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**A comparative analysis between the EU and the US
on refusal to license under anticompetition policies**

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Summary

This paper makes a comparative analysis on to the legality of unilateral refusal to deal IPR as a dominant undertaking in EU and US. In particular the paper examines the circumstances in which the judicial bodies in EU and United States will be willing to order a mandatory license of IPR under the relevant anticompetition/antitrust policies, such as article 102 TFEU under EU and the Sherman Act section 2 in the US.

As a starting point the paper explains the default position of whether there is a general obligation to deal for dominant undertakings. Having concluded that there is not, the paper then goes into explaining the specific legal test implemented by the judiciary in Europe to determine when extraordinary circumstances that would justify such a compulsory order might exist. The paper then goes on to examine if there is a requisite test in the US that determines where the judiciary would be willing to order a compulsory license under antitrust policies.

The paper subsequently highlights the key differences in the judiciary approach between US and EU Courts, before the paper goes on to comment which judiciary has the better approach for the benefit of consumer welfare.

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Abbreviations

AG – Advocate General

GC – General Court

CJEU – Court of Justice of the European Union

EC – European Commission

ECJ – European Court of Justice

EU – European Union

FRAND – Fair, Reasonable and Non-discriminatory Terms

FTC – Federal Trade Commission

IPR – Intellectual Property Rights

SEP – Standard Essential Patents

SSO – Standard Setting Organisation

TFEU – Treaty on the Functioning of the European Union

US – United States

1. INTRODUCTION

1.1. Background

The primary purpose of intellectual property law is to incentivize innovation by rewarding intellectual property owners, exclusive monopoly rights over their property for a limited period of time. On the other hand, the rationale of antitrust and competition Law is to try and curb monopolistic tendencies of dominant undertakings in order to create rivalry between competitors in the market. Instinctively it would seem that the protection of IPR fundamentally clashes with that of competition law. But such an assumption might be premature, as ultimately the *raison d'être* for both areas of laws is the overarching goal of enhancing consumer welfare.

It is undeniable however, that there is some inherent tension between the two strands of law. While both areas of law try to achieve the same goal, the manner in which the goal is reached is through different theoretical emphases.¹ Competition law focuses on an *ex post* evaluation where the theory relies on allocative efficiency² to ensure lower price and more efficient production of goods. On the other hand, IPR value dynamic efficiency, evaluating the market effect from an *ex ante* perspective to ensure that adequate protection safeguards IPR owners' incentive to innovate. In turn this should theoretically lead to new and better quality products.³

In this debate regarding the potential conflict between IPR and competition law, refusal to license IPR sticks out like a sore thumb. This controversy stems from the fact that an order for a mandatory license of IPR, forces the owner to grant access to a third party, often a competitor. This is in conflict with the very 'heart of the IP owner's right to exclude'.⁴

It is posited that it is not a solution to nullify one area of the law in order to ensure the preservation of the other. Either extreme end of the spectrum could ultimately cause a

¹ Kelvin Hiu Fai Kwok, 'A New Approach to Resolving Refusal to License Intellectual Property Rights Disputes' [2001] 34(2) *World Competition* 263.

² Allocative efficiency occurs where production reaches an optimal point where the marginal cost of producing an additional unit will be equal to the marginal benefit that is gained by the consumer.

³ Kwok, *supra* note 1.

⁴ Ariel Katz and Paul-Erik Veel, 'Beyond Refusal to Deal: A Cross-Atlantic View of Copyright, Competition and Innovation Policies' [2013] 79(1) *Antitrust Law Journal* 143.

net result detrimental to consumer welfare. If the law always gave competition law preference over IPR, such a stance would discourage companies from investing in research and development. In turn this would lead to the unwanted result of decreased innovation. The alternative is equally undesirable. Excluding anticompetition entirely could lead to dominant undertakings growing too comfortable with their monopolistic position and the lack of competition could create higher prices for the consumer. Even worse, the IPR owners could use their right of exclusivity to bar competitors from creating new and improved products. In either situation the net result would decrease consumer benefit rather than increase it. This is where mandatory court-ordered compulsory license could possibly mitigate such anticompetitive effects. Allowing third parties access to the dominant undertaking's IPR could in some circumstances foster competition. The agreement of both jurisdictions is that competition law should only intervene when the ultimate net benefit to consumers outweighs the benefits of granting rights to the IPR owner. However, where this balance should be struck is contentious.

1.2. Purpose

The purpose of this thesis is two-fold. The primary purpose is to try and delimit the circumstances when the judiciary is prepared to order a compulsory licensing for IPR in both EU and US through the use of anticompetition policies.⁵ This thesis will hopefully offer a comprehensive comparison between the two systems, highlighting the key differences as well as similarities in the legal approaches of the courts. As a secondary goal this thesis will try to present a compelling argument as to why the European approach is preferable to its reluctant American counterpart.

There is great relevance to this research topic. Many dominant undertakings that could potentially be subject to competition law wish to conduct business in both jurisdictions. Where the IPR in question have international scope and benefits from protection in both continents, it is vital that the firms are aware of the radical difference between the two systems before deciding whether they should license their

⁵ This dissertation will use the terms antitrust, anticompetition and competition law interchangeably. Antitrust is the correct legal term most commonly used in the US, whereas anticompetition and competition law is primarily used in the EU. As far as possible the terms will therefore be used in conjunction with the relevant legal system during the discussion.

IPR to a third party.⁶ The issue is therefore of great practical importance to legal practitioners and companies alike. Furthermore the EU and US also represent the two most mature legal systems regarding both intellectual property law and competition law.⁷ A comparison of these two jurisdictions is therefore of academic interest, due to their vastly different attitudes in tackling the issue of compulsory licensing for IPR.

1.3. Delimitation

The legal analysis only discusses compulsory licenses made as an anticompetition enforcement order. It will not discuss the reasoning behind other circumstances where such orders are made. This is because they do not relate to essential facilities doctrine, and generally the legal reasoning behind such orders are completely unrelated to the subject matter of this dissertation.

Furthermore, TRIPS will not be considered, as the essay is already discussing the geographic breadth of two of the world's largest legal jurisdictions. Furthermore TRIPS consideration might not serve to further the discussion on anticompetition policy as such matters are not strongly expressed in the TRIPS articles. This dissertation does not intend to offer an analysis of interoperability and network effects in depth, although the concept will be mentioned briefly in relation to relevant case law.

The dissertation will not include an in depth discussion on Standard Essential Patents as such patents are already governed by standard-setting organizations. The reason it is not included is because with such patents, patent holders have already given a commitment to license their patent on FRAND terms, and will be remunerated by any licensee. Such cases concern whether or not an SEP holder is allowed to seek injunctions against certain willing licensees, rather than whether compulsory access to

⁶ John M. Taladay and James N. Carlin, Jr. 'Compulsory Licensing of Intellectual Property Under the Competition Laws of the United States and European Community' [2002] 10(3) *Geo. Mason L. Rev.* 450.

⁷ Rita Coco 'Antitrust Liability For Refusal to License Intellectual Property A Comparative Analysis and the International Setting' [2008] 12 *Marq. Intell. Prop. L. Rev.* 3.

the IPR should be granted in the first place. Therefore the recent string of cases for smartphones such as Samsung and Motorola⁸ will not be included in the dissertation.

1.4. Method and Material

This dissertation follows a traditional dogmatic approach that is often used for legal academic writing to systemize and properly interpret relevant sources of law. To do so the dissertation makes use of primary sources of law, consisting of EU treaties and federal statutes in the US. It also makes use of secondary law sources, primarily in the form of various case law from both EU and the US. From time to time the discussion will also refer to the opinion of AGs in European case law. These comments are not binding, but they are useful, as they give a proper context as to how specific legal issues should be interpreted. Similarly, certain obiter dicta comments made by US judges will be taken into consideration even though they are not binding. Such limitations will of course be mentioned where appropriate.

Furthermore, this dissertation makes extensive use of reputable academic opinion from various academic journals to carry on the legal discussion. This is because the dissertation uses a teleological method to interpret the law. This means that where there are uncertainties as to how the law should be interpreted or applied in practise, the author will primarily focus on the intended purpose of the underlying law. In such instances, the opinion of academics is highly valuable in helping to deduce the intended purpose of the specific provision of law. The academic opinions chosen originate from both Europe and America. This was done in order to get a nuanced view that represents the contrasting attitudes towards the topic from both sides of the Atlantic.

From a structural point of view, this dissertation will begin by separately outlining the legal tests that should be followed in Europe and then the US. In regards to uncertain areas, where possible, suggestions as to how the area should be interpreted will be offered. The dissertation will then focus on the contrasts in the legal stance of both jurisdictions and draw a conclusion as to which method is better. This assessment as to which is better, is primarily made from the point of view of which method better

⁸ European Commission press release: Commission finds that Motorola Mobility infringed EU competition rules by misusing standard-essential patents, 29 April 2014.

serves consumer welfare. The strong focus of consumer welfare is appropriate due to the fact that in both legal jurisdictions there is a consensus that the ultimate goal of intellectual property law and competition law is to ensure that consumer welfare is maximized.

1.5. Outline

The thesis is structured as follows: It begins by briefly outlining the default position that both jurisdictions hold with regards to a dominant undertaking's obligations to deal with its competitors. The thesis then turns to a discussion regarding the European stance on compulsory licensing in competition law, and the legal test that has been developed through case law. In particular the discussion will depict how the judiciary has dealt with the closely related legal principle that is inextricably linked with a refusal to deal in IPR; that of the essential facilities doctrine. This is necessary, as it will help form an idea of the ideological influences behind the two continents' difference in judicial attitude towards refusals to license IPR. This is followed by a similar discussion but in regards to the American stance.

The next part of the dissertation will then delve into a comparison between the two jurisdictions' methods, focusing on the contrasts and similarities between the jurisdictions. In particular it will outline the possible underlying legal reasoning that might explain the reasons why the two jurisdictions are so different. The discussion will with an assessment based on the factors previously discussed in the dissertation to determine which stance is preferable and better serves the consumers in the market.

2. LEGAL BACKGROUND TO COMPETITION LAW AND INTELLECTUAL PROPERTY PROTECTION IN THE UNITED STATES AND THE EUROPEAN UNION

2.1. Legal Protection of Intellectual Property

Under the legal system in the United States, intellectual property is afforded statutory protection. Copyright is constitutionally guaranteed by the US Copyright Act 1970, and patents are similarly protected by the 1970 Patent act. When a patent is granted, it is granted on a federal level and applies throughout the United States. Arguably, the most important legal right granted to an IPR owner under the patent act is in substance to exclude others from making, using, selling, offering for sale or importing the patented invention throughout the entire duration of the grant.

The rights of exclusivity granted to intellectual property owners in America are identical in substance to those rights granted to IPR owners in European member states. However, one fundamental difference between European and American Intellectual property law, particularly with regard to patents, is that protection is granted by the individual member states. There is no sole governmental body in the EU that can grant such protection. The European patent system has not been harmonized, and this means that the European Courts do not have the competence to question the validity of the protection granted on IPR by individual member states. This has led to a principle that the ECJ cannot question the existence of an intellectual property, only the way in which it has been exercised.⁹ In other words, the ECJ is not allowed to question member states' decisions as to the merits of whether an intangible asset is worthy of IPR protection. This is subject to the important limitation that when an IPR owner exercises his property in a manner that conflicts with interests that are protected by the EC treaty, the ECJ will be allowed to intervene.¹⁰ In practice, this is particularly relevant where the use of IPR is likely to restrict intra-member trade. The ECJ will then be able to intervene on the basis that such actions threatens the fundamental goal of harmonizing the trade market between member states within the union.¹¹

⁹ Case T-76/89, *ITP v. Commission* [1991] E.C.R. II-575, T-69/89 *RTE v. Commission* [1991] ECR II-485

¹⁰ *Ibid*, paragraph 170.

¹¹ Joined Cases 54/6 & 58/64 *Establissemnets Consten S.A.R.L. v Commission* 1966 E.C.R. 299.

It should be noted that the European judiciary's lack of competence to rule on patents might soon change in light of the proposed introduction of a "European patent with unitary effect".¹² While no official commencement date has been announced the most optimistic projection is for 2016.¹³ If ratified, any patent granted under the proposed European Patent Convention would become a 'bundle of nationally enforceable patents'.¹⁴ In other words, such a patent would have the effect of being enforceable in all member states while coexisting with national patents similar to the Community Trade Mark.¹⁵

2.2. Competition and Antitrust

For the purposes of competition law, American anti-monopolisation is governed by section 2 of the Sherman act, whilst the European equivalent is article 102 TFEU. Section 2 of the Sherman act states that it is illegal for any party who commits or attempts 'to monopolize any part of the trade or commerce' within the 50 states of America or with foreign nations.

While the wording is not identical, the sentiment in article 102 TFEU is strikingly similar.¹⁶ The purpose of the article is to restrict undertakings that hold a dominant position in a particular market from abusing its privileged position.¹⁷ More specifically it states that 'Any abuse by one or more undertakings of a dominant position within the internal market [...] shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States'.¹⁸ It is important to note that in neither jurisdiction is the mere act of holding a dominant position in itself illegal. In order to attract liability under either regulation there has to be behaviour that is considered anticompetitive and restrictive of trade or competition.

¹² Mihály Ficsor, 'Coexistence of national patents, European patents and patents with unitary effect' [2013] 14(1) ERA Forum 95.

¹³ Marks & Clerk, 'Unitary patent: on course for 2016' (Lexology 2015) <http://www.lexology.com/library/detail.aspx?g=edc6b5c0-4e37-40ec-a7ae-742248d30301> accessed 26th May 2015.

¹⁴ Hiroko Yamane, *Interpreting TRIPS: Globalisation of Intellectual Property Rights and Access to Medicines* (Bloomsbury Publishing, 2011) 35.

¹⁵ Ficsor, supra note 12.

¹⁶ Coco, supra note 7, 4.

¹⁷ C-85/76, *Hoffmann-La Roche & Co. AG v Commission* [1979] ECR 461.

¹⁸ Article 102 TFEU.

2.3. Refusal to Deal and Supply – The Default Position

In both the American and European legal system, the default legal position is that there is no general obligation for an undertaking to deal with a third party. This remains so, even where the undertaking in question is dominant in the relevant market. In America, such authority stems from the Colgate doctrine.¹⁹ In this case, the Supreme Court famously held that a unilateral decision to refuse to deal would not on its own, without any further abuse, trigger a violation of antitrust law provision of the Sherman Act. The Supreme Court did however recognize that in rare instances, certain refusals to deal could amount to a violation of section 2 of the Sherman act. In Europe, a similar default position is held. Once again, there is no general obligation for an undertaking to deal on the sole basis that they hold a dominant position in the market.²⁰ The starting point in the European Community is that only in exceptional circumstances will the court deem that a dominant undertaking has an obligation to deal with another party. One such scenario that could persuade the court that a duty prevails is if the competitor is a ‘long standing customer’.²¹ In such a case, the dominant undertaking might be obliged to continue to supply.

In Europe, *Commercial Solvents*²² represents the first ECJ judgment on refusal to supply. At the time, Commercial Solvents was the only undertaking on a global scale that was capable of supplying Aminobutanol in the adequate quantity that was required for the production of the antituberculosis drug. Its only competitor on the market for producing the tuberculosis medication was Zoja. When Commercial Solvents ceased its previous supply of Aminobutanol to Zoja, it effectively shut out its only competitor. As a result Zoja brought a complaint to the Commission alleging that Commercial Solvent’s behaviour amounted to an abuse of its dominant position in a manner contrary to article 102 TFEU. The court reasoned that such a cessation of supply was an abuse of their dominant position. The court began by reiterating that there was no general obligation to deal even for dominant undertakings. However, where the dominant undertaking had previously supplied to the petitioner this might

¹⁹ *Colgate* [*United States v Colgate & Co.* 250 U.S 300 (1919)].

²⁰ Hans Henrik Lidgard ‘Application of Article 82 EC to Abusive Exclusionary Conduct’ [2009] 4 *Europarättslig tidskrift* 694, 695.

²¹ C-27/76, *United Brands v Commission* [1978] ECR 207, Paragraph 182.

²² Joined Cases 6 & 7/73 *Commercial Solvents v Commission* [1974] ECR 223 [Hereinafter *Commercial Solvents*].

imply an exception to the general rule. The Court continued to reason that where the supply regards a raw material that was essential for competitors to operate on the market, refusal would eliminate all competition. In such circumstances, there might be an obligation on the dominant undertaking to deal. On the facts of *Commercial Solvent*, the court found that Commercial Solvents had an obligation to deal and that their cessation was not in compliance with article 102 TFEU.

In Europe, an intellectual property owner has no general obligation to license their rights indiscriminately. Even if the proprietor happens to be in a dominant position of the relevant market, their refusal to license will not in itself be deemed as an abuse of a dominant position in a manner contrary to article 102 TFEU. This was first recognized in *Volvo v. Veng*.²³ This case concerned Volvo, an eminent car manufacturer, and a third party automobile repair service named Veng. The latter had sought a license for Volvo's UK registered design for the front wing panels of the company's Series 200 cars to be used in the downstream market of repair services, and had made an offer of reasonable royalty to that effect. Volvo expressed its refusal to license. In order to circumvent this, Veng began to import imitations of the design protected replacement parts from other member states. When the case reached the ECJ, the court refused to find a general obligation on Volvo as IPR owners to deal with its property. It then recognized that to force such an obligation on intellectual property right owners, even in situations where the owner would be reasonably compensated, 'would lead to the proprietor thereof being deprived of the substance of his exclusive rights'.²⁴ This sentiment closely echoes that of the American courts. However, while the court refused to find an obligation in the circumstances involved, the Court of Justice expressed the possibility that such an obligation could arise for an IPR owner in certain factual situations.²⁵ *Volvo* represented the first development towards the eventual legal phenomenon of compulsory licensing for IPR.

²³ Case 238/87, *Volvo v. Erik Veng (UK) Ltd*, [1988] ECR 6211, [1989] 4 CMLR 122. [Hereinafter *Volvo*].

²⁴ *ibid*, paragraph 135.

²⁵ The hypothetical situations included: 1) where the dominant actor arbitrarily refused to supply replacement parts to an independent repairer; 2) where prices were fixed at an unreasonable level; 3) if they decided to abruptly cease producing spare parts for a model that was still in circulation.

3. THE EUROPEAN STANCE

3.1. The Essential Facilities Doctrine, The EU Position

In Europe, case law regarding the essential facilities doctrine is of utmost importance, as its underlying rationale influenced the development of compulsory licensing for dominant undertakings.²⁶ Simply put, the essential facilities doctrine is a competition law principle that recognizes that where a dominant undertaking holds an asset that is essential for competitors to compete in a downstream market, a refusal by the dominant undertaking to supply such goods might be considered abusive and contrary to competition law. In such a case, courts might be willing to mandate that a dominant undertaking has to provide its competitors with access to their asset.²⁷ The rationalization for such a duty is that where a dominant undertaking gains exclusive control over a market, and becomes the only source of input for an essential facility that is necessary to compete in the second market, they are not offering a better or cheaper alternative in the downstream market. The only effect of their exclusivity in the downstream market is that they gain the ‘power to harm consumers in that market by shutting out competitors’.²⁸

The first European application of the essential facilities doctrine can be traced to the *Sea Containers*²⁹ case. The facility in question regarded a seaport in the United Kingdom that was solely controlled by Sea Containers. Stena Sealink was a ferry services that sought access to the seaport of Holyhead, Wales. The market in which Stena Sealink operated had no other viable port alternatives.³⁰ The Commission defined essential facilities to mean ‘a facility or infrastructure, without access to

²⁶ Jarrod Tudor ‘Compulsory Licensing in the European Union’ [2012] 4(2) Geo. Mason J. Int’l Com. Law 240.

²⁷ Mats A. Bergman. The Role of the Essential facilities doctrine, 46 Antitrust Bulletin, 403, (2001).

²⁸ John Temple Lang, ‘Anticompetitive Abuses under Article 82 Involving Intellectual Property Rights’ in Claus-Dieter Ehlerman and Isabela Atanasiu (eds.), European Competition Law Annual 2003: What is an Abuse of a Dominant Position (Hart publishing, Oxford/Portland Oregon 2003), 18.

²⁹ *Sea Containers v. Stena Sealink*, Commission Decision of 21 December 1993, IV/34.689, 94/19/EC, OJ 1994 L 15/8.

³⁰ It should be noted that this case was settled by agreement amongst the two parties. There was no final judgment made by the EC. But from the comments made by the EC, they seemed to have indicated a strong willingness to grant a mandatory license for access of the port to the plaintiff if Sea Containers not relinquished.

which competitors cannot provide services to their customers'.³¹ In Europe, the doctrine had in its early phases primarily been used when the refusal to deal concerned access to raw materials, such as in *Commercial Solvents*,³² or access to facilities that are of an infrastructural nature.³³ This can be seen in *Sea Containers* since the natural conditions of the sea meant that Sea Containers held a monopoly as result of the geographical conditions.

Early EU case law clearly indicated that the European courts were willing to apply the essential facilities doctrine primarily to tangible assets. However, even at this early phase, the judiciary strongly indicated that intellectual property assets are not exempt from the application of the essential facilities doctrine. Evidence of this can be found in the case of *European Airways v Sabena*.³⁴ The intangible asset in this case regarded a computer reservation system known as 'Saphir'. The system enabled travel agents to book tickets without the need to contact each air travel company individually. The Commission was convinced by the arguments presented by European Airways that the reservation system was essential in order for competitors to stay in the market, and that it was not reasonably practical for the petitioner to duplicate the system. In denying European Airways access to Saphir, Sabena was found to have breached article 102. The reservation system was therefore classified as an essential facility, despite involving intangible property.

3.2. The Three Cases on Refusal to License IPR

In the arena of the European Union there have so far been three major cases that specifically relate to the unilateral refusal to license IPR: *Magill*,³⁵ *IMS Health*³⁶ and, most recently *Microsoft*.³⁷

³¹ *Sea Containers v. Stena Sealink*, Commission Decision of 21 December 1993, IV/34.689, 94/19/EC, OJ 1994 L 15/8.

³² Joined Cases 6 & 7/73 *Commercial Solvents v Commission* [1974] ECR 223.

³³ Marina Lao 'Networks, Access and "Essential Facilities": From Terminal Railroad to Microsoft' [2009] 62 S.M.U.L. Rev 557, 571.

³⁴ *European Airways v Sabena* [1998] OJ L317/47, [1989] 4 CMLR 662.

³⁵ Joined Cases C-241/91P and C-242/91P, *Radio Telefis Eirean (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] E.C.R. I-743. [hereinafter *Magill*].

³⁶ Case C-418/01, *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] ECR I-5039 [Hereinafter *IMS Health*].

³⁷ Case T-201/04, *Microsoft v. Commission*, 2007 E.C.R. II-1 (2007) [Hereinafter *Microsoft (GC)*].

3.2.1. Magill and the exceptional circumstances test

The facts of *Magill* were fairly simple. In Ireland, Magill TV Guide Ltd, endeavoured to publish a weekly television guide that contained the television program listing of every channel. This would have been the first of its kind, as no comparable product existed on the market at the time. The reason for this was that in Ireland at the time, television stations were granted copyright with respect to television program listings. It is noteworthy to state that this was an anomaly, and amongst all member states within the Union, Ireland was the only country that granted copyright in such works. Each TV station would publish its own weekly guides for free. The defendant, RTE (Radio Telefis Eireann), operated three Irish television stations, and held copyrights over their TV schedules which they refused to license to Magill. In defiance of RTE's refusal, Magill went ahead and published their weekly television guide without permission, and was subsequently facing an infringement suit from RTE. As a defence, Magill petitioned to the European Court alleging that RTE's refusal to license amounted to abuse of its dominant position contrary to article 102 TFEU. The ECJ were willing to find that RTE's behaviour amounted to abusive conduct due to the existence of 'exceptional circumstances' in the case. There were three factors in particular that indicated that such circumstances had materialized. Firstly, the information contained in the TV schedules was indispensable for the production of comprehensive TV program guides that Magill sought to market. Secondly, the TV companies were monopolizing the downstream market of TV program magazines, and their refusal was effectively eliminating competition on said market. Lastly, the court found that RTE could not objectively justify their refusal since they voluntarily published TV Listing for free to chosen outlets. It was therefore clear that their reason for refusing Magill was to eliminate competition on the secondary market, rather than based on considerations relating to financial concerns. The most important sentiment to take away from *Magill* is that 'exceptional circumstances' has to be found in order to compel a dominant undertaking to grant license of their IPR under article 102 TFEU.

3.2.2. IMS Health

The second case that further developed the conditions in which European authority would be willing to mandate compulsory licensing was *IMS Health*. In this case, IMS Health was a company that specialized in the supply of information to the

pharmaceutical industry. In particular, IMS Health marketed regional sales data on pharmaceutical products. The company held copyright in a database that was nicknamed the 'Brick Structure'. The system was built around the concept of segmenting the market into 1860 geographical zones. The structure was important as it allowed the end user to harvest information on the supply date of pharmaceutical products without compromising German laws on protection of personal data since individual pharmacies remained unidentifiable.

The Brick Structure was created through close cooperation between IMS Health and the German pharmaceutical companies to accommodate the latter's needs. As a result, the Brick Structure became the de facto industry standard and IMS Health was considered to hold a monopoly in the relevant market. In fact, there were only two competitors in the market, one of which was the American company NDC Health. NDC Health had at the time unsuccessfully launched alternative systems to the 1860 Brick Structure, and found itself at a severe disadvantage since they failed to compete with IMS Health in the market. This was because pharmaceutical companies were reluctant to switch from the old system that they had become accustomed to. In other words, network effects arose for pharmaceutical companies, due to the necessity to compare data with those of competitors who were also using the same 1860 Brick Structure. This further entrenched IMS Health's Brick Structure as an industry standard in the market. In order to circumvent this, NDC tried a different tactic to boost sales and decided to introduce a new product based on the 1860 Brick Structure. Unsurprisingly perhaps, IMS Health refused NDC's request for a license to use the Brick Structure.

After *Magill*, there was some uncertainty as to the threshold of the extraordinary circumstances in its legal test. Were each circumstance individually sufficient, or was it a cumulative requirement?³⁸ The ECJ clarified the position that the new product requirement is a cumulative requirement.³⁹ Developing the case law from where *Magill* left off, the court found that refusal to license IPR could amount to abuse if:

³⁸ Kwok, 263, supra note 1.

³⁹ *IMS Health*, paragraph 38.

- 1) The refusal to license their copyright prevented the emergence of a new product for which there is a potential consumer demand
- 2) The refusal could not be objectively justified
- 3) Refusal would exclude all competition on a secondary market and;⁴⁰
- 4) The IPR in question is indispensable for carrying out the activity in question

3.2.3. Microsoft

The last in the line of cases is *Microsoft*. The case involved Sun Microsystems Inc., a software company specializing in the development of server operation systems⁴¹. The company lodged a complaint with the Commission against Microsoft. Specifically, Sun Microsystems' contended that Microsoft was abusing its dominant position by refusing to supply the necessary information that would enable Sun Microsystems' group server software to be interoperable with Microsoft's PC operating system. Because the Microsoft Operating System was the industry standard for the majority of desktop computers, consumers needed servers for their computers and would opt for Microsoft's servers even if they preferred Sun Microsystems' servers (or any third party server) due to the lack of interoperability. Sun Microsystems contended that Microsoft used its dominant position on the operating system market as leverage into the work group server market.⁴²

3.2.3.1 The Commission's proposed Test: 'Entirety of the Circumstances'

In *Microsoft*, the Commission was influenced by conditions that were not entirely consistent with those laid out in previous case law. Firstly, while the Commission mentioned the exceptional circumstances as set out in the *IMS Health/Magill* test, it did not base its decision upon it.⁴³ Instead, the Commission devised a new test that considered all relevant circumstances that could point to abuse.⁴⁴ In order to come to a conclusion, the Commission tried to predict whether the potential disincentive effects

⁴⁰ *Magill*, paragraph 54.

⁴¹ A server is a computer that manages access to a centralized resource or service in a network.

⁴² *Microsoft*, European Commission Decision of 2004, Case COMP/C-3/37.792.

[Hereinafter *Microsoft (Commission)*], paragraph 1350.

⁴³ James Killick, 'IMS and Microsoft Judged in the Cold Light of IMS' [2004] 1 Competition Law Review 23, 10.

⁴⁴ *Microsoft*, European Commission Decision of 2004, Case COMP/C-3/37.792 [hereinafter *Microsoft (Commission)*], paragraph 558.

that the obligatory license had on innovation would outweigh the potential positive effects of innovation gained by competitors if the license is granted. The Commission primarily asked whether the refusal to license would reduce the net incentive for the industry at whole to innovate.⁴⁵ This test would be made on a case-by-case analysis. Anything relevant to that determination could be taken into account. The crux of the ‘entirety of the circumstances test’ as laid out by the Commission was an entirely new approach unprecedented in case law.⁴⁶ The legal effect of the ‘entirety of the circumstances test’ meant that even where the conditions laid out in *Magill/IMS Health*’s exceptional circumstances test was not met, an abuse could still potentially be found.

However, when Microsoft sought to annul the Commission’s decision, the GC did not endorse the ‘entirety of the circumstances test’. While the GC upheld the Commission’s findings in the sense that it still found Microsoft had acted contrary to article 102, the GC did not defer to the Commission’s ‘Entirety of the Circumstances’ test. Instead the GC reinstated the exceptional circumstances test of *Magill*. The GC reformulated the judgment to fit within the parameters of *Magill/IMS Health*. It did so by stating that an abuse could be found in *Microsoft* because the elements of “exceptional circumstances” could be found. In particular, the GC focused on the factor that Microsoft’s operating system was indispensable for the market, and would exclude all effective competition on the secondary market of the server systems that Sun Microsystems operated in. Furthermore, Microsoft’s refusal could not be objectively justified, and their refusal to license their IPR prevented Sun Microsystems’ from launching their server software. Therefore, the circumstances fulfilled the test espoused in *Magill/IMS Health*. On the test created by the Commission, the GC stated that it is only in factual scenarios where one of the criteria in the *Magill/IMS Health* test was absent that wider circumstances could be considered in the determination of whether a mandatory license was appropriate.⁴⁷

⁴⁵ Francois Lévêque, ‘Innovation, Leveraging and Essential facilities: Interoperability Licensing in the EU Microsoft Case’ [2005] 28(1) World Competition, 84.

⁴⁶ Simonetta Vezzoso, ‘The Incentive Balance Test in the EU Microsoft Case: A Pro-innovation “Economics-Based” Approach?’ [2006] 27(7) E.C.L.R 382, 387.

⁴⁷ Microsoft (GC) paragraph 316-317.

Therefore, while the ‘entirety of circumstances’ used by the Commission has not been abolished outright, its role has been severely circumscribed to that of a tie-breaker.⁴⁸

3.3. Interpreting the Case Law

The four-pronged test as espoused by the court in *Magill* and *IMS* still stands as the current standard for determining what circumstances need to be present in order for a court to be willing to mandate a dominant undertaking to license its IPR. The following discussion will now look into the finer aspects of each branch of the test. Particularly, it will examine the rationale of the requirement and the standard set for each element.

3.3.1. The new product Rule

The new product requirement is an invention of the ECJ that has no precedent in national legislation of the member states. The most likely explanation for its creation was that in the actual circumstances it was a factor that helped distinguish *Magill* from the earlier *Volvo* case that was rejected by the courts. One of the beneficial aspects of the rule is that it helps to ensure that compulsory licenses will only be ordered where it has a net beneficial effect on the market. In *Bronner*,⁴⁹ AG Jacob was concerned with the detrimental effect that ordering a compulsory licensing would have in the long term versus the positive effect it would have on competition in the short term.⁵⁰ He reasoned that frequent use of such orders could potentially decrease the incentives of IPR owners to innovate.⁵¹ To offset such potentially harmful effects on the competition market, he stated that one thing that would tip the balance in favour of such an order would be that the dominant undertaking’s behaviour on the secondary market prevented the emergence of a ‘much needed new product’ by the consumer.⁵² The new product requirement therefore introduces the consideration of fulfilling consumers’ needs into the *Magill/IMS Health* test. By doing so, consumer welfare becomes a necessary component of the test that has to be considered in order

⁴⁸ Microsoft (GC) paragraph 704-710, Claudia Schmidt and Wolfgang Kerber, ‘Microsoft, Refusal to License Intellectual Property Rights, and the Incentive Balance Test of the EU Commission’ [2008] 11, Available at SSRN: <http://ssrn.com/abstract=1297939> accessed 26th May 2015.

⁴⁹ C-7/97, *Oscar Bronner v Mediaprint* [1998] E.C.R. I-7791 [Hereinafter *Bronner*].

⁵⁰ AG Jacobs in *Bronner*, paragraph 57.

⁵¹ *ibid*, paragraph 57.

⁵² *ibid*, paragraph 63.

to justify competition interference.⁵³ Consequently, AG Jacob's comments seem to suggest that refusal to license will only be viewed as abusive if the behaviour has fulfilled the four-pronged-test of *Magill*, and that there is a clear and unsatisfied consumer demand for the new product in question.⁵⁴ In other words, in the scenario where there is an introduction of a new product that consumers have no need for, a compulsory license cannot be justified.

The importance of the new product requirement is particularly emphasized in *Tierce Ladbroke*.⁵⁵ In that case, the applicant, a Belgian bookmaker trading under the name: Tierce Ladbroke, sought permission to retransmit a television broadcast of horse races organized by the defendant. After the defendant had denied their request, Ladbroke lodged a complaint with the commission alleging that such refusal was an abuse contrary to article 102. The GC were unwilling to find that the product in question was essential since it could not be said that Ladbroke was trying to launch a new product⁵⁶ 'whose introduction might be prevented' as a result of the refusal.⁵⁷ Consequently, courts have shown that lack of a new product could be an explicit consideration for refusing a compulsory license.

While it has been established that a new product is a mandatory consideration, it is also necessary to consider what constitutes a new product. Does the product have to be completely new in substance? Will improvements or even new features suffice? In AG Tizzano's opinion in the case of *IMS Health*, he commented that a new product has come into being, as long as the petitioner did not 'limit itself' to 'duplicating the goods or services already offered on the secondary market by the owners of the intellectual property right'. The requirement of a new product would be fulfilled when it was of a 'different nature' and answered consumer requirements that existing goods or services were unable to satisfy.⁵⁸ AG Tizzano's definition is quite expansive. A literal reading of his description meant that even minor improvements on the previous

⁵³ AG Jacobs in *Bronner*, paragraph 58.

⁵⁴ Ahlborn et al, supra note 54.

⁵⁵ C-504/94, *Tierce Ladbroke SA v. Commission* [1997] ECR II-923 [Hereinafter *Ladbroke*].

⁵⁶ Defined in this case by the GC as: a product with 'specific, constant and regular potential demand on the part of the consumers'.

⁵⁷ *Ladbroke*, paragraph I-823 to I-824.

⁵⁸ AG Tizzano in *IMS Health*, paragraph 65.

product could satisfy the threshold.⁵⁹ This could be the reason why the Court made no comment on AG Tizzano's reference that different characteristics could be sufficient to meet the new product criteria. Therefore, this could be seen as a rejection of AG Tizzano's test. Instead, the Court forwarded its own formulation that a product is considered new if it is 'new goods or services not offered by the owner of the right and for which there is a potential consumer demand'. Alternatively, it has been suggested that the correct interpretation should be that the main impetus of the new product criteria is not whether consumers really do want the new characteristics. Instead, the test inquires whether consumers' willingness to pay for the new aspects of the product outweigh the potential increase in cost for the improvements.⁶⁰ This is empirically easier to establish.

Concerns have been raised as to whether the new product requirement has been relaxed as a result of *Microsoft*. In *Microsoft*, the Commission was never able to identify a new product in the same manner as *Magill* and arguably *IMS Health*. The petitioner, Sun Microsystems, was not petitioning a license for a new product. They petitioned for an already existing product, which required certain information in order to develop interoperability with Microsoft's newer Operating Systems. In regard to the new product requirement, the Commission merely stated that Microsoft's refusal to supply information of interoperability could prevent competitors from developing hypothetical new products.

When the case reached the GC, the GC included the term 'technical development' as within the meaning of a new product.⁶¹ In this respect the GC stated that the competitor's goods must 'differentiate their products from Microsoft with respect to certain parameters and certain features'.⁶² This formulation by the GC is reminiscent of AG Tizzano's reference to different characteristics that was already rejected by the ECJ. Based on this reading, it is suggested that the proper manner in which the new product requirement should be construed is that it encompasses improved technical features of a previous product.

⁵⁹ Ahlborn et al, supra note 54, 1121.

⁶⁰ Lévêque, supra note 45, 85.

⁶¹ Microsoft (GC), paragraph 563.

⁶² Microsoft (GC) paragraph 563.Paragraph 653.

3.3.2. Objective Justification

Little guidance has been offered in the past regarding what amounts to objective justification in the *Magill/IMS Health* test.⁶³ Courts have merely stated that where the dominant undertaking is incapable of providing objective justification for their refusal, this, combined with the other factors of the test would amount to abuse. The European Courts have primarily defined the test in negative terms, by stating what cannot amount to objective justification rather than what could positively fulfil the criteria set by the test. This can be seen in *Microsoft*, where the Commission found that the right to exclude in intellectual property law could not in itself be considered an objective justification for refusal to deal when extraordinary circumstances are present.⁶⁴ Furthermore in *Microsoft*, the company attempted to use the objective justification as a defence by arguing that a compulsory license order would cause severe disincentive to innovate. However, the GC dismissed the argument on the basis that it was too theoretical in nature.⁶⁵ *Microsoft* has therefore raised the threshold of objective justification that dominant undertakings need to cross in order to escape liability.

3.3.3. Exclusion of Competition in secondary markets

The requirement that there has to be exclusion of competition in a secondary market makes sense if we consider the following scenarios:

Firstly, where only one market exists, and the dominant undertaking was using its IPR to exclude competition, no compulsory license could be ordered as no abuse has taken place.⁶⁶ The IPR owner has only exercised their IPR within the legal scope granted to them by intellectual property law in a legitimate manner. Intellectual property law is supposed to reward owners for their innovative efforts in a manner that allows them to exclude their competitors in the primary market. In turn, such a reward allows them to harvest monetary profits from their monopoly position over a limited time. Secondly, in scenarios where a distinct separate market exists, but the dominant undertaking is not present in the secondary market, there would still be no duty on the

⁶³ Killick, *supra* note 43, 37.

⁶⁴ *Microsoft* (GC) paragraph 691.

⁶⁵ *Microsoft* (GC) paragraph 698.

⁶⁶ Temple, *Supra* note 28, 5.

dominant undertaking to deal,⁶⁷ as was witnessed in *Ladbroke*. This is because there are no anticompetitive intentions on the dominant undertaking's part. Thirdly, where the dominant undertaking is present in the secondary market, but they are not utilizing their relevant IPR, there would be no obligation to deal. This is because the dominant undertaking's continued ability to operate in the secondary market without it clearly proves that the IPR is not essential to operate in the secondary market.⁶⁸ Consequently, it is only when there is both a secondary market and the dominant undertaking has exercised their IPR in a manner that would exclude competition in this downstream market that abuse is said to have taken place.⁶⁹ Where a dominant undertaking extends their IPR to monopolize a secondary market, the dominant undertaking would effectively extend their exclusive rights beyond the ambit that was intended by the original grant of IPR protection. Nevertheless, it is arguable that the standard set for this branch of the test is not a rigid one. In *Microsoft*, the GC found that exclusion of competition in the secondary market is sufficiently met as long as there is 'the possibility of identifying a separate market' even if it had not materialized yet.⁷⁰ In other words, this reiterated the comments made in *IMS Health*, that a 'potential or even hypothetical market' would meet the conditions of a secondary market.⁷¹

Another issue for consideration is the proportion of competition that needs to be eliminated in order to fulfil the test. Does the test require all competition to be eliminated? Early case law seemed to suggest such an intention. In *Magill*, the standard of complete foreclosure required for a finding of abuse was that the refusal to supply would have to exclude all competition in a secondary market.⁷² This was reiterated in *Bronner* where it was stated that the refusal must be 'such as to exclude any competition on a secondary market'.⁷³

⁶⁷ *ibid*, 22.

⁶⁸ *ibid*, 5.

⁶⁹ Josef Drexler, 'Abuse of Dominance in Licensing and Refusal to License: A 'More Economic Approach' to Competition by Imitation and Competition by Substitution' in Claus-Dieter Ehlerman and Isabela Atanasiu (eds.), *European Competition Law Annual 2005: What is an Abuse of a Dominant Position* (Hart publishing, Oxford/Portland Oregon 2005), 18-19.

⁷⁰ *Microsoft (GC)*, Paragraph 335.

⁷¹ *IMS Health*, paragraph 44.

⁷² *Magill*, paragraph 56.

⁷³ *IMS Health*, paragraph 38.

However since *Microsoft*, it should be noted that for the finding of abuse it is not necessary to show that all competition has already been eliminated. It was posited that such a requirement would be unfair as by the time such an effect has materialized it would be too late to be of any benefit to the competitor. By that time, they would have already been excluded from the market entirely. The GC therefore found that the threshold would be met where ‘the refusal at issue is liable to, or is *likely* to, eliminate all effective competition on the market.’⁷⁴ Such a stance is particularly commendable since it takes into account that elimination of competition where network effects were concerned is often irreversible.⁷⁵

3.3.4. Indispensability

The indispensability requirement might serve the most significant role for the “exceptional circumstances” test of *Magill*. The term indispensability is closely related to the essential facilities doctrine and several academic authors have used the two terms interchangeably.⁷⁶ One academic referred to the criteria of the *Magill/IMS Health* test as a modified essential facilities test.⁷⁷

How is the indispensability requirement met? One important aspect to meet the threshold of indispensability is that the petitioner must be able to prove that the facility in question is not an esoteric need for the individual in question, but is essential for all competitors in the market in order to stay viable. This is best exemplified in the case of *Bronner*,⁷⁸ where the claimant of the same name brought a complaint against Mediaprint. Mediaprint was a publishing company that owned two Austrian newspapers. At the time, they had established a nationwide distribution network that Bronner wanted to join but was excluded from. As a result Bronner alleged that Mediaprint as a dominant company had violated article 102 TFEU by refusing Bronner access to their distribution network.

⁷⁴ *Microsoft* (GC) (emphasis added by author), at 563.

⁷⁵ *Microsoft*, (GC) paragraph 622, 175.

⁷⁶ See authors such as Donna M. Gitter. ‘The Conflict in the European Community Between Competition Law and Intellectual Property Rights: A Call for Legislative Clarification of the Essential facilities Doctrine’ [2002] 42(2) American Business Law Journal.

⁷⁷ Marco Ruesting, ‘When Does a Unilateral Unconditional Refusal to License or to Provide Information Become an Antitrust Concern? A United States and European Comparison’ [2010]

Available at SSRN <http://ssrn.com/abstract=1550239> accessed on 16th May 2015, 21.

⁷⁸ C-7/97, *Oscar Bronner GmbH & Co. KG v Mediaprint* [1998] I-07791.

Strictly speaking, the facts *Bronner* did not encompass IPR, but it is of relevance to the discussion as AG Jacobs explicitly extended his opinion to be applicable to IPR as well.⁷⁹ AG Jacobs stated that ‘a particular competitor cannot plead that it is particularly vulnerable’.⁸⁰ In other words, the refusal to deal will only amount to abuse if it places all competitors in the market at disadvantage and not only the petitioning applicant.⁸¹ The threshold for indispensability therefore requires that the refusal must be structural in nature. ‘[I]f the cost of duplicating the facility alone is a barrier to entry, it must be such as to deter any prudent undertaking from entering the market’. In other words, AG Jacobs noted that the test for indispensability must be objective.

Another aspect of indispensability is that the facility in question cannot be readily duplicated by the competitor’s own efforts. In *Bronner*, the facility was merely a distribution network composed of contacts of various media outlets and distribution companies. There were no technical, legal or economic barriers that would make it ‘impossible or even reasonably difficult’ for either Bronner or any other publisher to implement a comparable nationwide home-delivery system as Mediaprint had done.⁸² More specifically, for an intangible property to be considered indispensable under this test, the duplication of the facility must be impossible ‘owing to physical, geographical or legal constraints’.⁸³ The legal constraint mentioned by AG Jacobs in this quote seems to refer to the illegality of duplicating assets that are protected by intellectual property law. Thus, it is posited that in the right circumstances, IPR might lend itself to an easier finding of indispensability, as its duplication will almost always be legally barred. On the other hand, a tangible property would not have this inevitable conclusion for its duplication.

⁷⁹ Donna M. Gitter. ‘The Conflict in the European Community Between Competition Law and Intellectual Property Rights: A Call for Legislative Clarification of the Essential facilities Doctrine’ [2002] 42(2) American Business Law Journal 257.

⁸⁰ AG Jacobs in *Bronner*, paragraph 51.

⁸¹ Case 85/76, *Hoffman-La Roche v. Commission*, 1979 E.C.R. 461, paragraph 30.

⁸² *Bronner*, paragraph 145.

⁸³ AG Jacobs in *Bronner*, paragraph 134.

To summarize, in order to find if the license which the petitioner is seeking access to is indispensable it must be established that:

1. It must be useful for the exercise of the activity in question.⁸⁴
2. Circumstances must be considered: whether there are any alternative options for the petition ‘even if they are less advantageous’ that could achieve a similar effect.⁸⁵
3. Finally, it has to be established that the effort of duplicating the facility ‘is not economically viable’ and constitutes a barrier to enter the market to such an extent that it would deter ‘any prudent undertaking from entering’.⁸⁶

⁸⁴ *Ladbroke*, paragraph 131.

⁸⁵ *IMS Health*, paragraph 28.

⁸⁶ *Bronner*, paragraph 41.

4. THE AMERICAN STANCE

4.1. Compulsory Licenses Post eBay

The Supreme Court case of *eBay v. MercExchange*⁸⁷ represents an interesting potential shift in the default position for compulsory licensing of IPR in America. In this case, MercExchange, an online-auction company, were in negotiations to license its business methods to eBay and Half.com. After the negotiations fell through, MercExchange decided to sue both companies for patent infringement and sought an order from the court for permanent injunctive relief to prevent them from continued usage of the patented method. The result of the litigation was that MercExchange's patent was found to be valid and had been infringed by the defendants. The Supreme Court however, made the ground-breaking decision that even where patent infringement is found, it does not immediately follow that permanent injunction should be ordered as a general rule.⁸⁸ Instead, an additional burden is put on the plaintiff to prove that unusual circumstances are present that would warrant an injunction.⁸⁹

The implications of the ruling in *eBay* means that where the plaintiff fails to fulfil the test laid out in the case, the infringer will be allowed continued usage of the IPR. The absence of an injunctive order effectively creates a form of compulsory license, in that the infringers will be allowed continued usage of the patent in contradiction of the patent owner's wishes. The legacy of the *eBay* decision has led to an increase of compulsory licenses of this kind being granted in lieu of permanent injunctions.⁹⁰ However, it is suggested by this author that this type of compulsory license does not resemble compulsory licenses made under antitrust policies that are considered in this dissertation. Firstly, *eBay* never invoked the essential facilities doctrine in its defence. Secondly, MercExchange was not a

⁸⁷ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). [hereinafter *eBay*]

⁸⁸ *Ibid*, paragraph 394.

⁸⁹ The four-factor test that the plaintiff must demonstrate is that: (1) The plaintiff has suffered an irreparable injury; (2) current remedies that are available at law; e.g. monetary damages, are inadequate to compensate for the injury caused; (3) having considered the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and lastly (4) the public interest would not be disserved by a permanent injunction.

⁹⁰ Michael C. Brandt, 'Compulsory Licenses in the Aftermath of *eBay Inc. v. MercExchange, L.L.C.*: The Courts' Authority to Impose Prospective Compensatory Relief for Patent Infringement' [2008] Fed. Cir. B.J. 699, 704.

dominant undertaking for the purpose of section 2 of the Sherman Act, and there was no allegation that any abuse against antitrust law had taken place as a result of MercExchange's actions. The Supreme Court did not base their decision on any legal analysis that involved considerations of antitrust concerns. Consequently, it is suggested that this case will probably not affect compulsory licensing for the purposes of forcing a dominant undertaking to deal their IPRs through the enforcement of antitrust law.

The difference between *eBay* and traditional compulsory license cases can be further substantiated in the subsequent case of *Paice*.⁹¹ In *Paice*, it was alleged that Toyota had infringed upon Paice's drive-train patents by incorporating them into Toyota's hybrid car models. While the Federal Circuit was willing to find that such an infringement had taken place, relying on *eBay*, the court refused to grant Paice the permanent injunction, which they had sought for. Instead the Federal Circuit ordered that Paice should receive an on-going royalty payment from Toyota for the infringing products.⁹² The most noteworthy aspect of this case was that the majority declined to describe the proposed remedy as a 'compulsory license', but preferred the term of 'on-going royalty'.⁹³ The difference in definition is not merely one of linguistic semantics but has lasting legal repercussions. The majority opinion stated that a compulsory license, once ordered, opens the floodgates to any competitor wishing to access the IPR in question,⁹⁴ provided of course, that the applicant pays a reasonable royalty. On the other hand, on-going royalty, as used in *eBay* and the line of cases that followed in this area, is limited only to the individual defendant in the litigation.⁹⁵ This runs contrary to the underlying rationale of the essential facilities doctrine, which provides that the facility in question has to be so essential that its access must be granted to *any* competitor in the secondary market for them to survive.⁹⁶ If the need for the facility is particular to *only the applicant's* need, a compulsory order will be

⁹¹ *Paice LLC v. Toyota Motor Corp*, 504 E3d 1293 (Fed. Cir. 2007), cert denied, 76 U.S. 3608 (2008). [Hereinafter *Paice*].

⁹² *Paice*, paragraph 1303

⁹³ *Paice*, paragraph 1313; Scott J. Pivnick & Christopher K. Dorsey, Federal Circuit Upholds Ongoing Royalties in Lieu of Permanent Injunction on Infringing Products [2007] (Pillsbury Law LLP), 2

<http://www.pillsburylaw.com/siteFiles/Publications/5082FD130D5A6249DE9C7989DF831E69.pdf>

accessed on 26th May 2015.

⁹⁴ *Ibid.*

⁹⁵ *Ibid.*

⁹⁶ *Bronner*.

denied. Because of this, *eBay* is not particularly helpful to deduce the legal position of American Courts in granting compulsory licenses of IPR against dominant undertakings for antitrust purposes. Thus, this dissertation assumes that the *eBay* case will not affect the case law in this area.

4.2. Essential Facilities, The American Stance

American Courts have shown more reluctance in embracing the essential facilities doctrine than their European counterparts. This is ironic considering that the doctrine originated in America and is something that Europe has incorporated into its jurisprudence.

While not the first case on the essential facilities doctrine, *MCI*⁹⁷ is often quoted in this area, as it is one of the first cases in America that set out a clear legal test for the essential facilities doctrine. In this case, AT&T held a monopoly in the local and long distance telephone market. MCI, a competitor in the provision of long-distance telephone services, offered a competitive service but required access to AT&T's "last mile" of wire in order to successfully connect the call to its end users. As is customary of these cases, AT&T refused to allow MCI access to its wires, and the latter brought a complaint alleging that AT&T had breached section 2 of the Sherman Act. In their decision, the court found that the following conditions had to exist in order for the application of the essential facilities doctrine to be appropriate:

1. A Monopolist must control accessibility to an essential facility.
2. It is not reasonable for a competitor to replicate a second facility.
3. The monopolist has refused to grant access to the facility to its competitors
4. It is feasible for the monopolist to share its facility with its competitors. In other words, it would not place an unreasonable burden on the monopolist's own ability to conduct business in doing so.

The conditions espoused in *MCI* have become the standard test to be applied in cases relating to the essential facilities doctrine. This can be seen in *Aspen*,⁹⁸ one of the

⁹⁷ *MCI Communications Corp. v. AT & T*, 708, F.2d 1081 (7th Cir.), cert. Denied, 462 U.S. 891 (1983) [Hereinafter *MCI*].

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

most famous American cases on unilateral refusal to deal. The case featured Ski Co. that owned and effectively controlled three out of four mountains at a ski resort. The plaintiff Highlands, owned the fourth. Although they were competitors the two had a history of cooperating in offering customers a popular multi-day joint ticket where access to all four mountains was available. The contention arose out of the fact that Ski Co. revoked this offer, without any credible business justification. Because the defendant owned three out of four mountains, tourists would not be willing to purchase tickets for access of the plaintiff's sole mountain without access to the remaining three. Applying the MCI test, the 10th Circuit found that the plaintiff should be given access based on the essential facilities doctrine. Firstly, Highlands controlled access to the mountains, as a result of their ownership. Secondly, it is impossible for the defendant to replicate mountains, as it is a geographical condition. Third, access to the defendant's three mountains was denied when Highlands ceased to cooperate. Finally, the defendant could not deny that it was feasible for them to share their facility as they had past history of doing so. As the collaboration had been profitable for both parties, the defendant could not argue that it placed a burden on their business to conduct business. The Supreme Court therefore found that the case fulfilled the test of *MCI* and that the defendant had abused their dominant position by their refusal to deal.

4.3. No Essential Facilities Doctrine for Intellectual Property Assets

Because of the way Courts are structured in the US, the various Circuit Courts⁹⁹ jurisdictions are based on geographical division, and while the Courts should endeavour to rule consistently with precedent decisions made by previous Circuit Courts,¹⁰⁰ they are not bound to do so. This has led to fragmented case law in the area of compulsory licensing for dominant undertakings.

There are certain cases which indicated that the essential facilities doctrine could be applicable for IPR to mandate compulsory licensing. This could be seen in *Feist*

⁹⁹ There are thirteen Circuit Courts in total, twelve of which are named by numbers, such as First, Second Third Circuit Court and etc, save for the thirteenth court known as the Federal Circuit.

¹⁰⁰ This is the doctrine known as *stare decisis*, a Latin term that means "to stand by a decision".

Publications.¹⁰¹ The case regarded intangible property in the form of copyrighted information where the defendant had refused to allow the plaintiff the use of its listing of telephone numbers in a catalogue. The court stated that while ‘the doctrine of essential facilities has been applied predominantly to tangible assets, there is no reason why it could not apply as in this case, to information wrongfully withheld’.¹⁰² The effect in both situations is the same: a party is prevented from accessing something that is essential to compete in the market.¹⁰³ However, the strength of this comment is thrown into doubt as the court went on to abolish the copyright of the property in question rather than mandate a licensed use for the petitioner. The comment was made obiter dicta and had little relevance to the ruling itself.

The possibility of the essential facilities doctrine being applicable to IPR is further suggested by the case of *Intergraph*.¹⁰⁴ In this case, the asset concerned was clearly an IPR. The facts revolved around the computer company Intel that had ceased its previous supply of patented Intel chips to Intergraph. This cessation took place while Intergraph was pursuing an infringement suit against certain Intel customers regarding an Intergraph owned patent. Consequently, it was obvious that Intel ceased their supply as retaliation for the infringement suit and with the intent of coercing Intergraph into dropping the lawsuit. The termination was not based on any economic considerations. The District Court held that Intel had a dominant share in the relevant market and found that Intel’s refusal to deal was abusive for the purposes of section 2 of the Sherman act. Intel’s chips were considered an essential facility because the chips could not be procured from any other source but Intel. Additionally, they could not be feasibly duplicated due to the patent rights held by them. Finally, because access to the chips was essential for effective competition, all the requirements as envisaged in *MCI* were fulfilled. Had the case ended there, it would have been a clear indication that the essential facilities doctrine is applicable to IPR. However, when the case went to appeal, the Federal Circuit reversed the decision of the case. It is suggested that the legal reasoning of *Intergraph* cannot be completely disregarded in spite of this. The Federal Circuit did not base their reversal on the ground that it is

¹⁰¹ *Rural Tel. Serv. Co., Inc. v. Feist Publ’ns. Inc.*, 737 F. Sup 610, 617-20 [Hereinafter *Feist Publications*].

¹⁰² *Feist Publications*, paragraph 1566.

¹⁰³ *BellSouth Advertising v. Donnelley Information.*, 719 F. Supp. 1551 (S.D. Fla. 1988), paragraph 1566.

¹⁰⁴ *Intergraph Corp. v. Intel Corp.*, 195 F.3d. Fed. Cir. (1999).

unsuitable to apply the essential facilities doctrine to IPRs.¹⁰⁵ Instead, the case was reversed on the consideration that there was insufficient evidence to prove that Intel and the Plaintiffs could be considered competitors. Because they were not competitors, Intergraph could not make out the claim that Intel denied them access to their essential facilities in order to eliminate competition. It is posited however, that the reversal in this case does not weaken the proposition that the essential facility test of *MCI* is inapplicable to intellectual property. If anything, it clearly shows that the Federal Circuit decision applied the *MCI* test, but based on the facts of the case, found that it did not fulfil the conditions of the test. This indicates that the Federal Circuit found it appropriate to apply the *MCI* test based on the essential facilities doctrine with regards to IPR. It is therefore arguable that the judgment in relation to the Court's view on Essential Facilities' applicability to IPR still stands.

The same argument can be applied to *Aldridge*. In *Aldridge*,¹⁰⁶ Microsoft prevented Aldridge's disk caching program from operating on their operating system Windows 95, while simultaneously launching their own competing disk caching program in the operating system. As a result, Aldridge filed a suit against Microsoft, alleging that Windows' operating system was an essential facility because it was the preferred choice of a vast majority of desktop computer users. Aldridge further contended that without access to the operating system, they could not compete on the disk caching market. The Court applied the *MCI* test and found that, on the facts presented before them, Windows 95 could not be considered essential. The Court's reasoning was that essential facilities doctrine only occurs when the facility in question is either a natural monopoly or monopoly gained as a result of government support.¹⁰⁷ The problem with both *Intergraph* and *Aldridge* is that the plaintiffs were seeking for continued access that primarily benefited themselves, and not the market as a whole.¹⁰⁸ This seemed to be a concern for the courts, which stated that 'a facility is essential under the antitrust laws only when it is vital to both the plaintiff's individual competitive

¹⁰⁵ Herbert Hovenkamp, Mark D. Janis and Mark A. Lemley. 'Unilateral Refusals to License' [2006] 21(1) Journal of Competition Law and Economics 1, 13.

¹⁰⁶ *Aldridge v Microsoft Corp* [995 F. Supp. 728 (S.D. Tex 1988)] [Hereinafter *Aldridge*].

¹⁰⁷ *Aldridge*, paragraph 754; Ruesting, Supra note 77.

¹⁰⁸ Francois Leveque, Howard A. Shelanski, Antitrust, Patents, and Copyright: EU and US Perspectives (Edward Elgar Publishing, 2005) 21.

viability and the viability of the market in general'.¹⁰⁹ Regardless of the result of the judgment there seemed to be no doubt in the court's mind that the essential facilities doctrine applied to IPR.

However, the aforementioned judgments might be seen as grasping at straws in light of the most recent development in the *Trinko* decision.¹¹⁰ *Trinko*, is the latest Supreme Court case on refusal to deal, and has become the leading case on whether or not such conduct amounts to a violation contrary to section 2 of the Sherman Act.¹¹¹ In this case, not only did the Supreme Court cast serious doubt over the applicability of the essential facilities doctrine to IPR, but their comments also seemed to strongly hint that the doctrine is inappropriate as a sanction for refusal to deal regarding all assets.

The case of *Trinko* concerned Verizon, a global telecommunication service provider that held absolute monopoly over such service lines. As a consequence, all other competing telecommunication companies had to pay remuneration to Verizon for usage in order to operate in the telecommunications industry. Curtis Trinko was a disgruntled customer of AT&T, a company that competed with Verizon. He led a class action suit against Verizon, contending that the company was discriminating against competitors, by providing its own customers with better service than that of its rivals. Specifically, Verizon delayed processing orders when supplying telecommunications services for competing telephone companies such as AT&T, who were newer on the market. It was alleged that such discrimination was contrary to the anti-monopoly 1996 Telecommunication Act as well as an abuse of their dominant position in the market according to the Sherman Act Section 2.

The Supreme Court acknowledged that under US antitrust law there are two general exceptions to the rule where a dominant undertaking has full discretion to refuse to deal. The first exception relates to where the defendant terminates supply for a previous existing business relation, and the second known exception is the essential facilities doctrine. It was contended by the plaintiff's legal advocates that the latter

¹⁰⁹ *Aldridge*, paragraph 753.

¹¹⁰ *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP*, 124 S. Ct. 872 (2004). [Hereinafter *Trinko*]

¹¹¹ Ariel Katz and Paul-Erik Veel, 'Beyond Refusal to Deal: A Cross-Atlantic View of Copyright, Competition and Innovation Policies' [2013] 79(1) *Antitrust Law Journal* 139, 144.

exception applies since the required elements set out in *MCI* were fulfilled. Firstly, Verizon owned all the service lines. Secondly it was unfeasible for competitors to use an alternate source. Finally, the telecommunications carried elements of public good, which is a trait of previous essential facilities. However, such legal reasoning made little impression on the Supreme Court. Not only did the Supreme Court find that the doctrine was not applicable on the facts. Justice Scalia famously stated that the essential facilities doctrine was an invention of the lower courts and that the Supreme Court has ‘never recognized such a doctrine’.¹¹² The Supreme Court’s denial of a formal recognition of the essential facilities doctrine seems surprising in light of the Supreme Court case of *Aspen*, which seemed to fully embrace the essential facilities doctrine. However, there has always been ambiguity as to what *Aspen* as a case represents. Is it a case that was decided on the essential facilities doctrine or on grounds of refusal of continued supply?¹¹³ Read as a standalone, the judgment seems to have been heavily influenced by both principles. In *Trinko* however, the Supreme Court did not acknowledge that *Aspen* as a case was decided on the merits of the essential facilities doctrine. Instead, Justice Scalia interpreted the determination of abuse to be founded on the fact that the dominant undertaking had without objective reason terminated a financially beneficial relationship with a voluntary previous customer.

While the Supreme Court refused to confirm the essential facilities doctrine, it also refused to reject the doctrine.¹¹⁴ Instead, the only legal analysis the Supreme Court provided on the essential facilities doctrine was to express that even if the doctrine should hypothetically exist, it still would not apply in the circumstances of the case.¹¹⁵ This was because the indispensable requirement of the doctrine only applies where the facility in question is unavailable. On the facts of the case, competitors were allowed access to the service lines, albeit subject to disadvantageous conditions. Construed this way, the Supreme Court’s comments seem to suggest that discriminatory or disadvantageous access will never amount to abuse contrary to section 2 of the Sherman act. A narrow reading of the judgment does not restrict

¹¹² *Trinko*, paragraph 410-411.

¹¹³ Areeda, *supra* note 166, 849-850.

¹¹⁴ Katz and Veel, *supra* note 4, 145.

¹¹⁵ *Trinko*, paragraph 411-16

future courts from applying the essential facilities doctrine to unilateral refusals to deal.

The intended effect of *Trinko* was to significantly decrease the already rare use of the essential facilities doctrine in the United States.¹¹⁶ Still, the relevance of the essential facilities doctrine might not be completely extinct post *Trinko*. Mentions of the doctrine have been made since, such as in *NYMEX*.¹¹⁷ In this case, the District Court denied the petitioner access to essential facilities, because the facility in question was not essential. Therefore, even though no grant was given, the lower court seemed to imply that the doctrine was still valid, and that the test had not been fulfilled, as opposed to denying the viability of the doctrine as a whole.¹¹⁸

4.4. Near Immunity for refusing to deal Intellectual Property

So far the discussion has shown that the American courts' response to the essential facilities doctrine, as a legal argument for compulsory licenses, has been lukewarm at best. It is posited however, that the real issue lies with the American courts' strong tendency to give intellectual property law priority over antitrust law. This has led to a state of law where there is a near immunity for IPR owners who refuse to deal, regardless of whatever relevancy antitrust law may have.

4.4.1. Kodak versus Xerox

In *Kodak*, the company of the same name was a manufacturer of photocopiers as well as the dominant supplier of replacement parts.¹¹⁹ Kodak also competed with independent service organisations (ISOs) on the secondary market for repairs and service of their photocopiers. A dispute arose when Kodak stopped selling their patented replacement parts to ISOs. This policy restricted ISOs' access to the replacement parts they needed in the service market. In the long term the effect of this strategy would have enabled Kodak to drive out the competition and monopolize the

¹¹⁶ Katz and Veel, supra note 4, 145.

¹¹⁷ *New York Mercantile Exchange v. Intercontinental Exchange, Inc.*, 2004 WL 1494383 (S.D.N.Y. 30 June 2004).

¹¹⁸ Daniel Kanter, 'IP and Compulsory Licensing on Both Sides of the Atlantic – An Appropriate Antitrust Remedy or Cutback on Innovation?' [2006] 27(7) E.C.L.R. 351, 363.

¹¹⁹ *Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1218 (9th Cir. 1997). [Hereinafter *Kodak*]

repair and services market. The Ninth Circuit found that the refusal to deal was abusive.

For the Ninth Circuit, a particular persuasive factor was convincing evidence that Kodak primarily used the IPR claim as a pretext.¹²⁰ Former employees testified to this effect.¹²¹ This led the court to the conclusion that rather than genuine intention to protect its IPR, Kodak desired to shut out ISOs from the repair and service market. The Ninth Circuit found that while the grant of patent lawfully allowed Kodak to exclude competitors from the primary market of selling photocopiers through its IPR, it did not have the right to do so on the secondary market of service and repairs for such copiers. The court stated that the ‘basic right of exclusion’ granted by patent law ‘does have limits’ and will not ‘protect an attempt to extend a lawful monopoly beyond the grant of a patent’.¹²²

The court in *Kodak* focused on intent. Specifically, the court was concerned with intent that is pretence. This refers to situations where the real agenda of IPR owner’s exclusion is not to protect their IPR but merely to use it as an excuse to be able to eliminate competitors without incurring liability under the Sherman Act. Where this occurs, courts would be willing to infer that abuse had taken place as a result of the dominant undertaking’s actions, regardless of the rights of exclusivity conferred from IPR.¹²³

Shortly afterwards, a case in which the facts were almost identical to *Kodak*, a surprisingly contrasting judgment was reached. In the case of *Xerox*,¹²⁴ a company of the same name was primarily in the business of manufacturing photocopiers. Xerox also provided replacement parts and repair services to its customers, much like the *Kodak* case. A dispute arose when Xerox refused to continue selling its patented replacement parts to ISOs that also provided repair services for end users of Xerox photocopiers. The Federal Circuit took no heed of the *Kodak* judgment set out by the

¹²⁰ Joseph Bauer ‘Refusals to Deal with Competitors by Owners of Patents and Copyrights: Reflections on the Image Technical and Xerox Decisions’ [2006] 55 Depaul L. Review 1211, 1214-1215.

¹²¹ *Kodak*, paragraph 1219-20.

¹²² *Kodak*, paragraph 1216

¹²³ Hovenkamp et al, supra note 105, 25.

¹²⁴ *In re Independent Service Organization Antitrust Litigation (Xerox)*, 203 F.3d 1322 (fed. Cir. 2000) [Hereinafter *Xerox*].

Ninth Circuit, and refused to find any wrongdoing done by Xerox that could amount to violation of Section 2 of the Sherman act. Instead, the Federal Circuit stressed the absolute right vested in IPR owners to exclude any and all parties from their invention. The only exceptions that existed to this absolute right were “illegal tying, fraud in patent and trademark office, or sham litigation”.¹²⁵ The Federal Circuit found that so long as Xerox, or any IPR owner did not act outside of the scope of protection conferred by the grant of the patent, their refusal could not amount to a violation. In effect, this grants IPR owners a near immunity from antitrust enforcement with respect to their refusal to deal.¹²⁶

The stance taken in *Xerox* is strongly reminiscent of the *Data General* case.¹²⁷ Data General sued Grumman, a third party company that repaired and serviced computers, for infringement. As a defence, Grumman counterclaimed by filing a claim that Data General was committing antitrust violations as a dominant undertaking by refusing to license ADEX, a diagnostic computer software program. As a response, the First Circuit ruled that an ‘author’s desire to exclude others from use of its copyrighted work is a presumptively valid business justification’.¹²⁸ The dominant undertaking would not be considered to be acting contrary to section 2 of the Sherman act provided that it could provide evidence that there was a valid business justification for their refusal to deal. This test in the context of IPR will almost always be satisfied. Compare this to the First Circuit findings in *Data General* that ‘an author’s desire to exclude others from use of its copyright work is presumptively valid business justification for any immediate harm to consumers’.¹²⁹ In other words, the wish to exclude competition is itself a presumptively objective reasoning to refuse to deal. Since this element will almost always be present in refusal to deal cases, there is a *per se* legality for IPR owners to exclude competitors under competition law.¹³⁰

¹²⁵ *Xerox*, paragraph 1328-29.

¹²⁶ *Coco*, Supra note 7, 31.

¹²⁷ *Data General Corp. V. Grumman Systems Support Corp* 555 U.S. 438 (2009), [Hereinafter *Data General*].

¹²⁸ *Kodak*, paragraph 1218.

¹²⁹ *Data General*, paragraph 1187.

¹³⁰ Simon Genevaz, ‘Against Immunity For Unilateral Refusals to Deal in Intellectual Property: Why Antitrust Law Should not Distinguish Between IP and Other Property Rights’ [2004] 19 Berkeley Tech. L.J. 741, 744; Hovenkamp et al, Supra note 105, 21.

4.5. The Limited Exception in US for Standard Essential Patents

It is of interest to remark on the recent development in the related area of SEP, which have deviated from the restrictive stance on compulsory license for IPR. SEP are patents deemed so essential that they must be used in order to comply with a technical standard in the industry. Such standards are decided by the relevant Standard Setting Organizations (SSO), of which thousands of standards exist for each particular industry. Undertakings that join SSO do so on pre-established terms. The most important one being that if their patents are declared to be SEP, the undertaking will commit themselves to allow third party members within the SSO to license their SEP. The terms of the license will of course be subject to negotiation, usually determined by terms set out in FRAND.¹³¹

Strictly speaking, these cases do not follow the traditional framework of cases for compulsory licensing of IPR. Unlike cases like *Magill*, the relevant dominant undertaking has already entered into a commitment to license. The courts can therefore skip the preliminaries of trying to determine whether there is a need of indispensability for the industry, since the SSO has already established that. Instead the relevant question in these cases is whether or not the SEP owner still retains its right to exclude competitors that are members of the SSO and willing to license, in accordance with licensing revenue set by FRAND.

In *Motorola*,¹³² the case revolved around SEP needed to make smart-phone devices. Google, Motorola's parent company, had threatened to pursue infringement suits against competing companies to prevent access from SEP that they needed to produce competing devices. These competing companies were all members of the SSO and were willing to license these patents on FRAND terms.¹³³ In response to these allegations, the FTC launched investigations against Google, to determine whether Motorola's actions in seeking injunction against willing licensees of its SEPs amounted to abuse. The FTC never reached an official ruling, since Google, Motorola's parent company, settled out of court. However, the FTC were only willing

¹³¹ A set of licensing obligations set by SSO for members within the organization.

¹³² In the Matter of Motorola Mobility LLC, a limited liability company, and Google Inc., a corporation [Hereinafter *Motorola*]

¹³³ 'FTC Finalizes Settlement in Google Motorola Mobility Case' (FTC 2013) <https://www.ftc.gov/news-events/press-releases/2013/07/ftc-finalizes-settlement-google-motorola-mobility-case> accessed 26th May 2015

to end its investigation after Google had agreed to enter into an agreement that would prohibit the company from seeking injunctions against licensees who were willing to pay the remuneration according to FRAND terms.

The willingness of the FTC to take such a determined stance might seem very uncharacteristic in comparison to the American judiciary's per-se legality stance in traditional antitrust cases of compulsory licensing of IPR. One possible explanation for the difference in approach could be that because the IPR is governed by a SSO with whom the undertaking has already contracted, the order is not seen as forcing an undertaking to deal. Instead, it is forcing an undertaking to make good a contractual agreement. This is evidenced in the case of *In re Innovatio*, where the court specifically held that where an undertaking has made a commitment to a SSO to license on FRAND terms it will constitute a 'binding contract between the SEP holder, the SSO, and its members'.¹³⁴ The court further held that to seek injunctive relief in such circumstances would violate the duty of good faith.¹³⁵ In other words, in these cases, the compulsory license order is made to honour rudimentary contract law principles rather than that of competition law policy.¹³⁶ This could be seen in *Motorola*, where the FTC emphasized that they could not allow Motorola to behave in this manner as '[s]eeking an injunction would be a violation of the party's commitment to FRAND licensing'.¹³⁷ From such a standpoint, these cases are much less politically contentious than the traditional compulsory license cases.

A cautious observation seems to indicate that, where the IPR involves a refusal to deal a SEP, the American competition authority is more willing to order a compulsory license.

¹³⁴ *In re Innovatio IP Ventures Patent Litig.*, 2013 WL 5593609, Koren Wong-Ervin, 'Standard-Essential Patents: The International Landscape' (FTC 2014), 5-6

https://www.ftc.gov/system/files/attachments/key-speeches-presentations/standard-essential_patents_the_intl_landscape.pdf accessed 26th May 2015.

¹³⁵ *Microsoft v. Motorola*, 963 F. Supp. 2d 1176 (W.D. 2013)

¹³⁶ Koren Wong-Ervin, 'Standard-Essential Patents: The International Landscape' (FTC 2014), 5

https://www.ftc.gov/system/files/attachments/key-speeches-presentations/standard-essential_patents_the_intl_landscape.pdf accessed 26th May 2015.

¹³⁷ *Motorola*

4.6. Summary of the American Stance

Based on a reading of the previous cases discussed, there are a few traits that the majority of the cases had in common. From this it can be deduced that there is a vague legal test with respect to a unilateral refusal to deal with IPR:¹³⁸

1. It seems that where a dominant undertaking unilaterally refuses to deal and excludes without valid business justifications, such behaviour will violate the Sherman Act.
2. While Essential Facilities might be applicable to unilateral refusals to deal in tangible properties, it will not apply to IPR.
3. Lack of business justification can be established upon the proof that the dominant undertaking had anticompetitive intent. However, excluding the competitor from their IPR is in itself a presumptively valid business justification. In turn, this grants near immunity for IPR in relation to unilateral refusal to deal.

A certain ambiguity remains as to when there is anticompetitive intent and whether that will trump the IPR owner's right to exclude as a valid business justification.

¹³⁸ Genevaz, *Supra* note 130, 771.

5. A COMPARATIVE ANALYSIS

By now, it is that the American judiciary's inclination to enforce compulsory licensing based on antitrust policy is much more restrictive than its European counterpart. Furthermore, the legal test outlining the circumstances where the American judiciary is willing to make such an order is far less clear than the corresponding EU test. The American case law is scattered and contradictory, a state that is particularly evident when comparing *Xerox* and *Kodak*. Furthermore, while several American cases have addressed this legal area, so far they have been dealt with by lower courts and there have been conflicting rulings. The Supreme Court has never ruled directly on the applicability of unilateral refusal to deal IPR in the context of antitrust law.¹³⁹ Even when cases have touched upon such matters, the Supreme Court has avoided the key issue. The Supreme Court has never proposed a rigid test to determine what circumstances might justify a mandated order to license. As a result, there is not a single standard test comparable to the exceptional circumstances test as set out in *Magill* in Europe.

5.1. Anticompetitive Intent and Disruption of Previous Supply

On both sides of the Atlantic, intent plays a decisive role in inferring whether the dominant undertaking has committed abuse by refusing to deal. However, the emphasis the two systems have put on intent varies widely. In America, intent has often been the persuasive factor in determining whether abuse is present in the refusal. In *Kodak*, the court primarily focused on investigating the subjective intent of the company.¹⁴⁰ It was the fact that Kodak had primarily used their patent as a pretext in order to exclude the ISOs from the secondary market which led the courts to rule against them. The court was particularly moved by the fact that when Kodak first filed the case, the company failed to raise any issues of IPR with the court. It was not until the case reached appeal at the Ninth Circuit that Kodak first decided to argue that, as patent holders, they had discretion not to license their patents and their refusal to sell patented parts could not be contrary to section 2 of the Sherman Act. The Ninth Circuit interpreted this behaviour as a sign that Kodak 'was not even thinking about

¹³⁹ Katz and Veel, *supra* note 4, 146. Jonathan I Gleklen, *per Se Legality for Unilateral Refusal to License IP Is Correct as a Matter of Law and Policy*, *The Antitrust Source*, (July 2002), available at: <http://www.arnoldporter.com/resources/documents/Legality.pdf> accessed on March 6 2015.

¹⁴⁰ Taladay and Carlin, *supra* note 6, 446.

its patent rights'.¹⁴¹ The Ninth Circuit then went on to state that neither '[i]ntellectual property law or the antitrust laws justify allowing a monopolist to rely upon a pretextual business justification to mask anticompetition conduct'.¹⁴² *Kodak* is one of the rare cases in which the American courts have been willing to find that refusal to deal of an IPR is abusive under antitrust policy. Since the deciding factor of the case relied on the intent of the companies, it is fair to assume that this indicates that American courts put great importance on intent for there to be any possibility of a finding of abuse.

The importance American courts place on intent can be further demonstrated by cases where disruption of prior supply has taken place.¹⁴³ This line of cases seems to be where even the most conservative of American judges are willing to find that a potential abuse under section 2 of the Sherman Act has occurred.¹⁴⁴ This is evident in *Trinko*, where Justice Scalia differentiated the case from the outcome of *Aspen*. The honourable justice put emphasis on the fact that Verizon had not previously disrupted the level of supply to an already existing customer. In particular, Justice Scalia explained that because of the existence of the Telecommunications Act, Verizon's dealings with AT&T were never voluntary, as in that of *Aspen*. Where the dealings had been voluntarily entered into and were profitable for both parties involved, as in the fact of *Aspen*, it made no business sense as to why an undertaking would cease to deal. The only logical explanation would therefore be that the dominant undertaking was willing to sustain short-term loss by refusal to supply since this would exclude the competition from the market in the future. Such a strategy would allow the dominant undertaking to reserve future monopolistic earnings, which would be larger.¹⁴⁵ Since this factual scenario was not present in *Trinko*, 'anticompetitive malice' could not be inferred from Verizon's actions in the same manner as that present in *Aspen*.¹⁴⁶ The emphasis on 'malice' suggests that the Supreme Court places importance on intent.

¹⁴¹ *Kodak*, paragraph 1213.

¹⁴² *ibid.*

¹⁴³ Genevaz, *Supra* note 130, 759.

¹⁴⁴ Damien Gerardin, 'Limiting the Scope of Article 82 of the EC Treaty: What can the EU Learn from the U.S Supreme Court's Judgment in *Trinko* in the Wake of Microsoft, IMS and Deutsche Telekom?' [2005] *Common Market Law Review*, 15.

¹⁴⁵ *Trinko*, paragraph 409.

¹⁴⁶ *ibid.*, paragraph 880.

The willingness of American courts to find abuse in disruption of earlier supply is largely due to the fact that such cases lend themselves to a finding of anticompetitive intentions of the dominant undertaking. There is an embedded implication that if the dominant undertaking had previously been happy to deal, unless objective reasoning for the disruption can be given, such disruption has the intent to unfairly exclude competitors.¹⁴⁷

In Europe, there is similar case law which indicate that, where previous supply has been disrupted, the courts will be keener to find abuse. This was seen in both *Commercial Solvents* and *Telemarketing*, where both dominant undertakings had been in a business relationship with the claimant. In both cases the dominant undertaking supplied the competing party with raw materials until they abruptly ceased such supply. However, this is where the similarities end and differences appear. From a European perspective, in *Commercial Solvents* and *Telemarketing*, the Commission accepted that the existence of previous supply is ‘of interest when assessing instances of refusal to supply’.¹⁴⁸ However, the court found that such a factor is not a necessary condition for finding abuse of a dominant position, but merely a relevant factor.¹⁴⁹ In regards to finding abuse in refusal to deal cases, the European Courts seem to have consigned ‘intent’ and the existence of a previous relationship as an indicative, but not determinative factor. In America on the other hand, intent is determinative.

The importance of intent is further indicated in the case of *Microsoft*. The case has stronger relevance to refusal to license IPR since it involved software with strong IP elements. In its legal analysis of *Microsoft*, one point of contention that the Commission had in its investigation was that Microsoft and Sun systems had previous dealings. Microsoft had in the past always disclosed the required information to enable interoperability with Sun Systems but stopped when it desired to market its own product.¹⁵⁰ In *Microsoft*, the Commission took note of this factor, but it was not the focal argument that the Commission relied on to make the finding of abusive behaviour contrary to article 102 TFEU. The Commission primarily focused on the

¹⁴⁷ Ibid, paragraph 409.

¹⁴⁸ C-311/84, *Telemarketing v. CLT and IPB* [1995] E.C.R. 3261.

¹⁴⁹ Gerardin, supra note 144, 14.

¹⁵⁰ *Microsoft* (GC), paragraph 307-308.

effect that the refusal would have on the industry. When the case reached the GC, the GC reformulated the legal justification of the case to fit the requirements in *Magill* in order to justify the findings of abuse. Intent, while considered, was not the persuasive factor for either the Commission or the GC when making the ruling. It has been suggested that, had the case been placed before an American Court, cessation of previous supply would have been a more persuasive factor in the determination of the case.¹⁵¹

The most pertinent difference regarding intent is that US courts accept that the right granted by IPR to exclude competitors qualifies as objective justification, even when harmful anticompetitive effects have materialized. European courts do not share this view. The GC recognized in *Microsoft* that such a stance would mean that refusal to license would never be capable of constituting abuse of article TFEU 102. Such a stance would grant near immunity from antitrust scrutiny,¹⁵² which is precisely what happened in the US in the case of *Xerox*. There, the court stated that, even in the face of anticompetitive effects, abuse could only be found where a sham had been committed.¹⁵³ The stance held by the two jurisdictions regarding intent on this matter is on opposite sides of the spectrum.

The intent-based stance makes logical sense when it is considered that, in the US, courts have criminal and civil penalties at their disposal to punish dominant undertakings that abuse their position.¹⁵⁴ Thus the difference in method can be attributed to a difference in philosophy. The US is keener on deterring bad behaviour through punishment, which is why it relies heavily on intent. The main goal of the EU is to encourage market harmonisation within the community, by correcting market failures through competition law.¹⁵⁵ Because the goal in EU is to correct market dynamics, intent is not of utmost importance.

¹⁵¹ Katz and Veel, supra note 4, 152.

¹⁵² Ruesting, Supra note 77, 21.

¹⁵³ *Xerox*, paragraph 1326.

¹⁵⁴ Brian A. Facey & Dany H. Assaf, Monopolization and Abuse of Dominance in Canada, the United States, and the European Union: A Survey, 70 *Antitrust L.J.* 513, 569-72 (2002).

¹⁵⁵ Facey and Assaf, Supra note 154.

5.2. The Essential Facilities Doctrine and its relationship with refusal to license IPR cases

In America, the legal stance after *Trinko* is that the essential facilities doctrine is not formally recognized. It has been suggested that the same could arguably be said for the doctrine's position in EU law.¹⁵⁶ However, while none of the three major cases on refusal to license explicitly invoked the essential facilities doctrine by name, the elements underlying the *Magill/IMS Health's* test strongly echoes the sentiment behind the essential facilities doctrine.

When comparing the two jurisdictions, the EU judiciary has been more eager to apply the principles of the essential facilities doctrine in relation to refusal to deal in IPR. While *Magill* is primarily a market leveraging case, in that the defendant tried to extend its IPR into a secondary market, it also contains strong elements of the essential facilities doctrine. It is clear from the facts that the necessary legal factors existed in the case. Firstly, the information contained in the television listing schedules could be considered raw material akin to the chemicals in *Chemical Solvent*. The listing information was raw material in the sense that it had to be processed in order to make the final product of weekly TV Guides. Furthermore, the information could not be reasonably duplicated by the claimant as the copyright protection prevented them from legally doing so without RTE's consent. Therefore, it is clear that the information amounted to 'indispensable' as required by the essential facilities doctrine.

In *Magill* and *IMS Health*, the wording in the judgment lends itself to comparisons with the essential facilities doctrine. Particularly, AG Jacob's opinion in *Bronner* explicitly commented that principles of the essential facilities doctrine will apply in relation to cases that concern a refusal to license IPR.¹⁵⁷ Consequently, while courts might not have explicitly invoked the doctrine by name in refusal to license IPR cases, it is clear that the core spirit of the doctrine heavily influenced the legal exceptional circumstances test of *Magill/IMS Health*

¹⁵⁶ Gerardin, supra note 144, 7.

¹⁵⁷ Christian Ahlborn and David S. Evans 'The Microsoft Judgment and its Implications for Competition policy Towards Dominant Firms in Europe' [2009] 75(3) Antitrust Law Journal 892.

The essential facilities doctrine has been met with much less enthusiasm in America. One of the most famous criticisms, as worded by Areeda and quoted by the Supreme Court in several cases, is that it is ‘less a doctrine than an epithet, indicating some exception to the right to keep one’s creations to oneself, but not telling us what those exceptions are’. This, coupled with the decision in *Trinko* where the Supreme Court stated that it has never recognized the essential facilities doctrine, illustrates the cynicism of the American judiciary.

In America, a grant of access based on the essential facilities doctrine is usually limited to cases where the facility has developed as a result of being publicly funded in a formerly nationalized industry,¹⁵⁸ or alternatively, where the monopoly was a result of natural or geographical conditions. In such situations, the monopoly that these undertakings have acquired is not a result of their own hard labour or economic astuteness, unlike IPR. Courts usually see monopolies of this kind as being undeserved. However, a dominant position in the market that has been gained through the grant of an IPR has generally been ‘less susceptible to essential facilities analysis’.¹⁵⁹ In this context, such dominance is usually seen as a monopoly position gained through ‘superior skill, foresight and industry’ and, more deserved.¹⁶⁰

A grant of license is therefore much more likely in the former scenario and can be evidenced by a longstanding line of case law. It begins with the *Terminal Railroad*¹⁶¹ case, where the origin of the doctrine of essential facilities can first be attributed. At the time of the case, there existed only one railroad track across the Mississippi river that enabled the passage of trains into St. Louis. The defendant, a coalition of railroad companies that owned the track, had refused to grant competitors access to the bridge. The Court found that the monopoly was not earned through skill or effort but convenient geographical location.¹⁶² Consequently the court required the company to grant competing railroads access to the bridge. Other cases where similarly favourable rulings have been found based on the essential facilities doctrine concerned formerly

¹⁵⁸ James Turney, ‘Defining the Limits of the EU Essential Facilities Doctrine on Intellectual Property Rights: The Primacy of Securing Optimal Innovation’ [2005] 3(2) Nw. J. Tech & Intell. Prop. 182.

¹⁵⁹ Gitter, *Supra* note 79, 230.

¹⁶⁰ *Ibid.*

¹⁶¹ *United States v. Terminal Railroad. Ass’n of St. Louis*, 224 U.S 383 (1912).

¹⁶² *ibid.*

government subsidized facilities, natural monopolies in the form of mountains,¹⁶³ or industries where access is of political interest to the public.¹⁶⁴ Since natural monopolies and government sanctioned developments are rarer in relation to IPR and occur more often for tangible property, this could *partly* explain why the doctrine has yet to be successfully argued in relation to IPR in the US.

While the abovementioned explanation makes sense, this can *only partly* explain the American position. Europe has also been amenable to considerations of natural monopolies and government sanctions. This was evidenced by cases such as *Sea Containers* where the European Commission encouraged the dominant undertaking to allow competitors to use their seaports. However, the difference is that the European Courts, unlike American courts, have still been susceptible to arguments embedded in the essential facilities doctrine for cases where elements of geographical or nationalized monopolies did not exist. In particular, European Courts have been prepared to apply the essential facilities doctrine to cases revolving IPR such as *Magill*, *IMS Health* and *Microsoft*. Therefore, American courts' refusal to grant license to IPR because such monopolies are more deserving than geographical or former nationalized monopolies cannot explain the difference in the position taken by the two jurisdictions. Such considerations also exist for European courts, yet the latter still reached a different legal development. It is posited by the author, that a better explanation for the US' courts' hesitation in using the doctrine in relation to IPR is that American courts prefer to base their legal analysis upon intent.¹⁶⁵

The US stance in relation to IPR and market dynamics is one of non-interference. The essential facilities doctrine is heavily grounded upon the belief that competition law needs to interfere in order to restore market balance by allowing competitors access in order to compete on a secondary market. It is not surprising that this does not fit into the American judiciary's traditional agenda. An intent based approach, focusing on wrongdoing of the dominant undertaking rather than a legal justification of "restoring market balance" suits the American narrative better. Applying the essential facilities doctrine would make the court susceptible to criticism that the judiciary is

¹⁶³ *Aspen*.

¹⁶⁴ *Associated Press v. United States*, 326 U.S. 1 (1945).

¹⁶⁵ see above. Section 5.1. and later parts of Section 5.3. for more detail.

overstepping their competence. This is because the doctrine requires them to make a judgment regarding economic policy.¹⁶⁶ Such an analysis can be seen as highly political in nature, and many have argued that judgments of this nature are more suitable for a legislative body.¹⁶⁷ Arguably it can be suggested that the American courts have been keen to focus on intent in these cases since such legal analysis is less politicized. This theory would better explain the two jurisdictions' contrasting approaches to compulsory licensing in competition law. One academic regarded the development of the essential facilities doctrine in Europe as proof of the EU's desire to break up dominance of private firms.¹⁶⁸ The European Court in comparison to the American judiciary is more willing to interfere with competition in order to restore market balance.¹⁶⁹ The emphasis of the legal analysis by European Courts is often placed on what effect the dominant undertaking's refusal will have on the market. In particular, courts will consider whether the net benefits to consumer welfare will be enhanced by access to the IPR, or whether allowing IPR owners to exclude competition will improve innovation to such an extent that the net benefits will outweigh the negative effects of their refusal.¹⁷⁰

The focus on the effect that refusals will have on markets is perhaps why the European jurisdiction has been more persuaded by the arguments of indispensability, which are embedded in the essential facilities doctrine. Intent and disruption of previous supply have been relegated to a secondary concern. In contrast to the United States, it is not a necessary element in finding abuse due to refusal to supply. It has even been argued that should *Commercial Solvents* have come up in court today, it would have been decided on principles closer to the line of cases such as *Bronner* and principles akin to essential facilities doctrines.¹⁷¹ Indeed, *Commercial Solvents* did mention that the raw material in the facts of the case were 'indispensable' to competitors in a secondary market. *Commercial Solvents* also mentioned the risk of the refusal being capable of 'eliminating all competition'. Both terms are language

¹⁶⁶ Phillipa Areeda 'Essential Facilities: An Epithet in Need of Limiting Principles' [1990] 58 Antitrust L.J. 841, 851.

¹⁶⁷ *ibid.*

¹⁶⁸ Turney, *Supra* note 158, 182.

¹⁶⁹ Lidgard, *Supra* note 20, 701.

¹⁷⁰ *ibid.*, 702.

¹⁷¹ Cyril Ritter, 'Refusal to Deal and "Essential Facilities": Does Intellectual Property Require Special Deference Compared to Tangible Property?' [2005] 28(3) *World Competition: Law and Economics Review*, 4.

that is highly distinctive of the essential facilities doctrine. Consequently, it seems that the main cause for the different rulings in the two legal jurisdictions is that they draw from different justifications to rationalize the rulings. The EU focuses on theoretical reasoning that is strongly grounded in principles that stem from the essential facilities doctrine, whereas the US avoids this in preference to arguments of intent, in the rare cases where the US courts are willing to find abuse.

5.3. History regarding IPR

The inconsistencies between the American and European jurisdictions' stance towards mandating licensing of IPR within antitrust could possibly be traced to the historical and cultural differences in the judicial structure of the two continents.

A common phrase that seems to be beloved of American legal academics is that they believe the EU judiciary has a 'history of hostility' towards IPR.¹⁷² Even outside the context of compulsory licensing of IPR, the European judiciary's hostility can be seen where IPR is used to restrict trade within the EU. Where nationally granted IPR threatened to upset the fundamental principles of freedom of movement and restriction of markets in the Community, the European Courts have shown little hesitation in curbing IPR in order to preserve the integrity of such principles. One notorious example being *Grundig*,¹⁷³ where trademark rights were curbed when a German manufacturer of household machines granted exclusive dealership rights to a subsidiary in France. Similar curtailing of the protection of IPR was also made in *Centrafarm*¹⁷⁴ regarding patents, and *Deutsche Grammophon*, with respect to copyrights.¹⁷⁵

A widely repeated criticism of the EU, is that in the jurisdiction's history of case law regarding compulsory licensing, two out of three petitioners have so far been granted the compulsory license they sought from a dominant undertaking by the European

¹⁷² see among others: Tudor, *Supra* note 26, 225 and Coco, *Supra* note 7.

¹⁷³ Joined Cases 54/6 & 58/64 *Establissements Consten S.A.R.L. v Commission* 1966 E.C.R. 299.

¹⁷⁴ C-15/74 *Centrafarm BV et Adriaan de Peijper v Sterling Drug Inc.*, 1974 E.C.R. 1147.

¹⁷⁵ C-78/70 *Deutsche Grammophon Gesellschaft GmbH v MetroSB-Großmärkte GmbH & Co. KG*, 1971 E.C.R. 478.

Courts.¹⁷⁶ This argument is skewed and fails to take account of the bigger picture. Against a background timespan of over three decades, there has only been a handful of petitioners.¹⁷⁷ Furthermore, it has been rightly pointed out that the ECJ probably waited for a case where the facts were straightforward enough to lean towards the finding of justifying a mandatory licensing, in order to avoid controversy.¹⁷⁸

The American judiciary on the other hand has at times shown an almost reckless deference to IPR owners' right to exclude, to the detriment of competition law. In *Continental Paper Bag*,¹⁷⁹ a company named Eastern Paper Bag held a patent in a paper-bag manufacturing contraption that they never made commercial use of. The machine was never put into production, nor did they license the patent for the machine to any third parties. This led to an eventual dispute when the company, Continental Paper Bag, built a similar contraption as described in Eastern Paper Bag's patent. Eastern Paper Bag then sued them for infringement. The defendant lodged the defence that due to Eastern Paper Bag's non-use of the patent, it was clear that the sole purpose of the patent was to shut out competitors. The Supreme Court did not agree with the defence, and stated that such 'exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive'.¹⁸⁰

As previously stated, IPR owners have, as a general rule, no duty to make allowances for their competitors in the market. They are allowed to exclude competitors. However, this right should not be taken to such an extent that it allows IPR owners to 'unreasonably sit on their intellectual property in order to stifle enterprise and prevent the emergence of new forms of competition'.¹⁸¹ Such a stance would ultimately hurt innovation, which the grant of exclusion within IPR was supposed to encourage. It would also be contrary to the ultimate reason for granting protection to IPR in the first

¹⁷⁶ It should be noted that in *IMS*, the ECJ never ordered a compulsory licensing, but left the issue open. The German Court did however ultimately grant the petitioner a compulsory license.

¹⁷⁷ Note that the author has not taken the cases of smartphone patent wars into consideration as they involve SEP. Additionally there is also the case of *Mathworks* launched in 2012.

¹⁷⁸ Frank Fine, 'European Community Compulsory Licensing Policy: Heresy versus Common Sense Symposium on European Competition Law' [2004] 24(3) *Nw. J. Int'l L. & Bus.* 624.

¹⁷⁹ *Continental Paper Bag v. Eastern Paper Bag*, 210 U.S 405 (1908).

¹⁸⁰ *ibid*, paragraph 428.

¹⁸¹ Romano Subiotto, *The Right to Deal With Whom One Pleases under EEC Competition Law: A small contribution to a Necessary Debate*, 13 *E.C.L.R.* 234, 244 (1992).

place, as it would hurt consumer welfare in the long run. Paradoxically, this is precisely what happened in *Continental paper bag*. The stance taken by the court encourages dominant undertakings to herd patents as an asset, in order to shut out potential future competitors without contributing anything new to the market.

5.4. The Competence of Courts to Internally monitor IPR

Some have interpreted the difference in attitude regarding compulsory licensing between the European and American Court to be attributed to the structural difference in the regulatory governance of IPR. In particular, such academics have placed importance on the dissimilarity as to how the competence of the court is divided in the different legal regimes. It is questioned whether the difference lie in the fact that American courts are not limited within their geographical jurisdiction, whereas the European courts are, and have no power to revoke member state granted IPR. This theory is of particular interest considering the future prospects of a unitary patent that is likely to be implemented in Europe in the near future. If the difference in structure does indeed explain the different approaches, this might mean that the divergences in the judicial systems will diminish once the unified patent initiative is in force.

Many legal scholars have made their own interpretations of the current case law on compulsory license orders. They contend that the main underlying rationale of the European Courts for finding such an obligation occurs when the merit of the IPR is weak.¹⁸² The theory is that since European Courts have no power to revoke IPR granted by member states, to circumvent this, mandatory license orders are used against the IPR owner where the IPR is undeserving of protection.¹⁸³ In support of this conjecture, it is often remarked on that in *Magill*, the copyright in question regarded TV-listing. As previously noted, no other member state within the European Union would grant intellectual property protection for such information. There was therefore a member wide consensus that such information was undeserving of protection. Similarly, the rights involved in *IMS Health* might not have been deserving of copyright protection either. The brick structure was essentially categorized postcodes with little artistic merit. AG Jacobs hinted at sentiments of this

¹⁸² Valentine Korah, *The Interface Between Intellectual Property and Antitrust: The European Experience*, 69 ANTITRUST L.J. 801, 813.

¹⁸³ *ibid.*

sort when he highlighted ‘the dubious nature of the IPR at stake’¹⁸⁴ in *Magill* as a factor that tipped the balance in favour of mandating an obligation to license.

It is worth comparing the European Courts with their American counterpart, in this regard. American courts, such as the Federal Circuit and the Supreme Court, have the power to question the merit of an IPR even where it has already been granted. If the courts find that the IPR lacks merit, they have full discretion to cancel the protection altogether. Some academics have attributed American courts’ hesitance to use competition law to curb IPR as a result of there being a system of governance that allows them to internally restrict IPR.¹⁸⁵ This can be illustrated by the case of *Feist Publications*.¹⁸⁶ In this case, Rural Telephone Service was a dominant company that published telephone directory books exclusively in parts of Kansas. A competing publisher requested authorised use over Rural’s listing in order to publish its own independent comprehensive phone directory, but was rejected. As a result, Rural sued for copyright infringement when they became aware that Feist had gone ahead and copied their listings without permission. In response to the suit, Feist lodged the defence that Rural’s refusal violated section 2 of the Sherman act. Interestingly, the court made a ruling that allowed Feist to use the listing, by finding that there was no underlying copyright protection in the listing. Since the property was not protected by IPR, Rural had no exclusive rights to prevent Feist from using such listings.

It could be useful here to draw certain parallels to the facts of *Magill*. Such an analogy can highlight how different the methods employed by the courts in the two jurisdictions are, even where the courts are dealing with factually similar scenarios.¹⁸⁷ In both *Feist Publications* and *Magill*, the copyrighted work was collected information published in the format of listings. In both cases, the information retained by the dominant undertaking was necessary for the claimant to produce their own new product. *Feist Publications* contained the necessary elements to enable the court to make an order for a mandatory license under the essential facilities doctrine, had the court desired to do so.¹⁸⁸ The crucial factors that determined *Magill* were also present

¹⁸⁴ AG Jacobs in *Bronner*, paragraph 8712-23.

¹⁸⁵ Katz and Veel, *supra* note 4, 155-156.

¹⁸⁶ *Feist Publications*.

¹⁸⁷ Katz and Veel, *supra* note 4, 156.

¹⁸⁸ *Ibid*, 159-160.

in the case of *Feist Publications*. However, the court's reaction was decidedly different from the ECJ's ruling in *Magill*. While the final result in both cases was that the petitioner was allowed to use the relevant asset,¹⁸⁹ the Supreme Court did not mandate that Rural should license their listings in *Feist Publications*. Instead the court voided Rural's copyright protection. Unlike the ECJ, the Supreme Court has power to determine the merits of IPR. The Supreme Court therefore reasoned that information in the form of telephone listings did not meet the preliminary requirement for copyright protection, that the work must be original, and hold a minimal threshold of creativity. Since the listings should not have been considered as copyrighted, Feist had not infringed any IPR by using the information to produce their phone directory. Put simply, the Supreme Court made use of principles of IPR rather than competition law to allow Feist access to the asset.

It should be remembered that European Courts do not have power to interfere with IPR already granted by member states. Thus, the method employed by the Supreme Court in *Feist Publications* was not a viable option for the ECJ in *Magill*. Academics have therefore suggested that compulsory licensing is a convenient tool for European courts to circumvent this lack of power in intellectual property law.¹⁹⁰ The use of competition law compensates for European courts' lack of jurisdiction, and enables them to curb IPR which they consider to be of weak merit.¹⁹¹ While this is a popular theory it has flaws. Nowhere in the exceptional circumstances test, as espoused by the ECJ, in either *Magill* or its further development in *IMS Health* does the test mention any criteria that examines the strength of the IPR.¹⁹² Nor was there any mention in either the Commission's investigation, or the GC of the strength or merit of the IPR held by Microsoft. AG Jacobs made comments regarding the weak merits of the IPR in *Magill* in *Bronner*, where he pointed out that the copyright protection involved 'was difficult to justify in terms of rewarding or providing an incentive for creative effort'.¹⁹³ Even so, such comments are merely suggestive and not legally binding. The problematic aspect of subscribing to this theory is that it suggests that the ECJ would

¹⁸⁹ *Ibid*, 159-163.

¹⁹⁰ Gitter, *Supra* note 79, 252-54.

¹⁹¹ *ibid*.

¹⁹² Fine, *Supra* note 178, 624.

¹⁹³ AG Jacobs in *Bronner*, paragraph 63

purposely act outside its conferred competence.¹⁹⁴ Even if the IPR in question have weak merits, it is not for the ECJ or any European Legal Court to try to curb any previously granted protection. When the IPR in question has not been harmonized within the EU, any attempt by either the Commission or the ECJ to question the validity of the merits of the IPR would constitute an infringement of article 345 TFEU.¹⁹⁵ It also confuses the issue since compulsory licensing is not an appropriate tool to remedy weak IPR that is not deserving of protection. This is because compulsory licensing as a court order does not limit the strength of an IPR. A party which is granted a compulsory license as a remedy still has to offer reasonable remuneration for the use of the IPR as consideration. Compulsory licensing should therefore in no way be seen as a ‘cancellation’¹⁹⁶ of the IPR’s existence since remuneration is an acknowledgment of the value of the IPR’s merits. Should the IPR in question be undeserving of protection, the European legal authorities must refrain from making a compulsory licensing order. Instead it must refer the IPR back to national member courts for a determination of the IPR’s merit.¹⁹⁷

Therefore while it is tempting to state that the differences in the European and American’s courts attitude towards mandatory licensing is due to the structural disparities of the courts, it is not an adequate one that is based on a careful reading of the case law. It is therefore posited that even if there are advances in implementing a unitary patent system in Europe in the near future, it would most likely not impact the case law or legal analysis of compulsory licenses for IPR in competition law.

¹⁹⁴ Fine, *Supra* note 178, 624

¹⁹⁵ *ibid.*

¹⁹⁶ Dina Kallay ‘The Law and Economics of Antitrust and Intellectual Property: An Austrian Approach’ p. 125

¹⁹⁷ see *IMS Health*, where the court did not make an order of mandatory license but left the national court to determine whether it was appropriate to do so after giving guidance.

6. A MATTER OF OPINION – WHICH IS BETTER?

6.1. Incentive to Innovate versus Protecting the Competition Market

The main fear in using anticompetition policies to curb IPR is that it would reduce the incentive for companies to innovate. According to this widely accepted theory, the ‘quintessential engine of innovation’ is an IPR owner’s right to exclude others, in particular competitors’ from using their intellectual property.¹⁹⁸ The theory originates from the idea that research and development that goes into the creation process of an intellectual property, is costly. If the innovator is not granted compensation in the form of exclusion, other competitors could swoop in and co-opt their costly initial investment by duplicating the finished product. This is what is most commonly known as ‘free-riding’.¹⁹⁹ The fear is that if IPR owners would no longer be able to exercise IPR owners’ rights to exclude other parties from using their property without permission, innovation would decrease. Innovators would worry about other competitors trying to free ride on their innovative efforts. Conversely, competitors would decline to innovate in the hopes that they get to free ride on prior innovation without much effort on their part.²⁰⁰

It is admitted that removing an IPR owner’s right to exclude would certainly have a certain disincentive effect on innovation. The problem is that the American approach puts too much emphasis on preserving the IPR owner’s granted protection without taking account of other considerations. The current legal stance is that IPR owners are insulated from any competition law scrutiny in relation to abuse for refusal to deal. This is most evident in *Data General* where the US court stressed that the right to exclude in IPR is per-se legal, even if such exclusion led to extraordinary circumstances that would cause harm to consumers.²⁰¹ This is a cause for concern as the underlying justification for IPR should be to maximize consumer welfare.

¹⁹⁸ Ariel Ezrachi and Mariateresa Maggiolino, ‘European Competition Law, Compulsory Licensing, and Innovation’ [2012] 8(3) *Journal of Competition Law & Economics* 596.

¹⁹⁹ Daniel F. Spulber, ‘Competition Policy and the Incentive to innovate: The Dynamic Effects of *Microsoft v Commission*’ [2008] 25(2) *Yale Journal on Regulation* 101, 126

²⁰⁰ *ibid.*

²⁰¹ *Data General*, paragraph 1187.

There are several flaws in not allowing compulsory licensing due to its potential disincentive effects. Firstly, it must be remembered that the protection afforded to intellectual property has never been an unlimited. On both sides of the Atlantic, general limitation principles on IPR have always applied. Consider the doctrine of first sale in this regard. The first sale doctrine allows a lawful owner to make a copy of the IPR product, or to resell the product in question as well as transfer or even destroy it without obtaining permission from the original inventor. Such a restriction on IPR exists in nearly every legal jurisdiction with a developed IPR system. Furthermore, even though such limitations might have similar disincentive effects on innovation, legal jurisdictions still uphold them, as it is deemed necessary in order to ensure that IPR owners are not overcompensated for their innovation.²⁰²

Another exemption that undermines the supposition that owner's rights to infringe cannot be curbed for the purpose of enhancing innovation is experimental use. Generally, this principle allows for a defence where patent infringement would normally be found, but the unauthorized use of the patent was for purposes that could be construed for experimental or research purposes. This defence is recognized in both continents to various degrees.²⁰³ Analogous to compulsory licensing, the defence allows third parties unauthorized use of their patents. Some legal academics consider compulsory licensing as 'heresy'²⁰⁴ with respect to the principles of intellectual property law because it would limit IPR owner's rights of exclusion. But it is arguably an extreme viewpoint. While experimental use does grant access to patents, one fundamental difference from compulsory licensing is that where the patent infringer commercializes their use and make a profit, the defence will not apply. This meant that such a defence is useless for anticompetition purposes since competitors desiring access are seeking to commercialize their products. Therefore, the defence is mostly relevant for Universities and hobbyists who use patented inventions purely for

²⁰² Marina Lao, 'Unilateral Refusals to Sell or License Intellectual Property and the Antitrust Duty to Deal' [1999] 9 Cornell J. L. & Pub. Pol'y 193, 214

²⁰³ In America see: *Roche Products, Inc. v. Bolar Pharmaceuticals Co.*, 572 F. Supp. 255 (E.D.N.Y. 1983), rev'd 733 F.2d 858 (Fed. Cir. 1984), Its status in Europe is different in that the defence is applied differently in different member states, and there is no harmonized member wide experimental use defence.

²⁰⁴ See Fine, supra note 178, who coined this term in her article referring to critics of compulsory licensing.

research and non-commercial purposes.²⁰⁵ One point of relevance is that the rationale for experimental use is to correct a situation in which the net effect of the exclusive rights in patents would restrict rather than enhance innovation.²⁰⁶ Thus, it is posited that a parallel can be drawn here with compulsory licensing in competition law. Where granted access would serve to increase more innovation than it inhibits, consideration needs to be made as to whether a license order should be granted.

In Europe, the central focus for finding abuse in competition law is that the refusal can only amount to illegality when consumers are harmed. Consequently, there should only be a duty to deal if such a duty would encourage more competition than it would discourage.²⁰⁷ It is posited that the stance of near immunity in the US is unable to properly consider such factors. In particular, it fails to properly address three troublesome scenarios where IPR owners will be so overcompensated for their original contribution that the exclusion of competitors cannot be justified.

IPR extended beyond its market

It is interesting to consider *Xerox* and *Kodak* in this regard. In both cases, the potentially offending party had banned ISOs from using their IPR protected replacement parts. Xerox and Kodak were granted the patent for the production of such parts for the main market of producing photocopiers. In the secondary market of service and maintenance, such patents were only incidental. The ISOs did not desire to duplicate the patented parts, but only required to incorporate them for end user's needs in the repair service. By restricting access to replacement parts, Xerox and Kodak monopolized a secondary market and foreclosed it to its competitors, securing 'a market that was unrelated to its intellectual property, using means that had nothing to do with the reward it was legally entitled to secure'.²⁰⁸

IPR should be afforded special protection from the antitrust law when the refusal merely denies access to its intellectual property. However, in situations such as *Kodak*

²⁰⁵ *Madey v. Duke University*, 307 F.3d 1351, 1362 (Fed. Cir. 2002).

²⁰⁶ Maria Lee, *EU Regulation of GMOs: Law and Decision Making for a New Technology* (1st, Edward Elgar Publishing, Cheltenham, UK 2009) 158.

²⁰⁷ John Temple Lang "The Principle of Essential Facilities in European Community Competition Law – The position since Bronner" 379-380.

²⁰⁸ Genevaz, *Supra* note 130, 767-768.

and *Xerox*, this will not be the case. Instead, it is the end users who will be using the intellectual property rather than the ISOs.²⁰⁹ Therefore, by affording IPR owners extensive protection beyond the original market intended by the grant of the patent, it is not only competitors on the markets who will be detrimentally affected, but also the consumers.

IPR as a building block for new inventions

Where the IPR in question is a raw material needed for the development of further invention or a new product, allowing the owner to unduly restrict access can create a bottleneck for further invention. This could be observed in *Magill* where the copyrighted information held by RTE was needed by Magill in order to create a new product. Here the European Court rightly granted Magill a licensing right in order to further innovation in the market. By contrast, consider the American stance, which effectively overcompensates the IPR owner since they are now able to deny competitors access to the required information that could serve as ‘building blocks for further progress’.²¹⁰ This creates a situation where the granted IPR protection has the unintended consequences of hampering innovation rather than encouraging it.

IPR with network effects

The underlying assumption that preservation of IPR will lead to dynamic competition simply does not apply with regards to external market failures caused by factors that are outside the intellectual property law framework.²¹¹ In some circumstances, the product that incorporates the patent gains such dominance that it becomes an industry standard. When a product reaches such a status it generates network effects,²¹² which in turn create reliance by consumers upon the product, making them unwilling to switch away from the product. Once this occurs, the protection granted by the IPR will exceed the optimal balance of what would have been necessary to reward and encourage the innovation in question.²¹³ This scenario could be seen in both *IMS*

²⁰⁹ Mark R. Pattersons, When is Property intellectual? The Leveraging Problem, 73 S. Cal. L. Rev. 1133 (2000) 1134-1135.

²¹⁰ Lao supra note 33, 590.

²¹¹ Drexl, supra note 69, 6.

²¹² Network effect is an economic term where the value of the product depend on the number of people using it. Examples of this are online social networks, such as Facebook or Twitter, where users will benefit from there being more users.

²¹³ Ritter, Supra note 171, 10.

Health and *Microsoft*, where the brick structure and the operating system respectively had become an entrenched industry standard that consumers had become dependent upon and refused to switch away from. Such network effects create a high barrier of entry to the market for prospective competitors.²¹⁴

In all the three abovementioned scenarios, a stance of near immunity, as taken by the American judiciary, would only serve to overcompensate the IPR owner beyond what was originally intended by intellectual property law. In these situations, turning to internal intellectual property law regulations fails to remedy the negative effects created on the market by IPR.²¹⁵ This is because the issues created in these scenarios are entirely unrelated to the strength of the IPR in itself.²¹⁶ Therefore, removing the protection of IPR would be inappropriate, as the merit of the underlying IPR does not need to be weak in the abovementioned scenarios for the market failure to arise. Thus, turning to intellectual property law cannot correct the market failure that has arisen. This is a role that is better suited for competition law. Competition law would not scrutinize the merit of the IPR, which might very well be valid, but rather whether the manner in which the IPR is used by its owner produces anticompetitive effects on the market. Such a legal analysis would serve to better correct the market failure that arises in the abovementioned scenarios.

By comparison, consider the European approach in the abovementioned scenarios, in particular, the ‘new product rule’ and requirement that a secondary market needs to exist for an obligation to license to arise. This rule serves to protect IPR owners where the effect of their refusal only excludes competitors that try to compete by duplicating the original owner’s efforts. Yet, at the same time it ensures that the IPR holders’ right to exclude is constrained where it acts as a bottleneck to prevent the development of new technology that could lead to products that would substitute the product currently protected by the IPR.²¹⁷ Consequently, IPR owners cannot exert their dominant influence to prevent competition in a downstream market that would lead to better consumer welfare. Certain critics have found issues with the European law in this area after *Microsoft*, accusing the case of diluting the requirement of new

²¹⁴ Kanter, *supra* note 118, 108.

²¹⁵ Drexler, *Supra* note 69, 5.

²¹⁶ *Ibid.*

²¹⁷ Ezrahi and Maggiolino, *supra* note 198, 598.

products by allowing improvements to fulfil the criteria. Nevertheless, it is posited that this a sound move. This is because a completely new product rule makes sense in the context where it is the IPR in itself that excludes the competitor from placing a completely new product on the market such as in the case of *Magill*. Conversely, in situations where the impossibility of launching a new or better product is caused by external failures due to network effects in the market as in the facts of *IMS Health*, requiring a completely new product will not restore dynamic competition to the market.²¹⁸ The new stance in *Microsoft* allows the court some leeway in situations where the product might not be entirely new but contributes to a net benefit for consumer welfare through improved technology or new characteristics.

6.3. Common Criticism of the EU System

There has been much criticism amongst legal scholars regarding the EU's stance on granting compulsory licenses based on competition law. One particularly harsh academic likened the way that the ECJ ordered a mandatory licensing in *IMS Health* as punishing the company for their own success.²¹⁹ This is a criticism that has been leveraged at the essential facilities doctrine as a whole when used in regards to IPR. The argument is that access to an essential facility is most likely to be ordered when the invention is unique, valuable, and difficult to duplicate. Inventions fulfilling those criteria are the ones that are most deserving of protection. Evidently, it is 'inherently inconsistent with IP protection'.²²⁰ However, as previously mentioned, granting a mandatory license in Europe will only occur when the petitioner operates in a secondary market. This means that the IPR owners are free to exclude competitors in the primary market, since this is what the grant of intellectual law was intended to protect. The courts make an important distinction between the legitimate competitive advantages that IPR owners are lawfully allowed to retain to themselves in a single market situation, as opposed to two market scenarios where it is not.²²¹ In the latter, the actions of an IPR owner that extend exclusive control over a distinct secondary market are unjustifiable both from a competition law perspective and intellectual

²¹⁸ Drexl, Supra note 69, 7.

²¹⁹ Melanie J Reichenberger 'The Role of Compulsory Licensing in Unilateral Refusals to deal: Have the United States and European Approaches Grown Further Apart After IMS?' [2006] 31 J. Corp. L. 563 and Gitter, Supra note 79, 226.

²²⁰ Abbot B. Lipsky, Jr and J. Gregory Sidak, 'Essential Facilities' [1999] 51(5) Stanford law Review 1187, 1219.

²²¹ Temple, Supra note 28, 25.

property law perspective. In intellectual property law, the original grant of protection was only awarded with the primary market in mind. From a competition law standpoint, there are no pro-competitive advantages, as the effect of the dominant undertakings actions in the secondary market would only serve to shut out competitors that are trying to offer better and cheaper products in the downstream market. The competitors would not be trying to offer such products on their own. The net effect is that there is more consumer harm than pro-competitive benefits.²²² The EU legal test as derived from *Magill/IMS Health* ensures that there are adequate limiting factors that will not burden dominant undertakings more than is necessary in order to ensure that an optimal pro-competitive outcome will be reached.

Alternatively, critics have also contended that, slowly but surely, the ECJ's rulings in *Magill*, *IMS Health* and *Microsoft* has contributed to the trend of gradually eroding the protection that was supposed to be conferred by IPR.²²³ The contention advanced by such opponents is that the test has made mandatory licensing a commonplace remedy for refusal to license IPR. Surely, such a view must be seen as erroneous in light of judicial precedence and also the lack of numbers of mandatory licenses granted. Here, it is important to take note of AG Jacobs' observation in *Bronner*. He was of the opinion that *Magill* was a case of special circumstance which 'swung the balance in favour of an obligation to license'²²⁴. The judgments in these cases should in no way be interpreted as opening the floodgates for compulsory licensing. In retrospect, we see that this has not been the case at all. Even after *Microsoft*, which critics have accused of diluting the exceptional circumstances test to its limits, the legacy of the case has done little to hamper the innovation in the IT industry.

In hindsight, even EU's harshest critics have noted that the actual effect of the sparse compulsory licenses mandated by EU courts have not had a perceptible 'chilling effect on innovation'.²²⁵ The facts of the individual cases in the EU have been exceptional, and not easily duplicated.²²⁶ Nearly a decade after the *Microsoft* case that supposedly widened the legal test standard set out in *Magill*, the floodgate has yet to

²²² Temple, *Supra* note 28, 18.

²²³ Ezrachi and Maggiolino, *supra* note 198, 595.

²²⁴ AG Jacobs in *Bronner*, paragraph 63.

²²⁵ Ezrachi and Maggiolino, *supra* note 198, 610.

²²⁶ *Ibid.*

open. There has been no mass petitioning for compulsory licenses of IPR but only a handful of cases,²²⁷ and innovation has not slowed down. None of the fears hypothesized by the critics have materialized.

6.4. Competition as incentive for competition

Europe strikes a much better balance since it recognizes that competition itself can foster innovation.²²⁸ This is an element often forgotten by critics, but it is an important impetus to pressure dominant undertakings to innovate. It has been suggested that a monopolist will generally have much less incentive to innovate than a company within a competitive industry.²²⁹ When competitors exist in the market, it forces everyone to stay innovative in order to offer improved products, in terms of higher quality, lower prices, and better functions in order to attract customers.²³⁰ When dominant undertakings have no competition they become stagnant, as they can rely on their monopolistic position on the market. Consumers have no other choice but to purchase from them, and the dominant undertaking becomes complacent instead of investing money and resources in innovation. Empirical studies have even found that competition is the main driving force of innovation in many industries.²³¹ Europe's approach, which aspires to keep competition in the market in tact, might therefore do more for innovation than the US approach, which insulates IPR owners from competition. With this in mind, when European courts endeavour to preserve competition they do not simply limit competition by defining it as the mere existence of rivals on the market. Rather, they seek to protect competition that will foster an environment that encourages innovation, increase output, and reduces prices.²³²

²²⁷ While there are a fair number of local national cases, on a European level, the EC has only dealt with three cases since *Microsoft*, (see: *Mathworks 2012*, *Samsung 2012*, and *Motorola 2012*) out of which, the latter two involves SEP.

²²⁸ Robert Pitofsky, Donna Patterson and Jonathan Hooks, 'The Essential Facilities Doctrine Under United States Antitrust Law' [2002] 70 Antitrust L.J. 443, 452.

²²⁹ Kenneth J Arrow, Economic Welfare and the Allocation of Resources for Invention, in *Essays in the Theory of Risk Bearing* 144, 157-58 (Julius Margolis Ed., 1971).

²³⁰ Lao, *Supra* note 202, 218.

²³¹ Wesley Cohen, Richard Nelson & John Walsh, 'Protecting Their Intellectual Assets: Appropriability Conditions and Why US Manufacturing Firms Patent (or Not)' [2000] NBER Working Paper no. W7552, 9-10.

²³² Phillip Areeda & Herbert Hovenkamp, *Antitrust Law*, Vol III, (2nd edition, New York: Aspen, 2005), 773.

It is therefore posited that, while compulsory licensing could have some disincentive effects on innovation, such an effect should not be considered in isolation. Instead, it is necessary to consider the net gain that the compulsory license could contribute in terms of furthering innovation, and even by stimulating more competition in the market as a whole.

In an ideal world, IPR protection afforded to owners should only prevail to the extent that the detrimental effects protection does not exceed the social benefits. As rightly observed though, there is ‘no precise formula’ that guarantees such an outcome.²³³ The formula used by European Courts primarily focuses on the effect that the refusal in question will have on the market. The European standpoint tends to focus on the whole picture, and endeavours to preserve the market structure in order to benefit consumer welfare. The disadvantage of such a stance is that market preservation does not always ensure dynamic competition and can reduce dynamic efficiency.²³⁴ Furthermore, critics fear that overuse of interference could possibly lead to false positives, since such a balance judgment is notoriously hard to predict. It has been posited that premature interference by the courts could slow down the very competition that competition law is trying to protect.²³⁵ This is why the American judiciary have preferred a non-interventionist approach. Rather than risk making a wrong judgment, the American judiciary is willing to permit potential harm to consumers, in the hopes that market dynamics will correct itself without judicial interference in the long run.²³⁶ Cyril Ritter succinctly summarized the matter by stating that the real issue is not whether antitrust agencies are competent enough to make such a determination. The real question is whether ‘the risk of antitrust agencies erring in evaluating the need for compulsory licenses’ is so great ‘that we should generally prefer no compulsory licenses at all?’²³⁷ In this author’s opinion, it is not.

²³³ Lao, *Supra* note 202, 214.

²³⁴ Thorsten Käseberg, *Intellectual Property, Antitrust and Cumulative Innovation in the EU and the US* (Bloomsbury Publishing, 2012).

²³⁵ Heike Schweitzer, ‘Controlling the unilateral Exercise of intellectual Property Rights: A multitude of Approaches but No Way Ahead? The Transatlantic Search for a New Approach’ *EUI Law Working Paper No 2007/31*, 23.

²³⁶ Ezrachi and Maggolino, *supra* note 198, 599.

²³⁷ Ritter, *Supra* note 171, 20.

Credit must be given where credit is due. While the methodology of European Court's does not always strike a right balance, the European Courts always give proper consideration to how consumer welfare will ultimately be affected. In these situations, it is a lot more appropriate to utilize competition law to correct overprotection of IPR since the basis of legal analysis of competition law is to make an ex-post case-by-case evaluation. This can adequately balance competing interests.²³⁸ This is why it is preferable to the US stance, which seems to lose sight of consumer welfare altogether in its judicial reasoning by insisting on upholding the IPR owner's right to exclude even in cases where there are no benefits for consumers in either the long or short term.²³⁹

6.5. The Underlying Flaw of the Incentive Theory

Often, it seems that the underlying theory of whether granting exclusive rights truly does improve innovation has been accepted without adequate critical scrutiny. As aptly put by one academic 'Intellectual Property Rights Protection are not fundamental natural rights that must be protected against any encroachment for their own sake'.²⁴⁰ The purpose of a grant is to promote innovation and economic growth, if the overriding objective is not achieved, then the extent of protection should be up for scrutiny.

Few, if any, academics examine the empirical evidence that shows the casual link between innovation and granting exclusive rights for intellectual property. In fact, the few studies that have been conducted in this area have often shown that the opposite is true.²⁴¹ One study carried out by Cohen,²⁴² suggests that the presumed strong correlation between patent protection and innovation is in reality, tenable at best. The results showed that contrary to traditional dogma, IPR was seldom the main motivation for innovation in most industries. The research conducted showed that there are other more pertinent reasons for most companies to innovate. One of the primary incentives to innovative was the ability to stay ahead of competitors in the

²³⁸ Ibid, 16.

²³⁹ See the judgment in *Data General*, where the court stated that right to exclude is absolute even when there are prospects of consumer harm.

²⁴⁰ Lao, *Supra* note 202, 213.

²⁴¹ Alvin Klevorick, Richard Levin, Ricard Nelson and Sidney Winter in 'Appropriating the Returns from Industrial Research and Development', [1987] Brookings Papers on Economic Activity.

²⁴² Cohen et al, *supra* note 231.

market.²⁴³ Market competition is not stagnant, and a company needs to constantly innovate and produce new products to attract consumers in order to maintain their position. Even where IPR owners are granted exclusion, it is not uncommon for competitors to invent around the IPR to achieve a similar if not improved result.

The narrowness of only considering IPR protection as the sole reason for innovation ignores the commercial reality that patents are often procured for reasons other than gaining direct profits from commercializing their inventions in the market.²⁴⁴ Patents can be used as leverage to induce competitors to enter cross-licensing deals,²⁴⁵ or to increase the perceived value of the company's IP portfolio.²⁴⁶

Cohen's conducted studies also revealed that the only industries that viewed patents as major incentives to innovation were firms in the pharmaceutical, agricultural, and chemical industries.²⁴⁷ Another academic who attempted to show the detrimental effect that mandatory licensing had on company's decision making to innovate could only do so in very narrow industries. Their conducted studies showed that US companies would withdraw patent applications from countries that were known to mandate compulsory licensing out of fear that their patents would be in danger from such policies.²⁴⁸ These companies were almost without exception pharmaceuticals and such effects could not be found in other industries. The common factor seems to indicate that what effect mandatory licensing has on incentives for intellectual property rights is heavily dependent on the type of industry within which the IPR operates. The only thing this argument serves to indicate is that compulsory licensing might need to be more sparingly issued with regard to certain sensitive industries. It should not be hard to zero in on which these are as the research conducted thus far all reach the same conclusion; The vulnerable industries are all within pharmaceutical health, or relate to similar chemical patents. It is therefore, strongly suggested by this author that legal authorities should always make an industry specific consideration before considering whether to mandate an obligatory license. It is noteworthy that

²⁴³ Ibid. 9-10.

²⁴⁴ Ibid. 25.

²⁴⁵ Ibid, 19.

²⁴⁶ Ibid.

²⁴⁷ Ibid. 9-10.

²⁴⁸ Robert C. Bird, *Developing Nations and the Compulsory license: maximizing Access to Essential medicines while Minimizing Investment Side Effects*, 37 J.L. MED & ETHICS 209 (2009)

mandatory licensing have not been ordered in any of the European cases, regarding a patent, in either of the aforementioned industries.²⁴⁹ Concluding, this indicates that the European approach has maintained a good balance without being too restrictive, as suggested by some critics, and that their policies have had a negligible effect on innovation at most. By comparison, the US' stance on refraining from making compulsory licensing on antitrust policies in all industries therefore seems excessive.

²⁴⁹ While *IMS Health* did relate to pharmaceutical health industry, the IPR did not involve a patent, which is what the conducted studies were referring to. *IMS Health* related to copyright of a categorization of postal code information.

7. CONCLUDING REMARKS

7.1. Main Differences Between EU and US Judicial Approaches

The main difference in approaches between the American and European method, can be boiled down to the fact that America has primarily focused on the dominant undertaking's intent in their refusal to deal. This is partly attributed to the fact that they have always been hesitant to apply the essential facilities doctrine, due to the fact that the embedded legal test requires the judiciary to make a prediction as to whether the dominant's undertaking refusal will cause a net benefit or detriment to consumer welfare. The American Courts prefer to refrain from making such politicized decisions for fear of criticism. This is best shown by the fact that American courts have been far more willing to curb IPR owner's exclusivity rights through means other than anticompetition policies. In *Feist publications* the court preferred to cancel the copyright outright instead of granting compulsory licenses on antitrust grounds. In cases involving SEP, such as *Motorola*, American courts have shown a stronger willingness to grant compulsory licenses. Primarily this difference seems to stem from the fact that they are able to justify it upon noncontroversial contract law principles rather than antitrust grounds. On the other hand, EU Courts are more willing to base their decision on competition law policies. They are primarily concerned with the effect that potentially abusive behaviour will have on the market and are less hesitant to interfere with market forces in order to improve competition conditions.

7.2. Which Approach is Better?

Both intellectual property and competition law is designed to benefit consumer welfare. In this author's opinion, it therefore makes sense that this is the standard by which to determine which legal jurisdiction has a better approach. From this perspective, it seems that the European approach is better adapted to maximizing consumer welfare.

The primary flaw of the American approach is that a blanket refusal to grant a compulsory license based on antitrust policies fails to adequately reflect situations where protection of IPR is not optimal for consumer welfare. The near immunity

stance that the American judiciary has taken is essentially a policy of non-intervention, in the belief that it is better for market dynamics to balance out any market failure that has resulted. However, non-intervention will not correct external market failures that result from situations where the IPR is being used to prevent new products in a secondary market, or to foreclose a competitor from a market where the IPR is incidental, or lastly where network effects have arisen. In all three scenarios, consumer harm will be caused by the dominant undertaking's refusal to deal. Often in these scenarios, the net effect will be more consumer detriment than overall innovation gained in the market. It is therefore posited that it is only through the intervention of competition law that such market failures will be addressed. The European judiciary on the other hand, ensures that IPR is not taken to an extreme where exclusionary rights would be extended beyond what was originally intended and would result in consumer harm. *Magill/IMS Health and Microsoft* has constructed a legal test that catches all three scenarios mentioned above. In addition the limitations placed on the test also ensures that the measure will not become so commonplace that it will chill innovation in the European Community.

The main defence of the American judiciary's stance of near immunity is that to do otherwise would have the possible effect of discouraging innovation. However while some grain of truth might lie in this argument, it is also abstract in theory, with little empirical evidence to support it. From the discussion so far, it has been concluded that research indicates that innovation would only be deterred in sensitive industries such as pharmaceutical and chemical patents. Therefore so long as proper care and deliberation is exercised by the judiciary in these industries, the margin of error involved could be minimized.

It must also be stressed that contrary to critics' warnings, the European judiciary has not gone too far as previously suggested. This is abundantly clear now that some years have passed since the judgment in the famous cases of *Magill*, *IMS Health* and *Microsoft*, and the lack of evidence that to indicate that innovation has been more discouraged in Europe than to America. In light of these factors the author concludes that the European approach is better suited to achieve consumer welfare and that the legal reasoning behind the American approach is not only flawed but also based on factors that do not concur with factual evidence.

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