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Unilateral Refusals to Deal in Intellectual Property as Monopolistic Conduct

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UNILATERAL REFUSALS TO DEAL IN INTELLECTUAL PROPERTY AS MONOPOLISTIC CONDUCT

by

BOLANLE MESHIDA

(under the direction of Professor James Ponsoldt)

ABSTRACT

Much has been written about the antitrust intellectual property conflict. The former promotes competition by prohibiting monopolies that harm competition, while the latter promotes competition by granting monopolies. This paper focuses on refusals to deal in intellectual property rights as violation of antitrust law. The paper explores refusals to deal as monopolistic conduct in antitrust law and relates this with refusals to deal in intellectual property rights.

The paper concludes with an analysis of the success rate of antitrust scrutiny of intellectual property rights.

INDEX WORDS: Unilateral refusals to deal, Antitrust intellectual property conflict, Refusals to deal in intellectual property, Monopolization.

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MASTER OF LAWS

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INTRODUCTION

The development process of antitrust law in the United States has involved case-by-case adaptation to new forms and pressures of competition in the economy. Its tension with intellectual property rights continues to be a challenge, which remains unresolved. Generally, cases at the intersection of intellectual property and antitrust law have analyzed by examining the impact on economic incentives and balancing them against anticompetitive effects.¹ Historically, antitrust doctrines emerged in response to the growth of big business in the United States. Antitrust laws are designed to preserve and enhance competition in the market place by forbidding certain business practices that have a detrimental effect on competition.² Over the years, antitrust doctrines have changed in response to changes in business structure, business conduct and technological development.³

¹ Cases of note are the Federal circuit's decision in re-independent Service Organizations Antitrust Litigation, (CSU v. Xerox), (203 F. 3d, 1322 (Fed. Cir. 2000) for the view that in the absence of illegality, a patent holder has the right to exclude others from his intellectual property right without liability under the antitrust laws; 1st Circuits decision in Data General Corp. v. Grumman Systems Support Corp., 36 F. 3d 1147, 1187 (1st Cir. 1994), a refusal to license an intellectual property right is a valid business justification for any harm to consumers and the copyright Act does not prevent an author from hoarding all of his works during the term of the copyright even if such is harmful to consumers.

² Eleanor M. Fox, Lawrence A. Sullivan, *Antitrust Retrospective and Prospective: Where are we coming from? Where are we going*, 62 N.Y.U.L. REV. 936 - 37 (1987), expressing that antitrust laws persistent strength flows from the following sources namely; preference for pluralism, freedom of trade, access to markets and freedom of choice,

³ *Id.*, that antitrust law grows not by deduction from any sweeping set of theoretical assumptions, but by an inductive process that stays in touch with the changing business environment, and with particular facts out of which specific disputes arise. See also, ELEANOR M. FOX, LAWRENCE A. SULLIVAN, CASES AND MATERIALS ON ANTITRUST, 1 (WEST) (2001), citing an instance of changes in

Intellectual property laws emerged from the need to protect inventors and authors for their ingenuity. The core principle of intellectual property law is to grant the innovator with a right to exclude competitors from a piece of intellectual property. In a technological advanced economy like the United States, cutting edge innovations largely drive profits, and intellectual property has been used to protect key technological innovations. Under the United States Constitution, Congress is authorized to protect every author and inventor of original work for the progress of science and useful arts.⁴. The importance of intellectual property was revealed by the decision in *State Street Bank & Trust Co. v. Signature Financial Group Inc.*⁵, which has contributed to the use of intellectual property as strategic business weapons.

Intersection between antitrust and intellectual property can be summarized in the following scenario: Suppose A develops a product and obtains a patent for same. Perhaps this product is so important that it has been incorporated into an industry standard. Suppose also that A is in a dominant position in the market, or is threatening to dominate in the near future. Further suppose that the company intends to solidify its hold on the market and to push out all other competitors by withholding its patented product from others. What is the current antitrust analysis for such refusals to license?⁶

antitrust policies on merger law as a result of changes in the nature and character of merger activity.

⁴ U.S. CONST. art. 1, §8, cl. 8. This is viewed as an incentive for innovators for future achievement.

⁵ 149 F. 3d, 1368, (Fed. Cir.1998), cert. denied, 525, U.S. 1093 (1999), which held that “business methods” are patentable subject matter.

⁶ This scenario forms an inherent conflict between antitrust and intellectual property laws, See, Teague I. Donahey, *At the Intersection of Antitrust and Intellectual Property, Lessons from Intergraph & Intel and CSU V. Xerox*, 10 FED. CIRCUIT B.J. 129, 132, (2000), citing *Intergraph v. Intel*, where the complaint was that Intel refused

The antitrust and intellectual property conflict has raised the following questions:

1. When procompetition policies of antitrust laws meet with intellectual property right to exclude competitors, what policy interests should take precedence and under what circumstances?
2. Should Intellectual property rights ever bow to the need for competition in the market place?
3. Should there be an exception to antitrust enforcement when intellectual property rights are involved?
4. Is there a middle road that could accommodate both policy interests?

Supporters of intellectual property argue that innovators should be encouraged at all costs for purposes of technological development. It is proposed that intellectual property should trump antitrust, and that intellectual property be viewed as a limitation on antitrust enforcement.⁷

In contrast to the above argument is that intellectual property rights are not absolute, and that antitrust will apply where there is a possibility of competitive harm⁸

to provide technical information and microprocessor chips to its competitor. The question for the court was whether Intel could refuse to deal in its intellectual property rights without violating antitrust law?

⁷ Marina Lao, *Unilateral Refusals to Sell or License Intellectual Property and The Antitrust Duty to Deal*, 9 CORNELL J.L. & PUB. POL'Y, 193, 221 (1999), expressing that there is the belief that strong enforcement of broad intellectual property is needed to maintain American competitiveness in the global marketplace, and that any reduction in the reward given the innovator would discourage innovation and harm the economy. Many people are therefore wary of allowing any antitrust "abridgement" of those rights.

⁸ Dennis W. Carlton, *A General Analysis of Exclusionary Conduct and Refusals to Deal, Why Aspen and Kodak are Misguided*, 68 ANTITRUST L.J., 659, 674 (2001),

The antitrust intellectual property clash has been expressed thus :

“...while the antitrust laws proscribe unreasonable restraints of competition, the patent laws reward the inventor with a temporary monopoly that insulates him from competitive exploitation of his patented art...the patent and antitrust necessarily clash...the primary purpose of the antitrust laws...to preserve competition...can be frustrated, albeit temporarily, by a holder’s exercise of the patent’s inherent exclusionary power during its term...”⁹

Competition is important for the growth of any technological advanced economy, so also is technological innovation. An analysis of the antitrust and intellectual property conflict is important because there is currently a field of dissonance at the border of intellectual property monopolies and antitrust doctrines yet to be harmonized by statute or the Supreme Court. The purpose of this paper is to assess how Congress and the courts have balanced antitrust and intellectual property conflict. The assessment will focus on unilateral refusals to deal in intellectual property as antitrust violation. The question is: To what extents can antitrust law place restrictions on the power of an intellectual property holder who refuses to deal in his rights.

Chapter one analyzes theories underlying antitrust and intellectual property, and the importance of protecting competition and technological innovation in an economy.

Chapter two examines the legal scope of intellectual property rights, and analyzes the assumption that the grant of intellectual property rights is a grant of monopoly power.

referring to the Supreme Courts view in *Aspen* and *Kodak*, that a single firm with monopoly power may have a duty to deal with another firm where the control is injurious to other competitors. (Author however criticizes these cases as suffering from a confused economic reasoning, and a dangerous direction for antitrust.)

⁹ SCM Corp v. Xerox Corp. 646 F.2d 1195, 1203 (2d Cir. 1981). Reference to patents here is because majority of clashes between antitrust and intellectual property is related to patented rights.

Chapter three discusses refusals to deal as monopolistic conduct under Section 2 of the Sherman Act, where no intellectual property interests are at issue. As there is no clear position from statutory provisions or case law, chapter four examines unilateral refusals to deal in intellectual property rights, looks at possible doctrines applicable to resolve the antitrust and intellectual property conflict, and compares the United States position with two other jurisdictions.

CHAPTER 1

ANTITRUST AND INTELLECTUAL PROPERTY THEORIES

I. Historical Basis of Antitrust Law

“...competition is critical in the United States legal system. Economic competition is enshrined in both federal and state law for over a century...these laws include the Sherman and Clayton Acts, which prohibit monopolization...to produce a lessening of competition...”¹⁰

After the American civil war, the American economy entered a period of unparalleled growth, attributable to factors such as: the emergence of national markets for manufactured products, the innovation of new technologies capable of manufacturing goods in larger quantities, and the generation of vast amounts of capital necessary to finance this growth. During this period, firms followed 2 basic strategies for their growth and development: vertical integration and horizontal combination.¹¹

By the late 1880's the trust movement began to face hostile and political opinion, which led to the enactment of the Sherman Act in 1890. The Sherman Act was originally enacted with the primary aim to protect consumers from the effects of the trust

¹⁰ WALLER, INTERNATIONAL TRADE AND U.S. ANTITRUST LAW, vii. 1992.

¹¹ The growth strategies eventually resulted to a centralized market system where certain industrialists designed ways to restrict other participants in the market. The tool used here was the trust. A group of leading producers in an industry would form a trust by exchanging trust certificates for common stock in the different corporations. By virtue of holding this common stock, the trust gained legal control over participating firms. Through this mechanism, the trust was able to control price and output decisions of participating firms, *See*, Fox & Sullivan, at 939

movement that emerged during this period. Business leaders at this time used combinations and mergers to solidify their control over the market and reduce competition. The rise of trusts in the oil, steel, electric power and other public utilities fed fears about the effect of the movement on the economy. As a result people began to look to law and government to remedy what was perceived as wrong for the economy. By 1888, the American public found the trusts to be a growing and intolerable “evil” due for regulation.¹² The core concern of Congress during this period was to resolve the problems associated with monopolies and trusts. Section 2 of the Act attacked monopolies and proscribed monopolization, Section 1 attacked trusts by proscribing combinations in restraint of trade. According to Senator Sherman, the sponsor of the bill, an antitrust law was needed to reduce the problems of inequality and breakdown of competition, which is associated with cartels or trusts. He believed that antitrust laws will provide for enforcement of principles that will control by competition, the selfishness of trusts and combinations¹³

¹² ELEANOR M. FOX, LAWRENCE SULLIVAN, CASES AND MATERIALS ON ANTITRUST, 29-33, (2001), discussing the historical evolution of the Sherman Act.

¹³ E. KINTNER, THE LEGISLATIVE HISTORY OF THE FEDERAL ANTITRUST LAWS AND RELATED STATUTES 112-114 (1978), examining the legislative debates over the enactment of the Sherman Act, noting Senator Sherman’s arguments and contrary arguments of Senator Edmunds, who viewed the proposed bill as unconstitutional as Congress was competent to protect interstate commerce, but not to exercise police power directly over the activities of citizens in each of the several states.

The proposed statute was to be a remedial statute and a charter of liberty. According to Senator Sherman, "...every man should have the right to fair competition, and all trusts and combinations that harm consumers' welfare should be prohibited..."¹⁴

Senator Sherman believed that each trust was organized with a uniform design to prevent competition through absolute control of the supply of the product in order to further the interests of the members of the trust.¹⁵ The United States antitrust law is premised on the theory that competition will produce the best allocation of economic resources, promote technological innovation and result in the lowest possible prices for goods and services. Antitrust laws seek to prevent conduct that is likely to restrict free and fair competition in a market.¹⁶ American antitrust law is stated to have 4 major goals:¹⁷

¹⁴ *Id.* at 116, 117

¹⁵ Nolan Ezra Clark, *Antitrust Comes Full Circle, The Return to the Cartelization Standard*, 38 VAND. L. REV. 1125, 1129, (1985), discussing Senator Sherman's rationale for the Sherman Act that not all concentrations were void. He asserted that although the tendency of all corporate combinations was to prevent competition and restrain trade, the illegality should not be presumed as a matter of law unless the combination was shown to be injurious to the public and destructive to fair trade.

¹⁶ Joseph P. Griffin, *United States Antitrust Laws and Transnational Business Transactions, An Introduction* 21 INT'L LAW, 307 (1987), noting amongst others that the focus of antitrust laws is on conduct that is likely to restrict free and fair competition. Restraints are classified as either unreasonable under a rule of reason or per se illegal. Where a conduct is proven to exist, no further inquiry will be made into the reasonableness or economic justifications of the restraint, and such will be regarded as per se illegal. Practices classified as per se illegal include: price fixing, market division, group boycotts. Under the rule of reason, a plaintiff has to first meet the initial burden of proving that the challenged conduct restrains competition, and then the court will determine if the restraint is reasonable in the circumstances. This inquiry is confined to a consideration of impact on competition.

¹⁷ Burton D. Garland Jr., Reuven R. Levary, *The Role of American Antitrust Laws in Today's Competitive Global Marketplace*, 6 UMIAMI BUS. L.J. 43 (1997), expressing the view that the historical function of American antitrust law was to protect consumers from the effects of monopoly, oligopoly and cartel behavior, otherwise,

1. Protection of consumers from the evils of monopoly.
2. Freedom of individual economic entities to compete.
3. Promotion of economic allocative efficiency.
4. Prevention of centralization of economic or political power.¹⁸

The Clayton Act was enacted 24 years after the Sherman Act and derived from a perception that abuses of business power by dominant firms were unchecked. Practices singled out during this period were exclusive dealing, tying contracts, interlocking directors, fencing out competitors from access to markets, and big business leaders depriving the “little man” of a fair chance to participate in the governance of business.¹⁹

firms possessing these characteristics were able to control the price and quantity of available goods.

¹⁸ These goals are separate and distinct. For instance (refuting the Chicago school of thought), economic efficiency and consumer welfare are not identical. Consumer welfare refers to the direct and immediate welfare of consumers of a specific product. Antitrust encourages a competitive market which will provide businesses with the opportunity to compete on price and quality, thus benefiting consumers through lower prices, better quality and greater choice. Economic efficiency refers to a decision or event that increases the total value of total social wealth or economically measurable assets. Economic efficiency is divided into 3 components: production efficiency, innovation efficiency and allocative efficiency. Current antitrust enforcement concentrates on promoting allocative efficiency which is achieved when the existing stock of goods and productive output are allocated through the price system to those buyers who value them most in terms of willingness to pay or willingness to forego other consumption. *See, Joseph F. Brodely, The Economic Goals of Antitrust, Efficiency, Consumer Welfare and Technological Progress, 62 N.Y.U.L. REV, 1020-25 (1987)*

¹⁹ L. BRANDEIS, THE CURSE OF BIGNESS, 112-142 (1965), expressing that the trust created a problem of providing unequal opportunity for American business people.

Later in the mid to late 1940's, concerns were again raised about business power. For instance, mergers of large firms were seen as a source of economic and political power, and people called for a stricter merger law to promote diversity and economic mobility. As a result, Congress enacted the Celler-Kefauver Amendment to the Clayton Act in 1950.²⁰ During periods of high enforcement of antitrust doctrines, the courts enforced the laws to promote diversity, opportunity, and access for the less established, and to guard against the creation of power and its exploitation. The rationale was that by protecting a process and an environment of competitive interplay, business peoples' expectations that the fair rules of the market place would be guaranteed were met. This competitive dynamic will eventually lead to lower prices, higher quality, a variety of price/quantity options and technological progress.²¹

Three theories have been proffered as the basis for antitrust law. The first theory is the Chicago school theory. The basic features of the Chicago school theories are attributable to the work of Aaron Director in the 1950's. Members of the Chicago school believe that consumer welfare should be the only object of inquiry of antitrust law. This theory is described as the "economic" or "social welfare" model.²² The school places strong

²⁰ See, Brown Shoe Co. v. United States, 370 U.S. 294, 315 (1962), identifying Congressional concerns that motivated the 1950 amendment as fear of rising tide of economic concentration and desirability of preserving control over industry and protecting small businesses.

²¹ Fox & Sullivan, at 941, noting that judicial attitudes during these periods were not always reconcilable as they ranged from the grudging and limited acceptance of a Holmes, through the balanced commitment of a Taft, to the complex reactions of a Brandies. However these reasoning focused on an antitrust policy to maintain competitive processes.

²² MERGES, MENELL & LEMLEY, INTELLECTUAL PROPERT IN THE NEW TECHNOLOGICAL AGE, 992 (2003), this view dominates modern antitrust

faith in markets and business freedom. Antitrust laws are to be used to achieve allocative efficiency,²³ and to encourage the production of a great amount of goods at the lowest possible cost.²⁴ Chicago school ideas did not emerge from a full-blown philosophy of antitrust, but rather from the product of specific questions raised by antitrust cases.²⁵ Some Chicago school ideas may be stated as follows:

1. **Predatory Pricing:** Predatory pricing occurs where a firm reduces the price of its products below an appropriate measure of its rivals costs, and there is proof of a dangerous probability of recouping its investment in the below cost prices.²⁶ Chicago theory is that selling below cost in order to drive out a competitor is unprofitable even in the long run except in the unlikely case in which the intended victim lacks equal access to capital to finance a price war. The predator loses money

analysis. It sees the purpose of antitrust laws as promoting social welfare by ensuring that markets work freely and without interference.

²³ See, Fox and Sullivan at 950, explaining Chicago's view on measurement of efficiency thus: It increases when there is an increase in the sum of consumer surplus and producer profits. This total may be referred to as "consumer welfare" since consumers can benefit not only by retaining consumer surplus, but also by investing in producers of the relevant product and thereby becoming beneficiaries of producers' surplus.

²⁴ See, AREEDA & TURNER, *ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION*, VL 1, 7, (1978), opined that the economic objective of antitrust pro-competitive policy is to maximize consumer economic welfare through efficiency in the use and allocation of scarce resources, and via progressiveness in the development of new productive techniques and new products that put those resources to better use.

²⁵ See, Richard A. Posner, *The Chicago School of Antitrust Analysis*, 127 U.P.A.L.REV., 925, (1979). Posner as a Chicago school member however believes that the Chicago school theory is not exclusive and does sometimes borrow from other schools of thought.

²⁶ Brooke Group Ltd v. Brown & Williamson Tobacco Corp. 113 S.Ct. 2578 (1993), this is the modern Supreme Court test for predatory pricing.

during the period of predation, and if he tries to recoup it later by raising his price, new entrants will be attracted, the price will be bid down to the competitive level, and the attempt at the recoupment will fail.²⁷

2. Resale Price Maintenance (RPM): This is an agreement usually by dealers not to sell products below a minimum price dictated by a manufacturer.²⁸ The view of the Chicago school on this is that from the standpoint of the manufacturer imposing it, RPM is not a rational method of distribution, if its effect is to give dealers monopoly profits. RPM encourages dealers to offer consumers presale services (such as point of sale advertising, showroom display, knowledgeable sales personnel), such services enhance the value of the manufacturer's product to consumers and hence the price he can charge the dealers might because of "free-rider" problems.²⁹
3. Tie-in: This requires a buyer to buy a second product as the condition of buying the first product.³⁰ The Chicago school believes that a tie-in is not a rational method of obtaining a second source of monopoly profits, because an increase in the price charged for the tied product will as a first approximation, reduce the price that the purchaser is willing to pay for the tying product. A tie-in makes sense only as a method of price discrimination because the amount of the tied product bought can be

²⁷ See, Posner at 927

²⁸ Dr. Miles Medical Co. v. John D. Park & Sons, 220 U.S. 373 (1911), establishing the rule that resale price maintenance is illegal per se.

²⁹ Posner at 928, a "free rider" is a dealer who undersold competing dealers by selling the product itself at a lower price, while relying on them to provide the necessary presale services to the customer.

³⁰ Motion Picture Patents Co. v. Universal Film Manufacturing Company, 243 U.S. 502 (1917), discussing antitrust prohibition of tying agreements (foreclosing restraint).

used to separate purchasers into more or less elastic demanders of the tying product.³¹

The rationale of the Chicago school theory is that businessmen are rational profit-maximizers. An increase in the prices of a product will reduce the demand for its complement and resources gravitate to areas where they will earn the highest return.³²

The second theory is the populist view of antitrust. Populists believe that big is intrinsically bad for the following reasons: because it concentrates wealth, because it reduces product diversity, and because it concentrates political power. Antitrust law is used as a weapon against all monopolies and oligopolies.³³

³¹ Posner at 928

³² *Id.*, that the focus of antitrust law should not be unilateral action, but should be to prevent cartels and trust that reduce the number of significant sellers in the market. For instance the Harvard leverage “theory of tie-ins” states that if a seller had a monopoly of one product, he could and would monopolize its indispensable complements as well, so as to get additional monopoly profits. Criticizing this view, Posner expressed that the pricing of complements of a product is a mere detail and that an increase in the price of one component is simply viewed by the consumer as an increase in the total price of the service.

³³ Victor H. Kramer, *The Supreme Court and Tying Arrangements, Antitrust as History*, 69 MINN. L. REV. 1013 (1985), citing the instance of a tie-ins as a conduct frowned on as constituting an abuse of monopoly, and discussing some Supreme Court rules against tie-ins. The view here is that the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms. The buyer is therefore forced to act differently from a buyer in a competitive market, and competition is correspondingly restrained. *See also, Hyde v. Jefferson Parish Hospital Dist. No. 2*, 686 F. 2d, 286 (5th Cir. 1982), rev'd, 104 S.Ct., 1551, 1560 (1984), cited an instance of a seller who ties a product covered by a patent or similar monopoly to another product. Here the seller is presumed to have the market power necessary to force the buyer to purchase both products because the tying agreement is unlawful per se.

The third theory is related to the populist view, as both oppose monopolies and growing concentration in an industry. Here, antitrust is used to protect small businesses from being driven out of the market.³⁴ The protection of small business units is viewed as an antitrust equity goal.³⁵ This group uses antitrust as an unfair competition statute and applied to practices that are bad for competitors even though are favorable to consumers. For instance, price cuts by large firms, though good for consumers is frowned at as this will squeeze out small businesses from the market.³⁶ This school expresses that the primary benefits of competition can be achieved only if small firms are able to compete in the market place on their competitive merits, as they provide direct head-to-head competition that inject new ideas into the system. More importantly is that small businesses are pivotal to competition policy as a natural and vital class of antitrust enforcers.³⁷

³⁴ Small businesses is stated as one of the concerns of the populist school. E.g. In United States v. Aluminum Co. of Am. 148 F. 2d 416, 427 (2d Cir. 1945) (L. Hand, J), pointing out that small business was a primary constituency that supported the Sherman Act and other Legislation.

³⁵ See, Kenneth G. Elizinga, *The Goals of Antitrust, Other than Competition and Efficiency, what else counts*, 125 U.P.A. L. REV. 1191, 1196 (1977), For instance, this group frowns against mergers that hurt small businesses. Small businesses will survive only where concentration within an industry is controlled.

³⁶ MERGES, MENELL & LEMLY, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE*, 992 (2003), noting that this view is inconsistent with the recent trend of antitrust decisions expressed in the maxim that antitrust “protects competition, not competitors”.

³⁷ Warren S. Grimes, *Antitrust and the Systemic Bias against Small Business, Kodak, Strategic Conduct and Leverage Theory*, 52 CASE. W. RES. L. REV. 231, 237 (2001), for instance, unlike consumers whose injury from antitrust abuses may be too diluted to warrant a response, small businesses have the incentive, information and financial backing to mount effective antitrust challenges. Noting however that current antitrust interpretation and enforcement contributes to anti-small business bias.

II. Underlying Basis of Intellectual Property Law.

It is a fact that people enjoy good things of life and as a result are driven to discover and create things. These things created if they have the ability to make things easier and better for the general populace, are considered a treasure and are therefore protected.

One approach to protect such things of value is through intellectual property law. Intellectual property law has been used over the years to protect ideas and concepts from piracy and misappropriation.³⁸

Intellectual Property is described as intangible property. They are those ideas that exist in the mind of an individual. They are the methods, processes or ways a person discovers to carry out a task. Based on the explosion of ideas and innovation in technology over the past few decades, intellectual property laws have been developed to encourage further innovation. Through intellectual property, inventors and writers are rewarded for their work by the grant of a “temporary monopoly” in their work. It is believed that if authors and inventors who labor to produce or invent, know that others may copy and use their intellectual property, creative activity will reduce. Without any form of protection therefore, innovation and creative activity will be stifled indeed.³⁹

³⁸ K. Kalan, *Property Rights, Individual Rights and the Viability of Patent Systems*, 71 U.COLO. L. REV. 1439 (2000), expressing that intellectual property protection against piracy is viable in today’s global exchange of information, and technological advancement.

³⁹ WARD S. BOWMAN, JR. *PATENT AND ANTITRUST LAW*, 2 (1976).

Society in turn benefits from inventiveness through the later disclosure of the work when the exclusive grant lapses. This is considered as contributing to the economic growth of an economy because of the stimulation caused by such disclosures⁴⁰.

A historic debate is whether intellectual property be granted the same protection granted tangible property, such as the fee simple.⁴¹ Philosophical theories have been proffered that principles of property law and intellectual property law operate in the same vein and should be treated alike.

III. Natural Rights Protection of Property

According to John Locke

“...every man has a property in his own person. Nobody has any right to, but himself. The labor of his body and the work of his hands...are properly his...”⁴²

Locke’s theory is that in the state of nature, there is no positive law parceling out ownership or giving any particular person the right to command anyone else. However, there are moral duties that constrain person’s behavior toward each other. These duties are imposed by God and are discernable by reason. Four sets of natural rights and duties emerge from Locke’s theory as follows:

⁴⁰ Temporary protection for Patents is for 20years; Copyrights the entire life of the author plus 75 years, Trademarks, as long as it does not confuse consumers as to source; Trade Secrets, as long as it remains a secret.

⁴¹ See, MERGES, MENELL & LEMLEY at 1

⁴² See, Wendy Lim, *Towards Developing a Natural Law Jurisprudence in the United States Patent System*, 19 SANTA CLARA COMPUTER & HIGH TECH L. J. 559 (2003), citing JOHN LOCKE, TWO TREATISES ON GOVERNMENT, 1698, suggesting that Locke’s approach to intellectual property be adopted as it would seek to strike a balance between recognition of the rights of an individual and its duties towards his community.

1. Duty not to harm: all persons have a duty not to harm others except in cases of extreme need. Thus in cases of extreme need, the no harm duty would prevail in any conflict arising between the no harm duty and the other natural law duties mentioned below.
2. Right to dispose of efforts and right to use the common: This means that in the absence of extreme need, the law of nature gives no one a claim right over any other person's no harmful use of her own efforts, or her non harmful use of the common.
3. All persons have 2 duties in regard to their resources; duty to let others share in her resources (other than her body), in times of great need, so long as the sharer's own survival is not imperiled by such charity; Duty to share any of her nonbody resources, which would otherwise spoil or go to waste.
4. All persons have a duty not to interfere with the resources others have produced by laboring on the common.⁴³

The summary of Locke's theory is that property could arise in the state of nature when someone labors on the common, either by appropriating it or making something from it. The logic is "labor is mine, and when I appropriate objects from the common, I join my labor to them. If you take the objects I have gathered, you have also taken my labor, since I have attached my labor to the objects in question. This harms me and you should not harm me. I have property in the objects. In addition, if I use the public domain to create an intangible work of authorship or invention, you should not harm

⁴³ Rosina L. Hunt, *Natural Law v. Positive Law, Interpreting Morality*, 28 NEW ENG. L. REV. 231, 252 (1993), explaining Locke's theory that the natural right to property becomes absolute when it is removed from the state of nature or created by one's own labor or efforts. Further, that Locke's natural rights theory had a great philosophical influence on the framers of the United States Constitution.

me by copying it and interfering with my plans for it”.⁴⁴ The question here is whether Locke’s natural law theory of property is applicable to intellectual property.

The Supreme Court of the United States took a stand in *Ruckelshaus v. Monsanto Co.*, and held that intangible products of an individual’s labor and invention can be protected as property.⁴⁵

It has been argued that Locke’s natural law theory though applicable to intellectual property, does not grant a creator an absolute right to the property⁴⁶

In contradiction to this however is the absolutists’ theory. The belief is that since a creator is solely responsible for his creation, he is entitled to withhold the creation from the public, or attach terms such as price or conditions for purchase. In other words, a creator is entitled to an exclusive use of his work.⁴⁷

⁴⁴ See, Wendy Jordon, *A Property right in Self- Expression, Equality and Individualism in the Natural Law of intellectual Property*, 102, YALE L.J. 1533, 1545 (1993), explaining Locke’s view, and criticizing same as follows; First, that labor itself is not property. Even if persons are entitled to be free of some kinds of harm, it remains to be shown the same right pertains to their labor. Second, that a harm based argument for property cannot validate intellectual property as the “public goods” characteristics of intangible creations make them infinitely capable of being shared without depriving the initial creator of their use. Third, strict no-harm rule merely enshrines a status quo, and Locke’s natural rights against harm is overbroad.

⁴⁵ *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002-05 (1984) (citing Locke’s Second Treatise, to hold that trade secret rights can be property).

⁴⁶ See, Jordon at 1535

⁴⁷ Carl W. Schwarz, *The Intellectual Property/ Antitrust Interface*, SEDONA CONF. J. 159, 169 (2000), discussing the absolutist view that it would not matter whether an intellectual property holder uses his right to monopolize the market because activity authorized by intellectual property laws could never result in liability.

IV. Personhood Theory

The personhood perspective is that for most people, certain objects are closely bound with personhood because they form the way people constitute themselves as personal entities in the world. One may gauge the strength or significance of someone's relationship with an object by the kind of pain that would be occasioned by its loss. An object is closely related to one's personhood if its loss causes pain and cannot be relieved by the objects replacement.⁴⁸ This theory explores the relationship that exists between a person and property. A person is perceived as an abstract unit of free will who has no concrete existence until his will acts on the external world. A person therefore becomes a real self only by engaging in a property relationship with something external.⁴⁹ The theory suggests that individual assets once discovered ought to be protected. According to Hegel, a person is an abstract unit of free will or autonomy, and has no concrete existence until that will acts on the external world. Self-actualization can only be achieved by putting one's will into external objects, such as property.⁵⁰ It is recognized that intellectual property may be characterized as personal property, and that inventors and writers have personality stakes in their invention.⁵¹ However to make a

⁴⁸ See, Margaret Jane Radin, *Property and Personhood*, 34 STAN L. REV. 957, 959 (1982), for instance, if a wedding ring is stolen from a jeweler, insurance proceeds can reimburse the jeweler, but if a wedding ring is stolen from a loving wearer, the price of a replacement will not restore the status quo.

⁴⁹ MERGES, MENELL & LEMLEY at 7

⁵⁰ Radin at 972-4, discussing Hegel's view and compared with Locke's theory of appropriation from the state of nature, occupancy does not give rise to an initial entitlement which has a permanent validity. Rather, that a continuous occupation is necessary to maintain a property relationship between a person and any particular external thing because the will to possess something must express itself.

⁵¹ Margaret J. Radin, *Market inalienability*, 100 HARV. L. REV. 1849, at 1856 (1987)

thing one's property, the person has to take actual possession of it or be the first to make it his own.⁵²

Locke's and Hegel's theories is summarized thus:

1. The importance of individual human will in justifying and defining property rights;
2. The importance of individual and society in a relationship that is at least partially adversarial, rather than community oriented⁵³

V. Economic Incentive Perspective

This is the modern day theory on which the United States intellectual property rights are based. The United States Constitution provides that Congress shall grant authors and writers exclusive right to their inventions and writings for the progress of science and useful arts⁵⁴

The Supreme Court has expressed the need for incentives to promote inventiveness. The court acknowledges that intellectual property be protected so to grant valuable, enforceable rights to authors and inventors, without burdensome requirements and to afford encouragement to the production of works of lasting benefit to the world.⁵⁵

⁵² Steven Chemesky, *A Penny for their thoughts, employee-inventors, Preinvention Assignment Agreements, Property and Personhood*, 81 CAL. L. REV., 197 (1993)

⁵³ Locke's and Hegel's theories are believed to apply to intellectual property and stated to form the baseline European view of intellectual property, *See*, Willard Alonzo Stanback, *International Intellectual Property Protection, An Integrated Solution to the Inadequate Protection Problem*, 29 VA.J. INT'L L. 524-25 (1989) .

⁵⁴ U.S. CONST., art. I, §8, cl. 8

⁵⁵ Mazer v. Stein, 347 U.S. 201, 216, (1954), “ ...It is a new and original design for a manufacture whether of metal or other material... to be either worked into or on any article of manufacture or a new and original shape or configuration of any article of manufacture. It is one or all of these that the law has in view. And the thing invented or produced, for which a patent is given is that which gives a peculiar or distinctive

CHAPTER 2

INTERACTION BETWEEN INTELLECTUAL PROPERTY AND ANTITRUST DOCTRINES

I. Intellectual Property and Antitrust coexistence

Historically, intellectual property and antitrust have coexisted uneasily basically because lawyers and the courts have treated same as two direct opposites.⁵⁶

The tension between antitrust law and intellectual property law is obvious on the face of it. Antitrust law prohibits monopolies, while intellectual property grants monopolies to inventors and producers of creative works.

The Sherman Act prohibits all contracts and combinations in restraint of trade, and further prohibits all forms of monopolization that harms competition⁵⁷

Section 2 particularly provides “Every person who shall monopolize...any part of trade or commerce...shall be deemed guilty of a felony...”

The Clayton Act states that:

“It shall be unlawful for any person engaged in commerce... to lease or make a sale or contract for sale, of goods...whether patented or unpatented... where the effect of such

appearance to the manufacture, or article to which it may be applied or to which it gives form. It therefore proposes to secure appearance itself, therefore no matter by what agency caused, that constitutes mainly, if not entirely the contribution to the public which the law deems worthy of recompense”.

⁵⁶ Charles C. Hsieh, *Professional Real Estate, The Line Between Patent and Antitrust*, 7 HARV. J. LAW & TECH. 173 (1993); Graham v. John Deere Co. of Kansas City 383 U.S. 1,7-11,(1966)

⁵⁷ See, § 1 & 2 Sherman Act.

lease, sale or contract for sale or such condition agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce⁵⁸ Section 154 of the Patent Act grants a patentee 20 years right to exclusive right to use, sell or copy its invention.⁵⁹

Courts have dealt with cases on the uneasy coexistence of both laws and have come out with rules favoring one or the other.

In *International Salt v. United States*⁶⁰, the defendant's use of its patent rights was challenged under the antitrust laws. The government brought an action under section 1 of the Sherman Act, and section 3 of the Clayton Act to enjoin the defendant from carrying out provisions in their leases fro its patented salt utilization machines that required the lessees to use only the defendant's salt products. The court held that the defendant's patent in the machines gave them a right to prevent others from selling, making or using the machines, however the patent did not confer a right to restrain the use of unpatented salt.

In *United States v. Loew's Inc*, the government brought separate civil antitrust actions under section 1 of the Sherman Act against 6 major distributors of a pre-1948 copyrighted motion picture feature films for television exhibition. The government alleged that the distributors engaged in the illegal marketing of the movies by conditioning the sale or license of one or more feature films to television stations upon acceptance of a package or block containing one or more unwanted or inferior films. In

⁵⁸ Clayton Act, § 3, 15 U.S.C. 14 (1988), The Clayton Act was passed in 1914 to supplement the Sherman Act. The Clayton Act generally attacks anticompetitive practices.

⁵⁹ 35 U.S.C. §154

⁶⁰ International Salt v. United States, 332 U.S. 392 (1947)

holding that the requisite market power will be presumed because the feature films were copyrighted, the court found that the defendant's actions injuriously restrained trade in violation of section 1 of the Sherman Act.⁶¹

In *Siegel v. Chicken Delight Inc.*, franchisees of chicken delight brought an action under section 1 of the Sherman Act seeking treble damages from injuries allegedly resulting from illegal restraints imposed by chicken delights standard franchise form agreements. The agreements contained provisions requiring the franchisees to purchase certain cooking equipment and trade-mark bearing packaging exclusively from chicken delight as a condition to obtaining a chicken delight trademark license. The court found that there is the presumption of economic power from the existence of a trade mark and in the absence of proffered justifications for the arrangement, the agreements are unreasonable restraints of trade in violation of section 1.⁶²

The above shows that the intellectual property and antitrust interaction has resulted in conflicting policies on whether to promote intellectual property at the expense of antitrust goals or otherwise.⁶³

Despite the above obvious conflict, the fact is that intellectual property and antitrust have common policy goals. This is stated to be the hope to maximize consumer welfare.

⁶¹ United States v. Loew's Inc , 371 U.S. 38 (1962), this case represents an application of antitrust law to copyright law.

⁶² Siegel v. Chicken Delight Inc 448 F. 2d, 43, 46 (1971), this decision represents an enforcement of antitrust law against a trademark holder.

⁶³ For instance there is the comment that antitrust law acts as a restraint on technological innovation and should be trumped as far as intellectual property is concerned. The concern here is that American inventors have lacked behind over the years as a result of antitrust constraints and in essence have not been able to compete actively with inventors from other jurisdictions, See, Salinger Tobin, *Unionization and the Concentration, Profits Relationship*, 15 RAND J. OF ECON . 159 (1984).

Consumer welfare for intellectual property is promoting investment in innovation so to facilitate the introduction of new inventions and creations into the market place. Intellectual property law attempts to encourage investment in innovation by granting exclusive rights.⁶⁴

For antitrust, consumer welfare is maximized by promoting a vigorously competitive market structure by prohibiting anti-competitive conduct⁶⁵. These include price fixing, group boycotts, market division agreements and monopolization. Monopolization however poses the greatest risk of direct conflict with intellectual property rights, as intellectual property protects exclusivity in form of monopolization, while antitrust forbids exclusivity.

Intellectual property law thus protects monopolies, while antitrust attempts to prevent it. The question then is where does an intellectual property owner's rights stop and where do antitrust doctrines begin?

II. Scope of Intellectual Property Rights

The Constitution of the United States provides that Congress shall have the power to “promote the progress of science and useful arts” by securing for “limited times” to authors and inventors the exclusive rights to their respective writings and discoveries⁶⁶.

⁶⁴ Goldstein, *The Competitive Mandate, From Sears to Lear*, 59 CAL. L. REV. 873 (1971), expressing that promotion of consumer welfare is a common goal of both antitrust and intellectual property policies.

⁶⁵ Computer Assocs. Int'l Inc. v. Altai Inc., 982 F. 2d, 693, 711 (2d Cir. 1992), stating that “the purpose of Copyright law is to advance public welfare through rewarding artistic creativity”

⁶⁶ U.S. CONST. art 1, § 8, cl. 8, See §101 of the Patent Act, which provides that whoever invents any new and useful process, machine, manufacture or composition

Intellectual property identifies four categories of innovation in form of Trade secrets, Trademarks, Copyrights and Patents.

A. Trade Secrets

A trade secret is information used in one's business, which grants him an advantage over his competitors simply because they do not know or use it⁶⁷ Trade secrets usually include information on technological know-how, ideas of new products and markets, commercial information about customers and the like.⁶⁸

Information is protected as a trade secret where it remains a secret and reasonable precautions have been taken to protect it as such.⁶⁹ Where a person uses another's trade secret without authorization or through improper means he may be guilty of trade secret misappropriation.⁷⁰ Protection of trade secret is based on two theories. First is the utilitarian theory. Here, the view is that protection of information considered as a trade secret against theft, encourages investment in information. The second theory postulates that the aim of trade secret law is to punish and prevent illicit behavior and to encourage reasonable standards of commercial behavior.⁷¹

of matter, may obtain a patent therefore.

⁶⁷ Restatement of Torts, §757

⁶⁸ W.R. CORNISH, INTELLECTUAL PROPERTY: PATENTS, COPYRIGHTS TRADEMARKS AND ALLIED RIGHTS, 9 (1996), these are secret business information that deserve protection by law.

⁶⁹ Rockwell Graphic Systems, Inc. v. DEV, 925 F. 2d 174 (7th Cir. 1991)

⁷⁰ E.I. du Pont de Nemours & Co. v Rolfe Christopher 431 F. 2d 1012 (5th Cir. 1970) cert. denied, 400 U.S. 1024 (1971), misappropriation is established where a plaintiff can prove that the defendant obtained the information through improper means or as a result of a breach of confidence.

⁷¹ See, Rockwell at 176

For information to qualify for trade secret protection, it must contain the following elements:

1. Must be a trade secret⁷²
2. Plaintiff to show reasonable precautions to protect the information⁷³
3. Must not be disclosed to the public⁷⁴

Protection of information as a trade secret entitles the owner to prevent others from using it. The question here is whether the owner of a trade secret can be said to be violating antitrust doctrines against monopolization where he refuses to disclose?

B. Trademarks

A trademark is defined as “any word, name, symbol, or device, or any combination thereof: 1. used by a person, or

2. which a person has a bonafide intention to use in commerce

and applies to register on the principal register established by this Act, to identify and distinguish his or her goods, including a unique product from those manufactured or sold by others, and to indicate the source of the goods, even if that source is unknown.⁷⁵

⁷² Metallurgical Industries Inc. v. Fourtek Inc. 790 F.2d 1195 (5th Cir. 1986), unlike patent laws, an information need not be new or unique to qualify as a trade secret, it only requires not to be in public knowledge

⁷³ See, Rockwell

⁷⁴ The rationale for this is that as long as the information remains a secret, it is protectable as a trade secret. However its disclosure to the public destroys its character as a secret and thus loses its protection.

⁷⁵ §45, 15 U.S.C., Trademarks are protected so that consumers may distinguish between competing products and services in a market economy.

Trademarks are protected by Federal law under the Lanham Act, and are different from the other 3 types of intellectual property. This is because, trademark protection does not depend on originality, novelty or invention. Protection is simply granted to those who were first to use a “distinctive mark in commerce”

For protection, a trademark has to contain the following elements:

a. Distinctiveness: A mark has to be inherently distinctive to qualify for protection. For purposes of analysis, inherently distinctive marks are classified as arbitrary, fanciful and suggestive.⁷⁶ Where a mark is not inherently distinctive, courts require that a mark acquires secondary meaning in the market.⁷⁷

b. Use: A trademark owner needs to establish that he has used the mark in commerce or has registered the bonafide intention to use the mark in commerce. This can be established by proving that he has won the race of first to use the mark in the market or that he has registered the mark under the Act.⁷⁸

Trademark protection is therefore all about the person who was first to use a distinctive mark in commerce. The idea is that a first user has the right to prevent a subsequent user from using the same mark where there is a likelihood of confusion between the two marks in issue.⁷⁹ Trademark protection is granted to the owner for as long as he uses the

⁷⁶ Soweco Inc. v. Shell Oil Co, 617 F. 2d 1178 (5th Cir. 1980)

⁷⁷ A.J. Canfield Co. v. Honickman, 808 F.2d 291 (3d Cir. 1986), secondary meaning is stated to mean that consumers recognize the source of the product through the mark

⁷⁸ Zazu Designs v. L’Oreal, S.A. 979 F.2d 499 (7th Cir. 1992), 43 (a) 15 U.S. C.

⁷⁹ AMF Incorporated v. Sleekcraft Boats (599 F. 2d. 341 9th Cir. 1979)

mark and in the absence of authorization by the owner, a second user may be found guilty of infringement.⁸⁰

C. Copyrights

The United States Constitution extends exclusive ownership to authors for the progress of science and useful arts.⁸¹

a. Threshold of Protection: The Copyright Act provides that:

“...Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression now known or later developed from which can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device...”⁸²

i. Original works of authorship:

This requires an independent creation of a work. The author must not have copied the work from another source. In *Alfred Bell & Co. v. Catalda Fine Arts Inc*, it was stated that an author is entitled to copyright protection if he independently contrived a work completely identical with what went before, similarly although he obtains a valid copyright, he has no right to prevent another from publishing a work identical with his, if not copied from his.⁸³

⁸⁰ This can be interpreted to mean that a trademark owner has an unlimited monopoly to use his mark in the market.

⁸¹ Copyright protection applies to literary and artistic works

⁸² 17 U.S.C, §.102

⁸³ Alfred Bell & Co. v. Catalda Fine Arts Inc 191 F.2d 99, 103 (2d Cir. 1951)

This originality requirement does not require that the work in issue be unique or novel. The threshold is quite low. What is required here is that the author's work is something recognizable as his own.

ii. Fixed in a tangible medium of expression:

Fixation here has been described as where a work "...can be perceived, reproduced or otherwise communicated, either directly or with the aid of a machine or device"⁸⁴

Under the Act the form, manner or medium of fixation does not matter.

This means that a work of expression may be words, numbers, notes, sounds, pictures or any other graphic indicia. Once a work of authorship is so fixed it is entitled to copyright protection. Fixation also determines whether a person can be accused of infringing a copyright. By provision of the Act, a copyright owner has the exclusive right to reproduce the copyrighted work in copies or phonorecords⁸⁵. Therefore a defendant does not infringe a copyright unless the work is reproduced in a fixed medium of expression.

The idea of fixation has been commented to be necessary to prove authorship and also to put a cap on the kinds of works of authorship that can be protected.⁸⁶

⁸⁴ 17 U.S.C. §102(a)

⁸⁵ 17 U.S.C. §106 (1)

⁸⁶ For instance for a choreographic work to be protected, it must be recorded. The fixation requirement implies that the choreographic work is not protectable if it has not been fixed in a tangible medium of expression, David G. Luetgen, *Functional Usefulness vs. Communicative Usefulness: Thin Copyright Protection for the Nonliteral Elements of Computer Programs*, 4 TEX. INTELL. PROP. L.J. 233 (1996).

b. Scope of Copyright Protection: By the provisions of the Act, authors are granted protection in the following works expressed in a tangible medium of expression:

- a. Literary works
- b. musical works including and accompanying words
- c. dramatic works, including any accompanying music
- d. pantomimes and choreographic works
- e. pictorial graphic, and sculptural works
- f. motion pictures and other audiovisual works
- g. sound recordings; and
- h. architectural works⁸⁷

Authors are granted the exclusive right to copy, use and reproduce all works reproduced in the above mode of expression. He may therefore sue whoever copies the work for infringement if the copying is “material” and substantial,” even if the copy is in a different form of expression.

c. Duration of Protection:

The Act grants authors a long term of protection. For individuals, a work is granted copyright protection throughout the life of the author plus 50 years. For corporate authors, protection is for 75 years⁸⁸

⁸⁷ 17 U.S.C. §102

⁸⁸ 17 U.S.C. §305

The duration of protection granted copyright holder is criticized as contravening the Constitutional clause, which provides that Congress is to grant exclusive rights to authors for a “limited time”⁸⁹ This grant is regarded as an unlawful extension of a monopoly to the detriment of the public meant to benefit from the work when it falls into the public domain⁹⁰

This lengthy protection is also regarded as a monopoly to exclude the public from benefiting from the work,⁹¹ principally because copyright holders have the exclusive right to copy or sell their works. In addition the owner has the right to control the sale and distribution of the work including licensed copies. A person will therefore be guilty of infringement if he copies, uses or sells the work in issue without authorization or license by the owner.

D. Patents

Patents usually evolve around technological improvements in form of inventions. Patent law provides a market driven incentive to invest in innovation, by allowing an inventor appropriate the full economic rewards of his invention. A patent is generally

⁸⁹ U.S. CONST. Art.1, cl. 8, §8

⁹⁰ William Patry, *Failure of the American System, Protecting the Idle Rich*, 72 NOTRE. DAME L. REV. 907, 909 (1997), “United States copyright law has failed of its essential purpose...to benefit authors, and is being shaped largely by powerful distributors and their lobbyists with the dual goals of extending a monopoly (in order to extract high prices from the public), while simultaneously depriving authors of as much money as possible. In creating this system Congress has exceeded its authority under the Constitution and unless checked by the courts, it is likely to transform copyright from a vehicle for the promotion of learning into a form of business protectionism divorced from the creation of new works”.

⁹¹ *Id.*

described as a “limited monopoly”.⁹² Patents are granted to processes, machines, manufactures, compositions of matter and improvements.⁹³ A process is a method or operation performed by definite rules to produce a useful result. A machine embraces machines as usually understood and also various mechanical elements and combinations or apparatus. A manufacture includes everything made by man’s art or industry other than a machine, composition of matter or design.⁹⁴

The Patent Act provides that for an inventor to be entitled to a patent, five requirements have to be satisfied as follows:

1. Patentable subject matter
2. Utility
3. Nonobviousness
4. Novelty, and
5. Enablement.⁹⁵

⁹² Giles S. Rich, *Are Letters Patent Grants of Monopoly?*, 15 W. NEW ENG. L. REV. 239, 245,(1993), Patents are to be regarded as public franchises granted to the inventors of new and useful improvements for the purpose of securing to them as inventors for the limited term therein mentioned, the exclusive right and liberty to make and use and vend to others to be used their own inventions as tending to promote the progress of science and useful arts. And as matter of compensation to the inventors for their labor, toil and expense in making the inventions and reducing the same to practice for the public benefit, as contemplated by the Constitution and sanctioned by the laws of Congress.

⁹³ 35 U.S.C. §101

⁹⁴ WALKER ON PATENTS, §11, 2d ed. (1964), noting the differences between a machine, a manufacture and a composition of matter.

⁹⁵ 35 U.S.C. §101,102,103 and 112

1. Patentable subject matter:

A patentable subject matter is described as any process, machine, manufacture...composition of matter, or...improvement thereof...⁹⁶

To qualify as a patentable subject matter, the product must be of human ingenuity, having a distinctive name, character and use.⁹⁷ The rationale behind the subject matter requirement is that protection is granted to only tangible ideas and not ideas in the abstract. The rule derives from the traditional idea that patents are intended to cover “devices” or physical things in the useful art, not more esoteric matters.

As one court noted

“...an idea of itself is not patentable, but a new device by which it may be made practically useful is...”⁹⁸

2. Utility:

This requires that any new invention must be useful in the required field or factory. The three inquiries made by the Patent and Trademark Office (P.T.O) to determine the utility of an invention are, first, whether the invention can, as claimed do anything. Secondly, whether it works to solve the problems it is designed to solve, and thirdly, whether the intended purpose of the invention has some minimum social benefit.⁹⁹

⁹⁶ *Id.* §101, This does not however embrace all discoveries as Laws of nature, physical phenomena, and abstract ideas have been held not patentable.

⁹⁷ Diamond v. Chakrabarty 447 U.S. 303, (1980), Burger L.J., expressing that a live human made micro-organism is patentable subject matter as the product is the result of human ingenuity and research.

⁹⁸ Rubber-Tip Pencil Co. v. Howard, 87 U.S., 498, 507 (1874)

⁹⁹ Brenner v. Manson 383 U.S. 519 (1966), this case has been described as a “high water mark” case for the utility requirement as the Patent and Trademark Office

Three types of utility requirements have been used to determine the acceptability of a patent application .These are: general utility; specific utility; moral utility.

1. General utility: What is required here is that an invention be more than a “mere curiosity” An invention will be considered useful here where it produces a physical result and is not merely a frivolous or trifling article.¹⁰⁰
2. Specific utility: The test here is that an invention be directed toward a certain function, and actual performance of such function. It has been held that an invention stated to be directed toward a particular function must actually work to perform that function, or otherwise will be considered “useless” ¹⁰¹
3. Moral utility: An invention will be considered not useful where it is immoral and not towards an acceptable use. Examples of nonuseful inventions have been stated as those that “...poison people, or promote debauchery, or facilitate private assassination.”¹⁰² The rationale here is to protect the public from the effects of inventions that may harm consumer’s welfare.

(P.T.O.) only requires a patent claim to show that an invention is useful, and there is no specific requirement for a detailed disclosure of the utility, *See*, MERGES, MENELL & LEMLEY , at 141.

¹⁰⁰ W. Robinson, *Treatise on the law of Patents for Useful Inventions* 463 (1890).

¹⁰¹ Newman v. Quigg, 877 F. 2d 1575 (Fed. Cir. 1989) *cert. denied*, 495 U.S. 932 (1990)

¹⁰² Lowell v. Lewis, 1 mason 182, 15 F. Cas. 1018 (No. 8568) (C.C.D. Mass. 1817)

From the above, the utility requirement is all about acceptability of inventions that are specific, credible and substantial.¹⁰³

3. Nonobviousness:

This requires that an invention be non-obvious. The test is whether the invention sought to be patented and a prior invention are such that the invention as a whole would have been obvious at the time the invention was made to a person with ordinary skill in the art to which the said subject matter pertains¹⁰⁴

To determine nonobviousness of an invention, a court will make inquiries as to the differences between a prior art and the invention in issue. Where an invention is found to be obvious in the light of a prior art, it will be stated as not to pass the nonobviousness test of patentability¹⁰⁵

4. Novelty:

This provides that to be entitled to patent protection an invention must be new compared to prior inventions. It must be different from all published articles, known techniques, and marketed products. Section 102 of the Patent Act provides that:

“A person will be entitled to a patents unless: the invention was known or used by others in this country or patented or described in a printed publication in this or a foreign country before the invention thereof by the applicant for the patent...”

¹⁰³ See, Patent and Trademark Office (P.T.O) Utility Examination Guidelines, 66 Fed. Reg. 1092 (Jan. 5, 2001).

¹⁰⁴ Graham v. John Deere Co 383 U.S. 1 (1966)

¹⁰⁵ Hotchkiss v. Greenwood, 11 How. 248, 52 U.S. (1851)

This requirement does not include inventions that became public knowledge as a result of experimental use.¹⁰⁶ The novelty test protects only truly new inventions that are not generally known or readily ascertainable.¹⁰⁷

5. Enablement:

The fifth requirement is that a patentee gives a sufficiently good description of the invention so that someone of ordinary skill in the art will be able to make the invention without undue experimentation.¹⁰⁸ An invention must be described sufficiently well to qualify under this requirement. This standard is stated to have two basis, first is to prove to the world that the applicant was in fact in possession of the invention at the time of the application for the patent, and second to enable those skilled in the relevant art to make and use the invention. In *Wood v. Underhill*, the court relayed this requirement by stating as follows:

“...when the specification of an invention gives only the names of substances to be mixed together, without stating any relative proportion ...to be used, these are not susceptible to exact description, and the inventor is not entitled to a patent...”¹⁰⁹

Where the above requirements are met, the Patent and Trademark Office (P.T.O) grants a patent to the inventor. Once granted, a patent confers on the patentee, the right to

¹⁰⁶ Experimental use is where an inventor tests or examines the result produced by the use of the invention. E.g. in *Rosaire v. National Lead Co.* 218 F. 2d, 72 (5th Cir. 1955) cert. denied, 349 U.S. 916 (1955), the court held that the Plaintiff's patent was valid as the fact of public knowledge was as a result of experimentation of the methods and processes in issue. Further that the fact of public knowledge was not relevant here, as the invention became public knowledge because of the experimental use.

¹⁰⁷ *Id.*

¹⁰⁸ *The Gentry Gallery Inc. v. Berkline Corp.* 134 F. 3d 1473 (Fed. Cir. 1998)

¹⁰⁹ *Wood v. Underhill*, 46 U.S. 1, 5 (1857).

exclude others from making, using, selling, offering for sale, or importing the claimed invention for a specific term of years¹¹⁰

Where a person uses a registered patent without the patentees' authority, he may be found guilty of patent infringement¹¹¹

III. Monopolization under the Sherman Act

The traditional view of the evils of monopoly suggests that monopolies in themselves ought to be unlawful.¹¹² Current doctrine however provides that the offense of monopolization under section 2 of the Sherman Act requires 2 elements:

1. Possession of monopoly power
2. Use of an offensive conduct to obtain, protect or expand the monopoly¹¹³

A defendant will be guilty of the offence of monopolization where he uses his monopoly power to monopolize a market to exclude competition and injure consumers¹¹⁴.

Historically, the rationale for not outlawing "mere monopoly" was based on considerations of freedom of contract.¹¹⁵ The modern rationale is often traced to Judge

¹¹⁰ Patent Act, 35 U.S.C.

¹¹¹ Larami Corp. v. Amron 27 U.S.P.Q. 2d 1280 (E.D. Pa.1993)

¹¹² *See*, Nolan Ezra Clark, *Antitrust Comes Full Circle, The Return to Cartelization Standard*, 38 VAND L. REV. 1125, 1129 (1985).

¹¹³ U.S. v Grinnell Corp, 384 U.S. 563 (1966)

¹¹⁴ U.S. v. Aluminum Co. of America, 148 F. 2d 416, 430 (2d Cir. 1945)

¹¹⁵ *See*, for instance, Standard Oil v. United States, 221 U.S. 62 (1911), that the omission of the individual right to contract when not unduly or improperly exercised was the most efficient means for the prevention of monopoly.

Learned Hand's opinion in *Alcoa*, which is that to prohibit all monopolies would undermine incentives for firms to be productive and innovative.¹¹⁶

The first question here is whether a defendant possesses monopoly power in a relevant market. Monopoly power is defined as the power to control prices and exclude competition within a relevant market¹¹⁷.

The relevant market has two aspects. The product market and the geographic market.

The product market is determined by identifying other sellers or manufacturers who can supply the product or a substitute of the product in issue.¹¹⁸ The geographic market is the area where customers can obtain a substitute of the product in issue.¹¹⁹

Courts determine what the relevant market is by finding out whether consumers have substitute products available to them where there is a price change of a product. If consumers have no substitute choices, then such product is labeled the relevant market.¹²⁰

¹¹⁶ See, *U.S. v. Aluminum Co.* at 430, where Judge Hand wrote, that a single producer may be the survivor out of a group of active competitors, merely by virtue of his superior skill, foresight and industry. In such cases, a strong argument can be made that although the result may expose the public to the evils of monopoly, the Act does not mean to condemn the resultant of those very forces which it is its prime object to foster: *finis opus coronat*. The successful competitor having been urged to compete must not be turned upon when he wins.

¹¹⁷ *U.S. v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 391 (1956)

¹¹⁸ *Thurman Indus., Inc v. Pay' N' Pak Stores, Inc.*, 875 F. 2d 1369, 1374 (9th Cir. 1989)

¹¹⁹ *Tampa Elec. Co v. Nashville Coal Co* 365 U.S. 320, 327 (1961)

¹²⁰ *Eastman Kodak Co. v Image Technical Services Inc.* 504 U.S. 451 (1992)

A defendant will be said to possess monopoly power in a relevant market where he has a high market share in the relevant market. High market share has been stated to be in the range of 50% and above¹²¹

Possession of monopoly power alone is not enough to be guilty of the offence of monopolization under section 2 Sherman Act.¹²² A defendant must abuse his position through a conduct that may be considered exclusionary.¹²³ One of such conduct considered exclusionary is refusal to deal with competitors.¹²⁴

IV. Intellectual property and Monopoly power

The general presumption is that intellectual property confers market power on the owner.¹²⁵ There is the argument that this presumption may be true on the face of it, but

¹²¹ U.S. v. E.I. Du Pont De Nemours & Co. 351 U.S. 377 (1956), contra. Bacchus Indus. Inc v. Arvin Indus. Inc. 1991-1 Trade Cas. (CCH) 69, 466 (10th Cir. 1991), here, monopoly power was defined as the ability to control prices and exclude competition. That monopoly power is not shown where the defendant was one of many ultimate suppliers in a competitive market with low entry barriers.

Metro Mobile Inc. v. New Vector Communications Inc. 892 F. 2d 62 (9th Cir. 1989), Monopoly power is not shown where entry barriers were low, and alternate suppliers were readily available.

Town of Concord, Mass v. Boston Edison Cp., 915 F. 2d 17 (1st Cir. 1990), Monopoly power not shown where the Plaintiff has access to supply alternatives to the defendant and chose not to exploit them

¹²² VAN CISE, LIFLAND AND SORKIN, UNDERSTANDING THE ANTITRUST LAWS 37, (1986).

¹²³ U.S. v. Swift & Co., 286 U.S. 106, at 116 (1932), other conduct considered monopolistic are tying of products, market allocation, agreements in restraint of trade e.t.c.

¹²⁴ U.S. v. Lorain Journal, 342 U.S. 143 (1951)

¹²⁵ *See*, W.R. CORNISH at 7.

it is believed that Patents are the most basic and most dangerous of all intellectual property as regards monopoly power. For instance, in case of a first discovery in a particular field, all competitors in that field may need to embody the invention in their products if they are to keep in the market. However as a result of the Patent

that intellectual property does not confer market power as defined in antitrust law¹²⁶. The question asked here is in an instance of a patented product, whether consumers will switch from on patented product to another if there is a price increase? A suggested answer to this is that this may depend on the technical advance made in the field covered by the patent.¹²⁷ It has been held that a presumption of market power can be refuted especially where there are close substitutes available for the product in issue.¹²⁸

Another argument proffered is that there is no economic relationship between both laws as intellectual property grants rights to exclude others from using the invention, and does not grant the owner the right to exclude others entirely from a market to the detriment of competition.¹²⁹ Therefore, in the absence of entry barriers, competitors are free to enter and remain in a market as long as they do not exploit the protected intellectual property¹³⁰

monopoly, others will be prevented from including the invention in their products or services, which in turn will render competition obsolete.

¹²⁶ See, §2, FTC/DOJ Guidelines on Licensing Intellectual Property 1995, (reprinted in 4 Trade Reg. Rep. (CCH) 13, 132), antitrust enforcement should not unnecessarily interfere with the licensing of intellectual property rights and that the existence of an intellectual property right does not by itself give rise to a presumption of market power. In addition, that for the purpose of antitrust analysis, the agencies regard intellectual property as being essentially comparable to any other form of property.

¹²⁷ W.R. CORNISH at 31.

¹²⁸ Justice O'Connor, Jefferson Parish Hospital District No. 2 v. Hyde 466 U.S. 2, 38 (1984)

¹²⁹ The cost of an application of antitrust to intellectual property impacts negatively on intellectual property. Antitrust enforcement will prevent intellectual property laws from achieving the basic goal of promoting progress in the useful arts and sciences, See, Daniel B. Ravicher, *Antitrust Scrutiny of Intellectual Property Exploitation, It just don't make no kind of sense*, 8 S.W. J.L. & TRADE AM, 83, 110-112 (2001-2002)

¹³⁰ See, Dubilier Condenser, 289 U.S. 178 (1933)

V. Licensing Intellectual Property

In a market economy, a logical way to provide creators with returns for their innovation is to grant them the right to preclude others from using the creator's work. This right to exclude forces those who wish to use an innovation to bargain with the owner for a license, to pay him or her for the use¹³¹

As stated by the Supreme Court,

“...the limited monopoly granted to the artist is intended to provide the necessary bargaining capital to garner a fair price for the value of the works passing into public use...”¹³²

Intellectual property rights are considered exclusive rights granted by the government to inventors and creators of work of art to reward them for their creative efforts and contribution to arts and science. Intellectual property rights are described as “negative rights” to stop others from doing certain things such as pirates, counterfeiters, and imitators from exploiting them without the license of the right owner.¹³³

The unauthorized use of intellectual property can amount to an infringement claim. A recognized way to use and intellectual property way is through the grant of a license, as this is one of the accepted methods through which intellectual property holders derive profit for their works.

A license is generally defined as an official permission to do or use something, without which would be considered illegal.¹³⁴ A license could be to do something on, or with

¹³¹ David McGowan, *Networks and Intention in Antitrust and Intellectual Property*, 24 J. CORP. L, 485, 493 (1999).

¹³² *Stewart v. Abend*, 495 U.S. 207, 229 (1990)

¹³³ W.R. CORNISH, at 3

¹³⁴ OXFORD ADVANCED LEARNERS DICTIONARY 6th ed.

somebody else's property. In intellectual property, a license is the transfer of "intangible property rights".¹³⁵ An instance of a license is where an inventor grants permission to another person to use a computer program under specified conditions. Use outside the provisions of the license will amount to a violation of the intellectual property right in issue¹³⁶

A. Licensing Trade secrets

The requirement for protection of a trade secret is that it remains secret. The owner of a trade secret has the exclusive right to the information as long as it remains a secret.

Trade secret law therefore does not protect information that has entered the public domain. Trade secret law ceases to protect information that was discovered through legitimate means, such as reverse engineering or through other proper means¹³⁷.

A trade secret owner may decide to disclose a trade secret by granting licenses to others to use, as this is one of the legitimate means by which a trade secret may be acquired.

With the grant of this license, a licensor is saying to the licensee "I have relinquished my right to bring an action for misappropriation for your use of this trade secret"¹³⁸

¹³⁵ ATWOOD & BREWSTER, ANTITRUST AND AMERICAN BUSINESS ABROAD 2, (1981)

¹³⁶ This could be a violation of Patent, Copyright, Trademark or Trade Secret protection.

¹³⁷ Kewanee Oil Co. v. Bicron Corp 416 U.S. 47, 476 (1974), Reverse engineering is working backward with the acquired product to find the method by which it was developed.

¹³⁸ Elizabeth A. Miller, *Antitrust Restrictions on Trade Secret Licensing, A Legal Review and Economic Analysis*, 52 WTR LAW & CONTEMP. PROBS, 183, 188 (1989).

B. Licensing Trademarks

The function of a trade mark is to indicate the source of goods, and to distinguish same from other's goods¹³⁹

In general, only a trademark owner has an exclusive right to use the mark in commerce. A trademark owner may permit others to use his mark through licensing with certain conditions. Where he does this, a trademark is stated to be in the public domain¹⁴⁰

C. Licensing Copyrights

A copyright is granted to a work of original authorship to further promote creativity. The rights of a copyright owner were reiterated in the words of an Irish king in favor of authors that "to every cow her calf..."¹⁴¹

To use an original to create a new whole, a person has to buy the right to use the original. This is by obtaining a license of the copyright. The liability for using creative content without obtaining all proper clearance is enormous. An infringer may be liable for the rights holder's actual or statutory damages, value of profits, attorney's fees and costs¹⁴²

¹³⁹ 15 U.S.C. §1127

¹⁴⁰ Darren W. Saunders, *Should the Bankruptcy Code be Amended to Protect Trademark Licenses?* 22- JAN AM. BANKR. INST.J. 44, December/January 2004

¹⁴¹ ARTHUR B. HANSON & CAMBRIDGE RESEARCH INSTITUTE, OMNIBUS COPYRIGHT REVISION, COMPARATIVE ANALYSIS OF THE ISSUES, 6 (1973), This event occurred between the Fifth Century A.D.

¹⁴² Fara Daun, *The Content Shop, Toward an Economic Legal Structure For Clearing and Licensing Multimedia Content*, 30 LOY. L.A. L.REV, 215, 217 (1996).

D. Licensing Patents

Once the required elements are present in an invention patent, an inventor is granted a patent for the next twenty years, and he has the right to use the invention to the exclusion of others.¹⁴³ The general belief by inventors is that a patent is the best intellectual property protection to obtain so far as inventions are concerned. In the words of Elihu Thomson,

“...publish an invention freely and it will surely die from lack of interest in it’s development. It will not be developed and the world will not be benefited. Patent it and it will be taken up and developed into a business...”¹⁴⁴

There is said to be a prestige associated with patenting inventions, basically because of the royalties obtainable through licensing. This prestige is likened to “a corporation engaged in profitable business of licensing to the highest bidders”¹⁴⁵

From the above, we can infer that intellectual property rights are legal monopolies, which can be diluted through the grant of licenses. The question now is where an intellectual property holder refuses to license his rights, will he be running afoul of antitrust monopolization doctrine ?¹⁴⁶

¹⁴³ 35 U.S.C. 154(a) (2)

¹⁴⁴ Lynne J. Bowers & Vickie Leon, *Patent Policies of 65 Educational Institutions, A Comparison*, SOC. RES. ADMIN. J. 7, (1994)

¹⁴⁵ Wade L. Robison & John T. Sanders, *The Myths of Academia, Open Inquiry and Funded Research*, 19 J.C. & U.L. 227, 231 (1993)

¹⁴⁶ Ronald B. Coolley, *Unilateral Refusal to License*, 449 PLI/PAT. 379, 381 (1996), there is yet to be a specific rule formulated by the courts on which prevails over the other.

CHAPTER 3

UNILATERAL REFUSALS TO DEAL AS MONOPOLISTIC CONDUCT

I. Refusals to Deal

The general rule is that a trader or manufacturer engaged in private business has a right of discretion to choose parties with whom to deal.¹⁴⁷ Absent any anticompetitive purpose, he may refuse to deal without violating antitrust laws.¹⁴⁸

In *U.S. v. Colgate & Co*, the court stated in a dictum:

“In the absence of any purpose to create or maintain a monopoly, the act does not restrict the long recognized right of a trader or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal, and of course he may announce in advance the circumstances under which he will refuse to sell”¹⁴⁹

Despite the above, the right to refuse to deal is subject to regulation and not without limitations. A unilateral refusal to deal can be challenged under Section 2 of the Sherman Act.

¹⁴⁷ *U.S. v. Colgate & Co*, 250 U.S. 300, 307 (1919) reaffirmed in *Monsanto Co. v. Spray-Rite Service Corp.* 104 S.Ct. 1464 (1984)

¹⁴⁸ *See, Official Airline Guides Inc. v. FTC*, 630 F. 2d 920, 927-928 (2d Cir. 1980) Cert. denied. 450 U.S. 917 (1981) “... We think that even a monopolist, as long as he has no purpose to retrain competition or to enhance or expand his monopoly, and does not act coercively, retains... the right to refuse to deal”, *Cascade Cabinet v. Western Cabinet & Millwork, Inc* 710 F. 2d 1366 (9th Cir. 1983), ...the mere refusal to lease facilities to a competitor is not to be viewed as monopolization.

¹⁴⁹ *Colgate* at 307

As stated earlier the offence of monopolization requires two elements. First is monopoly power, second is an exclusionary conduct that harms competition. Unilateral refusals to deal is, subject to certain conditions, characterized as an exclusionary conduct¹⁵⁰

Over the years, it has been difficult for courts to formulate a single test to scrutinize unilateral refusals to deal. Courts have thus made their analysis under 2 tests namely the intent and essential facilities tests.¹⁵¹

A. Intent Test

Intent here is generally defined as the willful acquisition or maintenance of monopoly power¹⁵²

As early as 1927, the court in *Eastman Kodak Co. v. Southern Photo Materials Co.*, mentioned the intent test. Here, Kodak refused to sell wholesale products to a retailer, whose business Kodak had unsuccessfully sought to acquire. In affirming the jury's verdict of monopolization, the court held that Kodak's refusal to sell wholesale products to a competing retailer at the usual dealer discount could not be attributable to any motive other than the intent to create a monopoly.¹⁵³

*U.S. v Klear Flax Linen Looms Inc*¹⁵⁴, is described as a case with an extreme application of the intent doctrine¹⁵⁵

¹⁵⁰ See, U.S. v. Lorain Journal, 342 U.S. 143 (1951)

¹⁵¹ Richard S. Vermut, *A synthesis of the Intellectual Property and Antitrust Laws, A look at Refusals to License Computer Software*, 22 COLUM-VLA J.L. & ARTS, 27 (1997)

¹⁵² *Id.*

¹⁵³ Eastman Kodak Co. v. Southern Photo Materials Co., 273 U.S. 359 (1927)

¹⁵⁴ U.S. v Klear Flax Linen Looms Inc., 63 F. Supp. 32 (D. Minn. 1945)

Klear Flax, was an only manufacturer of linen rug materials in the United States. It set up a system of distribution and sale of its linen rug rolls through distributors, jobbers and retail stores appointed in various cities in the United States. Distributors cut the rugs into required rug sizes and finish them when necessary. Klear Flax also does some finishing of rugs at its factory which are sold to its customers, including distributors, jobbers, retail stores and government agencies.

Floor Products, one of its distributors underbid Klear Flax on a government tender and a controversy arose because of this. Klear Flax refused to sell merchandize required by Floor Products to execute the contract, which led to the present suit.

The court held in favor of the distributor stating as follows:

- i. That Floor Products was a competitor in the rug market and Klear Flax's refusal to sell was an intention to destroy a competitor
- ii. The Sherman Act will not tolerate the removal of a competitor from a market, if same was solely to obtain unlawful monopoly.¹⁵⁶

This decision was cited by the Supreme Court in *Times-Picayune Publishing Company v. U.S.*¹⁵⁷ where the defendant was accused of, amongst others:

- i. Refusing to sell advert space separately in each newspaper it publishes

¹⁵⁵ Charles F. Barber, *Refusals to Deal under the Federal Antitrust Laws*, 103 U.P.A. L REV, 847 (1955)

¹⁵⁶ *Id.*

¹⁵⁷ *Times-Picayune Publishing Company v. U.S.*, 345 U.S. 594 (1953)

- ii. Selling advertising space in newspaper published by it upon the condition, that the purchaser of such space will advertise in its other newspaper.

The court held that Times-Picayune enjoys a complete monopoly of access to the morning newspaper readers, and it was using that monopoly to restrain competition.¹⁵⁸

In *Lorain Journal Co. v U.S.*, a publisher was accused of monopolizing the newspaper market in Lorain County. From 1933 to 1948, the publisher enjoyed a substantial monopoly in mass dissemination of news and advertising, both of a local and national character.¹⁵⁹

In 1948, the Elyria-Lorain Broadcasting Company, a corporation independent of the publisher was licensed by the Federal Communications Commission, to establish and operate a radio station in Elyria, Ohio, a county eight miles south of Lorain. The independent publisher operated under the call letter WEOL.

The publisher knew that a number of journal advertisers wished to use the services of the radio station in addition to the services of the publisher for advert purposes. The publisher however executed a plan to refuse to accept local adverts from any Lorain County advertiser who advertised or who is about to advertise over WEOL.

The court held as follows:

- i. The publisher's conduct is nothing but a bold, relentless and predatory commercial behavior in violation of antitrust doctrines

¹⁵⁸ *Id.* at 625

¹⁵⁹ *Lorain Journal Co. v U.S.*, 342 U.S. 143 (1951)

- ii. The publishers plan was intended to cut off the bloodstream of existence of a competitor and to regain its commanding and overpowering pre-1948 position
- iii. The publishers conduct can be described as aimed at destruction and elimination of WEOL¹⁶⁰

The court recognized that in the absence of any purpose to create or maintain a monopoly, a trader or manufacturer is free to exercise his independent discretion as to parties with whom he will deal. This notwithstanding, the publisher was held to be in violation of the monopolization clause of the Sherman Act, by using its power to destroy competition¹⁶¹

Refusal to deal with those who deal with competitors is characterized as inherently anticompetitive because it makes a mockery of competition on the merits¹⁶²

A refusal to deal alone is not an offense, but where in addition to the conduct, a defendant uses its position to threaten competition, such will be regarded as monopolization in violation of section 2 Sherman Act.¹⁶³

¹⁶⁰ *Id* at 150-153

¹⁶¹ *Id* at 149

¹⁶² David M. Rievman, *The Grinnell Test of Monopolization Sounds a False Alarm, Aspen Skiing Co v. Aspen Highlands Skiing Corp*, 28 B.C.L. REV., 413, 430 (1987).

¹⁶³ Lorain Journal at 154

B. Essential facilities Doctrine

Essential facilities doctrine, also referred to as the “bottleneck principle”, was developed as an exception to the right to refuse to deal. The doctrine imposes liability when one firm which controls an essential facility denies a second firm reasonable access to a product or service that the second firm must obtain to be able to compete with the first firm. It requires the firm controlling the scarce resource to deal with competitors requesting access to the facility on reasonable terms. Therefore a firm in control of a facility labeled an essential facility violates antitrust laws, if it fails to make access available to its competitors or others.¹⁶⁴ For effectiveness of this principle, the Plaintiff bears the burden of proving that the facility in question is truly essential and not merely inconvenient to duplicate.¹⁶⁵

The United States Supreme Court first articulated this doctrine in *United States v. Terminal Railroad Ass’n*¹⁶⁶. Here, the court ruled that an association of railroads that controlled crucial facilities must make access available to competing railroads at commercial rates. The group of railroads controlled all railway bridges and switching

¹⁶⁴ Thomas Vakerics, *Antitrust Basics*, LAW JOURNAL SEMINAR PRESS., 65, (1987)

¹⁶⁵ In McKenzie v. Mercy Hospital of Independence, Kansas 854 F.2d, 365 (10th Cir. 1988), the court denied a claim of monopolization on the ground that a denial of hospital privileges to a physician was not a denial of an essential facility, as the physician was able to continue practice in his office. In Twin Laboratories Inc. v. Weider Health & Fitness, 900 F.2d 566 (2d Cir. 1990), the court held that a claim of a nutritional supplement manufacturer who had been denied the right to advertise in the leading fitness magazine owned and operated by a competing supplement manufacturer was not a denial of an essential facility, as there existed alternative competing advertising outlets, and as such Plaintiff failed to prove any competitive handicap as a result of the denial of access.

¹⁶⁶ United States v. Terminal Railroad Ass’n, 224 U.S. 383 (1912)

yards into and out of St. Louis and prevented competing railroad services from offering transportation to and through that destination. In the absence of this ruling, it would have been extremely difficult for the competing railroad companies to duplicate the facilities.

The court also held that this act constituted both an illegal restraint of trade and an attempt to monopolize.¹⁶⁷

In *U.S. v. American Telephone & Telegraph Co.*¹⁶⁸, it was held that the Bell system possessed a monopoly in the distribution of local telephone services and meaningful competition would be prevented if non-Bell carriers were unable to obtain interconnection with Bell local distribution facilities. Bell local distribution facilities were therefore considered an essential facility.

In *Otter Tail Power Co. v. U.S.*, an electric utility company with monopoly power in transmission of power, refused to sell power to municipal systems at wholesale, where it had been retailing power. It was held that utility is an essential facility, and that otter tail was using its monopoly power to foreclose or destroy competition.¹⁶⁹

In *Silver v. New York Stock Exchange*, the court struck down a rule that denied non-member broker access to the NYSE's private wire connections¹⁷⁰

¹⁶⁷ The Supreme court also reached a similar decision in *Associated Press v. United States*, 326 U.S. 1 (1945), where it held that the Associated Press bylaws violated the Sherman Act by limiting membership in the organization thereby preventing access to its news services.

¹⁶⁸ *U.S. v. American Telephone & Telegraph Co.*, 524 F. Supp 1336 (D.D.C.1981)

¹⁶⁹ *Otter Tail Power Co. v. U.S.*, 410 U.S. 366 (1973)

¹⁷⁰ *Silver v. New York Stock Exchange*, 373 U.S. 341, (1963)

The essential facility doctrine therefore imposes a duty on firms controlling an essential facility to make the facility available to their rivals.¹⁷¹

The essential facilities doctrine is applicable to those circumstances where one firm uses its control of a bottleneck to eliminate actual or potential competitors.¹⁷²

In *Aspen Highlands Skiing Corp. v. Aspen Skiing Co.*¹⁷³, the Tenth Circuit Court of Appeals opined that a ski resorts decision to terminate its long standing participation with a competitor ski resort in selling a multiarea ski ticket that gave customers flexibility to patronize any of the area's ski resorts at a discounted price amounted to a denial of access to an essential facility. The court described the multiarea ticket as an essential facility, which the defendant was denying its competitor access to. This act was therefore described as intent to monopolize by putting the competitor ski resort out of business.¹⁷⁴

To be guilty of refusal to deal in essential facility, the following are laid down guidelines:

- i. show control of an essential facility by a monopolist

¹⁷¹ Richard J. Gilbert and Carl Shapiro, *An Economic Analysis of Unilateral Refusals to License Intellectual Property*, 93 PROC. NATL. ACAD. SCI. USA, 12749- 12755, (1996), available at www.pnas.org/cgi/reprint/93/23/12749.pdf , last visited on December 22, 2003

¹⁷² In *Fishman v. Estate of Wirtz*, 807 F. 2d 520, 539-40 (7th Cir. 1986), it was held that an entity controlling a stadium must provide access on reasonable terms to potential competitor/owners of sporting teams that need to use such bottleneck assets.

¹⁷³ *Aspen Highlands Skiing Corp. v. Aspen Skiing Co* ,738 F. 2d 1509 (10th Cir. 1984)

¹⁷⁴ *See, Aspen Skiing Co. v. Aspen Highlands Skiing Corp*, 472 U.S. 585, 611 (1985), where the Supreme Court upheld antitrust liability but under the general principle of monopolization.

- ii. a competitors inability to duplicate, practically or reasonably, the essential facility
- iii. the monopolist's refusal to allow a competitor use the facility
- iv. the feasibility of allowing a competitor to use the facility¹⁷⁵

a. Control of an Essential Facility

The courts generally require that for antitrust liability under this doctrine, there must be a showing that the facility controlled by the defendant is truly essential to competition.

In *City of Anaheim v. S. Cal Edison Co*¹⁷⁶, it was stated that a facility is essential where it constitutes “an input without which a firm cannot compete with the monopolist”.

A facility will therefore be considered “essential” only if control of the facility carries with it the power to eliminate competition.¹⁷⁷

b. Competitors inability to duplicate the essential facility

This element requires that the asset in question must not be available from other sources or capable of duplication by the firm seeking access.

¹⁷⁵ MCI Communications Corp v. AT & T, 708 F. 2d 1081, 1132-33 (7th Cir), Cert. denied, 464 U.S. 891 (1983)

¹⁷⁶ City of Anaheim v. S. Cal Edison Co , 955 F. 2d 1371, 1380 (9th Cir. 1992)

¹⁷⁷ See, also Hecht v. Pro-Football Inc. 570 F. 2d 982, 992-993 (D.C. Cir. 1977), it was held that “To be essential, a facility need not be indispensable. It is sufficient if duplication of the facility would be economically infeasible and if denial of its use inflicts a severe handicap on potential market entrants...”

In America Online Inc. v. GreatDeals.net, 49 F. Supp. 2d 851, 862 (E.D. Va. 1999), an essential facility is one which is not merely helpful but vital to the claimant's competitive viability.

In *Apartment Source of Philadelphia v. Philadelphia Newspapers*,¹⁷⁸ It was stated thus “A facility will not be deemed essential if equivalent facilities exist or where the benefits to be derived from access to the alleged essential facility can be obtained from other sources...”

c. Monopolist’s refusal to allow a competitor use the facility and feasibility of allowing a competitor use the facility:

Antitrust laws do not require that an essential facility be shared if such sharing would be impractical or would inhibit the defendant’s ability to serve its customers adequately.

*Hecht v. Pro-Football Inc.*¹⁷⁹, was a private antitrust action brought by a group of promoters who had sought unsuccessfully to obtain a professional football league franchise against owners of a professional football team in a rival league.

The defendant inserted a covenant in a lease agreement restricting the use of the main sport stadium in D.C.

The Plaintiff argued and the court agreed that:

- i. RFK stadium is the only stadium in the D.C. metropolitan area suitable for professional football games.
- ii. That use of RFK stadium was essential to the operation of a professional football team in Washington.
- iii. That such stadium facility could not be practicably duplicated by potential competitors.

¹⁷⁸ *Apartment Source of Philadelphia v. Philadelphia Newspapers*, Civ. A. No. 98-5472, (1999)

¹⁷⁹ *Hecht v. Pro-Football Inc.*, 570 F. 2d 982, 992-993 (D.C. Cir. 1977)

- iv. That another team could use the stadium in the defendant's absence without interfering with the defendant's use.
- v. That the restrictive covenant in the lease agreement prevented equitable sharing of the stadium by potential competitors¹⁸⁰

The essential facilities doctrine as an exception to the general right to refuse to deal supports the consumer welfare enhancing goal of antitrust law. The limitation of the doctrine attempts to justify the antitrust bedrock principle that consumer welfare is enhanced by competition by lowering product costs and prices.

The doctrine prevents firms with monopoly control over an essential facility from excluding competitors. Therefore a firm which has monopoly power over an essential facility may not refuse to make the facility available to its competitors.¹⁸¹

¹⁸⁰ Although the defendants action was held an unreasonable restraint of trade under section 1 of the Sherman Act, *See* opinion of Wilkey J. (C.A) for discussion on essential facilities doctrine at pp.992-993.

¹⁸¹ Interface Group Inc. v. Mass. Port Auth., 816 F. 2d 9, 12 (1st Cir. 1987)

CHAPTER 4

REFUSALS TO DEAL IN INTELLECTUAL PROPERTY AS ANTITRUST VIOLATION

I. Refusals to Deal in Intellectual Property.

The question for determination here is whether antitrust doctrines against unilateral refusals to deal are applicable to refusals to deal in intellectual property? Discussion here will be refusals to deal under the four recognized intellectual property rights.

A. Refusals to Deal in Trade Secrets and Trademarks

Refusals to deal in these two rights has not been a subject of substantial controversies, basically because as noted earlier, most authors and inventors will rather obtain patent or copyright protection for their works¹⁸². Despite this lack of precedent however, there are some instructive cases on application of antitrust monopolization doctrine to refusal to disclose information to rivals (trade secrets).

In *Re Intel Corp.*, 1998, Intel was accused by the Federal Trade Commission (FTC)¹⁸³ of refusing to grant technical information (a trade secret) on its new microprocessors to its competitors. In settling the matter, Intel agreed not to further withhold the technical information. The Commission however qualified this agreement by stating that an

¹⁸² See, Elihu Thomson at p. 45.

¹⁸³ The FTC is an administrative body with powers to investigate antitrust violations and to enforce same against violators.

intellectual property holder such as Intel is not obliged to release its technical information in the first instance to its competitors.¹⁸⁴

In *E.I. Du Pont de Nemours & Co (Titanium)*, it was alleged that Du Pont's refused to disclose its new manufacturing process to its competitors and this refusal gave it advantage over its competitors. Further that the company took advantage of this to limit competition. After investigation by the FTC, it concluded that the company was under no obligation to license its technology to its competitors, particularly if its success was achieved through superior products and business acumen, and not through unlawful anticompetitive conduct.¹⁸⁵

B. Refusals to Deal in Copyrights and Patents

Refusals to deal in copyrights and patents have been subject to several litigations basically because inventors and authors usually resort to these types of protection for better exclusive use guarantee. Refusals to deal in a patent could occur in two instances. First, where a patent holder refuses to license his patent. The question here is whether antitrust doctrines on unilateral refusals to deal nullify this as a monopolistic conduct?, as the Patent Act does not provide a general exemption from antitrust laws¹⁸⁶

¹⁸⁴ Re Intel Corp, Docket No. 9288 (August 3, 1999), available at <http://www.ftc.gov/os/1999/9908/intel.do.htm> , one of the goals of this decision being to prevent an instance of “compulsory licensing” of intellectual property rights

¹⁸⁵ E.I. Du Pont de Nemours & Co (Titanium), 96 F.T.C. 653 (1980), *Contra*, New York v. Microsoft 224 F. supp, 2d 76, 266_(DDC, Consent Decree SSIII D. (2002), it was held that Microsoft was obliged to reveal certain trade secrets to its competitors concerning disclosure of its application programming interfaces (APIS).

¹⁸⁶ U.S. v. Paramount Pictures, Inc. 334 U.S. 131 (1948).

The second instance is where a patent holder refuses to allow a rival use parts considered an essential functional part of a rivals machine. Question here is whether essential facilities doctrine of antitrust applies?

In another instance, can a copyright holder who is granted exclusive use of his copyright for his entire life plus 75 years validly refuse to license his copyright to another without violating antitrust doctrines against unilateral refusals to deal as articulated in the preceding chapter?

The applicability of antitrust doctrines to refusals to deal in intellectual property is categorized into 3 periods:

- a. 19th century
- b. 20th century
- c. 21st century

a. 19th century

Early United States courts were sensitive to applying antitrust principles generally to intellectual property for fear of dampening technological innovation.

On the first instance where a patent holder refuses to license its patent, the early courts consistently held that a patent holder has a right to refuse to license its products.¹⁸⁷

¹⁸⁷ SMC. Corp. v. Xerox Corp. 463 F. Supp. 983 (D. Conn. 1978), remanded 599 F. 2d 32 (2d Cir. 1979) on remand 474 F. supp. 589 (D. Conn 1979), certified question answered, 645 F. 2d. 1195 (2d Cir. 1981), cert. denied 455 U.S. 1016 (1982), GAF Corp. v. Eastman Kodak Co. 519 F. Supp. 1203 (S.D.N.Y. 1981), That Patent holder has the right to maintain monopoly if conduct is permissible under the Patent laws. One of such permissible conducts is unilateral refusal to license a Patent.

In *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*¹⁸⁸, it was stated

“...a patentee may reserve to himself the exclusive use of his invention or discovery... his title is exclusive and clearly within the constitutional provisions in respect of private property, that he is neither bound to use his discovery himself nor permit others to use...”

b. 20th Century:

A more detailed deliberation of this conflict occurred during this period. The conclusion is in line with early courts position strongly favoring intellectual property exclusivity.¹⁸⁹

i. Position of Courts:

The general position during this period can be summarized thus:

“It is the possibility of success in the market place, attributable to superior performance that provides the incentives on which the proper functioning of our competitive economy rests. If a firm that has engaged in the risks and expense of research and development were required in all circumstances to share with its rivals the benefits of those endeavors, this incentive would very likely be vitiated...”¹⁹⁰

An instructive case enunciating the position during this period is the second Circuit’s opinion in *SCM Corp. v. Xerox Corp.*¹⁹¹ Here, SCM Corp., a manufacturer of office photocopy machinery instituted an action against Xerox, claiming that Xerox violated the antitrust laws by refusing to license its patents. Plaintiff claimed that Xerox’s refusal

¹⁸⁸ *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 294 (1896)

¹⁸⁹ *See*, however Ninth Circuit’s position at p. 66

¹⁹⁰ *Berkey Photo Inc. v. Eastman Kodak Co.* 603 F.2d, 263 (2d Cir. 1979), cert. denied, 444 U.S. 1093 (1983), at 281.

¹⁹¹ *SCM Corp. v. Xerox Corp.* , 645 F.2d, 1195 (2d. Cir. 1981).

excluded SCM from competing effectively in a relevant market. The court held as follows:

- i. The heart of the Patentee's legal monopoly is the right to invoke the state's power to prevent others from utilizing his discovery without his consent.
- ii. A patent holder is permitted to maintain his patent monopoly through conduct permissible under the patent laws.¹⁹²

The court justified this position by stating that intellectual property manifests the importance attached to encouraging inventive genius by rewarding an inventor with the power to exclude others from using or exploiting his invention for 20 years.¹⁹³ It wrapped up its position by stating as follows: "the need to accommodate the patent laws with the antitrust laws precludes the imposition of ...liability for a unilateral refusal to license valid patents..."¹⁹⁴

In *United States v. General Electric Co (lamps)* the courts position was that a patent owner is under no requirement to license the use of his patents.¹⁹⁵

In *Hartford-Empire Co. v. United States*, the court opined that a patent owner is under no obligation either to use the patented invention or to grant its use to others¹⁹⁶

In *U.S. v. Westinghouse Elec. Corp*, the court recognized the inherent conflict between intellectual property and antitrust and acknowledged as follows:

¹⁹² *Id.* at 1204

¹⁹³ formerly 17 years under Patent Act (1976).

¹⁹⁴ Judge Newman, 463 F. Supp. 983 (1978)

¹⁹⁵ United States v. General Electric Co (lamps), 82 F. Supp. 753, 817 (D.N.J. 1949)

¹⁹⁶ Hartford-Empire Co. v. United States, 323 U.S. 432 (1945).

“...no court has ever held that the antitrust laws require a patent holder to forfeit the exclusionary power inherent in his patent...”¹⁹⁷

The facts before the court was that the defendant Westinghouse signed a Technical Assistance Agreement with certain selected companies granting them licenses to sell technology, but refused to grant the same license of sale to others in the same field. The government instituted an action alleging that Westinghouse was monopolizing the market by this refusal.

The court held that the right to license a patent exclusively or otherwise is the “untrammelled right” of the patentee¹⁹⁸

In *U.S. v. Line Material Co*, it was held that a patentee has a right of refusal to grant licenses except upon condition that royalties be paid.¹⁹⁹

In *Data General Corp. v. Grumman systems support Corp*, the situation was as follows: Data General (DG) is a manufacturer of computers and also provides a line of products and services for the maintenance and repair of its hardware. DG secured a copyright for the software of these computers. Grumman is a competitor of Data General and is in the business of servicing computers. DG had a policy in place where it permitted its own service technicians to use its software and licensed it to only a handful of in-house technicians. DG however refused to license its software to Grumman. As a way out, Grumman decided to copy DG’s software, and DG instituted an infringement action against Grumman for copying its copyrighted software. Grumman brought an antitrust counterclaim asserting that DG’s refusal with it was an antitrust violation.

¹⁹⁷ *U.S. v. Westinghouse Elec. Corp*, 648 F. 2d.,642 at 648 (9th Cir. 1981)

¹⁹⁸ *Id.* at 645

¹⁹⁹ *U.S. v. Line Material Co* , 395 U.S. 100, 135 (1969)

One of DG’s arguments was that the court should apply an irrebuttable presumption test that a unilateral refusal to license a copyright may never constitute an exclusionary conduct in violation of section 2 of the Sherman Act. The court did not however adopt all of DG’s arguments, because it held that refusal to license an intellectual property right was a rebuttable presumption and that in this case in this case, a refusal to license is a presumptively valid business justification for any immediate harm to consumers.²⁰⁰

The courts rationale for this position is that the Copyright Act was enacted to secure a fair return for an author’s creative labor, and the text of the Copyright Act does not prevent an author from “hoarding all of his works during the term of the copyright even though such refusal may be harmful to consumers.”²⁰¹

Another court followed this above line of reasoning in *Tricom Inc. v. Electronic Data Systems Corp*²⁰². A software company refused to license its programs to a competitor, which required the license in order to provide support services. The court held that there is never a duty of an intellectual property holder to license its rights.²⁰³

²⁰⁰ Data General Corp. v. Grumman systems support Corp , 36 F.3d 1147 (1st Cir. 1994)

²⁰¹ *Id.* at 1187, the court went on to qualify its position by stating that its decision here does not suggest that an antitrust Plaintiff can never rebut this presumption, but that imposition of antitrust liability on intellectual property rights will only occur in rare cases as otherwise this may frustrate the objectives of intellectual property protection.

²⁰² Tricom Inc. v. Electronic Data Systems Corp, 902 F. Supp. 741 (E.D. Mich. 1995)

²⁰³ The court did not believe an in depth consideration of policies behind antitrust and intellectual property laws was necessary to come to this conclusion.

In the late 20th century, a landmark decision of note on refusals to deal in intellectual property, is the novel opinion of the 9th Circuit²⁰⁴ in *Image Technical v. Eastman Kodak*²⁰⁵

Facts

Kodak manufactures and sells photocopiers and micrographic equipment. It is however not only a manufacturer of these machines, it also sells and services replaceable parts for these machines. In the early 1980's, independent service organizations (ISO's) began servicing Kodak photocopiers and micrographic equipment making them direct competitors with Kodak. As the ISO's grew more competitive, Kodak instituted new policies as follows:

- i. refused to sell replacement parts manufactures for its machines to ISO's
- ii. negotiated contracts with its parts suppliers not to deal with ISO's

As a result of these policies, ISO's were unable to obtain replacement parts for Kodak machines and therefore went out of business or lost service contracts.

In 1987, ISO's filed a suit against Kodak, seeking injunctive relief for violations of the Sherman Act²⁰⁶

²⁰⁴ This is because the Ninth Circuit refused to follow the previous line of reasoning favoring the exclusivity of intellectual property rights, but instead concluded that intellectual property rights are not immune from antitrust scrutiny.

²⁰⁵ *Image Technical v. Eastman Kodak (Kodak II)*, 125 F.3d 1214 (1997). Although the Supreme Court gave an opinion in this case, it however failed to address the refusal to deal issues.

²⁰⁶ The initial complaint raised both §1 and §2 claims. Kodak moved for summary judgment and the trial court granted it. The Ninth Circuit reversed and the Supreme Court granted Certiorari. For purposes of our refusal to deal analysis under §2 of the Sherman Act, the relevant opinion here is the 9th Circuit's opinion, as the Supreme Court dealt principally with Image Tech's §1 claim.

Ninth Circuit’s analysis

The Ninth Circuit through this opinion sought to harmonize conflicting antitrust and intellectual property laws.²⁰⁷ After scrutinizing the issues, the Ninth Circuit based its opinion on the Supreme Court’s statement.²⁰⁸ The court endorsed this statement and interpreted it as a broad concept that intellectual property holders can be subject to antitrust liability and that mere possession of valid intellectual property rights does not confer an absolute immunity from antitrust claims.²⁰⁹

The Ninth Circuit recognized the novelty of antitrust liability for refusals to license by stating “...we find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright”²¹⁰

The court also applied a modified version of the rebuttable presumption test adopted by the First Circuit in *Data General Corp. v. Grumman Systems Support Corp.*²¹¹

The Ninth Circuit’s position is summarized thus:

- i. Patent and Copyright holders are not immune from antitrust liability

²⁰⁷ Bran F. Ladenburg, *Refusals to deal in Intellectual Property after Image Technical Services Inc. v. Eastman Kodak*, 73 WASH. L. REV. 1079, 1095 (1998)

²⁰⁸ In footnote 29, the Supreme Court suggested that Copyright and Patent holders may be subject to antitrust liability under a monopoly leveraging approach, when a seller exploits a “dominant” position in one market to expand the empire into the next, *Kodak I*, 504 U.S. 451, 479, n. 29 (1992).

²⁰⁹ *Kodak II*, 125 F.3d at 1215

²¹⁰ *Id.* at 1216

²¹¹ *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147 (1st Cir. 1994), The substance of the test being that lawful possession of patents or copyrights constitutes a presumptively valid business justification for refusing to deal in those products, but this presumption can be overcome by a showing of pretext.

- ii. Exclusionary conduct can include an intellectual property holder's refusal to license his work
- iii. An intellectual property holders desire to exclude others from his protected work is presumptively valid business justification.²¹²

One commentator²¹³ opines that the Ninth Circuit's ruling suggests that a defendant who refuses to deal in intellectual property may be treated in the same manner as a defendant who refuses to deal in anything, thus rejecting previous authorities.²¹⁴ The Ninth Circuit's opinion is viewed as:

“unnecessary and unwise as it strips the property rights bestowed by intellectual property statutes of their luster...”

c. 21st Century

The leading opinion for this era is the Federal Circuit's decision in *re Independent Service Organizations Antitrust Litigation* (CSU v. Xerox Corp).²¹⁵

Here CSU (an ISO) , a competitor with Xerox, accused Xerox of refusal to license or sell its patented and copyrighted products.

Xerox, generally in the business of designing, manufacturing, selling and servicing photocopiers and printers to authorized resellers and end users of its equipment, came up

²¹² *Id.* at 1219-20, the court noted however that Kodak's presumptively valid business justification was pretextual.

²¹³ *Ladenburg* at 1100

²¹⁴ *E.g. Westinghouse* at 647

²¹⁵ *re-Independent Service Organizations Antitrust Litigation* (CSU v. Xerox Corp).²¹⁵ 203 F.3d 1322 (Fed. Cir. 2000), Cert. denied 121 S.Ct. 1077 (2001)

with a policy to refuse to sell parts directly to its competitors including CSU. End users however remained free to supply the parts they purchased to any service provider.

In 1994, as part of settlement of a class action brought by end users and ISO's, Xerox changed its policy and agreed to sell parts directly to ISO's. CSU opted out of this settled class action and filed its own antitrust claims against Xerox under section 2 of the Sherman Act. CSU's claims were centered on the fact that Xerox refused to sell patented parts or to license its diagnostic software, which was protected by both patents and copyrights.

In its opinion, the Federal Circuit purported to recognize exceptions to the right of an intellectual property holder to refuse to license his rights by stating that in the absence of any indication of illegal tying, fraud in the Patent and Trademark office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using or selling the claimed invention free from liability under the antitrust laws.²¹⁶

For analysis of interaction between intellectual property and antitrust laws, the court favors intellectual property rights as follows:

“The principles behind the Patent and Copyrights act are the same: to encourage the development of works that promote consumer welfare in the long term by granting exclusive rights to the inventor or author. The economic philosophy behind the clause empowering Congress to grant patents and Copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public

²¹⁶ *Id.* at 1327, the court also rejected an invitation by CSU to analyze Xerox's conduct under the intent test to determine whether Xerox's motivation in asserting its rights under copyright and patent laws violated antitrust laws. The courts rationale was that in the absence of any evidence that an intellectual property was obtained by unlawful means or were used to gain monopoly power beyond the grant by Congress, such cannot be subject to antitrust liability

welfare through the talents of authors and inventors in the science and useful arts”²¹⁷

The implication of the above reasoning is that if an intellectual property right is lawfully acquired, a unilateral refusal to license its expression or invention does not constitute unlawful exclusionary conduct under the antitrust laws. An intellectual property holder therefore has the freedom to exclude others from using the protected work, even if the exclusion impacts competition. An intellectual property holder’s intent also is viewed as irrelevant in determining the lawfulness of a unilateral refusal to license its rights.

The Xerox decision is criticized as granting intellectual property rights undue weight to the detriment of antitrust law²¹⁸. The view here is that intellectual property should not be immune from antitrust liability, but rather courts should endeavor to strike a balance between both doctrines by protecting intellectual property rightly and enforcing antitrust reasonably, so that both can survive.

d. Position of Congress

The position of Congress on this issue is that intellectual property is protected absolutely and is not subject to antitrust scrutiny. Congress’s position emanates from the provisions

²¹⁷ *Id.* at 1142

²¹⁸ Robert Pitofsky, *Antitrust and Intellectual Property: Unresolved Issues at the Heart of the New Economy*, March 2, 2001, available at <http://www.ftc.gov/speeches/pitofsky/ipf301.htm>, last visited on February 20, 2004. He suggested that a key question to be asked before the grant of an intellectual property right is whether the exclusive grant is essential to stimulate reward and innovation, and if so, what policy justifies the grant. The rationale being to strike a balance between intellectual property and antitrust law. In addition, although intellectual property seeks to drive the economy to higher levels of productivity, its effect on antitrust goals should always be put into consideration.

of the Constitution that provides that it is to grant authors and inventors exclusive rights to their work for the progress of science and useful arts.²¹⁹

Legislation of note here is the Patent Act. Section 271 (d) of the Act provides:

“No Patent owner otherwise entitled to relief for infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of the following: ... (4) refused to license or use any rights to the patent”²²⁰

II. Essential Facilities Doctrine and intellectual Property.

The question here is whether the doctrine as illustrated above²²¹ is applicable to intellectual property. The position is that the doctrine is applicable to intellectual property no less than other facilities found to be essential. Instructive cases on this point are illustrated below.

In *Bellsouth Adv. & Publ’g Corp v. Donnelley Info. Publ’g Inc.*²²², one of the issues dealt with by the court was the applicability of the essential facilities doctrine to a refusal to deal by a copyright holder of telephone listings. The court expressed that although the doctrine of essential facilities has been applied to tangible assets, there is no reason why it cannot be applied to intellectual property wrongfully withheld.

²¹⁹ U.S. CONST. art 1, cl.8, §8

²²⁰ Patent Misuse Reform Act (PMRA) 1988, 35 U.S.C. §271

²²¹ *See*, p. 40

²²² *Bellsouth Adv. & Publ’g Corp v. Donnelley Info. Publ’g Inc* , 719 F. Supp. 1551(S.D. Fla. 1988)

In *Data General*, the court expressed an opinion that a service provider may be obliged to grant access of its copyrighted product to its competitor, where the product is found to be an essential facility.²²³

In *Poster Exch. Inc v. Nat'l Screen Serv. Corp.*, a licensee of copyrighted materials was accused of refusing to supply promotional materials and posters to a competitor. The court held amongst others, that such a refusal could be a violation of the essential facilities doctrine.²²⁴

In *Montgomery County Ass'n of Realtors, Inc. v. Realty Photo Master Corp*, the court considered amongst others, whether refusal to license copyrighted real estate listings violated the essential facilities doctrine. The courts opinion was that such conduct could be considered as violating the doctrine. In this case however, the defendant failed to prove that the listings constituted an essential facility.²²⁵

The Federal Circuit also expressed an opinion on this matter in *Intergraph Corp. v. Intel Corp*. Here, the Plaintiffs claimed that it be allowed access to the defendants intellectual property. The court opined that certain cases might justify that a defendant holder of intellectual property rights be mandated to grant access to its competitor, and that the essential facilities doctrine will be applied where the defendant's refusal to license the facility is found to be anticompetitive.

²²³ 761 F.Supp. at 185 (1991), in this case however the court did not apply the doctrine not because the doctrine is inapplicable, but because the defendant failed to prove that the facility was essential.

²²⁴ *Poster Exch. Inc v. Nat'l Screen Serv. Corp* , 431 F.2d 334, 338-40 (5th Cir. 1970)

²²⁵ *Montgomery County Ass'n of Realtors, Inc. v. Realty Photo Master Corp* , 878 F.Supp. 804, 817 (D.Md. 1995)

From the above, we can infer that courts recognize that the essential facilities doctrine may be applied to refusals to deal in intellectual property where the property in issue constitutes an essential facility. Final holdings from the cases however demonstrate that this doctrine has not been successfully pleaded in refusals to deal in intellectual property.²²⁶

III. Antitrust Analysis of Intellectual Property Rights.

A. Patent Misuse

Patent misuse is an improper attempt to expand a patent monopoly. The doctrine prevents patentees from enforcing their patents against infringers where it is found that the patent has been misused.²²⁷ The question here is whether antitrust rules should be used to test for patent misuse? Argument for is that antitrust rules can identify the types of harm patent misuse doctrine is designed to address.²²⁸ Argument against is that patent

²²⁶ Robert Pitofsky, Donna Patterson, Jonathan Hooks, *the Essential Facilities Doctrine Under U.S. Antitrust Law*, 70 ANTITRUST L.J. 443, (2002)

²²⁷ See, e.g. C.R. Bard Inc. v. M3 Systems Inc., 157 F. 3d 1340, 1372 (Fed. Cir. 1998), stating that bringing a suit to enforce a patent with the knowledge that the patent is invalid or not infringed is patent misuse and is prohibited under antitrust law; B. Braun Med Inc. v. Abbot Labs., 124 F. 3d 1419, 1420 (Fed. Cir. 1997), where the court identified that patentee's conditions placed on distributors use of patented reflux valves was vertical restraint of trade subject to antitrust rule of reason analysis

²²⁸ Harms such as monopolization, price fixing and tying See, e.g. Strait v. Nat'l Harrow Co., 51 F. 819 (N.D. N. Y. 1892), (on monopolizing), where the plaintiff alleged that a combination by a corporation with other manufacturers to control the sale of a patented machinery amounted to monopolizing and is prohibited by antitrust law; Bement v Nat'l Harrow Co., 186 U.S. 70 (1902), (on price fixing) , Henry v. A.B. Dick Co. 224 U.S. 1 (1912) – on tying.

misuse is aimed at behavior that does not necessarily violate the antitrust laws, and that same should be tested according to patent policy²²⁹.

This doctrine developed shortly after antitrust laws developed, and has been linked to antitrust doctrines. This defense strips a patentee from enforcing his patent rights where he is found to have misused his patent.²³⁰ A conduct considered to amount to patent misuse is where a patentee uses his rights to violate antitrust doctrines. For instance it has been held that it is patent misuse for a patentee to tie a patented product with an unpatented product²³¹

In *Motion Picture Patents Co v. Universal Film Mfg Co.*, it was held that a patentee will be denied relief against infringers if he has extended the scope of his patent monopoly by misusing the patent.²³²

In *Rocform Corp. v. Actelli-Standard Concrete Wall, Inc*, it was held that a condition for payment of royalties forever, despite the expiration of a patent term amounted to a patent misuse in violation of antitrust laws²³³.

Based on the patent misuse doctrine, antitrust laws have been used to analyze intellectual property rights, thus adopting the view that antitrust doctrines are applicable to intellectual property rights in certain instances.

²²⁹ E.g. See, Robin C. Feldman, *The insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399 (2003), that antitrust law cannot address all types of harm that patent policy addresses.

²³⁰ *Supra*, B. Braun Med Inc. at 1420, The patent misuse doctrine is viewed as an equitable doctrine whereby a court of equity will not support enforcement of patent that has been misused

²³¹ Mercoird Corp. v. Mid-Continent Inv. Co. 320 U.S. 661 (1944)

²³² Motion Picture Patents Co v. Universal Film Mfg Co., 243 U.S. 502 (1917)

²³³ Rocform Corp. v. Actelli-Standard Concrete Wall, Inc. 237 F. Supp. 34 (1964).

B. Copyright Misuse

Misuse of copyright is analogous to patent misuse. The test was first applied in 1948 by a federal district court in Minnesota. In *M. Witmark & Sons v. Jensen*, the court held that the license negotiation practices of the American Society of Composers, Authors and Publishers (ASCAP) constituted copyright misuse²³⁴.

In *Lasercomb America Inc. v Reynolds*, the defendants' standard licensing agreement banned licenses from developing competing computer software, in holding that this was copyright misuse, the court explained that:

“The origins of patent and copyright law in England, the treatment of these two aspects of intellectual property by the framers of our Constitution, and the later statutory and judicial development of patent and copyright law in this country persuade us that the parallel public policies underlie the protection of both types of intellectual property rights.”²³⁵

C. Trademark Misuse

In *United States Jaycees v. Cedar Rapids Jaycees*, the court allowed the defense of trademark misuse based on the doctrine of unclean hands. The United States Jaycees sued a local chapter of the Jaycees for continuing to use the “Jaycees” trademark after the chapter had been terminated for allowing women members. The court barred the

²³⁴ *M. Witmark & Sons v. Jensen*, 80 F. Supp. 843 (D. Minn. 1948), the court did not rely entirely on the equitable principles of the copyright misuse doctrine, balancing its finding on the fact that there was also a violation of the antitrust laws.

²³⁵ *Lasercomb America Inc. v Reynolds*, 911 F.2d 970, 973 (4th Cir. 1990)

plaintiff from recovering on the infringement claim, finding that the plaintiff misused their mark by seeking to enforce a discriminatory practice.²³⁶

Early case law demonstrates that courts were hesitant to expand the patent misuse doctrine to trademark law.²³⁷ Courts however later applied the doctrine where it is proved that that the mark itself has been the basic and fundamental vehicle required and used to accomplish the misuse.

IV. Position in other Jurisdictions.

The majority view in some countries of note is that an intellectual property holder should not be granted the sole right to license his invention to whomever he wishes.²³⁸

These countries use the doctrine of compulsory licenses and essential facilities doctrine to qualify the potential of an intellectual property holder.

A. Compulsory License.

Compulsory licenses are granted by government for the use of intellectual property rights, especially where the original holder has refused to grant authorization for its use.

²³⁶ United States Jaycees v. Cedar Rapids Jaycees, 614 F. Supp. 515, 518 (ND. Iowa 1985), *aff'd*, 794 F. 2d, 379 (8th Cir. 1986)

²³⁷ One court noted that “in fact it appears that there should not be a trademark misuse doctrine of the same type as the patent misuse doctrine, and where there are no unclean hands, the claim of trademark misuse should not constitute a defense. This is because the foundations of the claims are different. The defendants in attempting to assert a trademark misuse defense respond to this argument that the reasoning behind the doctrine is the same in trademark law as it is in patent and copyright law. Namely that when an intellectual property holder attempts to gain protection beyond that provided for in relevant intellectual property law, equity demands that a misuse defense be viable”. *See, Waco- Porter Corp.* 222 F. Supp. 332, 333 (Cal. 1963).

²³⁸ Countries such as the United Kingdom, and the European Community.

The rationale for granting compulsory licenses is generally to prevent monopolization of intellectual property rights by holders.²³⁹ The question then is whether this doctrine can be successfully applied to curtail the rights of an intellectual property holder? Emphasis here is on United Kingdom and Europe in comparison with the United States.

a. Compulsory Licensing in the United Kingdom.

The U.K. Patent Act of 1977 makes provisions on grounds on which a Patent holder may be obligated to license his rights. These grounds are as follows:

- i. Where a refusal to license will hinder the exploitation of other new technology.
- ii. Where the working of another invention is being prevented through the refusal to grant licenses at all or on reasonable terms.²⁴⁰
- iii. Where the demand for the Patented product is not being met on reasonable terms²⁴¹
- iv. If a refusal to license prevents an export market from being supplied with United Kingdom products or prejudices the establishment or development of United Kingdom industry.

The Comptroller has the discretion to grant compulsory license of a Patent where he is satisfied that the above grounds have been met.²⁴²

²³⁹ William B. Miller, *Giving the Patent owner his due, Recent Developments in the Antitrust/Patent Misuse Interface*, 12 DEL. J. CORP. L. 135 (1987).

²⁴⁰ 48 (30 (d) (11) Patent Act, 1977

²⁴¹ 48 (3) (b)

²⁴² *See*, W.R. CORNISH at 257, despite these provisions, evidence shows these conditions are not easy to satisfy. For instance between 1959 and 1968, an average of

Compulsory licenses may also be issued on the basis of Crown Use. Under this doctrine, the British government has a special exemption from the exclusive right of Patentees, and may obligate a Patent holder to license his invention on grounds of public policy. The Crown Use doctrine is usually justified on grounds of national security.²⁴³

b. Compulsory Licensing in Europe

The provision of note here is Article 82 of the European Commission (EC) Treaty²⁴⁴ which provides that

“any abuse by one or more undertaking of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between member states... in particular..(b) limiting production, markets or technical development to the prejudice of consumers”,²⁴⁵

An instructive case where this provision was applied is the case of NDC Health/IMS Health.²⁴⁶ Here, the European Court of first instance granted interim measures ordering IMS to license the use of its “1860 Brick” structure (covered by copyright protection), to its competitors on non-discriminatory terms. The Court’s rationale was that IMS’s refusal to grant a license for the use of the structure which has become a national standard in the German pharmaceutical industry constitutes an “abuse of dominant

1.5 compulsory licenses were applied for in the U.K per annum, but only two were granted.

²⁴³ §59, United Kingdom Patent Act, 1977

²⁴⁴ The EC is responsible for the prosecution and enforcement of antitrust violations by EC member states

²⁴⁵ Article 82, EC Treaty available at

http://europa.eu.int/comm/competition/legislation/treaties/ec/art82_en.html

²⁴⁶ National Data Corp. v. NDC Health, available at

http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/02/1430/0/RAPID&Ig=EN, last visited on February 27, 2004.

position”. Further that the refusal makes it impossible for competitors to enter or stay on the pharmaceutical sales data market.²⁴⁷

The EEC High Court was also not hesitant to apply the essential facilities doctrine to refusal to deal in intellectual property where such was found to be harmful to competition. In *MaGill-RTE/BBC*, the defendants were accused of refusing to license their copyrighted products and the issue was whether this conduct violated competition doctrines against anticompetitive conduct.

Here, BBC and RTE (Irish Television authority) published their own television and radio programs (on which they had copyright protection). Both had a policy in place to refuse to give details of their programs more than a day in advance to other magazines, making it impossible for anyone to publish all the week’s BBC and RTE programs in a single independent weekly magazine. After analysis, the EEC High Court of first instance held as follows:

- i. BBC and RTE held dominant positions in the markets for the supply of their weekly program lists.
- ii. Refusal of both television companies to provide details of their programs to a competing weekly magazine was contrary to Article 86.
- iii. Only restrictions on competition which are inherent in the protection of the actual substance of intellectual property rights are permitted in Community law.

²⁴⁷ The interim order which was granted in July 2001, was vacated by the President of the European Court of Justice in April 2002.

- iv. A dominant company is not free to exercise such rights so as to pursue an aim contrary to Article 86.
- v. BBC and RTE were preventing the emergence of a new product.

The court's rationale for this decision is based on the "essential facilities doctrine" that the listing was indispensable information necessary for any firm to compete in the market for television listings magazine.²⁴⁸

c. Compulsory Licensing of Intellectual Property in the United States.

There have been efforts in the United States to subject intellectual property rights to the regime of compulsory licensing in line with the above instances²⁴⁹. This has however met stiff resistance. Of note here is the Department of Justice's proposed legislation to codify the application of economically sound rule of reason analysis to the licensing of intellectual property rights.²⁵⁰

Also in *Hartford- Empire Co v. United States*, the Supreme Court opined on compulsory licenses of intellectual property that a court may order compulsory licensing as a remedy for violating antitrust laws where it deems it necessary to restore competition and the conditions of competition.²⁵¹ This decision was reviewed 3 decades later, and the government and defendant modified the compulsory licensing opinion and provisions

²⁴⁸ Text of case available at <http://www.hyperlaw.com/magill.htm> , last visited on February 25, 2004.

²⁴⁹ e.g., 17 U.S.C. A. §115,

²⁵⁰ See, §1841, Title III of The National Productivity and Innovation Act of 1983, Before the Senate Comm., 98th Cong. 1st sess. 3 (1983), which was rejected as a remedy for licensing intellectual property.

²⁵¹ See, Spencer, *Threat to our Patent system*, 34 HARV. BUS. REV. 21 (1956), where this decision was criticized that enforcing compulsory licensing on intellectual property holders is against the very essence of intellectual property rights and that such will discourage research, invention and developmental activity.

for patents issuing after October 31, 1978. These were terminated. The rationale for the termination was expressed thus:

“The government agreed to end the compulsory patent licensing requirement as to patents issued after October 31, 1978, because we believe it may operate as a disincentive to invention. We also believe that the end of compulsory licensing of patents will force competitors to increase their research and development activities.”²⁵²

²⁵² Hartford- Empire Co v. United States, 573 F. 2d 1 (6th Cir. 1978)

CONCLUSION

Antitrust laws and intellectual property rights seek to promote innovation for the benefit of consumers and the economy. Intellectual property law does this by granting to inventors and authors exclusive use of their works for a limited number of years.²⁵³ Antitrust proscribes conducts that restrain or harm competition in a market system. Antitrust laws have long focused on combating practices that tend to discourage innovation. The most difficult issues for antitrust have arisen in the area of prohibiting the abuse of monopoly power and unreasonable restraints of trade, where it concerned the freedom of an intellectual property owner to use or not to use its property as it sees fit. This paper assessed principally the conduct of a single firm dealing independently, perhaps for anticompetitive reasons not to license its intellectual property. From the assessment, three main theories emerge.

First, is that antitrust scrutiny of intellectual property significantly chills intellectual property creation and is disfavored. Intellectual property laws encourage innovation, and antitrust application only prevents the creation of intellectual property, which in turn has a negative effect on technological advancement of the economy.²⁵⁴

²⁵³ U.S. CONST. art. 1, §8, cl. 8

²⁵⁴ From a political point of view, there exists no Constitutional, statutory or other political authority for courts and agencies to undermine intellectual property law through their preference for antitrust principles. As antitrust scrutiny of intellectual property lacks political justification, it negatively impacts the political process by thwarting Congressional intent and usurping the legislative process of amending the intellectual property laws. Legislative amendment by Congress is the only politically proper course of altering the terms of intellectual property laws. *See, Daniel B. Ravicher, Antitrust Scrutiny of Intellectual Property exploitation, it just don't make*

Second is that antitrust laws represent a fundamental national economic policy, and exemptions from antitrust laws are strictly construed and strongly disfavored. The conflict between intellectual property and antitrust raises a false alarm, and the cases favoring intellectual property reflects and overstatement of some aspects of intellectual property law and a misstatement of antitrust law.²⁵⁵

Third is that there should be a down play of the conflict, but to focus on the complementary purposes of antitrust and intellectual property laws in promoting innovation and competition. This approach emphasizes that the same general antitrust principles should apply to conduct involving intellectual property as are applied to conduct involving other forms of property.²⁵⁶

no kind of sense, 8 SW.J.L & TRADE AM. 83, 138 (2001-2002)., See also, CSU v. Xerox at note 220, SMC Corp v. Xerox Corp at note 192 and U.S. v General Electric at note 200

²⁵⁵ See, A. Douglas Melamed, Ali M. Stoeppelwerth, *The CSU Case, Facts, Formalism and the Intersection of Antitrust and Intellectual Property*, 10 GEO. MASON L. REV., 407-10 (2002), criticizing the rulings in CSU and XEROX as mistaken legal rulings. These rules conflict with the longstanding precedent holding that for purposes of antitrust analysis, intellectual property should be treated the same as any other form of property. The rules immunizes from antitrust liability a dominant firm's decision to deny rivals access to inputs or facilities they need, merely because those inputs or facilities contain patented or copyrighted materials, regardless of the competitive effect of the denial.

²⁵⁶ Atari Games Corp v. Nintendo of Am., Inc. 897 F. 2d 1572, 1576 (Fed. Cir. 1990), "the aims and objectives of patent and antitrust laws may seem at first glance wholly at odds. However the two bodies of law are actually complementary as both are aimed at encouraging innovation, industry and competition". See also, DOJ/FTC Antitrust Guidelines For the Licensing of Intellectual Property, §1 (1995), (reprinted in 4 Trade Reg. Rep. (CCH) 13, 132) "The intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare".

The preceding chapters described the intellectual property interface showing the emergence of the above views. Currently, the tension between the two laws remains until Congress and the Supreme Court take a stand.²⁵⁷

²⁵⁷ Authors view is that the complementary purposes of both laws should play an important role in fashioning Congress and the Supreme Court's stand in the antitrust, intellectual property interface, and down play the view that one should trump the other.

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