's ordoliberal foundation and the formalistic method according to which it has been applied.

[39] While US courts are applying Section 2 using the economic analysis more and more often, for a long time EU officers and judges have endorsed a formalistic approach towards dominant firms' behaviors, prohibiting practices because of their "legal form", rather than on the grounds of their economic context and effects on consumers. See, e.g., Case C-333/94, *Tetra Pak International SA v Commission* [1996] ECR I-5951 (hereinafter, "*Tetra Pak II*") and Case C-53/92, *Hilti AG v Commission* [1994] ECR I-667 (hereinafter, "*Hilti*"), for instance, are good examples of the formalistic approach towards tying conduct. Moreover, for further opinion on this topic, see, e.g., John Ratliff, *Abuse of Dominant Position and Pricing Practices – A Practitioner's Viewpoint*, and Derek Ridyard, *Article 82 Price Abuses – Towards a More Economic Approach*, both in European Competition Law Annual – What is an abuse of a Dominant Position? (Ehlermann & Atanasiu eds., 2005.); John Kallaugher & Brian Sher, *Rebates Revisited: Anti-Competitive Effects and Exclusionary Abuse Under Article 82*, 5 E.C.L.R. 263, 268 (2004); Dennis Waelbroeck, *Michelin II: A per se rule against rebates by dominant companies?* 1 J. Competition Law and Economics 149, 151 (2005); and Gormsen, *supra* note 30, at 20.

3. When IPRs make an appearance: the changes of the US and EU refusal to deal doctrines

After having described the US and EU doctrines about monopolists' refusals to deal, it is worthwhile to analyze whether the above-mentioned exceptions to the freedom of contract principle still apply when IPRs appear on the scene. The following sub-paragraphs will show that in such a case the US and EU doctrines diverge again and in an even broader way. Indeed, though IPRs are property rights the same as those that cover non-IP resources, the role that IPRs play in protecting innovation makes the US and EU doctrines about monopolists who refuse to license their IPRs stricter and more lenient respectively.

3.1 On the US side: the mood is deferential to the IP Legislator which deems IPRs to be devices that protect and boost innovation

In the US several rules about the refusal to license IPRs alternate:[40] from the almost absolute legality rule of *SCM Corp. v. Xerox Corp.*[41] to the essential facility approach of the District Court in *Intergraph Corporation v. Intel Corporation*,[42] which was in turn rejected by the Court of Appeal.[43]

In the most recent case about a refusal to license photocopier spare parts covered by patents and copyright, the *Independent Service Organizations Antitrust Litigation* (hereinafter, "*Xerox*")[44], the Federal Circuit endorsed a *quasi per se* legality rule stating that, "a patent owner who brings suit to enforce the statutory right to exclude others from making, using or selling the claimed invention is exempted from the antitrust law, even though such a suit may have an anticompetitive effect".

In reaching this conclusion the Court assumed the same perspective of a court called to judge a case of misuse[45] and, relying upon the concept of patent's scope, underlined that a patentee's

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[40] See Michael A. Carrier, *Refusals to License Intellectual Property after Trinko*, 55 DePaul L. Rev. 1191 (2006), who distinguishes five different approaches in the US case law on the topic: (a) the absolute immunity rule of *SCM*, (b) the near-absolute immunity rule of *Xerox*, (c) the presumptive legality rule of *Data General*, (d) the presumptive legality rule with an intent-based rebuttal of *Kodak*, and (e) the essential facilities approach of the District Court in *Intergraph*.

[41] 645 F.2d 1195 (2d Cir. 1981), cert. denied, 455 U.S. 1016 (1982).

[42] 3 F. Supp. 2d 1255 (N.D. Ala. 1998), where the court recalled that essentiality has to be ascertained from an objective standpoint, considering the viability of the market in general, and not that of particular competitors. Moreover, it is worth to remember *BellSouth Advertising v. Donnelley Information* 719 F. Supp. 1551 (S.D.Fla. 1988) where the court, considering copyrighted yellow pages, distinguished the non-copyrightable information as the essential facility, and this in accordance with the division between ideas and expressions proper of copyright law.

[43] 195 F.3d 1346, 1358 (Fed. Circ. 1999) where the court held: "The district court erred in holding that Intel's superior microprocessor product and Intergraph's dependency thereon converted Intel's special customer benefits into an 'essential facility' under the Sherman Act".

[44] 203 F.3d 1322 (2000).

[45] Patent and copyright misuses are judicial doctrines, devised as affirmative defenses against patent and copyright infringements. They both require the alleged infringer to prove that the IPR holder has wrongfully broadened

practice is unlawful only when it falls beyond the boundaries of such a scope. Therefore, as refusing to license an IPR represents the very heart of the exclusive right, and as the same Section 271(d) of the Patent Act [46] provides patentees refusing their innovations with immunity from misuse, antitrust law has no reason to strike such a behavior. By the same token, instead, antitrust courts shall prosecute any refusal to license that is accompanied by "illegal tying, fraud in the Patent and Trademark Office, or sham litigation", because in those cases the patentee is enforcing his statutory powers beyond what he is entitled to do pursuant to the Patent Act.

Thus in *Xerox* the Federal Circuit chose to be deferential to the IP legislator by complying with its choices that, however, regard misuse and not competition law. And, in so doing, the court foreshadowed both the institutional argument that the Supreme Court used in *Trinko* in connection with the role that antitrust law should have in regulated industries,[47] and the reasoning that the same Supreme Court employed in *Illinois Tool Works v. Independent Ink*[48] to establish – once for all – that holding a patent does not mean enjoying a dominant position.

Indeed, on the one side, it can be argued that *Xerox* and *Trinko* share the same "separation of powers" idea: if Congress has already made its choice in dealing with a matter – for instance, in defining what belongs to the patents' scope or in regulating the access to a facility – courts are not entitled to make a second guess about that choice. In effect, in *Xerox* the Federal Circuit, though achieving a different holding, quoted expressly what the First Circuit established in *Data General v. Grumman Systems Support*,[49] that courts "cannot require antitrust defendants to prove and reprove the merits of this legislative assumption in every case where a refusal to license a copyrighted work

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the physical and temporal scope of the IPR, producing anticompetitive effects. US scholars and courts debate whether the boundaries of these misuse doctrines overlap with those of the antitrust offenses, i.e., whether to extend a patent or a copyright beyond its scope can be anticompetitive without complying with the antitrust provisions. For a detailed discussion of this topic see Herbert J. Hovenkamp, Mark D. Janis and Mark A. Lemley, *IP and Antitrust*, 2006, at ¶¶ 3.1-3.6

[46] "No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: ... (4) refused to license or use any rights to the patent". Moreover, in accord is the joint statement of the United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* 4 (1995) that market power does not "impose on the intellectual property owner an obligation to license the use of that property to others".

[47] In *Trinko*, indeed, the Court assigned a marginal role to antitrust law as a regulator to preside over the competitiveness of the industry as it already exists. For an equivalent approach, see *Credit Suisse Securities (USA) Llc v. Billing*, 127 S.Ct. 2383 (2007).

[48] 126 S. Ct. 1281, 1291 (2006), where the Supreme Court clearly used a proviso of the Patent Act – Section 271 (d), n.5 – to reject the "patent-equals-market power presumption". It stated, "Congress amended the Patent Code to eliminate that presumption in the patent misuse context. … Given the fact that the patent misuse doctrine provided the basis for the market power presumption, it would be anomalous to preserve the presumption in antitrust after Congress has eliminated its foundation".

[49] 36 F.3d 1147 (1st Cir. 1994), (holding that as courts cannot second guess legislative choices, the refusal to license a copyright must benefit from a rebuttable presumption of legality). In *Data General* the facts are the same concerning copyrighted diagnostic software which independent service providers used without permission. There was no evidence to rebut the presumption.

comes under attack".[50] On the other side, it can be maintained that *Xerox* and *Independent Ink* assign the same priority role to the IP legislation, as if what is true for the IP realm could work as well for the interface between antitrust law and IP law.

In sum, hence, nowadays the US law about the refusal to license IPRs results from a split among the circuits. Nevertheless, a future Supreme Court judgment on the side of *Xerox* would not be surprising, even if *Xerox* is not free from criticism[51] and even though in 1999 the FTC took a position toward Intel that was diametrically opposed to that of the Federal Circuit.[52] Such a conclusion does not come only from the *Trinko* minimalist approach that does not make it easier to challenge IP refusals to license,[53] but also from the use that the same Supreme Court made of the Patent Act in *Independent Ink*.

Nevertheless, some objections are due. First, while in regulated industries (such as the telecommunication industry regarded in *Trinko*) antitrust law can play a residual role as opposed to regulation because the regulator is actually in charge of the *ex post* issues that the regulation cannot forecast, there is no IP regulator that can face the competitive problems that IPRs may create, at in

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[50] In *Xerox* the Federal Circuit openly rejected that the presumption adopted in *Data General* may be rebutted considering the intent of an IPR's holder. In other words, the court clearly disagreed with *Image Technical Servs., Inc. v. Eastman Kodak Co.*,125 F.3d 1195, 1202 (9th Cir.1997), (hereinafter, "*Kodak*"). In *Kodak* the Ninth Circuit assumed that the existence of intellectual property rights covering the photocopier spare parts and the diagnostic software were raised only as a pretext, resulting in imposing the duty to deal. The majority of the US lower court did not follow the *Kodak* doctrine, even if it is still true that judges – at least those of the Ninth Circuit – have to struggle with it. Joseph P. Bauer, *Antitrust Implications of Aftermarkets*, Notre Dame Law School Legal Studies Research Paper No. 06-14, available at www.ssrn.com, concurs with this approach.

[51] The judgment, indeed, has been described as unnuanced, overbroad, troubling, unwise, and unfortunate. See, e.g., A. Douglas Melamed & Ali M. Stoeppelwerth, *The CSU Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property,* 10 George Mason L. Rev. 407 (2002); Simon Genevaz, *Against Immunity for Unilateral Refusals to Deal in Intellectual Property: Why Antitrust Law Should Not Distinguish Between IP and Other Property Rights,* 19 Berkeley Technology L. J. 741 (2004); and Robert Pitofsky, *Antitrust and Intellectual Property: Unresolved Issues at the Heart of the New Economy,* remarks before the Antitrust, Technology and Intellectual Property Conference, Berkeley Center for Law and Technology, University of California at Berkeley, March 2, 2001, available at http://www.ftc.gov/speeches/pitofsky/ipf301.shtm. Moreover, it is worthwhile to remember that the DOJ oppose *certiorari* in *Xerox*, expressing "serious concerns about such a holding" and stating that the United States "would not be prepared to endorse it" See brief for the United States as *amicus curiae*, 10.

[52] See *FTC Intel Corp*., FTC Docket. No. 9288 (June 8, 1998) (Complaint); *Intel Corp*., FTC Docket. No. 9288 (August 6, 1999) (Decision and Order). Indeed, the FTC settled the case by prohibiting Intel from using its IPRs to prevent its rivals from gaining access to its technical information. According to the FTC, the "natural and probable effect" of Intel's refusal to share this technical information was to decrease the incentives of Intel's rivals to develop new technologies relating to microprocessors. With that settlement the FTC expected to promote innovation in the industry as a whole, by boosting Intel's rivals' innovation without discouraging Intel's own innovation. To be sure, it should be acknowledged that the US doctrine has criticized the *Intel Settlement* for relying on a relatively weak consumer-harm test in the assessment of competition liability. In that case, indeed, the government argued that explicit proof of consumer harm does not always mean evidence of immediate and actual consumer harm; potential harm suffices when, as in the *Intel* case, the firms were "reasonably capable" (*Intel Corp*., FTC Docket No.9288, February 25, 1999) of making a significant contribution to preserving dominance without factual evidence on reduced rate of innovation, lowered prices or restricted output. Interestingly, this approach is the same as that used in the EU cases that involve an assessment of the impact that the monopolist's conduct produces on dynamic efficiency.

[53] See Carrier, *supra* at note 35, 1209.

particular market settings, and that the IP legislator did not face in advance. Therefore, establishing that even in such a case judges cannot second-guess what the IP legislation states means either affirming that those competitive issues do not really exist, or choosing to leave them unsolved, or – as this paper maintains – evaluating that solving those issues would be too expensive for the sake and well-functioning of the interface between antitrust law and IP law.[54]

Second, Section 271 deals with patent misuse. Assuming that what is right for patent misuse is right for antitrust law means concurring in the idea that the spheres of patent misuse and antitrust violations overlap perfectly. This is not an axiom, however, but a hypothesis yet to be demonstrated.

3.2. On the EU side: EU institutions applied different criteria to establish whether innovation has been restricted, irrespective of IPRs

In the EU jurisdiction, similarly, there is no general obligation for an IPR holder to license its IPRs, not even when he holds a dominant position. Indeed, as recently restated in the Discussion Paper[55] and as previously acknowledged by the EU courts,[56] the very aim of the exclusive right is to prevent unauthorized third parties from using the IPR object. Therefore, as the oldest EU case law shows,[57] the EU institutions have applied to IPRs the general idea that the principle of refusal to deal is subject to exceptions.[58] Indeed, the early EU case law established that a refusal to license is unlawful only when it results either in the disruption of pre-existing business relationships or in another kind of abusive conduct – an exploitative practice or an irrational discriminatory behavior.[59]

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[54] See *infra*.

[55] Discussion paper, *supra* at note 6, § 238.

[56] "The right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right. It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a licence cannot in itself constitute an abuse of a dominant position." See *Volvo*, *infra* at note 51, § 8, and, similarly, *Magill TV,* § 49.

[57] See the *Cicra* and *Volvo* preliminary judgments, which share the same pattern of facts as *Xerox*, *Data General*, and *Kodak* but for the durable good in question – automobiles. See Case 53/87, *Consorzio Italiano della Componentistica di Ricambio per Autoveicoli (CICRA) and Maxicar v Régie nationale des usines Renault*, October 5, 1988, 1988 ECR 6039 and Case 238/87, *Volvo AB v Erik Veng (UK) Ltd*., October 5, 1988, 1988 ECR 6211. Since they were preliminary judgments, we do not know the outcome of the national cases, but only the criteria that the Court gave to the national courts to interpret the EU law.

[58] The exceptions consist in "conduct such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation". *Volvo*, § 9.

[59] Indeed, reading together the judgments and the Advocate-General's opinions it is understood that the evil of the refusal to supply spare parts to independent repairers rested with its discriminatory character, and not with the exclusion of the independent repairers as such. See, e.g., Ian Forrester, *Abuse of Intellectual Property as an Abuse of*

Subsequently, however, the EU institutions have endorsed a partially different approach, focusing on the effect that the refusals to license IPRs can produce, not only on allocative efficiency, but also on future innovation. More precisely, in *Magill TV*, *IMS Health*, *Microsoft IV*, and *Microsoft V*, the EU institutions developed different criteria to establish how a monopolist can restrain dynamic efficiency by leveraging its exclusive IP right. To be sure, whereas in *Magill TV* and *IMS Health* the IPRs involved (copyrights) cover the requested input, in the Microsoft saga the object of the alleged IPRs[60] (copyrights, trade secrets and patents) was the information necessary to make the monopolized product work together with competitors' products – i.e., the so-called interoperability information.

3.2.1. The new product and new market criteria

In *Magill TV*[61] the ECJ not only ascertained, as it did in the other non-IP cases about "refusals to start supplying input", that the refusal: (α) was a conduct whereby the dominant firms had excluded all competition on the secondary market;[62] (β) was not objectively justified; and (γ) concerned a product indispensable to the exercise of the monopolist's rivals' activity.[63] It went further, formulating a fourth new condition for the duty to deal to be applied: (δ) the new product criterion. Namely, the ECJ held that the refusal was abusive also because it "prevented the appearance of a new product … which [the dominant firm] did not offer and for which there was a potential consumer demand".[64]

Dominance: Views across the Atlantic, 708 PLI/Pat. 35, 41 (2002) (underlying the importance of an additional element as a necessary requirement for the application of Article 82).

[60] Indeed, though it is not sure whether IPRs protect Microsoft's interoperability codes, both the Commission and the Court of First Instance decided to deal with the case as if those IPRs really existed.

[61] *Magill TV*. The facts were the following: Magill attempted to publish a comprehensive weekly television guide for the Republic of Ireland and Northern Ireland markets at a time when this product was not available to consumers. The interested televisions stations refused Magill the weekly programme listings necessary to realize the guide, claiming under Irish and United Kingdom legislation, copyright protection for them. Each television station used to publish its own television guide covering exclusively its own programmes. The Commission, deeming the refusal as abusive, ordered the television stations to supply third parties on a non-discriminatory and reasonable basis with the broadcasting listing. The CFI and the ECJ affirmed.

[62] Indeed, this is a way – perhaps not so unquestioned – to ascertain the occurrence of the competitive harm.

[63] See *Magill TV* (ECJ judgment), respectively §§ 56, 55, and 53 and the prongs (A), (B), and (C) of the above list.

[64] See *Magill TV* (ECJ judgment), § 54.

After *Magill TV*,[65] EU judges endorsed an almost identical legal standard in *IMS Health*[66], where they imposed again a joint venture between the dominant firm and its rivals that operated in an alleged[67] secondary market. Again the ECJ stated that the refusal to give access to a copyrighted input[68] was abusive as: (α) it was such as to exclude any competition in the secondary market; (β) it was unjustified; and (γ) it concerned an indispensable input.[69] Moreover, the Court observed that (δ) the refusal prevented the development of a new market by blocking the advent of a new product for which there was a potential consumer demand. In particular, the Court held that the new market requirement occurred because the claiming firm did "not intend to limit itself essentially to duplicate the goods or services already offered … by the owner of the intellectual property right".[70]

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[65] Regardless of the panic created by *Magill TV*, indeed, this judgment was not followed by several decisions that imposed a duty to license. By contrast, not only the above-mentioned *Oscar Bronner* stifled the wishes for a sort of duty to deal principle, but also in the subsequent IPR case, *Tiercé Ladbroke (B)/PMU*, June 24 1993, IV/33699, rejection of denounce, not published and upheld in Case T-504/93, *Tiercé Ladbroke SA v Commission*, June 12, 1997, [1997] ECR II-923, (hereinafter, "*Ladbroke*") the Commission rejected the analogy with *Magill TV* and, hence, the allegations of abuse. In *Ladbroke*, an operator of betting shops in Belgium complained that its French rival refused it a license for copyrighted TV pictures and sound commentaries of French horse races. The Commission and the CFI rejected the complaint since the copyrighted material was not essential for Ladbroke to operate on the market. There the court seemed to suggest that, given the other conditions for the refusal to be unlawful, the two above-mentioned were alternatives and not cumulative (§ 131). But this view has not been confirmed in *IMS Health* and, as already indicated above, in the recent Discussion Paper. See, in this regard, Forrester, *supra* at note 53, 49; Valentine Korah, *The Interface between Intellectual Property and Antitrust: The European Experience*, 69 Antitrust L. J. 801, 810-811 (2002); Henrik Meinberg, *From Magill to IMS Health: The New Product Requirement and the Diversity of Intellectual Property Rights,* 28(7) E.I.P.R. 398, 401 (2006).

[66] *NDC Health/IMS Health*: Interim Measures (2003/741/EC), August 13 2003, OJ 2003, L268/69, upheld in Case T-184/01, *IMS Health v Commission*, March 10, 2005, not yet published. The citations here reproduced are taken from Case C-418/2001, *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG*, April 24, 2004, http://eur-lex.europa.eu. The facts are that a firm (IMS) created, with the help of some German pharmaceutical companies, a database known as the "brick structure" to split and organize the German data about regional sales of drugs in Member States. The "brick structure" was covered by the German copyright law as a database. IMS sued PII – its competitor in the market for the sale of the regarded data – in a German court for copyright infringement, and the court referred to the ECJ for a ruling on whether the refusal to license the brick structure was an abuse. After the ECJ's preliminary ruling, the German process ended with a declaration of invalid copyright on the database.

[67] This judgment, indeed, disregarded that the rival claiming the input operated in the market of the dominant firm. In other words, in *IMS Health*, the "vertical element" of every, though questionable, essential facility case was bypassed by the Court affirming that, "for the purposes of the application of the earlier case-law, 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. 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 product." §§ 44 and 45.

[68] The ECJ left the German court to decide whether the database was actually indispensable, but it seemed to suggest it when it considers the database like a standard (§§ 28 and 38) – an interoperability standard, one could argue, after the reading of the *IBM settlement*, *Microsoft IV* and *Racal Decca*. On the existence of a standard, see, e.g., Kenneth Glazer, *The IMS Health Case: a U.S. Perspective*, 13 Geo. Mason L. Rev. 1197, 1213 (2006).

[69] See *IMS Health* (the ECJ judgment), § 38.

[70] *Id.*, § 49. Before, the idea of the advocate: "In the balancing of the interest in protection of the intellectual property right and the economic freedom of its owner against the interest in protection of free competition, the latter can prevail only where refusal to grant a licence prevents the development of the secondary market to the detriment of consumers", § 48.

Not by chance, therefore, the Discussion Paper established that monopolists' refusals to license IPRs are normally illegal when four conditions occur, namely: when the three requirements of the *Oscar Bronner*-like cases are satisfied and when "the refusal to grant a license prevents the development of the market for which the license is an indispensable input, to the detriment of consumers".[71] Indeed, in the Discussion Paper, the Directorate-General Competition maintained that "the refusal of licensing an IPR protected technology should not impair consumers' ability to benefit from innovation brought about by the dominant undertaking's competitors"[72] and – consistently with the idea expressed in *IMS Health* that the monopolist did not deserve its copyright because of the way the brick structure had been created[73] – also questioned that investments behind innovations leading to intellectual property rights may have been particularly significant.

3.2.2. Microsoft IV and the innovation's incentives test looking at interface information

In *Microsoft IV*[74] the European Commission dealt with Microsoft's refusal to share interoperability information using a standard that – contrary to what has been often noticed – was very favorable to the defendant. Although the case involved the disruption of precedent levels of supply (i.e., the *Aspen* condition), the Commission verified that the request input was indispensable, i.e., it verified the occurrence of the *Oscar Bronner* condition.[75] Moreover, although it was not sure that IPRs could protect the interoperability information, the Commission referred back to the *Magill TV* set of requirements. Therefore, the Commission deemed the refusal illegal because it verified all the following conditions, namely that: (γ) the interoperability information was essential; and that the refusal (α) was likely to harm competition as such; (β) did not have any objective justification; and (δ) was preventing follow-on innovation to appear in the market.

Considering the object of the present paper, what is interesting about this decision is the way in which the Commission verified the occurrence of the fourth condition. It did not limit itself to ascertaining whether a new product/market could have developed, as it did in *Magill TV* and *IMS Health*.[76] Rather, it discussed whether a possible duty to license would have reduced the incentives

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[71] Discussion paper, *supra* note 6, § 239.

[72] *Id.*, § 240.

[73] For the same opinion, see Glazer, *supra* note 61, 1211.

[74] Commission Decision of March 24, 2004, relating to a proceeding under Article 82 of the EC Treaty (Case COMP/C-3/37.792 Microsoft), C(2004)9 final (Brussels 21.4.2004).

[75] It goes without saying that in the US the duty to deal follows the coexistence of both conditions; the disruption of precedent levels of supply and the essential nature of the required input. Nevertheless, as said before, that was not true for the EU jurisdiction, where the occurrence of the indispensability condition was connected only to the creation of a new joint venture between the monopolist and its rivals.

[76] After all, at the time of the decision it had already been argued that if the Commission's main concern was about a proper distribution of the incentives to innovate, the test applied in *Magill TV* and *IMS Health* did not work so well. Indeed, according to François Lévêque, *Innovation, Leveraging and Essential Facilities: Interoperability*

to innovate in the whole industry, by comparing the incentive of Microsoft with those of its rivals. The answer was that, on the one hand, Microsoft's competitors would have developed their own products with the help of the interoperability information; and on the other hand, the new product competition between Microsoft and its rivals would have improved (rather than reduced) Microsoft's incentives to innovate.[77] As a whole, hence, the Commission showed that the duty to license would have had a positive net impact on the incentives to innovate of the all industry.

With *Microsoft IV*, therefore, the Commission turned to consider directly the role that the antitrust action can play in governing the innovative and creative process,[78] choosing how to allocate the incentives to innovate. What is surprising is that again the Commission chose to allocate those incentives as it did in *Magill TV* and *IMS* – i.e. in a way that was contrary to that resulting from the existing IPRs.[79] The Commission justified such an approach – which it *partially* endorsed in the Discussion Paper as well[80] – by conceptualizing IPRs as devices in the service of the public interest.[81] Thus, as long as the Commission is supposed to intervene in the market to protect the public interest, it is also entitled to re-fashion the scope of IPRs.

Licensing in the EU Microsoft Case, in Antitrust, Patents, and Copyright 103, 107-108 (2005), available at www.ssrn.com if the new product test aims to grasp the preliminary stages of innovations, the test applied in Microsoft works better and for at least two reasons. Firstly, incentives to innovate are a good proxy of consumers' benefits. Economic theory predicts that wherever incentives are present firms will innovate to propose valuable improvements to consumers. Secondly, the incentive effects approach is adequate for economic theory on intellectual property: "In any case, as a required test to apply the essential facility doctrine to intellectual property, the approach based on incentives is more economically sound than the new product condition".

[77] The absence of negative effects allowed the Commission not to make a real balance. See, on this point, Simonetta Vezzoso, *The incentives balance test in the EU Microsoft case: a pro-innovation "economic-based" approach*, 27 E.C.L.R. 382, 384-385 and 389 (2006).

[78] In this connection, the words of Cecilio Madero Villarejo, Head of Unit C-3 (Information Industries, Internet and Consumer Electronics), DG Competition, are very interesting: "Innovation plays a key role in software markets and should be treated with great care. This means that the action of antitrust authorities should be careful not to diminish a dominant undertaking's incentive to innovate. It also means that antitrust enforcement has particular relevance when addressing behavior that risks stifling follow-on innovation and the development of new products".

[79] From the outset, the Commission observed that, "it cannot be excluded that ordering Microsoft to disclose such specifications and allow such use of them by third parties restricts the exercise of Microsoft's intellectual property rights". Commission Decision of March 24, 2004 (Case COMP/C-3/37.792 Microsoft), C(2004)9 final (Brussels 21.4.2004), § 546.

[80] Indeed, in the Discussion Paper, the DG Competition tried to consider interoperability information as if it were not covered by IPRs, stating: "A special case arises when an undertaking refuses to supply information in a way that allows it to extend its dominance 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 intervention as those described in the previous subsection [i.e. those about refusals to]" *supra* at note 6, §§ 241-242.

[81] "The central function of intellectual property rights is to protect the moral rights in a right-holder's work and ensure a reward for the creative effort. But it is also an essential objective of intellectual property law that creativity should be stimulated for the general public good. A refusal by an undertaking to grant a license may, under exceptional circumstances, be contrary to the general public good by constituting an abuse of a dominant position with harmful effects on innovation and on consumers". *Id.*, § 711

3.2.3. Microsoft V *and the limitation to technical development criterion*

In 2007 the Court of First Instance (hereinafter, "CFI") affirmed *Microsoft IV*.[82] Yet, it gave a partially different interpretation of some of the conditions that the Commission verified in order to enforce the duty to deal. Given the topic of this article, two changes are worth stressing here.

First, the Court abandoned the innovation's incentives test, holding that it is up to the monopolist to show as an objective justification of its refusal that the duty to deal would decrease its incentives to innovate.[83] In other words, while the Commission decided to carry the burden of proving that a duty to deal can improve the whole industry's incentives to innovate, endorsing a rule of reason approach, the CFI allowed a less defendant-friendly approach. After having established that the Commission did not make any "manifest error"[84] in assessing that the duty to deal increased the incentives to innovate of Microsoft's rivals, it cast upon Microsoft the burden of proving that the reduction of its incentives outweighs that increase. The Court then concluded that Microsoft did not establish that if it were required to disclose the interoperability information its incentives to innovate would have been reduced.[85] Hence, beyond the specific outcome of the case, it is apparent that opting for this new distribution of the burden of the proof, the Court offers another reason to think that, notwithstanding the Discussion Paper's approach, its usual distaste for dominant firms' conduct is not completely in the dust.

Second, whereas the Court of First Instance held that both the new product and the new market criteria fall to be considered under Article 82(b), it established that those criteria are not "the only parameter which determines whether a refusal to license an intellectual property right is capable of causing prejudice to consumers within the meaning of Article 82(b) EC". As the wording of the provision states clearly, the Court added, "such prejudice may arise where there is a limitation of … technical development".[86] It was a technical development that, according to the

[82] Court of First Instance, case T-201/04, September 17, 2007, available at http://curia.europa.eu/.

[83] See *Microsoft V*, § 688.

[84] According to the EU case law, the European Community courts can carry out only a limited review of considerations involving complex technical and economic assessments. In other words, "although as a general rule the Community Courts undertake a comprehensive review of the question as to whether or not the conditions for the application of the competition rules are met, their review of complex economic appraisals made by the Commission is necessarily limited to checking whether the relevant rules on procedure and on stating reasons have been complied with, whether the facts have been accurately stated and whether there has been any manifest error of assessment or a misuse of powers". Nevertheless, when dealing with economic or technical matters, the Community Courts must not "decline to review the Commission's interpretation of economic or technical data. The Community Courts must not only establish whether the evidence put forward is factually accurate, reliable and consistent but must also determine whether that evidence contains all the relevant data that must be taken into consideration in appraising a complex situation and whether it is capable of substantiating the conclusions drawn from it." See *Microsoft V*, §§ 87 and 89.

[85] See *Microsoft V*, § 697.

[86] *Id.*, §§ 643 and 647.

CFI, was lost to Microsoft's rivals and hence, without the required interface specifications, they could not offer differentiated products.[87]

Not only had the CFI affirmed the Commission's choice to use antitrust law to preside over the innovative and creative process, by forcing the monopolist to share its proprietary resources. Not only had the CFI endorsed the idea that the monopolist was manipulating the innovative path of the industry. Yet, the CFI has even introduced a wider legal standard for ascertaining whether a restriction to innovation occurred. Indeed, although the limitation to technical development criterion is plainly consistent with the wording of Article 82(b), it is apparent that any blocking of any potentially differentiated product could be deemed as a restriction to innovation. In this way, hence, the CFI seems to assign a significant discretionary power to the Commission.

After all, the CFI did not show any hesitation against the fact that the Commission chose to act as a regulator which stands to decide which must be the relevant competitive variables in a market. Indeed, the CFI concurred with the Commission's belief that nowadays the rivalry among alternative operating systems is to be played at the level of their security, reliability, ease of use, speed, rather than according to their interoperability with other products.[88] Ultimately, both in *IMS Health* and in the Microsoft saga the EU institutions affirmed the idea that even proprietary standards have to be shared, so as to prompt the industry to invest its resources in directions other than searching for alternatives to the standard – though this option remains possible.[89]

In sum, the present EU approach towards monopolists who refuse to license their IPRs seems to track the following reasoning. As long as the enforcement of a monopolist's IPR impairs future innovation and, so forth, consumer welfare, the EU antitrust institutions must intervene because they are entitled – and they are actually able to – protect the public interest by obliging the monopolist to share that IPR, and because it is likely that the dominant firm does not deserve completely that IPR. To be sure, such reasoning leads to some doubts about the reasons why EU antitrust institutions both deem themselves entitled and able to discover who is in the best position to develop future innovation and consider some of the granted IPRs not fully deserved.

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[87] The CFI, indeed, concurred with the Commission in stating that by disclosing the interface information Microsoft did not run the risk of having its products cloned. See, e.g., *Microsoft V*, §§ 655-663.

[88] *Microsoft V*, §§ 650-653.

[89] Suppose that the development of an industry can be depicted as if the rivalry among its firms lasts until a standard is achieved. In such a scenario, the EU Microsoft saga teaches that: (i) when the standard has been achieved it has to be shared, though it results from the efforts of a single (dominant) firm (see above); (ii) when the standard has not yet been achieved, a dominant firm cannot use anticompetitive behaviors in order to impose its own technology as the standard. See, in this last regard, the second of the abuses alleged of Microsoft about the integration of Windows Media Player in Windows. In particular, *Microsoft V*, § 1152.

4. The economic, jurisdictional, and cultural issues surrounding refusal to deal: convergences and divergences between the US and EU experiences.

The above analysis of the US and EU case law about monopolists who refused to license their IPRs reveals a divergent transatlantic scenario. While in the US there are the premises to overrule *Kodak* and apply a *quasi per se* legality rule to refusals to license IPRs, in the EU jurisdiction the presence of IPRs does not change the common favorable attitude towards the refusal to deal doctrine.[90] More exactly, while in the US IPRs are deemed to be the best legislative device to govern the innovative process from an *ex ante* and *generic* standpoint, in the EU jurisdiction IPRs are (only) an ordinary instrument in the hands of antitrust authorities – who are also adjudicatory branches – to govern the innovative process by themselves, from an *ex post* and *case by case* perspective.[91] Therefore, while US courts do not use antitrust law to question IPRs' boundaries and to remedy to alleged IPRs' failures,[92] EU institutions use antitrust law to face IPRs that fall short to boost innovation. In other words, though scholars disagree whether the missing sales caused by refusals to license really harm consumers,[93] the EU institutions hold that enforcing antitrust law so as to allow monopolists' rivals

[90] In this regard, therefore, competition law "puts intellectual property on a par with other forms of property" . See François Lévêque and Yann Ménière, *The Economics of Patents and Copyright*, 94 (2004).

[91] See, e.g., Cyril Ritter, *Refusal to Deal and "Essential Facilities": Does Intellectual Property Require Special Deference Compared to Tangible Property?*, 28(3) World Competition 281 (2005).

[92] Several scholars have lamented the increasing enlargement of IPRs, sometimes claiming a consequently more aggressive antitrust action as a response to it. See, e.g., Gustavo Ghidini, *Intellectual Property and Competition Law. The Innovation Nexus* (2006), Hanns Ullrich, *Expansionist Intellectual Property Protection and Reductionist Competition Rules*, 7 J. Int'l Econ. L. 401 (2004); Harry First, *Controlling the Intellectual Property Grab: Protect Innovation, Not Innovators*, available at www.sssrn.com; Rochelle Cooper Dreyfuss et al., Expanding the Boundaries of Intellectual Property: Innovation Policy for the Knowledge Society (2001), and Reza Dibadj, *Saving Antitrust*, 75 U. Colo. L. Rev. 745, 779-80 (2003). Other scholars, besides, have noticed how the boundaries of IPRs are affected by lobbies. See, e.g., William M. Landes & Richard A. Poster, *The Economic Structure of Intellectual Property Law*, 407-415 (2003). Interestingly, some scholars choose to consider a sort of "antitrust reaction" to overwhelming IPRs as one of the incentives that lead the EU courts and authorities, at least, to apply competition law. See Robert O' Donoghue & A. Jorge Padilla, *The Law and Economics of Article 82*, 410 (2006), speaking about refusal to deal and firms of the so-called "new economy industry".

[93] For some scholars the loss is clear. If consumers receive a new good or service that did not previously exist and for which there is a demand, there is a clear increase in the consumer welfare. In this regard see, e.g., John Temple Lang, *Anticompetitive Abuses Involving Intellectual Property Rights*, in European Competition Law Annual: 2003, What is an Abuse of Dominant Position, 590 (2003); O'Donoghue & Padilla, *supra* at note 85, 447; and Stratakis, *supra* at note 5, at 442. For some other scholars the loss is problematic and lacks economic foundations. See Damien Gerardin, *Limiting the Scope of Article 82 EC: What Can the EU Learn from the US Supreme Court's Judgment in Trinko, in the Wake of Microsoft, IMS and Deutsche Telekom?*, 41 C.M. L. Rev. 1519, 1531 (2004). See Derek Ridyard, *Compulsory Access Under EC Competition Law – A New Doctrine of 'Convenient Facilities' and the Case for Price Regulation*, 25(11) European Competition L. Rev. 670 (2004): "It would be trivially easy for NDC, the main potential licensee in the IMS case, to implement some product change that rendered its market research product 'innovative' relative to that of IMS. In any event, it is hard to see a justifiable public policy rationale for this condition. If it was established that foreclosing competition allowed IMS to sustain an inefficient and abusive outcome on the market for pharmaceutical market research products, then the public policy case for allowing NDC to enter the market through compulsory licensing of the brick structure is valid even if the only 'innovation' provided is a competitive price. But if the view is taken that the IMS offering was competitive, it is hard to see what role there is for intervention to force innovation through compulsory licensing, since IMS would have a normal commercial motive to boost demand for its product by promoting innovation itself." Among the others who have expressed doubts are Lévêque, *supra* at note 69, at 103, 106 (2005), Daniel Kanter, *IP and Compulsory Licensing on both Sides of the Atlantic – An*

to develop new products and markets furthered consumer welfare better than applying IPRs against those rivals.

Given that nowadays the two jurisdictions no longer seem to diverge in identifying the aims and the methodology of antitrust law, such differences must arise from somewhere else. The divergent cultural and jurisdictional backgrounds of US and EU judges and commissioners may be the cause of those divergences, given that economists do not offer a final assessment of the impact that monopolists' refusals produce on social welfare.

4.1 Economics offers leeway for judges' and officers' non-economic evaluations

From an economic and empirical point of view, it is hard to state which market structure is more conducive to innovation, whether a monopoly or a competitive market.[94] Better, from an economic and empirical point of view, it is hard to affirm which firms are in the best position to innovate, whether dominant or small firms. Moreover, speaking about system rivalry and compatibility choices[95], it is hard to determine whether and when standardization (instead of variety) maximizes social welfare and, hence, it is hard to conclude whether ordering a dominant firm to share its proprietary standard makes social welfare increase more than not discouraging firms from seeking alternatives to that standard. Therefore, antitrust authorities cannot rely on economic theories and empirical studies to determine whether obliging dominant firms to share their proprietary innovations enhances dynamic efficiency. Rather, they are forced to travel between two cornerstones: the Schumpeter[96] and the Arrow theories.[97]

Appropriate Antitrust Remedy or Cutback to Innovation, 27(7) E.C.L.R. 351, 355 (2006) and Ahlborn et al., *supra* at note 45, at 47 and 49, where the authors underline the risk that such an undetermined threshold risk could create for the patent system.

[94] See, e.g., Jonathan B. Baker, *Beyond Schumpeter vs. Arrow: How Antitrust Fosters Innovation*, 74 Antitrust L.J. 575 (2007)

[95] See, e.g., Michael L. Katz & Carl Shapiro, *Product Compatibility Choice in a Market with Technological Choices*, 38 Oxford Economic Series 146 (1986) and Moreover, for a literature survey, see, Stanley M. Besen & Joseph Farrell, *Choosing how to compete: Strategies and Tactics in Standardization*, 8 Journal of Economic Perspective 117 (1994).

[96] By relying on the Schumpeter theory, antitrust authorities should argue that a monopolist must be allowed to capture all the returns of its innovations without being forced to share them, as dominant firms are more innovative than firms that operate in competitive markets. Those firms, indeed, can more easily invest in R&D projects, as they can both have more financial capital and be better in placing the innovation on the market, thanks to their installed base.

[97] By relying on the Arrow theory, the very same antitrust authorities should argue that actions that spread proprietary innovations among monopolists' competitors are welfare increasing, as the monopolist's competitors have more incentives to come up with follow-on innovations. According to Arrow, indeed, monopolists have less to gain from second-generation innovations than their competitors. Indeed, as long as the new product displaces the old monopolized one, the monopolist is not gaining: it is just replacing the revenues that came from the old product with the revenues that come from the new one. For this effect – often called the "Arrow effect" or the "replacement effect" – the monopolist would have less incentives to innovate than its rivals.

Whereas the Schumpeter theory seems more successful in the New World, the Arrow doctrine seems more congenial to the EU institutions.

There are some cultural issues that, resting in the milieu of judges and officers, may explain this divergent approach, such as the dissimilar interpretation of the division of power argument, the false positive mistakes issue, and the different status that the two jurisdictions assign to the IP culture – a different status that also shapes the jurisdictional side of the interface between the antitrust law and IP law.

4.2. The division of power argument

As previously noticed, the US case law about monopolists who refuse to license their IPRs could suggest that US courts believe that the choice not to share IP properties boosts innovation even when monopolists make that choice. Yet, in their judgments, US courts have seldom expressed such a belief,[98] though it would have been consistent with the so-called "cowboy competition" that US courts appreciate.[99] Instead they offer another argument, i.e., that they are not allowed to second guess the legislators' decisions and, in particular, the IP legislator's decision not to condition the enforceability of an IPR to the amount of market power that the IPR holder enjoys. In other words, in dealing with monopolists who refuse to license their IPRs, US courts do not consider the impact that the refusal has on dynamic efficiency. Rather, they rely on the formal "division of power" argument, which it is not up to the judiciary to question the choices of the legislature, even though those choices address misuse and not antitrust issues; and, in so doing, the courts affirm that IPRs always enhance innovation.

On the contrary, the EU institutions have maintained clearly, both in their case law and in the Discussion Paper, that dominant firms' IPRs may harm dynamic efficiency by blocking the innovations of monopolists' rivals. In other words, they endorse a substantive approach to the matter though, in so doing, they take a formal position as well: they clearly do not regard the decisions of national legislatures not to condition the enforceability of IPRs to the amount of market power that the IPR holder enjoys. This is the reason why one could argue that, had a European dominant firm deployed the *Xerox* institutional argument, the EU institutions would have turned out

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[98] Indeed, whereas the Federal Circuit opinions follow mainstream antitrust precedent more closely than the FTC's consent decree in the *Intel* case, the Federal Circuit deals with antitrust in terms that are doctrinaire on the side of intellectual property owners: the court virtually ignores the market for innovation as well as potential anticompetitive concerns. See, in this regard, James B. Kobak Jr, *The Federal Circuit as a Competition Law Court*, available at http://www.hugheshubbard.com/files/tbl_s20NewsPring%5CPDFUpload103%5C701%5CJournal_Patent_Trademark_August_2001.pdf

[99] See, e.g., McDonald, *supra* at note 30.

to be quite insensitive to it: they would not have affirmed that national legislators' decisions about IPRs can pre-empt the EU antitrust action. On the contrary, they could easily have rebutted an argument that a national law cannot interfere with a communitarian competition concern, and that only the European commission is capable of protecting the public interest. In this regard, hence, even arguing that Member States could adopt a provision equivalent to Section 271(d) of the US Patent Act would not be enough.[100]

Now, given this divergence, thinking that EU institutions are not respectful of the Montesquieu ideals would be a mistake. Rather, as the following paragraphs will show, the intrusive EU approach stems both from a different consideration of the hurdles and risks that public powers' interference into the economy entails and from the national status of IPRs.

4.2.2. The false-positive issue

As the EU practice shows, EU officers and judges are willing to endorse long run exams of the effects that monopolists' conduct entails. In particular, in deciding whether to grant access to dominant firms' proprietary inputs, they chose to evaluate the likelihood of the advent of new products, new markets, and follow-on innovations.

Even if such exams seem unavoidable when it turns to dynamic efficiency, it must be acknowledged that those kinds of analysis risk being highly speculative, especially when the antitrust action should occur in industries that, experiencing fast technological changes, do not allow one to predict which the future winning technology will be.[101] In other words, those kinds of analyses imply a high risk of errors, both false-negative and false-positive mistakes.

Now, according to the Chicago school, whereas the market can remedy against unlawful conduct that judges fail to strike there is no easy solution against lawful behaviors that judges pursue. Thus, in order not to produce such a harmful over-deterrence, the Chicago school suggests antitrust authorities to refrain from hunting practices that are almost unavoidably illegal.

And, in effect, nowadays the US courts seem to endorse this approach. In particular, as imposing a duty to deal forces courts and authorities to act like regulators, though they are ill equipped to detect the inputs to be shared, to fix their prices, and to monitor the compliance with

[100] To be sure, the EU institutions would change their attitude if the Commission adopted EU legislation stating that, in granting an IPR, it has already contemplated the case of a dominant firm as its holder. Then, it must be acknowledged that in the recent *Microsoft V* judgment the Court, speaking about the concept of interoperability and discussing whether the Commission had to comply with what Directive 91/250 envisaged, held that: "In any event, it must be borne in mind that what is at issue in the present case is a decision adopted in application of Article 82 EC, a provision of higher rank than Directive 91/250". See *Microsoft V*, § 226.

[101] See, e.g., Nicholas Economides, *Public Policy in Network Industries* (2006) available at www.ssrn.com

these requirements,[102] it is not surprising that those courts – US courts – that fear to commit false positive mistakes are not willing to impose a duty to deal.

Instead, given the opposite EU approach to the duty to deal as well as to other issues that this paper does not analyze, it has to be inferred that EU institutions are less worried about the risk of false positives and over-deterrence.[103]

In order to explain such a divergent attitude, two arguments can be recalled. First, because of their history of public monopolies and regulated industries, Europeans are quite comfortable with a strong presence of public powers in the market, so that they can tolerate an antitrust law that sometimes encroaches into the realm of industrial policy, in a kind of nanny way.[104] After all, "it is a fact that within liberal society itself one of the key divisions of political identity (and hence identification) is between these two sides: the side that fears private power more, and in order to fight it is ready to give room to the power of government; and the side that fears the expansion of government more, and is therefore more prepared to tolerate private power".[105] Therefore, it could be that Europeans favor their institutions to be over-deterrent rather than under-deterrent, as they prefer to bear the risks of public power's mistakes rather than the risks of private power' undetected unlawful acts.

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[102] Areeda & Hovenkamp, supra at note 14, ¶¶301 and 770.e, and Valentine Korah, *supra* at note 58, 832, looking mainly at regulated industries. Sharing a monopolized input, in fact, does not make the market less monopolized unless courts fix the input price and the other conditions of the deal. Because of the duty, indeed, the monopolist will reduce its output to compensate the rival's production and will charge the monopoly price to the rival. Besides, even assuming that a court could define the conditions of the deal, it would be then charged with the duty to monitor the dominant firm's behavior, which could turn out to be a very expensive routine.

[103] See Ritter, *supra* at note 84, 298: "Some commentators have asked whether antitrust agencies are well-equipped to carry out this kind of industry-wide balancing of incentives but this is a biased formulation. The real question is: the risk of antitrust agencies erring in evaluating the need for compulsory licenses so great that we should generally prefer no compulsory licenses at all?".. For a concurrent opinion see Ken Heyer, *A World of Uncertainty: Economics and the Globalization of Antitrust,* 72 Antitrust L.J. 375, 409 (2005): "I would … conjecture that differing positions [between the US and EU jurisdictions] are generally not based on differences in either the analytical frameworks being applied or the welfare standards being employed. Rather ... varying approaches are likely the result of a combination of uncertainty and differences in underlying beliefs about the ability of imperfect government regulators (i.e., antitrust authorities) to (a) determine the net value to society of a monopolist's business practices, and (b) impose remedies that will outperform the imperfect marketplace.". Then, at 412-413, Heyer clarifies: "How aggressive and interventionist an antitrust policy one proposes (or adopts) will depend greatly on how confident one is in the government's ability to identify correctly which type of scenario is presented, develop an efficient remedy for the ailment (if any), and weigh correctly the tradeoffs involved in potentially 'getting it wrong'". Moreover, consider Jeffrey K. Mackie-Mason, *What to do about Unilateral Refusals to License?* 5 (2006) available at www.ssrn.com, who hints at the clash between the Chicago rules and the modern economics in connection with the refusal-to-deal cases. More in general, then, it is the analysis of pricing abuses – such as predatory pricing and bundle discounts – that shows clearly this new EU tendency to use quite complicated economic theories as benchmarks for its antitrust assessments.

[104] On this topic see, e.g., Michael A. Carrier, *Of Trinko, Tea Leaves, and Intellectual Property*, Journal of Corporation Law 101, 108 (2005) and Id., *supra* at note 35, 1202. After all, the concern for dynamic efficiency goes back to debate over a "no-fault" monopoly offense. The "hope of monopoly (with its supracompetitive returns) is an incentive to the efficient and innovative market performance that the law seeks to encourage". See Lawrence A. Sullivan & Ann I. Jones, *Monopoly Conduct, Especially Leveraging Power from One Product or Market to Another,* in Antitrust, Innovation and Competitiveness 165, 66 (1992) and Areeda & Hovenkamp, *supra* at note 14, ¶ 112.

[105] As noticed by Giuliano Amato, *Antitrust and the Bounds of Power: The Dilemma of Liberal Democracy in the History of the Market*, 4 (1997), and Heyer, *supra* at note 7, 412-413.

Second, it can be argued that such a mistrust towards monopolists stems from the fact that – as noted by the Discussion Paper[106] – several of the European dominant firms are former public monopolies.[107] Therefore, it should not marvel if EU antitrust institutions have a different perception of the negative impact that obliging dominant firms to share their IPRs has on their incentives to innovate. If the US courts maintain that had monopolists known about such a duty to license, they would have not invested in innovation from the outset, the EU institutions can rebut that some of the monopolists' IPRs are more a windfall than a deserved award, so that monopolists ordered to share their IPRs have nothing to recriminate. Nevertheless, that rebuttal does not regard each case.

4.2.3. The role of the IP culture

In the US, patents, copyright, and trademarks are primarily matters of federal law as well as antitrust law. By contrast, pursuant to Article 295 of the EC Treaty,[108] in the EU jurisdiction IPRs are *only* a matter of national law,[109] while competition law is essentially the result of the EC experience. In a comparative perspective,[110] this different distribution of consideration between IPRs and antitrust law produces (at least) two consequences; a substantial and a jurisdictional one,[111] which help in explaining why the US and EU experiences about monopolists refusing to license their IPRs diverge so much.

As to the substantial consequence, consider that in the US some IP doctrines, such as patent and copyright misuse,[112] and some IP principles, such as IPRs holders' freedom not to use and

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[106] DG Discussion paper, *supra* at note 6, § 237.

[107] Margaret Bloom, *The US and EU Move towards substantial Antitrust Convergence on Consumer Welfare Based Enforcement*, 19-SUM Antitrust 18, 22 (2005).

[108] It provides that the Treaty "shall in no way prejudice the rules in Member States governing the system of property ownership", including IPRs.

[109] The ECJ stated clearly that, "the determination of the conditions and procedures under which the protection of [European IPRs] is granted is a matter for the national rules of each Member State. It is for the national legislature to determine which products may benefit from protection, even where they form part of a unit which is already protected as such". See *Volvo*, § 7.

[110] The use of European IPRs as devices to recreate the national divisions between Member States, so preventing the Common Market's development, is one of the "famous differences" between the US and EU experiences that this paper does not address. But that difference explains why in its first judgments the ECJ had an unduly negative attitude towards IPRs that, nevertheless, later modified. See, in connection with patents and copyright, Case 16/74, *Centrafarm v Winthrop* [1974] ECR 1183 and Case 15/74, *Centrafarm v Sterling Drug* [1974] ECR 1147, and in connection with trademarks, see Case 40/70, *Sirena Srl v Eda Srl* [1971] ECR 69, Case 192/73, *Van Zuylen Freres v Hag AG* [1974] ECR 731 and Case 10/89, *SA CNL – SUCAL NV v Hag GF AG* (*Hag II*) [1990] ECR I-3711.

[111] For a concurring opinion see, e.g., Rita Coco, *Antitrust Liability for refusal to license Intellectual Property: a Comparative Analysis and the International Setting*, 12 Marq. Intell. Prop. L. Rev. 1 (2008).

[112] The oldest cases about the interface between patent law and antitrust law were about a patentee which sold its patented good with an unpatented one. They were actually cases of patent misuse that, after the introduction of the Clayton Act, began to be litigated as tying cases. They had a questionable economic basis: from the presumption of monopoly power to the use of the leveraging monopoly theory.

license their IPRs,[113] have always played a significant role in the definition of the interface between IPRs and antitrust law. Therefore, it should not marvel that recently US courts end up deeming the content of the IP legislation crucial for the solution of antitrust cases.

The present EU equilibrium between IPRs and competition law, instead, results almost entirely from the vision and ideas of competition officers and judges. Not only the European Commission and the ECJ may enforce their powers *vis-à-vis* Member States' courts and legislatures, so making EU competition law prevailing against national IP laws, as they are in charge of protecting the public interest[114] and of driving the EU integration process,. But also the absence of a EU legislation about IPRs[115] and of a shared and established tradition of EU IP principles produce the actual weakness of the IP side of the EU interface between antitrust and IP laws. To be sure, though on the Old Continent a European judge-made misuse doctrine does not exist,[116] the concept of misuse is well-known both to the national courts that apply their national IP law, and to the Commission and the ECJ that apply competition law. Since its first preliminary ruling about patents, indeed, the ECJ has held that the Commission could apply Articles 81 and 82 "if the use of the patent were to degenerate into an abuse of the [national] protection".[117] But, interestingly, the ECJ elaborated this concept of the subject matter of IPRs – which shapes the

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[113] Even if it is not possible to claim a kind of cross-sectional consistency between the different US IPRs, there are some general principles that apply – at least to some extent – to each kind of US IPR. The IPRs holders' freedom not to use/license the IPRs is one of them. See Hovenkamp et al., *supra* at note 40, ¶13.2a-b. Nevertheless, in *eBay Inc. v Mercexchange LLC*, 126 S. Ct. 1837 (2006), the US Supreme Court reversed the Federal Circuit general rule that "courts will issue permanent injunctions against patent infringement absent exceptional circumstances", 401 F.3d 1323, 1339 (2005). The Supreme Court held that "a permanent injunction must satisfy a four-factor test before a court may grant such a relief". In the future, therefore, there could be more room for the application of compulsory licenses from an IP perspective.

[114] Interpreting Article 295, the ECJ held that Member States' constitutions recognize that the exercise of property rights might be restricted in the public interest. See Case 44/79, *Hauer v Land Rheinland Pfalz*, [1979] ECR 3727. Therefore, in order to legalize the application of competition law to property rights that fall under Article 295, the European Commission assumed that the application of Article 82 aims to protect the general interest in competition as a means, *inter alia*, to create the common market.

[115] However, directives and regulations have been enacted in order to harmonize the IP legislation. See, e.g., Council Directive 91/250 of May 14, 1991, on the legal protection of computer programs, OJ 1991 L122/42, replaced in part, OJ 1993 L290/9; Council Regulation 1768/92 of June 1992, concerning the creation of a supplementary protection certificate for medicinal products, OJ 1992 L182/1; Council Directive 93/98 of October 20, 1993, harmonizing the term of protection of copyright and certain related rights, OJ 1993 L290/9; Council Regulation 40/94 of December 20, 1993, on the Community Trade Mark, OJ 1994 L11/1; Council and Parliament Directive 96/9 of March 11, 1996, on the legal protection of databases, OJ 1996 L77/20, and Council and Parliament Directive 98/44 of July 6, 1998, on the legal protection of biotechnological inventions, OJ 1998 L213/3. For a complete list, see Ivo Van Bael & Jean Francois Bellis, *Competition Law of the European Community* 583, note 1 (2005). Moreover, the great majority of the current Member States of the EU have signed the European Patent Convention of October 5, 1973.

[116] The same conclusion has been reached by James B. Kobak, *Running the Gauntlet: Antitrust and Intellectual Property Pitfalls on the Two Sides of the Atlantic*, 64 Antitrust L.J. 341, 355 (1996). Kobak recalls the UK Patent Act, 1977, ch. 32 §44(3) as a statutory form of misuse.

[117] Case 24/67, *Parke, Davis and Co. v Probel, Reese, Beintema-Interpharm and Centrafarm*, February 29, 1968, [1968] ECR 55, 72.

boundaries of the antitrust action working as the functional equivalent of the US "IPRs' scope"[118] – without recalling any IP doctrine. In an analogous way, though it is very likely that the mentioned US IP principle about IPRs holders' freedom not to use and license their IPRs finds a counterpart in each of the twenty-seven Member States, it is equally possible that there will be many differences among the national IP laws,[119] so as to prevent EU institutions from deriving from the IP realm some answers to competition issues. At the end, therefore, it should not marvel if in the EU jurisdiction national IP legislators' words do not receive credit.

Turning to the jurisdictional consequence, as US IPRs and antitrust law are both federal matters, federal courts are equally competent to judge about antitrust law and IP law so that a previous finding about an IPR may seriously affect the subsequent antitrust analysis, sometimes exhausting it.[120] The Commission and the EU courts, in contrast, are not entitled to rule about the validity and the infringement of national IPRs, so that sometimes their decisions and judgments seem jeopardized by the existence of shaky IPRs that a US federal court would have declared invalid. Therefore,[121] if the Commission had been entitled to void the copyright in *Magill TV* and *IMS Health*, it would have done so, acting as a US federal court.

This view has sparked some debate as to whether competition law should be used in order to correct the flaws within the IP system, such as overbroad copyright.[122] Some commentators object to such an approach[123] and the EU authorities have (obviously) never recognized it. Nevertheless, such a thesis has two merits: first, it allows *Magill TV* and *IMS Health* to be relegated into a niche.

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[118] For instance, in *Xerox*, the idea of scope of patent is pivotal in understanding which behaviors are lawful.

[119] For instance, in Italy the right of a patentee not to use its invention can be limited by its competitors, who may obtain a compulsory license either when the patentee does not use the innovation, or when they have developed a dependent innovation.

[120] It could be the case, for instance, of a refusal to deal based on an invalid patent. In this situation a federal court can solve the potential conflict between an antitrust duty deal doctrine and the IP exclusive right by observing that the IP is illegitimate.

[121] This is the thesis of Ian S. Forrester, *EC Competition Law as a Limitation on the use of IP rights in Europe: Is there Reason to Panic*, in European Competition Law Annual: 2003, What is an Abuse of Dominant Position, 506 (2003) and Advocate-General Jacobs' opinion in *Oscar Bronner*, § 63. See, also, Ritter, *supra* at note 84, 286; Meg Buckley, *Licensing Intellectual Property: Competition and Definitions of Abuse of a Dominant Position in the United States and the European Union*, 29 Brook. J. Int'l L. 797, 821 (2004); Makan Delrahim, *Forcing Firms to Share the Sandbox: Compulsory Licensing of Intellectual Property Rights and Antitrust*, paper presented at the British Institute of Intemational and Comparative Law, London, May 10, 2004.

[122] See William Cornish & David Llewellyn, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights,* 755 (2003): "In a period when intellectual property rights are being rapidly expanded, it must be wise for competition authorities to retain some ultimate means of curbing their range in egregious cases, which, in the scramble to satisfy industrial lobbies, legislatures may not have sufficiently cogitated".

[123] See, e.g., Ariel Katz, *Intellectual Property Rights and Antitrust Policy: Four Principles for a Complex World*, 1 Journal of Telecommunications & High Technology Law 325, 351 (2002); Thomas Cotter, *Intellectual Property and the Essential Facilities Doctrine*, 44 Antitrust Bulletin 211, 214 and 250 (1999); John Temple Lang, supra at note 117; David W. Carlton, *A General Analysis of Exclusionary Conduct and Refusal to Deal—Why Aspen and Kodak Are Misguided*, 68 Antitrust Law Journal 659, 674 (2001); Abbott Lipsky and J. Gregory Sidak, *Essential Facilities*, 51 Stanford L. Rev. 1187, 1218 (1999).

Second, returning to what was said above, it helps to understand that the *Xerox* institutional argument is not easy to endorse when the authorities that are in charge of the protection of competition and the creation of the Common Market – the European Commission and the ECJ – should not trust and rely on the IP choices of national legislators.

5. Conclusions

Looking at the case law about monopolists who refuse to license their IPRs, the US and EU experiences diverge significantly in two respects. EU officers may require dominant firms to share their proprietary inputs in order to support rivals' ability to make their own actual products and, if possible, to generate follow-on innovations. US judges generally reject any intrusion of considerations of welfare in business relationships.

Moreover, when dealing specifically with incentives to innovate, US and EU competition officers and judges assign a different role to IPRs. The former are willing to preserve the *ex-ante* and not-market-specific pattern of incentives that the IP legislator created, even when the IPR holder is a monopolist and the market in question is favorable to monopolies. The latter, in contrast, are able to make an *ex post* and *case by case* alteration of that pattern of incentives, even though in so doing they run the risk of overturning what the national IP legislators chose, and of over-deterring.

As this paper has tried to explain, such different attitudes result from the combination of several cultural factors. Generally, EU competition authorities are more confident in their ability to predict future market developments and incentives to innovate than are US courts, regardless of any concern about administrability. After all, one might wonder whether it could be possible to deal with dynamic efficiency without making these kinds of speculations about innovative paths, which entail such a high risk of false-positive mistakes and such an intrusive role of the public authorities.

Moreover, when turning specifically to the different attitudes towards IPRs, the differences between the US and EU experiences result from the less respectful relationship that EU competition institutions have with the national IP legislator's choices, and from the fact that the European Commission is not entitled to declare shaky IPRs invalid. The lack of a EU IP legislation lies at the origin of this disequilibrium.