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The Impact of the KODAK Decision to AntiTrust Tying Challenges in Trademark Licensing: The Search for Legal Certainty

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by

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Introduction

With the development of communications, the appealing power of trademarks or trade-dresses has become of crucial importance in today's worldwide economy. Accordingly, trademark licensing based businesses have dramatically increased during the last three decades. Because of its importance, this sector has inevitably attracted the attention of the antitrust authorities, and has thus given rise to abundant case law. Based on the analysis of antitrust tying law, notably in light of the Supreme Court's recent decision in Kodak, the purpose of this thesis is to establish patterns as to the validity, under antitrust law, of 'hot' clauses present in medium to long term marketing programs. The underlying idea is that due to the importance in terms of investment and duration of trademark licensing programs, their framers need to be able to back their drafting work on stable legal standards so as to ensure an efficient implementation immunized from adverse antitrust challenges for the time of their duration. The analysis of the case law will show that current regulation of tie-ins, especially in view of Kodak, does not provide drafters with the requisite legal predictability. Nor have commentators or most practitioners proposed workable alternatives to cop with such potentially highly prejudicial antitrust pitfalls. The proposition of this thesis for reducing legal uncertainty will therefore be that, in light of the law in force in the European Union, American Congress should amend the law to introduce an exemption procedure, whereby notified agreements could be granted an immunity from antitrust challenges. Such an amendment would substantially ease the task of drafters, and most importantly, enhance American business people competitiveness in the world marketplace, notably as against their European counterparts.

I

Background on trademark licensing and antitrust

The increasing importance of communicative devices has come to a point that trademark licensing is today a crucial component of domestic as well as international trade. Yet, despite the pro-competitive aspect of trademarks, licensing programs do not always comply with antitrust regulation. Consequently, these agreements are subject to increased antitrust scrutiny.

A Relevance of trademark licensing

Trademark licensing is nowadays an omnipresent commercial device. Trademarks are of crucial importance in the communicative-enhanced world. At the same time, the specificity of licensing as a medium of trade, provides trademark owners with unique economic as well as legal benefits. Logically, licenses of trademarks have dramatically developed for the last thirty years. A trademark consists of "any word, name symbol, or device or any combination thereof"[1] used to identify and distinguish products of one source from another. As far as trademark licensing is concerned, it is the grant by the trademark owner (the licensor), to the producer or supplier of products or services (the licensee), of the right to use his mark on, or in connection with the goods or services. Given this definition, licensing is neither an assignment nor a distributorship. First of all, though the right to use the mark may be as extensive or limited as the parties to the agreement agree[2], the licensor keeps the ownership of the trademark. Therefore, a trademark license, as opposed to an assignment[3], is the grant of not all but specified rights related to the brand[4]. Second of all, licensing differs from distributorship. Both contracts are of the kind a company enters into with another one, when seeking for external strategic alliances. Nevertheless, these alliances occur at a different stage of the economic process. While licensing arises at the level of manufacturing or marketing, distributorship comes into play only for the distribution of retail products or services[5]. Therefore, licensing is a trade device in which the licensor keeps the ownership of her property so as to monitor the exploitation of her trademark, but does not have the charge of the manufacturing as well as the marketing process leading up to the sale of the retail branded goods. Because of these specific characters, licensing appears as a highly attractive business tool for trademark owners. The sale of WordPerfect for 1.2 billion dollars, whose revenues come wholly from the licensing of its copyrights and trademarks[6], demonstrates that strategic licenses can make the trademark a valuable corporate asset[7]. Indeed, intelligent licensing allows the trademark holder to capitalize on his property by strengthening the mark on an economic as well as legal prospective[8].

From an economic standpoint, not only does licensing provide the trademark owner with additional revenues, but it also contributes to increase the market penetration of her property along with its popularity[9]. First of all, competitiveness often requires that a company extend its outlets so as to reach increased consumer's bases. Or, because of the globalization of markets along with the changes in consumers' attitudes[10], the brand owner is likely to lack manufacturing capabilities or marketing expertise. Therefore, adequate licenses enable the company to efficiently expand its business either geographically[11] or in scope[12] or both so as to increase its competitive advantage in the marketplace. Second of all, licensing enhances consumer's awareness of unique or already well-known mark. Indeed, the value of a particular trademark lies in the goodwill[13] developed in connection with the branded goods. And "[g]oodwill is the advantage obtained from the use of a trademark. This includes public confidence in the quality of the product and in warranties made on behalf of the product, and the name recognition of the product by the public that differentiates that product from others"[14]. Or, consumer's recognition of the quality standard of particular goods requires tremendous promotional expenses. For example, Philip Morris spends over $ 2 billion annually on advertising programs to support the continuing recognition of its portfolio of brand names[15]. In this prospective, sponsorship of the core trademark by means of its license for collateral merchandises[16] acts as a very fruitful advertising medium[17]. Last but not least, licensing affords the trademark owner with additional revenues. The agreement may generates two types of incomes. On the one hand, in return of the right to use the mark, the licensee undertakes to pay the licensor royalties[18]. On the other hand, the license may be the occasion to sell a bundle of associated products or services to the licensee[19].

Apart from its economic benefits, licensing is often necessary to ascertain and enhance the legal protection of the trademark. In particular, the use perquisite for trademark protection[20] may make it important for the brand holder to enter into license agreements. Indeed, only trademarks which are actually used "in commerce"[21] in their category are afforded efficient protection against infringement or dilution actions[22]. Therefore, strategic licenses of the mark legally strengthen it, notably in secondary product or service lines where the licensor does not actually exploit the brand, but contemplates to expand[23]. Likewise, in the transnational environment, many foreign countries require that the mark be used within their jurisdiction to afford them protection[24]. License of the trademark, so as to fulfill the use requirement, is thus strategic prior to exportation. Moreover, despite the increasing regulation with regard to international protection[25], some countries are still reluctant to enforce or join those multinational conventions[26]. Therefore, appropriate licensing appears as an alternative to prevent or terminate infringement actions. In these conditions, licensing is considered as a very attractive commercial practice, if not necessary, on the view point of a trademark holder. This probably explains its dramatic development in trade.

While theoretically conceivable in infinite situations, trademark licensing has mainly developed in three areas[27]. First, in the 1970's, trademark license increased together with the growth in franchising. Then, in the late 1980's, licensing of trademarks exploded in merchandising to represent in 1990 25 billion dollars[28]. The new trend is now towards multi-media projects, where trademark licensing may appear as a very interesting medium of communication. This success of trademark licensing is due, in large part, to the broad protection of symbols as trademarks, including notably trade dress[29].

With respect to franchising, trademarks are of crucial importance[30]. As it is for Shell or Mc Donald's, any franchise system encompasses three elements[31]. The first, and core element is the license of the trademark of the franchisor to the franchisee. Indeed, through the House mark, consumers are able to recognize the reputation and the quality standards of the whole franchise system. Second, the franchise includes a fee element. Third, to uniformly connect all the franchisees in consumer's mind, the system requires a "marketing plan" for the mark, set up by the franchisor and to be fulfilled by her franchisees[32]. Therefore, the license of the mark along with other materials[33] is determinative to successful franchising.

As far as merchandising is concerned, the bottom line of the explosion of trademark licensing lies in the exploitation of unique or already well-known brands to sell a wide range of products or services[34]. This is especially obvious in the entertainment industry, where corporations, institutions, or celebrities register their names and likeness as trademarks to license them for collateral merchandises. Popular names of television programs such as BEVERLY HILLS 90210 are licensed to various companies for use on clothing, toys, games, school supplies or mugs[35]. So do artists[36], colleges[37], or sports teams[38]. Merchandising, through trademark licensing is, therefore, a privileged medium to capitalize on the popularity of names or logos.

Finally, the growth of trademark licensing is likely to become even greater in the light of the development of multi-media projects[39]. Indeed, whatever the media, trademarks may turn out to be very valuable properties for two reasons. First, the communicative-enhanced aspect of colors, logos or moving images is essential to the success of projects such as interactive games, CD-ROM or the

Internet[40]. Indeed, images facilitate the attraction, and then the access of consumers to technical products or services[41]. Retail vendors have understood the marketing value of visual features or symbols. For instance, Apple advertised its Macintosh computer by showing display screens with icon images representing the operating system function[42]. Hence, creators of valuable symbols seek to legally protect them notably as trade dress[43]. Second, the recent position of the courts regarding the copyrightability of computer software-like products[44] is likely to drive people towards trademark law. Indeed, the functional doctrine[45] along with the hardening of the test for infringement[46], render copyright protection less and less available to screen displays. In this context, it is probable that trademark protection will turn out to be the appropriate alternative[47]. Therefore, since icons, corporate names, logos as well as components of software-like products are emerging as very important trademark properties in the on-line world, so will surely be trademark licensing[48]. Yet, the crucial growth of trademark licensing has not gone alone. The courts along with the authorities have increasingly focused their concerns on the legal aspects of trademark licenses. In particular, antitrust laws have become a central issue when building trademark license programs.

B Interface between trademark and antitrust laws

Trademark licensing is usually viewed as beneficial on a competition-enhancing stand point. Yet, in some circumstances it may violate antitrust laws. In particular, it will be the case when licensing is used as a device to extend statutory trademark rights. While trademark and antitrust laws share a common purpose of encouraging "industry and competition"[49], they take different paths in achieving it. Hence, trademark license agreements give rise to antitrust scrutiny. Both trademark and antitrust laws aim to foster competition in the marketplace. As far as trademark protection is concerned, its foremost policy is to allow a producer to distinguish his goods from those of others in order to avoid consumer's confusion[50]. The positive side of this goal is that trademark law enhances efficient competition among producers or suppliers[51]. By protecting distinctive marks[52], trademark law encourages trademark owners to invest in advertising campaigns as well as in elevated quality standards[53].

With respect to antitrust laws, their overall purpose is to promote free competition in the marketplace[54]. Over the years, two major concerns have emerged from the case law. First, the Supreme Court is concerned, through antitrust enforcement, to allow free enterprise between competitors by means of protecting independent businesses from the overwhelming power of monopolies and cartels[55]. The second, and predominant goal nowadays[56], is to promote consumer's welfare through efficient use and allocation of resources along with progressiveness[57]. Therefore, trademark laws share common objectives with antitrust laws: to encourage efficient competition as well as consumer's welfare. Nevertheless, the two sets of rules take different steps in achieving these goals. Hence, some conflicts are inevitable. Historically, antitrust pitfalls in trademark licensing have arisen principally with respect to market power and exclusionary conducts. On the one hand, trademark law may infer some market power thanks to the exclusive right granted to the trademark holder[58]. On the other hand, antitrust laws condemn conducts that abuse or extend market power or which aim to exclude competitors. Consequently, as noted by Assistant Attorney General, Anne Bingaman, the two sets of rules must be implemented so as to reach a "balance between protecting intellectual property to reward innovation and maintaining competition in markets where innovation occurs"[59].

As far as trademark licensing is concerned, it is generally viewed as pro-competitive[60]. Indeed, licensing can lead to a more efficient exploitation of the trademark, which enhances competition, and ultimately benefits to consumers[61]. From the standpoint of the licensor, it gives him access to marketing expertise necessary to efficiently develop the trademark[62]. From the standpoint of the licensee, licensing provides him with properties he would not get otherwise[63]. Hence, it increases the likelihood of competition in the marketplace. Finally, from the standpoint of consumers, the license expands the availability of trademarked products or services. Thus it contributes to consumer's welfare by enlarging his choices among competing goods. Yet, despite its pro-competitive aspect, trademark licensing may give rise to some conflicts with antitrust laws. Indeed, the bottom line of antitrust challenges to trademark licensing lies in the use by the licensor of the leverage of the trademark to seek reward in an area not covered by the statutory right. Therefore, while drafting the license agreement, the trademark holder must look very carefully at antitrust laws to avoid as much as possible potential exposures to antitrust suits.

Proper enforcement of trademark license programs is essential to the success of the business of the trademark holder[64]. However, in doing so, the licensor is likely to encounter tricky obstacles in the form of antitrust defenses as well as affirmative claims or counterclaims[65]. First of all, while suing a licensee for breach of the license agreement, or any infringer, the licensor may face a defense of misuse[66]. Trademark misuse constitutes a dangerous threat upon the licensor's rights. Not only is it widely opened to defendants[67], but besides, if successful, it defeats the claim of the licensor. However, because of the enhanced-competition aspect of trademark laws[68], defendants to a trademark licensing case, can raise an antitrust misuse defense only in limited situations where the trademark "itself has been the basic and fundamental vehicle required and used to accomplish the [antitrust] violation"[69]. In particular, a defense of trademark misuse will dismiss a claim brought by the mark owner if the latter used his property in a way that extends trademark protection beyond its valid scope[70]. A finding of trademark misuse has very severe effects. Not only does it preclude the enforcement of the trademark against the defendant, but also against any other licensee and or infringer[71]. Given that, all the licensees of the license program may continue to use the trademark unencumbered by royalty obligations so long as the misuse is not purged. Purge of antitrust misuse requires abandonment of the condemned conduct along with dissipation of its effects[72]. Therefore, trademark misuse is a very powerful tool available to licensees, which the licensor must bear in mind while building up his license program.

Second, simultaneously or alternatively[73], the licensor may face antitrust affirmative claims or counterclaims, that will ultimately affect proper enforcement of his license program[74]. However, to succeed, the antitrust claimant must not only have standing but also establish the elements of an antitrust offense. Standing concerns are essential in antitrust cases. The Antitrust Division of the Department of Justice[75], the Federal Trade Commission[76] as well as state attorneys general[77] do not have to meet specific requirements to challenge an antirust violation. With respect to private parties, however, standing matters considerably limit their capacity to sue. A trademark licensing agreement may be challenged either by a licensee, an infringer, or any competitor of the licensor. Indeed, section 4 of the Clayton Act provides for a private remedy for antitrust violations[78]. Yet, the Supreme Court has narrowly defined the proper private plaintiff in antitrust cases[79]. Basically, a private party has standing to sue only if: (1) he was personally injured by the challenged conduct[80], (2) he suffered damages in his business or properties[81], (3) the injury is of a kind to be addressed by antitrust laws[82], and (4) the cause of his injury originates in the challenged conduct[83].

Once standing requirements are met, the antitrust claimant must bring evidence of the elements of the antitrust violation, which originally derived from statutory law. Among the antitrust statutes, the Sherman Act is the cornerstone[84]. Whereas section 1 prohibits conducts that unreasonably restrain competition[85], section 2 condemns monopolization[86]. Under this rationale, a diversity of practices present in trademark licensing are subject to antitrust violations, notably territorial divisions[87], resale price maintenance[88], or boycotts[89]. For the purpose of this thesis, however, we will focus on tying arrangements present in trademark license programs, and which regulation under current antitrust laws is somehow unclear, and therefore, problematic for drafters.

II

Tying arrangements

To understand the rationale underlying tying arrangements, prior definitions are necessary. In particular, in trademark licensing, tie-ins may be explained, in part, by the specific obligations which bear trademark holders to keep their right over their brands.

A Definitions

A tying arrangement is "an agreement by a party to sell one product only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any supplier"[90]. In particular, when it comes to licensing, tying occurs where the licensor agrees to license an article (the tying product or service) provided that the licensee undertakes either to take another item from the licensor[91], or not to take it from somebody else[92]. For a better understanding, tying arrangements must be relocated in the marketing process of goods. Not only do tie-ins occur in the context of vertical integration, but they are of the type which affect the licensee's dealing discretion.

First of all, the nature of the relationship between a licensor and his licensees is vertical. Efficiency driven[93], vertical relationships can be either integrated or contractual. Vertical integration occurs when a single entity deals with the whole chain of activities, starting from the conception of a product, and leading up to its final sale to retail customers[94]. Likewise, vertical contracts serve similar objectives of efficiency[95]. Yet, they are different since they intervene between two or more independent entities located at a different step of the commercialization process. Tying arrangements present in licensing are of the latter kind[96]. Indeed, they are passed between the licensor, who initiates a new product or service line, and the licensee, who markets and distributes the product. The core character of these agreements is that the parties do not compete with one another in the market of the products[97]. For instance, in the franchising context, the franchisor who licenses her brand for the marketing of ice-creams, does not market those products herself. Therefore, she does not compete with her franchisees in the market of ice-creams[98]. The non-competitive relationship of the licensor with his licensees makes tying arrangements, where they occur in licensing, vertical contracts.

Second of all, tying arrangements occur in situations where the licensor somehow has the power to influence the licensee's dealing discretion. In this respect, tie-ins share common characters with refusal to license or exclusive dealing conducts[99]. Yet, unlike a refusal to license, the primary focus of a tie is not to maintain selected resale prices[100]. Indeed, a refusal to license often results from the rebuttal of the licensee to abide by the licensor's high-price policy[101]. Tie-ins also differ from exclusive dealings in the sense that the conduct involves not one but two articles. An exclusive dealing consists of an agreement in which the licensee or the franchisee agrees not to sell or supply other articles than the licensor's ones[102]. Like tie-ins, exclusive dealings have the effect to limit the licensee's or franchisee's dealing discretion[103]. However, unlike tie-ins, an exclusive license deals with only one market. Therefore, there is something more in tying since it starts from one market (the tying item), and extends to another market (the tied item). It is probably the reason why, tying arrangements, as vertical restraining agreements, are subject to a specific scrutiny from the antitrust laws. Characterization of tie-ins in trademark licensing programs is thus necessary.

B CHARACTERIZATION OF TYING ARRANGEMENTS IN TRADEMARK LICENSING

Theoretically, a particular trademark can be either the tying or the tied item in the context of tying arrangements[104]. For the purpose of this thesis, however, we will focus on tying provisions present in trademark licenses when the trademark is the tying element. On this premise, possible tied items are infinite and depend on the circumstances of the particular license program at issue. This second element, necessary to characterize the presence of a tie, can range from the product or service, the mark represents, to completely unrelated articles.

On the one hand, the license of the mark is often tied to the sale or supply of the products or services meant to bear that particular brand. It is especially true in the franchising industry, whose major purpose is to market the franchisor's articles[105]. For instance, the lease of BASKIN-ROBBINS trademark is conditioned to the purchase of ice-cream products of the same name[106]. Likewise, MERCEDES-BENZ ties the license of her brand to automobile as well as replacement parts[107].

On the other hand, the trademark may be tied to items not primarily representing the brand. In the franchising context, to achieve some uniformity among all the franchisees, the licensor may tie any of the "marketing plan's" element to the license of the house mark[108]. For example, besides the license of the mark, Mc Donald's corporation used to require his franchisees to lease their premises from it along with the payment of a 15,000. dollar security deposit[109]. It argued that controlling the location of franchisees' implantation was part of its marketing plan to make Mc Donald's brand attractive[110]. As far as collateral merchandising is concerned, by definition, the well-known mark is licensed for the marketing of articles not primarily related to the significance of the brand[111]. In this context, tying may appear, if, for example, the owner of a famous motion picture registered as a trademark, licenses it for the marketing of toys provided that the licensee buys the toys from the licensor or from any designated source that he controls. Likewise, if a CD ROM or an interactive video game is produced out of the motion picture, the license of the trademark will occur in the course of a multi-media project. In this hypothesis, the mark may be tied up with the purchase of the material support of the project or some of its components (disks). The brand may also be licensed on the condition that the producer-licensee takes another mark or the copyright of the motion picture. In this latter case, the mark will be licensed together with another property right. The trend is towards this form of license, which is termed 'package' or 'hybrid' licensing.

In general, package licensing occurs when the trademark holder licenses her trademark along with another trademark, a patent, a copyright or a trade secret in a single license agreement. In the food industry, the licensor-franchisor may require that his franchisees use a special recipe protected as a trade secret for the manufacturing of the retail products. Likewise, in the entertainment industry where motion pictures are often protected under copyright as well as trademark law, the licensor may condition the use of the trademark for merchandises or multi-media projects provided that the licensee also take the underlying copyright. These so-called 'hybrid' licenses are a form of tying since the licensee is limited in his choice, he takes either the package or nothing. These licenses may be very efficient on the licensor's point of view. Yet, they raise specific legal issues. Indeed, each intellectual property right is governed by its own legal regime, which is more or less attractive to its owner. In this respect, trademarks, if properly used, are indefinitely protected, whereas patents are protect only for twenty years. Therefore, tying them together can unable the licensor to extend the duration of the patent protection. Likewise, the trademark owner may be willing to license her portfolio of brand names, more or less significant in a single package. Or, efficient trademark protection is afforded only to distinctive marks. Therefore, the licensor actually has the less significant brand names benefit from the distinctiveness, and thus attractiveness of other brands. We see, hybrid license, if forced, gives the tied intellectual property right an artificial advantage. Consequently, package licenses are subject to special antitrust scrutiny, especially when their purpose is to extend the scope of the tying trademarks. In this respect, it is interesting to question the expected objectives of the brand owner for tying her trademark to another item.

C WHY TYING IN TRADEMARK LICENSING

In general, tie-ins conducts can be explained as devices aimed to achieve economic objectives, which, depending on the circumstances, are viewed as pro or anti-competitive[112].

Principally, based on the leverage theory[113], tying arrangements are considered as monopoly[114]-extension mediums. Through the leverage of her dominant position gained thanks to the strength of her intellectual property, the licensor tends to create a monopolistic position in the tied product market. It is this function of tie-ins, the courts have favored for almost a century[115]. Indeed, tying arrangements based on the exploitation of a patent, a copyright or a trademark have been widely struck down, considering that they illegally tend to extend the statutory monopoly[116]. According to this view, not only do these arrangements harm competitors by raising barriers to their entry into the second market[117], but they also harm consumers by allowing the licensor to make monopolistic profits. Opponents to this theory are numerous as well as vigorous[118]. Basically, they rebut the inadequacy of the leverage reasoning[119]. With respect to competitors, their contention is that tying arrangements are neutral[120], when they do not favor economic efficiency[121]. As far as consumer's welfare is concerned, many commentators think tie-ins are generally beneficial[122], and should be challenged only in the few cases where they are not[123]. Therefore, instead of the leverage reasoning, many commentators believe tie-ins serve other functions, which, if not pro-competitive, should be analyzed with less severity.

First of all, tying contracts can be means to evade price regulation. Indeed, when the price of the tying good is controlled, tying the sale or lease of the first item to a second, non-controlled item, allows the seller or licensor to elude the regulation by setting a single price for the whole package[124]. However, this hypothesis is very unlikely to be relevant in the trademark licensing context since trademarks are not subject to price regulations.

Second of all, through price discrimination, tie-ins can function as a metering device[125]. Indeed, when the real value of the seller's product depends on its actual use, tying it to a second item whose use varies in fixed proportions, allows the seller to maximize her returns from the use of the core product[126]. In attempting to set different prices to the different users, the seller would encounter two problems[127]. On the one hand, estimation of the real intensity of use by each buyer might be inconvenient, if not very difficult. On the other hand, it would probably lead the low users to resell the product to those who paid a higher price. Therefore, tying contracts may be adequate counter devices, in which the tied item's purpose is to measure how intensively the tying product is actually used[128]. In this context, the seller price discriminates her different buyers[129]. Still, this function of tie-ins may be very appropriate to the trademark licensor. Indeed, the rate of the royalty in counterpart of the lease of a trademark as well as the value of the trademark itself highly depend on the effective use of the trademark by licensees[130]. Or, accurate valuation of such use is costly and often difficult[131]. Therefore, tying the license of the trademark to the products or services it is stapled on can provide the licensor with a very efficient as well as precise counter device.

Finally, and most relevant in the trademark licensing context, tying may be used to control the quality of the branded products or services. For long, licensing of trademarks was prohibited on the ground that it could mislead purchasers into believing that the goods came from the proprietor of the mark while they actually originated from a different source[132]. Because of obvious business realities[133], the Lanham Act now implicitly recognizes the validity of trademark licensing[134]. Nevertheless, to safeguard consumers from being misled, the Act subordinates the validity of a trademark license to the condition that the licensor control the quality and the nature of the products or services to be sold under his mark. The rationale is that absent such a control, the mark may no longer acts as an indicator of constant quality, and therefore, may deceive the purchasers[135]. Logically, such a misleading mark should be defended protection. Indeed, failure by the licensor to fulfill his duty has very harsh consequences. In such a case, the license is deemed "naked"[136], and the licensor's trademark is considered as "abandoned", being thus free for appropriation by others[137].

Pursuant to the Act, a mark is considered abandoned "[w]hen any causes of conduct of the owner, including acts of omission as well as commission, causes the mark…..to loose its significance as a mark"[138].

Given the crucial importance for the licensor to maintain adequate control over the use of his mark, the question at issue is thus how much quality control the courts consider as sufficient to preserve the right to the mark in the course of licensing. Unfortunately, the answer is not as clear as expected. Commonly, to meet the Lanham Act standards, the licensor may implement the quality control requirement in two ways. The typical proof of adequate control is obtained by means of inclusion into the license agreement of various provisions evidencing that the trademark holder will maintain control of the quality of the goods manufactured and sold by the licensee[139]. Practically, it includes the licensee's agreement to quality standards established by the licensor, submission of plans, drawings, preliminary models, and actual samples to the owner, approval of the packaging , advertising and manner of trademark use[140]. Even absent such express provisions, the licensor may still fulfill his duty by exercising actual control. Indeed, the courts often upheld the validity of trademark licenses, despite the lack of formal monitoring procedures. The rationale is that if, in fact, the quality of the goods has been maintained, the purchasers were not deceived, and the mark keeps its significance as an indicator of the quality standard expected pursuant to the reputation of the mark[141]. For instance, in the *Land O'Lakes* case[142], the court considered that due to the forty years experience of the licensee without any complaint from purchasers, the licensor's reliance on his licensee's quality control was evidence of "the taking of reasonable measures to protect the quality of the goods bearing the mark"[143].

We see, when it comes to determine the amount of quality control required, the courts put very heavy a burden of proof on the claimant to a mark's abandonment action[144]. Nevertheless, the severe consequence of the finding of a 'naked' license[145] reinforced by the sometimes inconstant rulings of the courts[146], can lead licensors to strictly monitor the use of their marks. In this prospective, what a more efficient police than controlling the manufacturing process of the goods ? Under this reasoning, trademark owners often seek to guarantee the quality of the goods sold under their brands by designating particular suppliers of raw materials[147]. They sometimes go further to insure the validity of their trademarks. Indeed, licensors may impose to their licensees to buy the raw materials or others[148] from them, or at least not to buy them from specified suppliers[149]. However, these practices are of the type which are scrutinized under tying antitrust laws. Therefore, drafters of trademark licenses must find the fine line of equilibrium between monitoring the licensees so as to insure constant reputation to the trademark, and at the same time, avoid forcing in order to comply with tying antitrust laws. As the profusion of proceedings, along with the abundance of the literature on the matter evidence it, it is not easy a task as it requires constant attention on the regulation of tying arrangements by the courts.

III

Antitrust Regulation of Tying Arrangements in Trademark Licensing up to the Kodak Decision

Regulation of tying arrangements before the Kodak decision was based on the supreme Court's case, Jefferson Parish Hospital v. Hyde[150], which principles fully apply to trademark licensing. However, some weaknesses of the methodology for prosecution have been highlighted due to the specificity of trademarks, and have increased the necessity for a clarification of the state of the law so as to ease the interpretation of the jurisprudence in view of the drafting of practicable licensing programs.

A Legal bases for prosecution

The competitive harm resulting from tying arrangements characterized in business transactions as explained in *Northern Pacific Railway Co. v. United States*[151] is twofold: on the one hand, because of the forcing, the tied item is excepted from the cold test of competition. Indeed, competitors are bared free access to the tied product market. On the other hand, buyers who abide with the terms of the tie-in loose their freedom to shop around. Given these premises, tying arrangements may be challenged under three different antitrust statutes. First of all, Section 3 of the Clayton Act forbids tying arrangements where the effect of such conducts is "to substantially lessen competition or tend to create a monopoly in any line of commerce"[152]. However, Section 3 applies only when both the tying and the tied items are "goods, wares, merchandise, machinery, supplies, or other commodities"[153]. Therefore, it may not be used to challenge ties-in in which the tying item is a trademark[154]. Second of all, tying arrangements may be prosecuted under Section 5 of the Federal Trade Commission Act[155], which prohibits, in broad terms, unfair methods or acts of competition[156]. Finally, and the most appropriate in the trademark context, tying arrangements may be prosecuted under Section 1 of the Sherman Act, which states that "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of commerce among the several States, or with foreign nations, is declared to be illegal…"[157]. Indeed, most, if not all, of the tying arrangements found in trademark licensing were prosecuted under Section 1 of the Sherman Act. While theoretically, tying arrangements may be challenged under both a rule of reason and a per se approach, claimants suing licensors on the ground that the alleged tying arrangement unreasonably restrains competition barely ever succeeded[158]. Accordingly, antitrust regulation of tie-ins present in trademark licensing commands the analysis of the elements to be met for a per se violation.

B CONDITIONS FOR A FINDING OF A PER SE ILLEGAL TIE

Before the Kodak case, the latest Supreme Court precedent addressing the issue of the validity of tying arrangements was *Jefferson Parish Hospital v. Hyde*[159]. In the *Hyde* case[160], the court, to hold that the exclusive contract entered into between the hospital and a firm of anesthesiologists which made it mandatory for the patients undertaking surgery in the hospital to use the services of specific anesthesiologists was not *per se* unlawful, ruled that a finding of a *per se* unlawful tying arrangement required four conditions: there must be two distinct products (1), the buyers must be coerced to buy the two products (2), the seller must have sufficient economic power in the market of the tying product (3), and there must be a not insubstantial amount of interstate commerce in the tied product affected by the tying (4).

First of all, unlawful tying requires a showing that the arrangement involves two different products. In *Jefferson Parish*[161], the court held that "the answer to the question whether one or two products are involved turns not on the functional relation between them, but rather on the character of the demand for the two items."[162] According to the court, in assessing whether the arrangement at issue links two different products, one must determine whether the two products are "distinguishable in the eyes of buyers."[163] The reason for the buyer's perception test is that the underlying rationale for the rule against tying is to prohibit agreements creating a possibility to "foreclose [...] competition on the merits in a product market distinct from the market for the tying item"[164]. Accordingly, where no evidence that two separate products exist in the eyes of the buyers is found, there can not be any antitrust violation since no risk of anticompetitive restraint exist in the market[165].

As far as trademark licensing is concerned, the trademarked goods or services and the trademark are not presumably considered to form one and a single product, nor is franchising exempted from general antitrust rules[166]. Accordingly, the separability test set out in the *Hyde* case turns to whether a trademark can be, in the eyes of the buyers, a separate product from the trademarked goods or services or other items sold with the lease of the trademark. The answer to this question depends on the circumstances of each case. For instance, in the Diet Center franchise, the franchisor was alleged to have engaged in an illegal tying consisting of requiring as a condition to the franchise, that franchisees purchase from him the nutritional tablets to be sold to Diet Center clients[167]. The court found that no illegal tying could be characterized as "the demand for the Diet Supp is not separate from that of the franchise"[168]. Likewise, the courts ruled that, absent a separate demand for the Power Test Petroleum trademark and the gasoline, no illegal tie could be found[169]. Some courts, instead, held the trademark constituted a separate product from the goods or services it is attached to. However, most of these cases were decided using a different test from the separate demand test set out in the *Hyde case*.

In assessing whether two distinct products were linked together to form a tying, some courts have focused on the functional relationship between the trademark and the products or services allegedly tied to its license[170]. Under this rationale, consideration must be given to the kind of license granted by the trademark holder[171]. Where the franchise is a "distribution type of system [...] the franchised outlets serve merely as conduits through which the trademarked goods of the franchisor flow to the ultimate consumer"[172], the trademark "serves merely as a representation of the end product marketed by the system"[173]. In this context, the "desirability of the trademark and the quality of the product it represents are so inextricably interrelated in the mind of the consumer as to preclude any finding that the trademark is a separate item for tie-in purposes."[174] In contrast, under a business format system, where "the franchisor merely provides the trademark and, in some cases, supplies used in operating the franchised outlet and producing the system's products [...] there is generally only a remote connection between the trademark and the products the franchisees are compelled to purchase [...] because consumers have no reason to associate with the trademark, those components used either in the operation of the franchised store or in the manufacture of the end product."[175] According to the courts using the functionality test, it is only under such a business franchise/license format that the trademark may be a separate product, possibly leading to a finding of an illegal tie.

It results from the case law that the license of a trademark may be found a separate product from the products or services it is leased with either if the trademark and the goods are viewed as separate products in the eyes of the buyers (a), or if the trademark licensing is a business format type of license/franchise (b). In this respect, it is worth noting that when trademark licensing occurs in the context of merchandising, the trademark will probably be considered as a separate product from the trademarked items since merchandising is a kind of business type format of licensing.

Once a separate product or service from the trademark has been identified, the next step for the antitrust claimant is to show that the trademark holder forced the licensee to take the "tied" items in order to be granted the use of the trademark. Conditioning the availability of the trademark to the sale of other items is a necessary element to an illegal tie. As reaffirmed by the Court in the *Hyde case*, "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."[176] Instead, when the buyer is free to take only one item or the items separately, there is not tying problem[177]. Accordingly, it is only when there is evidence that the coercion is present, that there is a tying concern. It is now well settled that when the licensor requires the licensee to buy the supposedly tied items from approved sources to meet the licensor's trademark quality standards or live up with the franchise uniformity, there is no forcing so long as the licensor has no financial stake in the companies where the items are to be bought from[178].

The question raised by the conditioning requirement is what coercive pressure is needed to prove that the buyers were actually forced to take not only the trademark but a whole package including unwanted items. Proof of conditioning may be established by the agreement entered into between the trademark holder and the licensee whereby the licensor expressly requires its licensees to take separate items as a condition to the grant of the use of its trademark[179], or at least not to take them from other suppliers[180]. Even absent formal conditioning, the claimant may establish that the licensees were actually forced to take unwanted items. However, there is no clear answer as to what circumstantial factual element is sufficient to evidence coercion. Some lower courts have interpreted the ruling in *Jefferson Parish* that "per se condemnation [...] is appropriate if the existence of forcing is probable"[181] so that forcing may be induced from the demonstration that the licensor enjoys sufficient economic power in the tying product market (the trademark)[182]. Accordingly, these courts require only the showing of three conditions[183].

As far as the sufficient economic or market power condition is concerned, it requires the antitrust claimant to demonstrate that the trademark holder has the requisite power in the market of the trademark to appreciably restrains competition in the tied item market. In *Jefferson Parish*[184], market power has been defined as the "special ability to force a purchaser to do something that he would not do in a competitive market"[185]. The analysis of the case law shows that the exercise by the trademark owner of such power over his brand may be established in three ways. Firstly, market power may be induced from the large market share held by the licensor in the market of the trademark. In the *Hyde* case, the Supreme Court found that a market share of 30 % was not sufficient to demonstrate the requisite market power[186]. Since then, a number of lower courts have required a market share of 30 % as a minimum threshold[187]. In addition to showing market power through the dominant position of the licensor, sufficient economic power may be inferred from the proof that a substantial number of licensees have accepted the tie-in, and that there is no explanations other than the seller/licensor's economic power for the willingness of the purchasers/licensees to do so[188].

Finally, and more peculiar to trademark licensing tying cases, is the demonstration of market power by means of the uniqueness of the trademark or its particular appeal to the consumer[189]. As to the degree of uniqueness or desirability necessary to prove by the antitrust claimant, most of the courts have required the showing of a barrier to entry that prevents competition. This barrier may be either legal (copyrighted or patented items)[190] or economic (cost advantage)[191]. Under this rationale, uniqueness is demonstrated not merely by the fact that the packaged trademark license is not being offered by the licensor's competitors, but rather by the inability of the latter to offer such package[192]. On this ground, in many cases claims of uniqueness of a trademark have been rejected as the claimant could not demonstrate that the trademark holder license system provided him with a competitive advantage that could not be duplicated[193]. A few lower courts have considered trademarks, as statutory rights, to be presumably unique, and, as a matter of law, to evidence the requisite economic power for the purpose of tying antitrust violations[194]. The majority of the case law recognizes however that trademarks, as opposed to copyrights or patents which grant "a right in gross or at large", "merely identify the franchisor"[195], and thus allow enterprises to compete on the merits. It is worth noting that in *Jefferson Parish*[196], the majority rejected the argument that market imperfections such as the lack of information could generate economic power to the benefit of the seller by locking-in consumers to purchase the tied item[197]. Accordingly, to succeed in his action, the antitrust claimant must show that the trademark holder wields market power, whether that he holds a large share of the market, that a substantial number of licensees have accepted the package, or that his package is unique.

The last condition for the application of the per se treatment to tying arrangements present in trademark licensing is "that a not insubstantial amount of interstate commerce"[198] in the tied item market must be affected. This test focuses on the aggregate and total amount of dollar amount of commerce affected[199], rather than on the share of the market[200]. As an example, $ 50,000. was considered to be a not insubstantial amount of commerce[201]. Once the four elements of a per illegal tying are evidenced in a trademark licensing program, the Sherman Act is violated and the licensor's system struck down, except in very restricted circumstances where the anticompetitive conduct may be justified.

C BUSINESS JUSTIFICATIONS

Although the issue of legitimate business justifications or defenses was not specifically addressed in *Jefferson Parish*[202] as no illegal tie could be characterized, the antitrust defendant may defeat a tying claim if he can demonstrate that his conduct is justified. When it turns to trademark licensing cases, the justification for tying the trademarked items to the lease of the trademark itself lies in the protection of the goodwill developed by the licensor in connection with the trademark. As analyzed, a trademark holder may efficiently grant the right to use his brand to licensees only provided that he retains sufficient control over the quality of the products or services marketed under the trademark[203]. In this prospective, tying the sale or the supply of the branded products or services to the lease of the trademark may be an appropriate means to ensure that all the items marketed under a same trademark are of uniform quality. This reasoning has been endorsed by the courts in *United States v. Jerrold Electronics Corp.*[204] where the majority held that "business arrangements which conceptually could be styled 'tie-in' might be exculpated from the reach of the anti-trust laws if the arrangement was actuated by or could be explained on the basis of a legitimate business justification as opposed to an improper motive, e. g., desire to increase market control through the economic leverage supplied by the tying arrangement"[205].

However, the legitimate business justification defense encounters some obstacles. On the one hand, as a defense, the burden of proof of the reasonableness of the arrangement swifts on the antitrust defendant. On the other hand, the analysis of the case law shows the reluctance of the courts, once the have identified a tying arrangement, to validate it on the ground of the goodwill protection defense. Accordingly, the issue turns to the amount of evidence necessary to demonstrate that a tying arrangement present in a trademark licensing program serves a legitimate purpose of safeguarding the essence of the system through the preservation of a uniform quality standard. The general test is whether it exists a less restrictive alternative than tying the products or services to the trademark[206].

It results from the rulings of the courts in franchising cases that the goodwill protection defense will be accepted only in cases where the antitrust defendant shows that he cannot ensure the requisite uniform quality standard through specifications or that the products or services are not available elsewhere[207]. Under this rationale, arrangements which tie standardized products to the lease of the trademark such as ice cream mixes[208], cookers, fryers and packaging supplies[209], or replacement parts[210], and the quality of which may reasonably be achieved through specifications or approved sources are refused the legitimate business justification defense. In this respect, despite the absence of precedents relating to tying arrangements present in trademark licensing in the context of merchandising, it is probable that such arrangements, if found illegal, could not be legitimate as, by essence, they relate to the marketing of standardized items, the quality standards of which may be achieved through specifications. Instead, where specifications or approved sources are not reasonably practicable to meet the uniform quality standards, the courts recognize the goodwill protection to constitute a valid tying antitrust defense. For example, it was judged that the tie of mattresses to the license of the trademark and signs to motel owners advertising the use of beautyrest mattresses did not violate the antitrust laws on the ground that it was legitimate for the trademark owner to ensure that customers would not use mattresses of inferior quality that impair the trademark's reputation[211]. Likewise, the courts have considered that when the alleged tied item is manufactured pursuant to a trade secret, the specification alternative is not available, and therefore the 'tying' arrangement is justified[212]. Less evident, is the upholding by the courts of a franchise system where the lease of the trademark was tied to the sale of replacement parts[213]. The court reasoned that although there may have been alternative means of protecting quality such as approving sources and providing products specifications, it would not disturb the jury's verdict since the tie-in may have been the least expensive and most effective means of policing quality[214].

It results from the case law that except in limited circumstances where the tie-in is the most practicable means to achieve the uniform quality standard, and provided that it is clearly evidenced, the reasonableness of tying clauses present in trademark licensing is precluded from analysis. This strict treatment of tying arrangements along with the absence of clear standards for the application of the per se condemnation has led to criticisms.

D CRITICS OF THE STATE OF THE LAW

The main critic arising from the regulation of tying arrangement in accordance with the Supreme Court cases lies in the per se label of ties, which prevents the lower courts from taking into account the possible benefits of a tying, and leads to inconsistencies in the interpretation of the elements of an illegal tie. As reaffirmed in *Jefferson Parish*[215], the per se label applies to conducts which are deemed unreasonable as matter of law, and accordingly, condemned without an inquiry into the market conditions. The underlying rationale for such a strict treatment is that in such conducts the likelihood of their restrictive character is so great as to render unjustified the costs and time of determining whether a particular conduct being investigated effectively involves anti-competitiveness[216]. The consequence is that once the per se labeled conduct is identified, it is condemned with almost no possibility for its author to justify it on economic grounds[217]. Or, as analyzed[218], a finding of an illegal tie requires, notably, the showing of the presence of two distinct products as well as the detention by the seller of market power. Whereas the one or two products issue focuses on the consumer's demand[219], and the sufficient economic power one, on an inquiry into the seller's competitive position[220], both elements involve an analysis into the market conditions[221]. Therefore, the legal antitrust standards applicable to tying arrangements do not strictly follow the per se doctrine, of which it results that "tying doctrine incurs the costs of a rule of reason approach without achieving its benefits"[222].

This weakness of the methodology[223] has led to the confusion in the lower courts' interpretation of the regulation of tying arrangements, in particular in the trademark licensing context. The consideration of the actual economic effects of a tying arrangement only as a defense to a finding of an already proven illegal arrangement almost precludes trademark holders from succeeding in their goodwill protection claim or other business justification[224]. Or, many courts, including the Supreme Court in *Jefferson Parish*[225], have concluded that tying may serve acceptable purposes. In Susser v. Carvel Corp.[226], the Justice Friendly disagreed with the majority ruling that general standard set out to assess the reasonableness of tying arrangements in view of their justification are applicable to elements representing a franchise system. The concurring opinion held that general cases "are scarcely relevant to the problem of controlling something so insusceptible of precise verbalization as the desired texture and test of an ice cream cone or sundae"[227], and accordingly, specifications are not practicable. Likewise, in Kentucky Fried Chicken v. diversified Packaging Corp. [228], the majority considered that it was "less than self evident"[229] that tying present in franchising "should be treated as a garden-variety of tie-ins"[230], on the ground that the franchisor's success largely depends on the quality of the franchisees' performance, which requires a tight monitoring so as to ensure harmonized reputation[231]. Besides the possible benefit of tying based on the goodwill protection, packaging may be an effective means to preserve small business as opposed to monopolizing enterprises. In Will v. Comprehensive Accounting Corp.[232], the court considered that "a packaging franchise system may be a way to compete with larger firms while retaining the advantages of independent ownership"[233].

Through the showing of the economic benefits of tying in the franchise context, the lower courts suggest that tie-ins should be analyzed under the rule of reason approach, where the actual economic effects, such as quality control are a real issue, and are weighted as against the possible anticompetitive effect of the forcing. However, absent such an approach by the Supreme Court[234], the lower courts have, to soften the harsh consequences of the strict application of the per se doctrine, widely discussed on the definition of what makes a tying illegal. This tendency, which does not bring clarity[235] as to the proper legal standard to be followed by the trademark licensing drafters, is perceptible especially in two respects. Firstly, a finding of a per se illegal tie is subordinated to the demonstration that two different products or services are involved[236]. Or despite the clear test established by the majority in *Jefferson Parish*[237], some lower courts have kept on applying another test, taking into account the function of the trademark in the franchise system[238]. This analysis does not allow to draw a clear line of interpretation in view of the drafting of licensing programs[239]. Secondly, despite the Supreme Court's express rejection of an inquiry into the possible reasonableness of tie-ins, few lower courts have added a fifth condition to the four requisite conditions for a finding of a per se illegal tying. According to them, conclusion that a franchise system includes an illegal tie requires the showing that there is a "substantial danger that the tying seller will acquire market power in the tied product market"[240].

As a result of the differing lower courts' interpretations of the law of tying arrangements, trademark holders are condemned to set up licensing programs with no certainty that they will pass the test of tying antitrust challenges. Accordingly, commentators as well as practitioners[241] have expected the Supreme Court to abandon the per se label of tying or at least to clarify the legal standards for prosecution when it granted certiorari in a tying case, Eastman Kodak Co., v. Image Technical services, Inc.[242].

IV

Impact of the Kodak decision on the law of tying: no legal predictability as to the validity of tying clauses

When the Supreme Court granted certiorari in an antitrust tying case both scholars and practitioners had hopped that the outcome of the case would clarify the law of tying. Despite this great opportunity to ease the task of interpreters, and in particular for drafters of trademark licensing agreements, the majority opinion by its confusing wording as well as left-open reasoning, rendered the forecast of potential antitrust tying challenges even less predictable.

A The Kodak decision

Eastman Kodak company manufactures and sells photocopiers and micrographic equipment. These complex business machines are unique in the sense that they are not compatible with Kodak's competitors' machines[243]. Kodak also sells service an replacement parts for its equipment to its customers. The parts are produced either by Kodak itself or by independent original-equipment manufacturers (OEMs), on the basis of orders made by Kodak[244]. After the initial warranty period, Kodak offers service either through annual service contract, which include all necessary parts, or on a per-call basis[245]. Kodak charges different prices for equipment, parts and service, depending on the bargaining position of its customers[246]. In the early 80s, 18 independent service organizations (ISOs) began repairing and servicing Kodak copying and micrographic equipment. They also sold parts and reconditioned and sold used equipment. ISOs' service is provided at a substantial lower price than Kodak's, and some customers found the ISO service to be of higher quality[247]. While some customers purchased their own parts and hired ISOs only for service, others hired ISOs to supply both service and parts. In 1985 and 1986, Kodak implemented a new policy with respect to the sale and supply of parts and service. On the one hand, it decided to sell replacement parts for its equipment only to customers of Kodak equipment who use Kodak service or repair their own machines. On the other hand, Kodak entered into an agreement with the OEMs whereby the latter would not sell parts to fit Kodak equipment to anyone other than Kodak. Finally, Kodak pressured equipment owners and independent parts distributors not to sell Kodak parts to ISOs. As a result of this policy aimed at restricting the access to Kodak's replacement parts, ISOs were unable to obtain parts from reliable sources, and therefore encountered great difficulties to supply service for Kodak machines. Accordingly, many ISOs were forced out of business, while others lost substantial revenues, and their customers had to switch to Kodak service[248].

In 1987, the ISOs filed an action against Kodak alleging that the latter had unlawfully tied the sale of service for Kodak machines to the sale of parts in violation of section 1 of the Sherman Act, and had unlawfully monopolized or attempted to monopolize the sale of service, in violation of section 2 of the Sherman Act. The District Court, without an hearing, granted summary judgment in favor of Kodak. The Court of Appeals reversed the case, and required a trial[249] on the following grounds.

With respect to the section 1 claim, the Court considered that whether the arrangement included one or two distinct products, and whether a tying existed between them were disputed issues of facts[250]. In particular, the majority addressed the issue of whether Kodak wielded sufficient economic power in the parts market to appreciably restrain competition in the service market[251]. On this issue, the Court conceded to Kodak that competition in the equipment market may preclude a finding of market power in the parts market, however, it refused to uphold the District Court's ruling "on this theoretical basis" as "market imperfections can keep economic theories about how consumers will act from mirroring realities"[252]. Then, the Court considered the business justifications alleged by Kodak and ruled that there should be analyzed whether a less restrictive alternative existed for Kodak to achieve its quality-related goals[253].

As to the section 2 claim, the Court concluded that it existed sufficient evidence to support a finding of attempt to monopolize[254]. The Supreme Court granted certiorari and, in a five-to-three opinion, affirmed the judgment of the Court of Appeals denying summary judgment[255]. According to Justice Blackmun, who delivered the majority opinion, the principal issue was "whether a defendant's lack of market power in the primary equipment market precludes -- as a matter of law - the possibility of market power in derivative aftermarkets"[256].

With respect to the section 1 of the Sherman Act claim, while the core issue was the one relating to market power, the majority successively questioned the four elements characterizing an illegal tie to determine whether there was sufficient evidence to support that grant of summary judgment had to be rejected. As far as the one or two products issue, the Court, applying the consumer demand test of *Jerfferson Parish Hospital*[257], considered that there was sufficient evidence to support the conclusion that parts and service were two distinct products since both had been and were still sold separately[258]. In this respect, the judges rejected Kodak's argument that because parts and service were functionally linked they should be considered as one single product[259]. Concerning the coercion requirement, the majority held that there was sufficient evidence of a tie between parts and service[260]. With respect to the not insubstantial amount of commerce affected in the tied market, the Court did not analyze its materiality as Kodak did not dispute this issue[261]. Turning then to the core issue of the case at bar, the majority ruled that, notwithstanding the presence of competition in the primary market for equipment, Kodak may still wield market power in the secondary market for replacement parts due to the presence of market imperfections that raise barriers for competitors to entry the market for service[262]. In reaching its conclusion, the Court followed a two-prong reasoning.

First, Justice Blackmun recalled that legal presumptions are generally not favored in antitrust laws[263]. In particular, when addressing the market power issue, the economic realities of the market at issue must be closely examined so as to determine "the responsiveness of the sale of one product to price changes of the other"[264]. Accordingly, the Court rejected Kodak's argument that competition in the primary market for equipment precluded, as a matter of law, the actual exercise of market power in the secondary market for parts[265]. With nearly 100 % of the parts market, Kodak had market power as defined as "the ability of a single seller to raise price and restrict output"[266]. However, it contended that it could not effectively exercise it because a raise of prices in equipment aftermarkets (parts and service) would not compensate the loss of profits in the equipment market resulting from the consumers purchasing equipment/service from more attractive sources[267]. Therefore, according to Kodak, competition in the equipment market prevents it, as a matter of law, to wield its market power in the parts market[268].

For the Court, instead, exercise of market power must be assessed on the cross-elasticity of demand i.e. the change in consumer's consumption of Kodak's competitors products in response to the price change in Kodak's parts[269]. In particular, contrary to Kodak's assertion, the Court considered that Kodak could set an optimum price where the revenues from the parts and service would more than compensate the loss of profits from equipment[270]. Accordingly, the majority concluded that competition in the equipment market may coexist with market power in the aftermarkets for parts and service.

Second, the Court turned to the analysis of the actual economic conditions of the market at issue, and in particular, consumers' behaviors. It considered that because of the showing of information as well as switching costs along with a discriminatory pricing policy evidenced by ISOs, Kodak's theory that it could not actually exercise its market power in the parts market to appreciably restrain competition in the service market was not reasonable[271]. According to the Court, Kodak's economic explanation for its supracompetitive prices for service was not reasonably sustainable since there was no evidence that equipment sales' dropped because of the presence of competition in the equipment market[272]. Instead, the behavior of the consumers (switch from ISOs to Kodak) in the equipment/parts/service markets, markets for complex durable goods, may accurately be explained, as contended by ISOs, by the existence of significant information and switching costs[273].

First, the cross-elasticity of the demand may normally operate only provided that consumers get all the necessary information on the lifecycle pricing of the equipment/parts/service package at the time of the purchase of the equipment. This information is often technically difficult to obtain for complex and durable goods because it is not available. Though available, the consumer may choose not to obtain it because it acquisition and processing are expensive[274]. In this respect, Kodak contended that behavior of these unsophisticated consumers would be balanced by the one of sophisticated consumers, i.e. consumers who undertake the comparative study, which would force Kodak to charge competitive prices for its package[275]. Agreeing with this argument, the majority however pointed out that, for such a pressure to be effective on pricing, two conditions should be cumulatively met. The volume of sophisticated consumers must be substantial so as for the loss of profits deriving from the loss of these consumers to outweigh the gain of profits from supracompetitive prices charged to unsophisticated consumers[276]. More importantly, there should be no possibility of price discrimination between the unsophisticated and sophisticated consumers. Or, Kodak actually price discriminated between its different consumers. Accordingly, lack of the requisite information on the package pricing may actually restrict the switch of consumers from Kodak to other manufacturers, and enable the former to raise its prices above competitive prices, which it effectively did[277].

Second, if the costs incurred to switch from one product to another are high, the consumers are somehow "locked-in", and will accordingly tolerate higher prices than competitive before changing of brand[278]. The seller may even exercise more easily its market power to raise prices if it can price discriminate between locked-in consumers and new consumers[279]. Or, because of the uniqueness of Kodak's equipment, along with the possibility to price discriminate, switching costs act as a barrier to the threat of substantial loss in equipment sales[280]. For the above reasons, the majority held that the presence of market imperfections, as well as the policy of Kodak to price discriminate between its customers could enable it to effectively exercise its market power in the parts market to appreciably restrain competition in the service market, as it did since ISOs were excluded from the service market[281].

As for the section 2 of the Sherman Act claim, the majority ruled that it was unreasonable to grant Kodak summary judgment as there was sufficient evidence to support the two elements of a claim for monopolization or attempt to monopolize[282]. The first condition for a section 2 claim is the possession of monopoly power[283]. With nearly 100 % of the parts market and 80 % to 95 % of the service market, Kodak has the requisite monopoly power for the purpose of a monopoly claim[284]. However, it contended that a single brand of a service or a product could not, as a matter of law, be a relevant market[285]. Relying on the demand-side substitutability test, the majority rejected Kodak's assertion as the choice for Kodak's equipment consumers were limited to Kodak parts and corresponding service since the equipment are not interchangeable with other manufacturers' parts and service[286]. Accordingly, instead of legal presumption, a finding on the definition of the relevant market required a "factual inquiry into the commercial realities faced by [equipment] consumers"[287].

As for the second condition, the Court after rejecting the allegedly valid business justifications of Kodak[288] considered that there was sufficient evidence that Kodak took willful exclusionary action to maintain its parts monopoly and used it to strengthen its market position in the service market through the creation of entry barriers[289]. Therefore, similarly to the tying claim, the majority opinion held that Kodak did not bring sufficient evidence to support that it was unreasonable to reject a monopolization or attempt to monopolize claim[290]. While rejecting the grant for summary judgment, the Court however noted that, supported on sufficient evidence, Kodak's arguments of the presence of a unified market where equipment, parts and service act as pure components, that competition in the equipment market actually discipline the aftermarkets for parts and service so that the overall price of the package is competitive, and that the anticompetitive effects of its conduct are outweighed by its economic benefits may eventually be correct[291].

The dissenting opinion, delivered by Justice Scalia would have concluded to the rejection of the Court of Appeals' decision. This position was grounded on three main critics of the majority's reasoning.

First, Justice Scalia disagreed with the finding that a single-branded aftermarkets may be a relevant product market for the purposes of antitrust laws for three reasons. Such finding on the relevant product market would be potentially applicable to any manufacturer of durable goods closely associated with secondary unique or relatively unique products or services[292]. Moreover, this approach is inconsistent for products which are inherently associated in their functioning so that their consumer base is identical, such as for parts and service[293]. Finally, according to the dissent, the majority reasoning fails to consider that before buying Kodak's 'package', Kodak had to compete with other suppliers so that other sources may fall within the relevant product market[294]. Accordingly, applying the majority test for determining the relevant product market would almost always lead to the conclusion of the possession of market power[295], and corresponding illegal tie.

Second, on the core issue of the determination of market power, Justice Scalia also criticized the majority opinion in three respects. As for the proper inquiry for the cross-elasticity test, according to the dissent only behaviors of rational consumers are to be considered, not those of irrational consumers, which are not the concern of the application of the antitrust laws[296]. With respect to the inference of market power from the presence of market imperfections, the dissent noted that not only such market imperfections as information or switching costs are present in almost every real world markets[297], whether competitive or not, but also that these imperfections, which create some "circumstantial leverage"[298] do not generate the requisite market power, essential for the finding of a per se illegal tying.

Finally, and based on the foregoing criticisms, the dissent concluded that, where competition is present in the interbrand market, tying arrangements pursued through intrabrand market power should be analyzed under the rule of reason[299]. The reasoning of Justice Scalia was that, contrary to the rationale for the application of the per se doctrine[300], in the absence of interbrand market power, this competitive environment at the upper level will generally prevent restrains at the intrabrand level[301]. Moreover, a manufacturer's bundling of aftermarket products may serve legitimate purposes such as ensuring the quality standards of its goods, or facilitate information availability[302]. Accordingly, the Court should have balanced the potential procompetitive benefits of the tying at bar with its anticompetitive costs. However, although it was urged to hold so, the majority opinion did not expressly abandon the per se doctrine, thus leaving aside the potential economic benefits of tie-ins. Instead, it facilitated the characterization of market power, and consequently favored tying antitrust challenges, in particular in trademark licensing programs.

B THE IMPACT OF KODAK ON THE LAW OF TYING IN TRADEMARK LICENSING PROGRAMS

The effective impact of the Kodak's ruling on the drafting of trademark licensing programs requires prior analysis of the effects of the majority opinion on the regulation of tying arrangements present in trademark licensing. Consistent with the critics raised against the law of tie-ins affecting trademark licensing before the Kodak case[303], the decision has a potential effect mainly in three respects. Not only did the Justices not clarify the general treatment of tying--under the per se label or the rule of reason--, but most importantly, they narrowed the definition of the relevant market to single-branded products or services and, accordingly, lowered the market power screen that conditions the condemnation of tying arrangements.

1 Increased uncertainty as to the method of analysis: per se label or rule of reason

Despite the golden opportunity it had to ease the task of interpretation for practitioners and lower courts, the majority opinion made no reference to the essential question of per se versus rule of reason treatment for tie-ins[304]. This silence may be interpreted in either direction. On the one hand, it may be induced from the fact that the ISOs had waived their rule of reason claim that the majority was addressing the validity of the agreement at bar only under the per se doctrine. This view is reinforced by the holding of the majority, which stated that "[w]e need not decide whether Kodak's behavior has any procompetitive effects and, if so, whether they outweigh the anticompetitive effects"[305], and implies that the unreasonableness of tie-ins is presumed.

On the other hand, the Court's holding that it disfavored legal presumptions and, instead, invited the lower courts to ground their reasoning on a case-by-case analysis of "economic reality of the market at issue"[306] suggests its willingness to depart from strict legal labels to focus on the factual conditions of the case at issue. Or, this method is closer to the rule of reason approach than the per se doctrine. This trend of the jurisprudence would be supported by the view of the Antitrust division of the

Department of Justice as, pursuant to paragraph 5.3 of the 1995 IP Licensing Guidelines[307], tying arrangements are treated under the rule of reason. It is stated that the Government will challenge tying only if (1) the seller has market power in the tying product, (2) *the arrangement has an adverse effect on competition in the market for tied product*, and (3) *efficiency justifications do not outweigh the anticompetitive effect*[308]. However, absent an express rejection of the per se doctrine by the Supreme Court, the lower courts, though confused, are reluctant to endorse a clear rule of reason approach[309].

It results from the foregoing that, when turning to the consideration of the potential economic benefits of tying arrangements present in trademark licensing, the Kodak decision does not tell more than before how to consider them. Are legitimate business justifications to be accounted for while analyzing the reality of market conditions of the market involved ? Or, is the quality control argument restricted to a limited defense to a finding of an illegal tie ?[310] As stated, the outcome of this issue is of crucial importance in the context of trademark licensing[311]. Not only does it allow the trademark holder to efficiently enforce its brand[312], but it would provide licensing program drafters with a safety provision ensuring the stability of a given trademark licensing system. While practical guidance would be much appreciated, the view of the antirust division of the Department of Justice is contradictory with the Kodak's ruling, somehow attenuated by the lower courts' interpretation.

In accordance with the 1995 IP Licensing guidelines, the Federal authorities, while assessing the legality of tying arrangements indicated that they would weigh the anticompetitive effect of the conduct with efficiency justifications[313]. In particular, with respect to package licensing, the 1995 IP Licensing Guidelines state that "when multiple licenses are needed to practice any single item of intellectual property […] a package may present such efficiency"[314]. This consideration may be of great relevance when the trademark is licensed together with another proprietary right such as a trade secret in the franchising context, or a copyright in the multi-media or the merchandising context. This view has been followed by some courts, which held that "[b]uyers often find package sales attractive; a seller's decision to offer such packages can merely be an attempt to compete efficiently – conduct that is entirely consistent with the Sherman Act"[315].

Yet, in Kodak, the majority rejected all the business reasons sustained by the defendant to justify its conduct and, in particular, the goodwill protection one[316]. Therefore, based on the foregoing, one can wonder whether the courts will consider the business justifications to balance the potential anticompetitive effect of a tying clause present in a trademark license, whether this consideration will extend to any efficient reason as suggested by the 1995 IP Licensing Guidelines[317], or will be limited to the least restrictive one, as ruled prior to Kodak[318] ? Finally, one may question whether the efficiency-driven defense encompasses the goodwill protection or is limited to package licensing. Unfortunately, the Justices in Kodak, by refusing to draw the method of analysis for tying arrangement and, accordingly, to guide practitioners as well as lower courts as to the weight to be given to business justifications did not provide clarity to the law[319]. This failure is especially prejudicial in view of the Supreme Court's ruling in connection with the narrowing of the relevant market to single-branded products, which eventually facilitate findings of illegal tie-ins.

2 Single-Branded goods as relevant market

the ruling of the majority in Kodak that single-branded products or services may well define a relevant product market for the purpose of antitrust law has potentially a great impact on the regulation of tying present in trademark licensing. The value of a given trademark upon which is based a franchise or merchandising program lies in its uniqueness or attractiveness and, thus in its ability to differentiate the branded items of one source from another source[320]. Accordingly, consistent with Kodak, numerous trademark or complementary items to a franchise or merchandising program may be considered as defining a relevant product market and, therefore facilitate the finding of market power enjoyed by the trademark holder.

The market definition criteria set out in Kodak departs from the general market definition test, the effect of which on trademark has already been identified. Generally, a relevant product market is defined in terms of the substitute products to which a purchaser may reasonably turn[321]. Substitutability of goods is usually assessed depending on the cross-elasticity of the demand and the supply. As to the demand side of the market, are part of the same market the products, the demand for which changes in response to the increase of the price of another product[322]. With respect to the supply side of the market, are normally part of the same product market the items of the manufacturers who actually or potentially compete with one another[323]. Following this latter rationale, lower courts have generally refused to consider the products of a sole manufacturer to define a separate product market or submarket[324]. However, in Kodak, the Supreme Court held that Kodak's replacement parts and servicing were two separate products markets distinct from the primary market for equipment[325]. In reaching this opinion, the majority considered that, because of market imperfections which locked-in consumers, the cross-elasticity test was limited to the demand side interchangeability. In other words, substitute products, the demand for which responded to the increase in the prices for parts or servicing had to be determined once the lock-in had occurred, thus excluding the actual or potential competition of other manufacturer's products[326].

In accordance with Kodak, a finding that single-branded products be defined as a relevant product market requires three elements. First, the products or services at issue must be complementary goods to durable goods, which may be supplied only from one supplier or a limited number of suppliers[327]. Second, there must be some high switching costs from the seller's goods to another manufacturer's ones[328]. Finally, and most importantly, there must be a lack in the availability of the information, the knowledge of which would allow customers to reasonably foresee the life-cycle price of the package they buy. Such after purchase or aftertie lack of information generate the lock-in and, accordingly, pursuant to the Kodak's ruling, justifies that the relevant product market be determined only under the demand-side substitutability test.

While criticized by some commentators[329] and courts[330], this reasoning has been endorsed by other lower courts[331], which tend to consider that where the conditions will be met, Kodak's criteria for relevant product market definition are likely to have adverse effects in the trademark licensing context.

First, the factual circumstances of Kodak--sale of durable goods in connection with unique or almost unique complementary items--is very similar to the circumstances under which a trademark is licensed in two respects. On the one hand, licensees seek to take a particular trademark because of the attractiveness of the latter, which allows customers to differentiate the trademarked items from those of other sources[332]. In this sense, each trademark is somehow unique and not interchangeable as complex equipment is. On the other hand, no matter the context where it occurs, franchising or merchandising, the license of a trademark usually comes with a bundle of complementary components. For example, in franchising, the franchisor will provide the franchisee with training, supplies, or other proprietary rights[333]. These components, which are essential parts of the attractiveness of the franchise, are also unique and, may often be provided solely by the franchisor. Likewise, in merchandising or multi-media projects, where the trademark is associated to a copyright, the latter, though complementary is essential to the functioning of the project. Therefore, in the foregoing, like for equipment and replacement parts, there is an essential functional link in the package[334], which may generate a lock-in.

Second, because trademark license underlies business opportunities for both parties, it is a medium to long term agreement, which on the side of the licensee requires significant investments[335]. For example, the franchisee is likely to invest in building the physical plant, training himself and his staff, or advertising[336]. Accordingly, so long as he has not recover from its investment through amortization, transfer or otherwise, the franchisee would suffer high switching costs in case he would be willing to change of business.

Third, and as the two first elements permitting to define a single branded-product as a relevant product market are likely to be present, the licensee may be locked-in. however, consistent with Kodak, it seems that lack of information as generating such locking should take place prior to the tie, or at least be unforeseeable by a reasonable licensee[337]. As in the Kodak case, there could be a change in the policy of the licensor, requiring his licensees to take some items only from him or at least not to take them from other suppliers. In this respect, it could be sustained that franchising agreement whereby franchisees are required to buy items from approved sources may induce the definition of the relevant product market as including only the said approved suppliers since franchisees would be locked-in with them[338].

It results from the foregoing that, the Kodak's redefinition of the relevant product markets narrowed to single-branded products put an increased threat on the validity of trademark licensing agreement containing tying-related clauses by lowering the market power screen, which, until the Supreme Court's intervention, defined the border between legal and illegal tie[339].

3 Lowering of the market power screen

Until Kodak, market power was to be evidenced for the purpose of a finding of an illegal tie either directly by the showing that the seller had raised prices above competitive price, or indirectly through the demonstration of the seller's market share, or the uniqueness of its products[340]. In Kodak, the majority held that Kodak's market power could be induced not only from the market share it enjoyed in the parts market, but also from the analysis of economic realities in the said market, which revealed the existence of market imperfections such as information and switching costs, and the presence of price discrimination between sophisticated and unsophisticated customers[341]. Consistent with Kodak, the showing of market power, notwithstanding the presence of competition at the interbrand level (for example, sale of the franchise), is likely to have great effects on trademark licensing programs if four elements are characterized: (1) a substantial number of licensees are substantially locked-in, (2) there is a substantial number of unsophisticated licensees, (3) sophisticated licensees are superfluous or effectively protected by price discrimination, and (4) the seller enjoys a substantial exploitative power[342].

With respect to the first element, as stated, it is likely that licensees support substantial investment costs to implement their business in connection with a trademark[343]. Accordingly, they could be said to have, so long as they have not amortized or recover from their investments, high switching costs. In the licensing context, the issue turns to whether the licensees have, at the time of the grant of the right to use the trademark, the requisite information to assess the life-cycle pricing of the business related to the exploitation of the trademark. Unfortunately, Kodak tells us little about the degree of lack of information needed to generate the market imperfection from which market power may be inferred[344]. At least, it results from the majority ruling that the lack of information should occur either after the tie has taken place, or, if present at the time of the tie, its consequences should be unreasonably unforeseeable at that time[345]. It is worth noting that the lock-in will probably be less substantial where the licensee is a multi-brand distributor than if he is an exclusive one[346].

As for the necessity of a substantial number of unsophisticated licensees, again, Kodak does not set a standard between sophisticated and unsophisticated customers for the purpose of antitrust laws. Yet, it may be considered that licensees, who undertake to invest substantially in a trademark-related business are cautious about their foreseeable costs and, accordingly, should be deemed to have researched on the overall cost of the package they buy, provided, however, that the acquisition of the information, though costly, was possible at the time of the commitment. For instance, in the franchise industry, information may be acquired from installed franchisees[347]. However, if the licensor changes its pricing or marketing policy after the commitment of its licensees, lack of information, similar to the one found in Kodak, will more likely be characterized.

Then for the exploitation of market power to be possible, the sophisticated buyers should be either superfluous or effectively protected by price discrimination[348]. As sophisticated buyers would, prior to the sale or the lease of the trademark, assess all the costs related to the exploitation of the trademark, they would be aware of the possibility of the lock-in and, accordingly, would not get into the business. Therefore, the licensor will not exploit its market power by raising its price if the profit maximizing of its trademark licensing program depends upon continuing to do business with those relatively sophisticated licensees. Since the expertise of the licensees is an essential criterion[349], it may be considered, in the first place, that trademark holders' success in their trademark licensing programs depends on relatively sophisticated licensees. However, even absent such circumstance, consistent with Kodak, the licensor may still be able to exploit its market power if he can price discriminate between sophisticated and unsophisticated customers. The enforcement of such a policy requires the licensor to identify the different price sensitivities of its licensees in order to differentiate between high and low price licensees.

Finally, the exploitative power of the licensor should be substantial[350]. However, the majority in Kodak, except rejecting the presumption that the lack of power in the primary market did not preclude Kodak from wielding the requisite power in the secondary market, did not tell exactly the kind of power necessary for the ultimate finding of an illegal tie[351]. In particular, Justice Blackmun did not respond to the dissent's assertion that circumstantial leverage enjoyed by Kodak did not create the requisite market power for the purpose of antirust challenges[352]. Accordingly, Kodak leaves open the question of the magnitude of power to be evidenced to succeed in the showing of the requisite market power. Are any market imperfections to be considered and relevant for such a finding, or should the plaintiff prove that the defendant has the ability to charge supracompetitive prices substantially or with respect to a substantial number of buyers. In this respect, it is interesting to note that according to *Jefferson Parish*, the 'power in abstract' that might be inferred from such market imperfections did not suffice to trigger the per se rule[353]. Likewise, in the franchising context, it was held that abstract power as explained in *Jefferson Parish* "makes it clear that by its requirement of market power it means significant market power—more that the mere ability to raise price slightly, or only on occasion, or only to a few of seller's many customers"[354].

As for commentators, while many of them criticize the lack of indication of a threshold of market imperfections that demonstrates the requisite market power[355], some have suggested that while assessing the ability to charge supracompetitive prices in a substantial way, such exploitation should be measured "against the package price of the whole for that it is what the customer is purchasing"[356]. For instance, in the franchising industry, some commentators have suggested that the exploitation of market power as described in Kodak was far for being probable for two reasons[357]. First, it the franchisor raises the price of unique complementary items, the franchisees will accordingly raise their retail prices. Or, in a presumably competitive market at the interbrand level of the franchisees' business (for example fast food), this increase will result in a loss of profits from the franchise caused by the retail consumers buying from other sources. Consequently, this policy would cause the franchisor to suffer from reduced income from royalties. Second, if the franchisees do not raise their retail prices, but instead absorb the higher costs, they will suffer a loss of profits caused by reduced margins. Similarly, this situation would affect the primary market of the sale of franchise as this market is competitive—there is thousands of franchise opportunities available for prospective investors—and information is widely available on the attractiveness on a given franchise[358]. Accordingly, in some circumstances, the

Kodak defense that competition in the primary may preclude the exploitation of market power in the secondary market may well serve in favor of the franchisors.

It results from the foregoing analysis of the potential impact of the Kodak case on the regulation of tie-ins in the trademark licensing context that, no matter the weight, which will be given to the decision, it is certain that it will affect the drafting of trademark licensing programs in the sense that it reinforces the assertion that current tying law is not clear enough to enable practitioners to efficiently foresee potential tying antitrust challenges. Uncertainties as to the future interpretation of the Kodak decision in connection with trademark licensing are three-folds.

First, if broadly applied, Kodak could induce lower courts to consider that trademarked and other differentiated goods may constitute distinct markets[359]. This approach would certainly have severe impact on the law of tying present in trademark licensing as it would ease the finding of two separate markets and, market power.

Second, if construed more narrowly, Kodak could be interpreted as to endorse narrow markets only in limited circumstances where a combination of market imperfections and restrictive practices such as supracompetitive prices and price discrimination preclude that competition in the trademark licensing market arbitrages the licensor's conduct in the complementary aftermarkets. In this respect, and as stated above, because of the relatively sophistication of licensees, the Kodak defense may well serve in favor of the licensors as against claims raised by licensees or competitors[360].

Third, in any event and, even if reduced to a procedural decision, Kodak is very likely to generate increased tying antitrust suits for two reasons. On the one hand, because Kodak gave great weight to the harm suffered by the consumers, and the practical economic explanations sustained by the plaintiffs, it is likely to give an incentive to unsatisfied licensees to bring an antitrust tying action for broader disputes grounded rather on deception or commercial matters than on pure competition[361]. This potential judicial threat on the contractual relationship entered into between the licensor and the licensee is not profitable to stable and efficient enforcement of trademark licensing programs. On the other hand, the hardening of the test for the grant for summary judgment is potentially very prejudicial to licensors. If the licensor fails to convince the Court that the facts-based arguments of the plaintiff are unreasonable, then the latter will be entitled to a trial, which will be more costly, time consuming, and even less predictable when the assessment of complex legal standards are left to the interpretation of a jury[362].

Accordingly, whether Kodak has narrow procedural implications on antirust law, or modifies the substantive standards for prosecuting tying arrangements, there is no doubt that it did not clarify the current tying law[363]. Instead, it amplified the unpredictability of the outcome of potentially increased antitrust tying challenges to trademark licensing programs. The task for drafters is now to determine patterns in order to limit antitrust exposures while setting up trademark licensing programs. While substantive law, as it stands, is unlikely to provide the required predictability, the solution may lie in the procedural treatment of tying arrangements, which, likewise the European notification procedure, could consist in a prior-enforcement clearance of the framework trademark licensing agreement by the governmental authorities.

V

Looking for a solution to establish patterns as to the validity of tying clauses in trademark licensing: exemption procedure

Whereas no satisfactory solution may be found in substantive antitrust laws, the analysis of the European exemption procedure gives an interesting example of efficient balancing between the preservation of free competition and the interests of business people, who need legal security. If transposable to American antitrust laws, the exemption procedure could effectively provides practitioners with the necessary legal certainty as to the validity of the agreements.

A No satisfactory solution found in substantive law

The literature as well as the dissenting case law have proposed two solutions to avoid as much as possible antitrust tying challenges in order to facilitate the drafting of medium to long term agreements such as trademark licensing contracts.

First, some commentators have suggested that, before setting up a licensing program, the licensor should analyze the markets conditions relating to the trademark and related business in order to eliminate, within the agreement and the according relationship with the licensee, at least one element necessary for a finding of an illegal tie[364]. In this respect five approaches may be taken.

Finding of an illegal tie requires as a perquisite condition the characterization of two distinct product markets[365]. Accordingly, the licensor should carry out a study to analyze the character of the demand for the trademark and the second item it intends to tie to. If the survey reveals that there is no separate demand for the complementary element, then normally there should be no antitrust tying risk. However, following Kodak, and as stated[366], there remains an open question as to whether any trademarked or differentiated goods could define a relevant product market. Therefore, the licensor should assess whether some conditions present in the market considered could generate a lock-in for licensees, hence, possibly leading to the consideration that two separate product markets actually exist. If so, the licensor should then eliminate another element.

The easiest way to avoid a finding of an illegal tie is to refrain from conditioning the license of the trademark upon the purchase of an other item from the licensor or sources that it controls, or provided that the licensee undertakes not to take the second item from other suppliers[367]. In this respect, the licensor should bear in mind that conditioning may be express or implied[368]. Moreover, according to some lower courts, conditioning may be inferred from market power identified in the market for the trademark[369].

As far as possession of market power in the tying market is concerned, if generally evidenced from the market share or the uniqueness of the trademark[370], following Kodak, the licensor should also check that the specificity of the markets involved are not subject to the kind of imperfections, which could lead a Court to consider that those imperfections generate the requisite market power. However, as stated[371], the Kodak defense may well serve the interests of the licensor as though the presence of substantial switching costs in the trademark licensing business, licensees should be considered as sophisticated buyers. To reinforce this assertion, it would be wise, however, for the licensor, to highlight the information the licensees were provided with, allowing them to make a knowledgeable commitment.

If there is no certainty that none of the above element is missing, then the licensor may decide to take the risk of an antitrust claim of tying when only a de minimus amount of interstate commerce in the tied item market is impacted by the package[372].

Another alternative for limiting antitrust tying exposure is, for the licensor, to accomplish the objective, *i.e.* goodwill protection, by another means. The most common means in this respect is to require licensees to purchase the complementary items from sources approved by the licensor, where the latter does not have any stake[373]. These kind of clauses have been considered not to be unlawful[374]. Though the foregoing tips to avoid antitrust tying challenges seem attractive when it is certain that the licensor's agreement runs apart from one of the tying element, practically, it is seldom the case. In particular, because of the importance given to markets realities in current tying law, increased unpredictability does not permit drafters to forecast the bordering line between legality and illegality for all elements characterizing an unlawful tie.

Second, and more fundamentally, increasing judges[375] and commentators[376] urge for the analysis of tying arrangements under the rule of reason. Endorsing such proposed solution would clearly do much for drafters as the test for an illegal tie would be harder because of the important consideration given to the economic benefits of the tie, which could balance its anticompetitive effects. Accordingly, the threat of antitrust tying challenges to trademark licensing would be soften because of the importance given to economic benefits such as entry into business or goodwill protection.

However, again, trademark licensing agreements, of which, supposedly, the benefits would, in the first place, outweigh their anticompetitive effects, would still be subject to judicial review. Or, courts assess the lawfulness of a conduct at bar under tying law in force at the time it is submitted to it, and under current market realities. Therefore, an agreement embodying an alleged tying clause is subject, not only to the evolution of market realities, which may reasonably be foreseeable for the drafters, but more importantly to the possible overruling by the Supreme Court of its precedent legal standards, on which the licensor relied upon at the time of the drafting. An obvious example of such legal uncertainty is the differing opinion of the Supreme Court in its two latest antitrust tying cases. Whereas in *Jefferson Parish*, the majority held that market imperfections could not generate the kind of market power necessary for a finding of a per se illegal tie[377], eight years later, the same Court concluded to the opposite proposition that markets imperfections such as information and switching costs could induce the requisite market power for the purpose of tying law[378].

It results from the foregoing, that proposed solutions in connection with substantive tying law are not satisfactory for drafters of medium to long term large scale contractual programs such as trademark licensing is. As substantive law is unable to provide business people with the legal stability and predictability necessary to implement efficient and stable programs, one may question whether the solution to such a failure could not be found in procedural antitrust law.

B The adequate solution may lie in procedural law: the example of the European exemption procedure

When crossing the borders to Europe, the analysis of the exemption procedure set out by the Rome treaty establishing the European Community gives an interesting example of balancing between the concern of ensuring free competition within the European market, and the need for business people of legal security in order to compete efficiently.

Article 85(1) of the Rome treaty, the European counterpart of the Section 1 of the Sherman Act, prohibits, as incompatible with the Common market, agreements that have the object or the effect of restricting competition within the Common Market and which affect trade between member states[379]. In particular, article 85(1)(e) states that to "make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which by their nature or according to commercial usage, have no connection with the subject of such contracts" is prohibited. Accordingly, tying arrangements may fall within that category of prohibited contracts. Pursuant to section 2 of article 85, agreements violative of article 85 (1) are null and void without prior administrative or judicial intervention. If the violative clauses of the agreement concerned are severable, the remaining aspects remain valid[380].

However, violative clauses or agreements may be validated due to their economic benefits. Article 85(3) provides that the prohibition of article 85(1) may be declared inapplicable to any agreement "which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not: (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives; (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question"[381].

To implement the above article, the European Council has set out a specific procedure for obtaining an exemption[382]. In accordance with this procedure, when drafters are doubtful about the legality of a given agreement under article 85(1), they may notify the said agreement to the Commission. Further to the examination of the agreement under both paragraphs 1 and 3 of article 85, the Commission has three solutions. First, it considers that the agreement at issue does not fall within the violation of article 85(1) and issue a negative clearance[383]. Second, though it considers that the agreement falls within the violation, it may decide, after balancing the pros and cons of the agreement, in particular in connection with the economic benefit of the latter, to grant the parties with an individual exemption[384]. An individual exemption is a formal decision, which may be challenged. However, once it is final, it provides the parties with the security that their agreement will not be challenged during the period set out in the agreement or fixed by the Commission, and provided that the parties strictly comply with the terms of the agreement and/or with the conditions imposed by the Commission. This procedure thus provides business people with legal security. Third, the commission may refuse to grant an individual exemption, considering that the agreement or relevant clause is too restrictive of competition. To further enhance legal security and business efficiency, and because it takes about eighteen months for the Commission to grant an individual exemption[385], the European Commission has issued block exemptions for some types of agreements, such as know-how licensing or franchising[386].

These regulations are very useful tools for business people in two respects. On the one hand, they are efficiency-driven in that they provide drafters with a quick exemption with no administrative or judicial intervention, provided that the particular agreement falls within its scope and strictly comply with its provisions. On the other hand, they guide business people on the very drafting of their agreement. Each regulation contains three kinds of provisions, depending on the potential adverse impact of some clauses on competition. the white clauses set out in the regulation are those which are always valid. The grey clauses are those which, depending on the circumstances (market conditions, competitive position of the parties, etc.), may be valid or not. Finally, the black clauses are those that are always invalid because of their proven adverse effect on competition. An agreement, which complies with all the provisions of a block exemption's regulation is valid for the duration of the said regulation. It is worth noting that if the parties are not certain that they strictly comply with a given block exemption regulation, or if they are willing to be certain that their agreement will not be endangered by a potential antitrust challenge, they may still apply for an individual exemption.

As far as trademark licensing agreements are concerned, there does not exist any trademark license exemption regulation per se[387]. Accordingly, when seeking for an exemption, drafters must first notify their prospective trademark licensing agreement to the European Commission in order to be granted an individual exemption. In the franchising context, the European Commission has issued a block exemption regulation, which entered into force on February 1, 1989, and will be effective until December 31, 1999[388]. In accordance with the regulation, qualify for the exemption the agreement whereby the franchisor gives in exchange for direct or indirect financial consideration, the right to exploit a franchise for the purposes of marketing specified types of goods and/or services. The agreement must also include the right to use a common name or shop signs, i.e. the license of the franchisor's trademark, the communication by the franchisor of the know-how and technical assistance[389]. Article 3 of the regulation[390], which provides for the grey clauses, lists restrictions which may be included in the franchise agreement, provided that they are necessary to protect the franchisor's trademark and reputation of the franchise system[391].

Among those clause lie the clauses whereby the franchisees may be required to use only goods manufactured by the franchisor, provided however that, objective quality specifications are impractical[392]. It is interesting to note that the Commission has considered that such tying clauses as a restriction of the license to those plants that are capable of guaranteeing the quality of the products, or an obligation to buy secret raw materials from the licensor to ensure harmonized quality between the licensee and the licensor to be valid[393]. Accordingly, under EC law, licensors are given the possibility not only to secure their agreement through block exemption regulations or the application for an individual exemption, but the potential anticompetitive effect of their agreement is affirmatively weighted against the economic benefits, where the goodwill protection plays an important role. It results from the foregoing analysis of the European exemption procedure that though not perfect, it provides trademark licensing drafters with appreciable guidance and increased legal security on the validity of the agreements[394]. Because this criterion is of crucial importance to the successful implementation of many businesses, including trademark licensing, one may question whether a similar procedure could be transferable to American antitrust law.

C POSSIBLE ESTABLISHMENT OF AN EXEMPTION PROCEDURE IN AMERICAN ANTITRUST LAW FOR MEDIUM TO LONG TERM AGREEMENTS

To answer as to whether an exemption procedure similar to the one established by article 85(3) of the Rome treaty[395] and Regulation 17/62 of the European Commission[396], one has to determine first, how the federal antitrust authorities could provide drafters with more precise and practical guidance as to the legal standards for prosecution, and second, how a pre-implementation procedure could be set up for medium to long term agreements. As they stand, the federal antitrust authorities do not provide sufficient practical guidance to drafters of trademark licensing programs[397]. The 95 IP Licensing Guidelines are difficult to implement because of the broadness of the definition of some notions such as market power assessment, which is of crucial relevance to tying challenges in trademark licensing[398]. Furthermore, and more importantly, they do not establish practical patterns as to the validity or invalidity of clauses commonly present in IP licensing programs[399].

As suggested by some practitioners, the antitrust division of the Department of Justice, instead of setting abstract standards for prosecution[400], should establish lists of white, grey and black clauses similar to those established by the European Commission while issuing its block exemptions decisions[401]. However, in order for such lists to effectively immunize some business practices from challenge under section 1 of the Sherman Act, the federal antitrust division's authority should be increased. Even if the antitrust division was to issue practical guidance as to the validity of clauses present in IP licensing agreements, such guidance would be of support insofar as the agreement would come to be challenged by the Federal authorities only.

As of today, antitrust guidelines are not binding upon the judiciary. Or, the analysis of the case law relating to antitrust tying challenges to trademark licensing shows that many suits are initiated by private parties[402]. Accordingly, issuance of practical guidance embodied into lists of white, grey or black clauses would be of limited help without the establishment of a real governmental review procedure, which, once final, would be binding upon the judiciary, hence effectively immunizing the agreement at bar from antitrust challenge, including grounded on tying. For such a procedure to be implemented two major modifications should be made to current antitrust law. First, tying arrangements should be analyzed under a rule of reason approach, whereby the economic benefits of the arrangement would be affirmatively balanced with its potential anticompetitive effects. Second, and to cop with the legal insecurity, the antitrust division would be given the authority, upon notification of the agreement by the parties, to immunize the agreement from antitrust challenge for a delimited time period. To further enhance this security and in view of the business people's need for rapidity, the antitrust division could also for types of agreements it has experience with, issue block exemptions.

CONCLUSION: CALL FOR CONGRESSIONAL INTERVENTION

Trademark licensing-based businesses play an important role in today's American economy. To further enhance their competitive position, in particular in transnational trade, business people need, as a precondition, their programs to be secure on a legal challenge prospective. Or, as they stand, substantive antitrust laws, and notably tying law, provide practitioners with no clear answer or at least methodology on how to build fully legal agreements. To suppress, or substantially reduce this uncertainty, and in view of the European competition law, American antitrust laws could be amended in two respects. First, as a perquisite, the per se treatment of tying arrangements should be abandoned for a rule of reason analysis where, the courts could take full consideration of the potential economic benefits deriving from the implementation of the said agreements. For such an overruling of the law of tie-ins to be clear, the intervention of Congress is thus necessary. As the courts, including the Supreme Court, have interpreted Congressional intention as to that tying should be treated as per se unlawful, only an intervention of Congress expressing its intention that tie-ins be analyzed under the rule of reason can make such overruling clear to interpreters[403]. Second, there should be established an exemption procedure, similar in its effects to the European one, whereby upon notification of their agreements to the antitrust division, business people would be immunized from antitrust challenge. Such an improvement toward legal security would be highly beneficial to American business people competitiveness in international trade as it would put them on an equal scale with their European counterparts, notably in view of the implementation of the uniform European currency, which is likely to boost European economy.

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[1] 15 U.S.C. § 1127 (1988). Technically, trademarks are used on or in connection with products, whereas service marks are used in connection with services. Service marks are afforded the same basic protection as trademarks. Murphy v. Provident Mut. Life Ins. Co., 923 F. 2d 923, 927 (2d Cir. 1990). For the purpose of this thesis, the term 'trademark' will be used to refer to both trademarks and service marks interchangeably.

[2] Trademark licenses can be exclusive or non-exclusive, limited in duration, territory, products or services, and otherwise. Steven M. Weinberg, *The Basics of the Law and Business of Licensing*, 418 PLI/PAT 143 (October, 1995).

[3] In particular, a trademark can be transferred or assigned only with the goodwill connected to the mark. United Drug Co. v. Theodore Rectanus, 248 U.S. 90, 97 (1918). Assignment of the trademark, absent the transfer of the goodwill of the business or the products it represents, is an invalid "naked" transfer of the rights. Berni v. Int'l Gourmet Restaurants of America, 838 F.2d 642 (2d Cir. 1988). *See also* 15 U.S.C. § 1060 which states that "A registered mark…shall be assignable with the goodwill of the business in which

the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark..."

[4] Notably, a license does not lead to the transfer of the goodwill attached to the trademark. Consequently, the licensor has the obligation to keep adequate control over the products or services bearing his mark. For further discussion upon the importance of the quality control requirement in trademark licensing, *see infra* II-C.

[5] When a manufacturer or supplier is willing to commercialize his products or services, several distribution methods are available. He can sell them directly to retail customers through company-owned outlets or employee salesmen. He can also elect to distribute his goods through independent business entities by means of a distributorship agreement. Distributorship is therefore an agreement by which the producer or supplier of goods or services and an independent distributor conclude that the latter will sell the products of the former to retail customers. Michael L. Denger, M. Sean Royall, *34th Annual Advanced Antitrust Seminar: Distribution and Marketing,* 876 PLI/CORP 121(January, 1995).

[6] Mark F. Radcliffe, *Antitrust Pitfalls in Licensing,* 390 PLI/PAT 175 (June-August, 1994).

[7] GORDON V. SMITH, RUSSELL L. PARR, INTELLECTUAL PROPERTY: LICENSING AND JOINT VENTURES PROFIT STRATEGIES 6 (1994)(explaining how trademarks through licensing deliver corporate value).

[8] *See* generally on the matter Jill Robin Sarnoff, *Practical Strategies for Global Trademark Licensing,* 5 NO. 8 J. PROPRIETARY RTS. 12 (August 1993).

[9] *Id.*

[10] GORDON V. SMITH, RUSSELL L. PARR, *supra* n. 7 at 18 (explaining that the world has shifted from mass manufacturing to mass customization, which forces enterprises to diversification and development of high

quality products. Since each separate company does not have all the tools, this new demanding market environment is pushing corporations into external alliances in order to put up together their reciprocal expertise).

[11] This is the hypothesis where the licensor intends to expand his business outside of his usual territory. The geographical expansion through licensing may be within the United States but will more often be internationally. In this latter case, the option for licensing will be mainly motivated by the costs and risks inherently linked to a direct overseas expansion. For more details on the matter, *see* THOMAS J. EHRBAR, BUSINESS INTERNATIONAL'S GUIDE TO INTERNATIONAL LICENSING: BUILDING A LICENSING STRATEGY FOR 14 MARKETS AROUND THE WORLD (Mc Graw-Hill, Inc. ed. 1992). *See also* Dudley B. Smith, *Why License?*, 86 PLI/PAT 393-99 (1977)(stating that international licensing allows the trademark owner to entry otherwise inaccessible markets, especially those which are blocked by local regulations).

[12] The product/service expansion may be driven in two ways. On the one hand, the licensor, relying on the loyalty of the consumers to her already known brand, may be willing to offer to her customers additional related goods. In this respect, besides the financial benefit, this extension encourages the faithfulness of original consumers to the brand. ROGER A. MC CAFFREY & THOMAS A. MEYER, AN EXECUTIVE'S COMPLETE GUIDE TO LICENSING 95 (1989). On the other hand, the trademark holder may be motivated by an expansion outside of her traditional business. Lacking the adequate expertise, a knowledgeable licensee in the prospective field will be more efficient in developing the new product/service line. In particular, that is what motivates the license of trademarks for collateral merchandises. Moreover, apart from the quick and cost-limited access to new marketing channels, trademark license enables the licensor to test a market's possibilities or a new product/service line. Therefore, if the start-up business is successful, the licensor will be able, at the term of the agreement, to run the business directly through subsidiaries or salesmen. THOMAS J. EHRBAR, *supra* n. 11.

[13] MICHAEL A. EPSTEIN, MODERN INTELLECTUAL PROPERTY § 15-23 (3rd ed. 1995)("The value of a trademark consists, in large part, in its effectiveness at calling to a consumer's mind the owner's

reputation for quality in connection with goods or services sold under the mark. These positive feelings are termed goodwill…"). *Id.*

[14] Premier Dental Prods. Co. v. Darby Dental Supply Co., 794 F.2d 850, 853 n.3 (3[rd] Cir.), *cert. denied,* 479 U.S. 950 (1986).

[15] GORDON V. SMITH, RUSSELL L. PARR, *supra* n. 7 at 15.

[16] For a discussion on the development of trademark licensing in collateral merchandising, *see infra* n. 34 and accompanying text.

[17] Anti-Monopoly, Inc., v. Gen. Mills Fun Group, 611 F.2d 978 (9[th] Cir. 1979)("Once…goodwill is established, trademarks become an extremely important medium of advertisement").*Id.* at 301, 204 U.S.P.Q. (BNA) 978, 982.

[18] The royalty can be either a lump-sum or a percentage on the sale of the marked goods or both. In either hypothesis, the rate of the royalty will be based on the ability of the mark thanks to the goodwill its has acquired to efficiently penetrate new or existing markets. Jill Robin Sarnoff, *supra* n. 8.

[19] Associated goods may be raw materials or components for the manufacturing of the final products; they can also be the supply of any services such as training courses in relation to the trademark. THOMAS J. EHRBAR, *supra* n. 11. *See also* Dudley B. Smith, *supra* n. 11 at 396.

[20] Common law protection of a particular trademark belongs to the one who first uses it in connection with specified goods. McClean v. Fleming, 96 U.S. 245 (1877). Likewise, the Lanham Act affords Federal protection by means of registration to trademarks which are "used in commerce", or at least when the registrant has the intent to use the mark in commerce within a year of her application. 15 U.S.C. § 1051.

[21] The Lanham Act defines the "use in commerce" as "bona fide use of the mark in the ordinary course of trade, and not made merely to reserve a right in a mark". 15 U.S.C. § 1127.

[22] Discontinued or inappropriate use of the mark weakens its protection. Not only may it bar the renewal of the registration of the mark. 15 U.S.C. § 1059(a); but more dangerous, it may defeat an infringement or dilution action if the mark is considered as abandoned. Indeed, pursuant to the Lanham Act, nonuse of the mark for two consecutive years constitutes prima facie evidence of abandonment. 15 U.S.C. § 1127.

[23] For an example, *see* Jill Robin Sarnoff, *supra* n. 8 at 14.

[24] Whereas the majority of countries afford superior trademark protection to the first to file an application for trademark registration, some countries base the acquisition of trademark rights on the use or intent to use. These countries are mainly those having a legal system derived from British law. William A. Finkelstein, *Developing and Protecting the Marks of the Franchise Outside the United States*, in THE FRANCHISE TRADEMARK HANDBOOK: DEVELOPING AND PROTECTING YOUR TRADEMARKS AND SERVICE MARKS 101-103 (Luis T. Pirkey ed. 1994).

[25] Several multinational treaties deal with the treatment of transnational trademark protection. On the one hand, there are transregional agreements. Historically the first, the Paris Convention (Paris Convention for the Protection of Industrial Property, done March 20, 1883, as last revised at Stockholm, July 14, 1967 UST 1583, TIAS No 6923, 828 UNTS 305) provides that each member will grant the same protection, subject to the same conditions, as nationals of its own country. However, the convention neither harmonizes national laws, nor grants a worldwide trademark right. Still, the Paris Convention, to whom all important commercial countries belong, provides a priority file procedure of registration whereby an applicant who files a first application in a member country, is entitled, for 6 months, to file corresponding applications in any other member countries, and these files will be considered as filed at the date of the first filing. The second transregional convention was concluded on December 15, 1993 in the context of

the Uruguay Round of trade talks under the General Agreement on Tariffs and Trade (GATT). The TRIPs Agreement (agreement on Trade-Related Aspects of Intellectual Property Rights) is relevant to transnational trademark protection in two respects. First, it sets minimum standards for trademark protection: broad definition of trademark, provision regarding the use requirement, opposition procedure, likelihood of confusion as the test for a finding of infringement, specific protection for well-known marks. Therefore, despite the premise of "national treatment", the agreement somehow harmonizes national laws. Second, and very interesting with regard to efficient transnational trademark protection, is that intellectual property provisions are incorporated in the GATT agreements. Therefore, trade sanctions can be imposed against GATT member nations for violation of the trademark provisions of the TRIPs Agreement. Eleanor K. Meltzer, *TRIPs and Trademarks, or-GATT Got Your Tongue?* 83 TMR 18, 20 (1993). On the other hand, trademarks are afforded regional protection in America as well as in Europe. In America, the North America Free Trade Agreement (NAFTA), effective as of January 1, 1994, sets minimum standards of protection for trademarks similar to TRIPs. However, it requires use to maintain the registration. In Europe, the Madrid Protocol, operated by the World Intellectual Property Organization (WIPO), sets up an international filing system whereby the trademark owner of a member state can obtain, by means of a single application, international rights with effect in as many member countries as he designates in his single application. For further discussion on the Madrid Protocol, *see* Bruce W. Schwab, *The New Era in Trademark Treaties and Multinational Agreement,* 393 PLI/PAT 169 (September-October, 1994). Finally, the European Community Trademark Treaty (Counsel Regulation 40/94 of December 20, 1994) provides for a central registration process initiated in Alicante, Spain and the grant of a single trademark effective in all EC countries. Harmonization is reached through the designation of special national courts which have exclusive jurisdiction for Community Trademark infringement actions. The interest of such a treaty is that not only the European Union countries, but also U.S. trademark owners or owners in all countries members of the Paris Convention, are entitled to file applications to obtain a Community Trademark.

[26] Notably in Asia and Latin America. THOMAS J. EHRBAR, *supra* n. 11 at xviii.

[27] Steven M. Weinberg, *see supra* n. 2.

[28] *Id.* (expecting the growth of trademark licensing in collateral merchandising to reach nearly 100 billion dollars by the year 2000).

[29] A symbol may elect for trademark protection provided it is distinctive and non-functional. Zatarians, Inc., v. Oak Grove Smokehouse, Inc., 698 F.2d 786 (5th Cir. 1983). Section 43 (a) of the Lanham Act, 15 U.S.C. § 1125 (a), is interpreted broadly to include as protectible trademarks a diversity of trade dresses. The trade dress of a product or service is defined as "its total image and overall appearance". Blue Bell Bis-Medical v. Cin-Bad, Inc., 864 F.2d 1253, 1256 (5th Cir. 1989). *See also* John H. Harland Co. v. Clarke Checks, Inc., 711 F.2d 966, 980 (CA 11 1983)(a trade dress "involves the total image of a product and may include features, graphics, or even particular sales techniques"). Consequently, a wide range of trade dresses may qualify for trademark protection including inherently distinctive interiors, Two Pesos, Inc., v. Taco Cabana, Inc., -U.S.-, 112 S.Ct 2753 (1992), *re'g denied,* 113 S.Ct. 20 (1992), or distinctive greeting card "look", Hartford House, Ltd. V. Hallmark Cards, Inc., 6 USPQ 2d 2039 (10th Cir. 1988). For more cases affording trademark protection to trade dresses, *see* Steven M. Weinberg, *supra* n....(reporting the expanding views of the courts with respect to affording trademark protection to distinctive symbols or trade dresses).

[30] Susser v. Carvel Corp., 206 F. Supp. 606 (S.D.N.Y. 1962)(characterizing the trademark as the "cornerstone of the franchise system"), *aff'd,* 332 F.2d 505 (2d Cir. 1964), *cert. denied,* 381 U.S. 125 (1965). *See also* William G. Barber, *The Foundation of the Franchise: The Marks,* in THE FRANCHISE LAW HANDBOOK: DEVELOPING AND PROTECTING YOUR TRADEMARKS AND SERVICE MARKS 2 (Louis T. Pirkey ed. 1994).

[31] C. Jeffrey Thompson, *Drafting Distribution and License Agreements,* 8-JUL UTAH B.J. 23 (June/July, 1995).

[32] For this purpose, the franchise agreement usually includes requirements with regard to the interior decor, the advertising and presentation of the mark, the packaging, attendance to training seminars.... William G. Barber & Mathew J. Mitten, *Licensing the Marks of the Franchise,* in THE FRANCHISE LAW HANDBOOK: DEVELOPING AND PROTECTING YOUR TRADEMARKS AND SERVICE MARKS 38-51 (Louis T. Pirkey ed. 1994).

[33] The house mark is often licensed along with the use of a bundle of other rights such as secondary marks, patents, copyrights, trade secrets or trade dresses.

[34] For a general discussion on collateral merchandising, *see* BATTEROBY & GRIMES. THE LAW OF MERCHANDISE IN CHARACTER LICENSING (Clark Boardman Collaghan ed.).

[35] Susan Upton Douglas, *Trademarks and Copyright Licensing,* 432 PLI/PAT 249 (MARCH,1996).

[36] *See generally*, WILLIAM M. BROCHARD. TRADEMARKS AND THE ARTS (1989).

[37] *See generally*, Jack Revoyr, *A Practical Guide to Collegiate Trademark Licensing,* in 1 THE LAW AND BUSINESS OF LICENSING: LICENSING IN 1980'S § 2A-827/864 (1987).

[38] *See,* Pal E. Loving, *Native American Teams in Athletics: It is Time to Trade these Marks,* 13 LOY.L.A.ENT.L.J. 1 (1992)(reporting that licensing of team names in Athletics such as the Atlanta BRAVES in baseball, is a considerable source of revenues; "in 1990, analysts estimated that professional athletics produced over 3.8 billion dollars in sale"). *Id.,* citing Chuck Stogel, *Teams Logos Turning into Gold*, SPORTING NEWS, Nov. 12, 1990, at 48.

[39] Steven M. Weinberg, *supra* n. 2.

[40] Michael D. Scott, *Multimedia Licensing* in DRAFTING LICENSE AGREEMENTS § 13.03 [1] (Michaell A. Epstein & Franck L. Politano, 2d ed. 1995)(pointing out the importance of images and sounds in the computer software industry to catch the attention of users. "Information indexing and retrieval systems design is entering a new phase where discrete parts of images and other types of information can be accessed via the audio or visual of the desired information, not just the text."). *Id.*

[41] Rhoda L. Rudnick, *Window Dressing: Trademark protection for Computer Screen Displays and Software,* 80 TMR 382 (1990)("To reach the large non-technical market for computers and software programs, product promotions stress not only on features and functions, speed and efficiency, but also ease of use and attractive appearance. The design of the display on the computer screen is a major feature in a product's ease of operation and appeal"). *Id.* at 382.

[42] Times 32-33 (November 30, 1987). *See also* Rhoda L. Rudnick, *supra* n…at 399 (stating that "the most prominent identifying feature [of computer system] is the appearance of the user interface features upon the display screen, including designs, print sizes and styles").

[43] For a discussion upon the suitability of trade dress protection for computer user interface, *see* Lauren Fisher Kellner, *Trade Dress Protection for Computer User Interface "Look and Feel",* 61 U.CHI.L.REV. 1011 (1994)(notably stressing out that unlike in the copyright context, the functionality defense is tested as a whole for the purpose of trade dress protection, therefore making trade dress protection more available to user interface). *Id.*

[44] Computer Assoc. v. Altai, 982 F.2d 693 (2d Cir. 1992)(overall structure of a computer not protected by copyright). *See also* Lotus Dev. Corp. v. Borland Int'l, 49 F.3d 807 (1st Cir. 1995)(computer menu command hierarchy not copyrightable subject matter).

[45] An original work of authorship fixed in tangible medium is copyrightable unless it is a mere idea or it is too functional. Baker v. Selden, 101 U.S. 99 (1879). Under this rationale, the courts have recently refused copyright protection to overall structures as well as hierarchy commands of computer software. *See respectively,* Computer Assoc. v. Altai, 982 F.2d 693 (2d Cir.1992), and Lotus Dev. Corp. v. Borland Int'l, 49 F.3d 807 (1st Cir. 1995).

[46] Copyright infringement may be proven upon the evidence of substantial similarities between the alleged infringing work and the copyrighted work. Whelan Assoc., Inc. v. Jaslow Dental Laboratories, Inc., 797 F.2d 1222 (3d Cir. 1986).

[47] *See* in particular 84 TMREP. 343 (explaining that producers of computer programs may be able to obtain trade dress protection for user interface provided that they "establish (1) that the design is inherently distinctive or has acquired secondary meaning, thus identifying the source of the good; (2) that the design sought to be protected, viewed as whole, is 'nonfunctional'; and (3) that similarities between the plaintiff's and defendant's design create a likelihood of confusion as to the source or origin of the products"). *Id* at 345.

[48] Licenses opportunities for multi-media developers are "boundless", since projects include a range diversity of components such video graphics, combination of text, computer software, logos, features… unless the producer of the multi-media project is also the owner of those components, or their free use can be somehow justified, he will need to be licensed from the owners of the corresponding copyrights or trademarks, the right to use them. Michael D. Scott, *supra* n. 40 at 13.01-13.02.

[49] Atari Games Corp. v. Nintendo of America, Inc., 897 F.2d 1572, 1576 (Fed. Cir. 1990).

[50] S. Rep. No. 515, 100th Cong., 1st Sess. 4 (May 12, 1988), reprinted in 1988 U.S. Code Cong. & Admin. News 5577, 5580 (to make "consumers confident that they can identify brands they prefer and can purchase those brands without being confused or misled"); *see also* Park N'Fly, Inc., v. Dollar Park

N'Fly, inc., 469 U.S. 189, 198 (1985)("to protect the ability of consumers to distinguish among competing producers").

[51] S. Rep. No. 1333, 79th Cong., 2d Sess. 4 (May 14, 1946), reprinted in 1946 U.S. Code Cong. & Admin. News 1274, 1275 ("Trade-Marks, indeed, are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from another").

[52] The more distinctive a mark is, the broader protection it gets. Indeed, besides protecting marks against likelihood of confusion, trademark laws protect famous marks from dilution of distinctiveness or tarnishment even absent a finding of confusion. RESTATEMENT OF THE LAW OF UNFAIR COMPETITION (THIRD) § 25 (1993); *see* for example McDonald's Corp. v. Drick & Gerner, 814 F.Supp. 1127 (N.D.N.Y. 1993).

[53] S. Rep. No. 1333, 79th Con., 2d Sess. 3 (May 14, 1946), reprinted in 1946 U.S. Code Cong & Admin. News 1274, 1275 ("Trade-Marks encourage the maintenance of quality by securing to the producer the benefit of good reputation which excellence creates").

[54] Northern Pac. Ry. V. United States, 356 U.S. 1, 4-5 (1958)("the Sherman Act was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade. It rests on the premise that unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress. While at the same time providing an environment conducive to the preservation of our democratic, politic and social institutions. But even were that premise open to question, the policy unequivocally laid down by the Act is competition".). *see also* PHILIP AREEDA, DONALD F. TURNER, 1 ANTITRUST LAW, AN ANALYSIS OF ANTITRUST PRINCPLES AND THEIR APPLICATION 7, Objectives of Antitrust Laws; Terry Calvani, *What is the Objective of Antitrust?,* in ECONOMIC ANALSYSIS AND ANTITRUST LAW 7 (2d ed. 1988).

[55] United States v. Topco Assoc., 405 U.S. 596 (1972)("Antitrust laws in general, and the Sherman Act in particular, are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms. And the freedom guaranteed each and every business, no matter how small, is the freedom to compete-to assert with vigor, imagination, devotion, and ingenuity whatever economic muscle he can muster. Implicit in such freedom is the notion that it cannot be foreclosed with respect to one sector of the economy because certain private citizens or groups believe that such foreclosure might promote greater competition in a more important sector of the economy."). *Id.* at 610. *See also* James F. Ponsoldt, *The Enrichment of Sellers as an Instification for Vertical Restraints: A Response to Chicago's Swiftian Modest Proposal,* 62 N.Y.U.L.REV. 1166 (November, 1987)("The primary goal of antitrust [...] is to maintain a competitive process—rivalry—as a market regulator to eliminate the inefficient or non-innovative and to protect economic opportunity for all."). This objective of antitrust laws is often referred to as a "populist" motive.

[56] Donald I. Baker, *Vertical Pricing, Territorial, and Customer Restraints: The Search for Clarity (or at least Sanity),* 876 PLI/CORP 9 (January, 1995)("The 'economic efficiency' theme is clearly dominant today – in both the federal government enforcement agencies and the 'new antitrust majority' on the Supreme Court"). *Id.* at 13.

[57] PHILIP AREEDA & DONALD F. TURNER, *supra* n. 54 Chap. I at 7 ("The economic objective of a pro-competitive policy is to maximize consumer economic welfare through efficiency in the use and the allocation of scarce resources, and via progressiveness in the development of new productive techniques and new products that put those resources to better use"). This economic efficiency goal may come into conflict with the so-called populist goal of antitrust laws. Indeed, according to the Supreme Court, "[I]t is competition, not competitors, which the act protects". Brown Shoe Co., Inc. v. United States, 370 U.S. 294, 344 (1962). Therefore, under this rationale, a conduct may comply with antitrust laws because of its

efficiency, and still arm small business. This situation is particularly relevant to the franchising context. Donald I. Baker, *supra* n. 56 at 13.

[58] However, unlike patent and copyright, respectively 35 U.S.C.A. § 154 (1988), and 17 U.S.C.A. § 106 (1988), trademark law does not confer an exclusive right to make, use or sell specific products or services. A trademark only grants the right to exclude others from using confusingly or attempting to the reputation or the strength of the mark. Therefore, others can still compete in the marketplace for the same type of goods. Car Fresher Corp. v. Auto Mftg. Corp., 438 F.Supp. 82, 86 (N.D.N.Y. 1977); *see also* Seven-up Co. v. No-Cal Corp., 183 U.S.P.Q. (BNA) 165, 166 (E.D.N.Y. 1974).

[59] "Antitrust and Innovation in a High Technology Society", 7 TRADE REG. REP. (CCH) ¶ 50,128 at 48,996 (Jan. 10, 1994).

[60] U.S. Department of Justice and the Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property, 4 TRADE REG. REP. (CCH) ¶ 13,132 § 2.0 (April 6, 1995)(hereinafter, the '1995 IP Licensing Guidelines'). It is worth noting the 1995 IP Licensing Guidelines expressly exclude the treatment of trademarks. However, further they state that "the same general antitrust principles that apply to other forms of intellectual property, apply to trademarks as well". *Id.* § 1.0, n.1.

[61] 1995 IP Licensing Guidelines, *supra* n. 60 § 2.3.

[62] *See supra* n. 60 and accompanying text.

[63] In the absence of a combination, conspiracy or monopoly, the trademark owner has no obligation to license her property. She is free to choose or not to choose a licensee. United States v. Colgate & Co., 250 U.S. 300 (1919). *See also*, Antitrust Guidelines § 2.2 (stating that market power does not impose on the intellectual property owner an obligation to license the use of the property to others.").

[64] Sheila J. McCartney, *Licensing Alternative to Limit Antitrust and Misuse Exposures: Part I*, 7 NO. 4J. PROPRIETARY RTS. 19, 19 (April 1995)("Enforcement remains an essential element of an intellectual property owner's program to preserve and capitalize on its intellectual property").

[65] In general, the fact of bringing a claim to enforce trademark rights is immune from antitrust counterclaims under the *Noerr-Pennington* doctrine. However, litigation deemed a "shamed" is excepted from *Noerr-Pennington* immunity and may be the basis for antitrust liability. Under the Supreme Court's rationale [Professional Real Estate Investors v. Columbia Picture, Inc., 113 S.Ct. 1920 (1993)], a claim is "sham" if (1) the claim is objectively baseless, and (2) there is an anti-competitive intent in bringing the baseless suit. *Id.* at 1928. For an application to trademark cases, *see e.g.* Original Appalachian Artworks, Inc., v. McCall Pattern Co., 649 F.Supp. 832 (N.D. Ga. 1986)(bad faith of "sham" trademark litigation cannot be made when prior trademark litigation was concluded successfully by the trademark holder), *aff'd*, 825 F.2d 355 (11th Cir. 1987).

[66] Misuse is an equitable defense originally derived from the doctrine of unclean hands. Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942).

[67] Generally, a defense of misuse does not require the defendant to prove a personal injury. But *see* Central Ben. Mut. Ins. Co. v. Blue Cross, 711 F. Supp. 1423 (S.D. Ohio 1989)(stating that only infingers "directly and adversely affected by the alleged antitrust violations" have standing to assert trademark misuse).

[68] *See supra* n. 49 and accompanying text. *See also* VMG Enter v. F. Quesada & Franco, Inc., 788 F.Supp. 648 (D.P.R. 1992)(holding that a concurrent use agreement containing a territorial trademark division was not a misuse of the trademark on the grounds that not only was the territorial division a recognition of pre-existing common law rights, but also that it could not preclude competition). *Id.* at 657-58.

[69] Carl Zweiss Stiflung v. V.E.B. Carl Zweiss Jena, 298 F.Supp. 1309, 1314 (S.D.N.Y. 1969), *modified on other grounds,* 433 F.2d 686 (2d Cir. 1970), *cert. denied,* 403 U.S. 905 (1971). *See also* Coca-Cola Co. v. No-Cola Corp., 183 U.S.P.Q. (BNA) 165, 166 (E.D.N.Y. 1974); Alberto-Culver Co. v. Andrea Dumon, Inc., 295 F.Supp. 115, 118(1158?)(N.D. Ill. 1969), *aff'd in part and rev'd in part,* 466 F.2d 705 (7th Cir. 1972).

[70] Mechanical Plastics Corp. v. Titan Technologies, Inc., 823 F.Supp. 1137 (S.D.N.Y. 1993)(invalidating a trademark because its protection would extend to the product's functional aspects and therefore, would be anti-competitive). *Id.* at 1144. *See also* Phi Delta Thetra Fraternity v. J.A. Buchroeder & Co., 251 F.Supp. 968 (W.D.Mo. 1966)(cancellation of a trademark that was used to eliminate competition in the market for fraternity jewelry).

[71] Morton Salt, 314 U.S. at 493. *See also* Coca-Cola Co. v. Howard Johnson Co., 386 F.Supp. 330, 335 (N.D.Ga. 1974).

[72] Paul Fields, *Trademark/Antitrust Interface,* 390 PLI/PAT 627 (June-August, 1994). Section 33(b)(7) of the Lanham Act, 15 U.S.C.A. § 115(b)(7) provides that the fact that "the mark has been or is being used to violate the antitrust laws" is a defense in actions for infringement. However, it is unclear whether this codified defense has the same effects as a defense of misuse or if it is only a defense to the incontestability of a federally registered mark, which does not necessarily defeat the trademark owner's right to prevail in an infringement action. *Id.* For a discussion on the matter, *see* ANTITRUST L. DEV. (3d ed. 1992) Chap. IX. C(2).

[73] Not every antitrust violation constitutes also a trademark misuse. For a discussion upon the similarities as well as differences between antitrust misuse and violation, *see* Sheila J. McCartney, *supra* n. 64.

[74] Though an antitrust challenge may have severe effects on the license program, absent simultaneously a finding of misuse, it is not a defense to a contract. Sheila McCartney, *supra* n. 64.

[75] Only the Department of Justice has authority to enforce criminal provisions of the antitrust laws contained in sections 1 and 2 of the Sherman Act.

[76] Only the Federal Trade Commission has authority to enforce the Federal Trade Commission Act.

[77] Many states have enacted antitrust laws of their own, which are enforceable through the state Attorneys General.

[78] 15 U.S.C. § 15 (1988)("Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of the suit, including reasonable attorney's fee"). Though "the source of the antitrust injury requirement" lies in section 4 of the Clayton Act [Cargill, Inc. v. Monfort of Colorado, 479 U.S. 104, 109], courts' rulings with respect to antitrust standing concerns apply to all provisions of federal antitrust laws. Valley Prod. Co., Inc. v. Landmark, 877 F.Supp. 1087,1091, n.9 (W.D. Teness. 1994).

[79] Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477 (1977)(describing an antitrust injury as an "injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful. The injury should reflect the anticompetitive effect either of the violation or of anticompetitive acts made possible by the violation. It should, in short, be 'the type of loss that the claimed violations…would be likely to cause'"). *Id.* at 489 (quoting Zenith Radio Corp. v. Hazeltine Research, 395 U.S. 100, 125 (1969)). For further discussion on the matter, *see* Anthony E. DiResta, Bryan G. Harrison & William M. Reid, *"Antitrust Injury": The Substantive and Procedural Impact of Brunswick*, C695 ALI-ABA 211 (1991).

[80] *See* for example Cal. Computer Prod. V. International Business Machines, 613 F.2d 727 (9th Cir. 1979)(stating that section 4 of the Clayton "confers standing to sue only upon those persons casually injured by antitrust violations"). *Id.* at 732.

[81] Section 4 of the Clayton Act, 15 U.S.C. § 15.

[82] *See* for example Cal. Computer Prod. V. International Business Machines, 613 F.2d 727 (9th Cir. 1979)(pointing out that to have antitrust standing, the plaintiff must show "that the injury is of the type the antitrust laws were intended to prevent"). *Id.* at 732.

[83] Hodges v. WSM, Inc., 26 F.3d 36 (6th Cir. 1994)(explaining the required casual linkage between the plaintiff's injury and the antitrust violation. "If plaintiff would have suffered the same injury without regard to the allegedly anticompetitive acts of defendants, Plaintiff has not suffered antitrust injury"). *Id.* at 38. *See also* Datagate, Inc., v. Hewlett-Packard Co., 941 F.2d 864, 867-69 (9th Cir. 1991). For an application to trademark licensing, *see* Valley Prod. Co. Inc., v. Landmark 877 F.Supp. 1087 (W.D.Tenn. 1994)(dismissal of an antitrust tying action on the ground that the injury alleged by the plaintiffs was not of the kind to be addressed by antitrust laws; "the plaintiff's injury in this case was caused by the HFS's decision to license only a limited number of manufacturers" and was not because of an illegal tie). *Id.* at 1093.

[84] 15 U.S.C.S. Congress passed the Sherman Act on July 2, 1890. It was the first antitrust Act voted in response to the worrying growth of trusts.

[85] 15 U.S.C.S. § 1.

[86] 15 U.S.C.S. § 2.

[87] Continental TV Inc., v. GTE Sylvania, Inc., 433 U.S. 36 (1977), *on remand*, 461 F.Supp. 1046 (N.D.Cal. 1978), *aff'd*, 694 F.2d 1132 (9th Cir. 1982). *See also* United States v. Sealy, Inc., 388 U.S. 350 (1967)(territorial divisions between competitors found per se unlawful); United States v. Topco Assoc., 405 U.S. 596 (1972); Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951).

[88] Business Elec. Corp. v. Sharp, 485 U.S. 717 (1988).

[89] Radiant Burners, Inc., v. People Gas Light & Coke Co., 364 U.S. 656 (1961)(improper use of certification and collective marks found to be unlawful). *See also* Moore v. Boating Indust. Ass'n, 754 F.2d 698, 706 (7yh Cir. 1985).

[90] Northern Pacific Ry. V. United States, 356 U.S. 1, 5-6 (1958)(land leased on the condition that the leasee agrees to ship his commodities on the licensor's rail lines).

[91] Also called a positive tying arrangement.

[92] Also called a negative tying arrangement.

[93] Vertical relationships permit economies of scale. ERNEST GELLHORN, WILLIAM E. KOVACIC, ANTITRUST LAW IN A NUTSHELL, CHAP. 8 (4TH ed. 1994).

[94] Laurence J. White, *The Revolution of Vertical Relationships: How did we get from there to here?*, in ECONOMICS AND ANTITRUST POLICY 103 (Robert J. Larner & James W. Mechan, Jr., ed. 1989).

[95] *See supra* n. 93.

[96] for the purpose of antitrust regulation, vertical agreements are opposed to horizontal agreements, where the parties are actual or potential competitors. United States v. Topco Assoc., 405 U.S. 596, (1972)("an agreement between competitors at the same level of the market structure [...] is usually termed a 'horizontal' restraint, in contradistinction to combinations of persons at different levels of the market structure, e.g. manufacturers and distributors, which are termed 'vertical' restraints). In the context of this two fold distinction, dual distribution system creates a special problem. Indeed, not only does the supplier enter into marketing agreements to indirectly commercialize his articles, but he also sells them directly and thus competes at the marketing level. For further discussion on dual distribution issues, *see* Michael L. Denger, M. Sean Royall, *34th Annual Advanced Antitrust Seminar: Distribution and Marketing,* 876 PLI/CORP 121 (Jan., 1995). For the purpose of this thesis, we will assume that the trademark licensor does not compete with his licensees.

[97] *See supra* n. 96.

[98] For example, *see* E. Krehl v. Baskin-Robbins Ice Cream Co., 664 F.2d 1348.

[99] Ernest Gellhorm, William E. Kovacic, *supra* n. 93 at 341.

[100] For a discussion on the focuses of tying arrangements, *see infra* C.

[101] for example *see* Monsanto Co. v. Spray-Rite Serv. Corp., 465 U.S. 752 (1984)(manufacturer terminating her business relationship with a distributor who refuses to abide by her high price policy).

[102] For example *see* Standard Oil Co. of California v. United States, 337 U.S. 293 (1949)(independent retail gas stations committed to sell only one brand of gasoline).

[103] "[T]he very essence of such contracts denies dealers opportunity to deal in the products of competing suppliers and exclude suppliers from access to the outlet controlled by those dealers". *Id.* at 301.

[104] For example, while licensing his patent, the patentee can require that the licensee to take also his trademark so that the patented articles will be only sold under the licensor's mark. Neil A. Smith, *Trademarks and the Antitrust Laws,* 365 PLI/PAT 685 (June-July, 1993).

[105] *See supra* n. 33 and accompanying text.

[106] E. Krehl v. Baskin-Robbins ice Cream Co., 664 F.2d 1348 (9th Cir. 1982).

[107] Mozart Co. v. Mercedes-Benz of North America, Inc., 593 F.Supp. 1506 (N.D.Cal. 1984), *aff'd,* 833 F.2d 1342 (9th Cir. 1987), *cert. denied,* 488 U.S. 870 (1988).

[108] *See supra* n. 33 and accompanying text.

[109] Principe v. Mc Donald's Corp., 631 F.2d 303 (4th Cir. 1980).

[110] *Id.* at 307.

[111] *See supra* n. 34 and accompanying text.

[112] For a general discussion of the functions of tying arrangements, *see* E. THOMAS SULLIVAN, JEFFREY L. HARRISON, UNDERSTANDING ANTITRUST AND ITS ECONOMIC IMPLICATIONS § 5.02[B][1] (2d ed. 1994). *See also* Keith K. Wollenberg, *An Economic Analysis of Tie-ins Sales: Re-examining the Leverage Theory,* 39 STAN.L.REV. 737, 743 (Febrary, 1987).

[113] The leverage theory is applicable when a competitor who has a dominant position in a market uses such power to leverage his position into a second market thereby extending his power. Ward S. Bowman,

Jr., *Tying Arrangements and the Leverage Theory,* in TERRY CALVANI & JOHN SIEGFRIED, ECONOMIC ANALYSIS AND ANTITRUST LAW 245-46 (2D ED. 1988).

[114] A monopoly is characterized by the ability to control supply or raise prices above costs.

[115] The first decision where the Supreme Court struck down a tying arrangement in the context of intellectual property rights is Motion Picture Patent Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917)(tie of motion pictures films to the license to manufacture and sale of a patented machine). The court based its decision on the leverage power of the patented machine, considering "that the exclusive right granted in every patent must be limited to the invention described in the claims of the patent and that it is not competent for the owner of the patent by notice to attached to its machine to, in effect, extend the scope of its patented invention, or to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid to be imposed thereafter at the discretion of such patent owner. The patent law furnishes no warrant for such a practice and the cost, inconvenience and annoyance to the public which the opposite conclusion would occasion forbid it". *Id.* at 504. *See also* Carbice Corp. of America v. American Patent Dev. Corp., 283 U.S. 27, *supplemented,* 283 U.S. 420 (1931)(tie-in to a patented good is unlawful because it might allow the patent owner to "secure a partial monopoly on the unpatented supplies consumed in its operation".). *Id.* at 32.

[116] *See supra* n. 115.

[117] "A tie-in always operates to raise the barriers to entry in the market of the tied good to the level of those in the market for the tying good: the seller who would supply the one, can do so only if he can also supply the other, since he must be able to displace the whole package which the tying seller offers. Developing a substitute for the tying product may be very difficult, if not impossible. Thus tying tends to spread market power into markets where it would not otherwise exist: for example, few firms are prepared to supply machines like those of IBM, whereas many may be prepared to supply punch cards". Comments of Carl Kysen and Donald Turner of the IBM case [International Business Machines Corp. v. United

States, 298 U.S. 131 (1931)] where the use of punched cards was tied to the lease of IBM machines. Cited in ROBERT H. BORK, THE ANTITRUST PARADOX: A POLICY AT WAR WITH ITSELF 374 (1993).

[118] Notably, Ward S. Bowman, *Tying Arrangements and the Leverage Problem,* 67 YALE L.J. 19, 20-29 (1957); RICHARD A. POSNER, ANTITRUST LAW: AN ECONOMIC PERSPECTIVE 171-84 (1976); ROBERT H. BORK, THE ANTITRUST PARADOX: A POLICY AT WAR WITH ITSELF372-81 (1993).

[119] Ward S. Bowman, *supra* n. 118 at 246(stating that "[p]resent legal methods of treating tying contracts are based upon a false notion of leverage. When the suggested definition of leverage is employed, analysis reveals the need for critical revaluation of the law in this area"). *See also* Richard A. Posner, *supra* n. 118 at 172-73 (rejecting the application by the courts of the leverage theory to tying arrangements because of their "failure to require any proof that a monopoly of the tied product is even a remotely plausible consequence of the tie-in", as well as their "inability to explain *why* a firm with a monopoly of one product would want to monopolize complementary products as well"). *Id.*

[120] according to Professor Watkins, "the sale or lease of one article upon condition that a stipulated or number of another article or articles be bought or leased from the same concern imposes a handicap, other things being equal, upon the distribution of the first article...Under freely competitive conditions, therefore, the adoption of the policy of the tying contract would tend to hinder distribution of one product as much as it fostered distribution of the other or 'tied' product. There could be no advantage in the employment of such a policy...". Given this notion of 'compensating disadvantage', Ward S. Bowman notices that this situation is applicable as well if the seller has a monopolistic position in the first product, thus making tie-ins neutral. "[W]hat is sacrificed in the way of return from the sale or lease of the tying product must be more than compensated by increased return from the tied product". Ward S. Bowman, Jr., *supra* n. 118 at 246-47.

[121] Proponents of the competitive benefits of tie-ins argue that since the seller/licensor usually does not gain a dominant position in the tied product, competitors are not foreclosed. They further in stating that

even in the hypothesis where the tying arrangement eliminates sale opportunities for competing manufacturers it is so because of the efficiency of the package (economies of production or complementarity of the products). Notably, Richard A. Posner, *supra* n. 118, Robert H. Bork, *supra* n. 117.

[122] Economies of production along with complementarity of the package allow the seller to provide consumers with less expensive proficient goods. Therefore, tie-ins are often better for consumers. Richard A. Posner, *supra* n. 118, Robert H. Bork, *supra* n. 117. For further explanation, *see* Keith K. Wollenberg, *supra* n. 112 at 747-750.

[123] Tie-ins may be harmful to consumers if the seller actually has a dominant position in the tied market or if there is a lack of information. In this case the monopoly should be so treated by the law. Keith K. Wollenberg, *supra* n. 112 at 749-50; Robert H. Bork, *supra* n. 117 at 375.

[124] It is strongly believed that Northern Pacific was trying to achieve this objective in the Northern Pacific case. Northern Pacific Ry. Corp. v. United States, 356 U.S. 1 (1958)(tie of the lease of land to the shipment of all commodities produced or manufactured on the land by the lessor whereas rates of land leases were regulated).

[125] Ward S. Bowman Jr., *supra* n 118 at 249-50; E. Thomas Sullivan & Jeffrey L. Harrison, *supra* n. 112 at 185; Robert H. Bork, *supra* n. 117 at 376-78.

[126] Here, there is no leverage because tying is simply use as a means to maximize the returns from the monopoly position the seller has with regard with the first product. The tie-in contract's purpose is to fully exploit the monopoly position in its market, but not to transfer it in the tied item market. Besides, the same result could have been achieved by directly varying the charge of the lease of the trademark upon the its effective use. Ward S. Bowman Jr, *supra* n. 118 at 250.

[127] *Id.* at 249.

[128] For an example in the intellectual property license context, *see* International Business Machines Corp. v. United States, 298 U.S. 131 (1936)(tie of tabulating cards to the lease of IBM machines).

[129] For Richard A. Posner, price discrimination is the only purpose of tie-ins which should be treated under antitrust laws, yet in a less severe manner as tying arrangements are currently treated. Richard A. Posner, *supra* n. 118 at 176-84.

[130] *See supra* n. 118 and accompanying text.

[131] The rate of the royalty is usually proportional to the use of the trademark by the licensee. This requires that the licensor either rely on the licensee's accounts or actually control his production.

[132] Indeed, trademark was solely viewed as an indicator of the physical origin of the products or services. Therefore, it could not be used by others than the proprietor of the mark. Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916)(stating that the function of trademarks is "[t]o identify the origin or ownership of the goods to which it is affixed"). *Id* at 412. Or, "licensing meant that the mark was being used by persons not associated with the real manufacturing source". K-Mart Corp. v. Cartier, Inc., 108 S.Ct. 1811 (1988)(citing 1 J. McCarthy, Trademarks and Unfair Competition § 8:13 (2d ed. 1984). *See also* Robert Goldsheider, Companion to Trademark Licensing Negotiations § 1.07[2], Licensing Law Handbook (1994-95).

[133] Soon, Mr. Schechter criticized the physical origin rationale to bar licensing. In his treatise he urged that licensing be permitted in order "to keep abreast of and to serve the needs of modern business." The Historical Foundation of the Law Relating to Trademarks 813 (1925). For a discussion upon the early state of the law regarding trademark licensing, and leading up to its recognition subordinated to

adequate quality control, *see* Elizabeth Cutter Bannon, *Revisiting "The Rational Basis of Trademark Protection:" Control Quality and Dilution-Estranged Bedfellows ?*, 24 J. MARSHALL LAW REVIEW 65, 65-90 (Fall, 1990).

[134] 15 U.S.C.A. § 1055 (West 1982 & Supp. 1990)("When a registered mark or a mark sought to be registered, is or may be used legitimately by related companies, such use shall insure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of the mark or of its registration, provided such mark is not used in such manner as to deceive the public."). Further, the Act defines a related company as being "any person whose use of the mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used."). 15 U.S.C.A. § 1127.

[135] *See* Kentucky Fried Chicken v. Diversified Packaging, 549 F.2d 368 (5th Cir. 1977)("Courts have long imposed upon trademark licensors a duty to oversee the quality of licensee' products. The rationale for this requirement is that marks are treated by purchasers as an indication that the trademark owner is associated with the product. Customers rely upon the owner's reputation when they select the trademarked goods. If a trademark owner allows to depart from his quality standards, the public will be misled, and the trademark will cease to have utility as an informational device. A trademark owner who allows this occurs loses its rights to use the mark."). *Id.* at 387.

[136] For examples of findings of 'naked' licenses, *see* Tally Ho, Inc., v. Coast Community Dist., 889 F.2d 1018, 1022, 13 U.S.P.Q. 2d (BNA) 1131136 n.6 (11th Cir. 1989). *See also* Cartier, Inc., v. Three Sheaves Co., 465 F.Supp. 123, 129 (S.D.N.Y. 1979).

[137] However, it seems that the loss of the right to the trademark is limited to the geographical area where the lack of adequate control is proven. Sheila's Shine Prods., Inc., v. Sheila Shine, Inc., 486 F.2d 125-26 (5th Cir. 1973).

[138] 15 U.S.C.A. § 1127(b).

[139] Though preferable, a written agreement is not necessary. Indeed, adequate quality control can be inferred from an oral contract in the form of constant business practices in this respect between the licensor and his licensee. Nestle Co. v. Nash-Finch Co., 4 U.S.P.Q. 2d 1085 (TTAB 1987)(Despite the lack of a specific agreement, the Board found that the licensor exercised adequate control of the goods through "training delicatessen personnel, through controlling the purchase of the majority of raw materials and through inspection by applicant of products sold under the DEL QUIK mark"). *Id.* at 1088.

[140] On quality control oriented provisions, *see generally* SIEGEN D. KANE, TRADEMARK LAW: A PRACTITIONER'S GUIDE 337 (2d ed. 1991).

[141] Syntex Laboratories, Inc., v. Norwich Pharmacal Co., 315 F Supp. 45, 166 U.S.P.Q. 312 (S.D.N.Y. 1970), *aff'd on other grounds* 437 F.2d 566, 169 U.S.P.Q. 1 (CA 2 1971)(despite the lack of formal quality control procedures, Syntex supervisory's duty found fulfilled on the ground that the licensee had manufactured the product for six years. Besides, during the negotiations, Syntex had inspected the licensee's product and ots manufacturing and quality control procedures). *See also* Transgo, Inc. v. Ajac Transmission Parts Corp., 768 F.2d 1001, 227 U.S.P.Q. 598 (CA 2 1985)(despite the absence of a written license agreement and inspection of the final product sold by the licensee, the court held that the abandonment of the mark SHIFT KIT was not proven on the ground that "[d]ue to his association with Winters for over ten years and his respect for his ability and expertise, Younger felt he could rely on Winters to maintain high standards by performing his own quality control. Younger believed that Winters was second only to Younger himself in overall knowledge and ability in product development for this [automobile transmission] market."). *Id.* at 1017-18, 227 U.S.P.Q. at 605.

[142] Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co., 221 F.Supp. 576 (E.D.Wis. 1963), *aff'd*, 330 F.2d 667 (7th Cir. 1964).

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[143] *Id.* at 581, 330 F.2d 667 at 670.

[144] *See* Kentucky Fried Chicken v. Diversified Packaging, 549 F.2d 368 (5th Cir. 1977)(the court required "only minimal quality control"). *Id.* at 387. *See also* House of Hunan, Inc., v. Hunan Art Pavilion, 227 U.S.P.Q. (BNA) 803 (D.D.C. 1985)(stating that the fact that one licensee did "not enjoy as fine a reputation as the licensor" did not "demonstrate the kind of naked licensing necessary to establish an abandonment"). *Id.* at 807.

[145] *See supra* n. 136.

[146] Compare the Land O'Lakes decision, Land O'Lakes Creameries, Inc. v. Oconomowoc Co., 221 F.Supp. 576, 581 (E.D. Wis. 1963), *aff'd*, 330 F.2d 667, 670 (7th Cir. 1964) with First Bancorp v. Stenquist, 16 U.S.P.Q.2d (BNA) 1704, 1707 (N.D.Cal. 1990)(where reasonable reliance on licensee's own quality control found not alone sufficient). *Id. See also* Marks, *Trademark Licensing - Towards a More Flexible Standard,* 78 TRADEMARK REP. 641 at 840 (1988)("while the range of the control spectrum can be delineated, it remains difficult to predict whether courts will find a particular licensing contract within that range.").

[147] *See* for example Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 134 U.S.P.Q. 537 (CA 5 1962).

[148] Other materials may be tangible or not such as the trade secret or copyright accompanying the particular trademark.

[149] This kind of practice may be very appropriate when it comes to determine whether sufficient control was exercised. Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 121 U.S.P.Q. 430 (CA 2

1959)(the court held that the license was valid on the ground that the licensees were required to purchase licensor's mixes and prepare them according to directions).

150 466 U.S. 2 (1984).

151 356 U.S. 1 (1958) (where the court held that "[tying arrangements] deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or lower price but because of his power to leverage in another market. At the same time buyers are forced to forego their free choice between competing products."). *id., at* 6.

152 Section 3 (15 U.S.C. § 14), in relevant parts, forbids any person "to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented […] or fix a price under the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, supplies, machinery or other commodities of a competitor or competition of the lessor or seller, where the effect of such 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 commerce".

153 Id.

154 Ungar v. Dunkin' Donuts, 531 F.2d 1211, 1215 n.4 (3rd Cir. 1976)(plaintiffs withdrew their antitrust tying claim based on Section 3 of the Clayton Act because it was agreed that the tying item, the Dunkin' Donuts trademark, franchise system and logo, was not "goods, wares, merchandise, supplies, machinery or other commodities" as required by Section 3), *cert. denied,* 429 U.S. 823 (1976). See also Principe v. McDonald's Corp., 631 F.2d 303, 304 n.1 (4th Cir. 1980)(where the court notes that Section 3 of the Clayton Act "is limited to restraints involving 'goods, wares, merchandise, machinery, supplies or other commodities'" whereas the alleged tying was between the McDonald's trademark and lease and security deposit), *cert. denied,* 451 U.S. 970 (1981).

[155] 15 U.S.C. § 45(a)(1)("Unfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce, are declared unlawful").

[156] Belliston v. Texaco, Inc., 455 F.2d 175 (10th Cir.), *cert. denied,* 408 U.S. 928 (1972)(where the FTC found that an agreement concluded between Texaco and Goodrich to induce Texaco's service station dealers to buy Goodrich tires, batteries and accessories, in return for a commission on sales was unlawful).

[157] 15 U.S.C. § 1.

[158] *See* Western Power Sports, Inc. v. Polaris Indus. Partners, 1990-1 Trade Cas. (CCH) ¶ 68,990, at 63,423 (D. Idaho 1990)("no cases have been found that have awarded the plaintiff a victory after a rule of reason analysis"). *See also* 1 ANTITRUST LAW DEVELOPMENTS (THIRD) 164 (1992).

[159] 466 U.S. 2 (1984).

[160] *Id.*

[161] 466 U.S. 2 (1984).

[162] *Id.* at 19.

[163] *Id.* at 20 (applying this rationale to anesthesiological services and other hospital services, the Court concluded that consumers differentiate them, and thus that constitute two separate services). *Id* at 23.

[164] *Id.* at 21.

[165] *See* Caroline Casey v. Diet Center, Inc., 590 F. Supp. 1561 (1984), at 1564.

[166] Kentucky Fried Chicken Corp., v. Diversified Packaging Corp., 549 F. 2d 368 at 376 (1977)("tying principles are fully applicable to franchise sales").

[167] Caroline Casey v. Diet Center, Inc., 590 F. Supp. 1561 (1984).

[168] *Id.* at 1564.

[169] Power Test Petroleum Distributors Inc., v. Calcu Gas, Inc., 754 F. 2d 91 (1985).

[170] The first case to address the separability test in the franchise context in terms of the relationship between the trademark and the goods and services was Siegel v. Chicken Delight, Inc., 448 F. 2d 43 (9th Circ. 1971), *cert. denied,* 405 U.S. 955 (1972) (where the Court found the Chicken Delight trademark "simply reflets the goodwill and quality standards of the enterprise which it identifies. As long as the system of operation of the franchisees lives up to those quality standards and remains as represented by the mark so that the public is not misled, neither the protection afforded the trade-mark by law nor the value of the trademark to the licensee depends upon the source of the components", and accordingly that the sale of the franchise did not require the purchase by the franchisees of a specified number of cookers, fryers and packaging supplies and mixes exclusively from Chicken Delight. The trademark on the one hand, the goods on the other hand thus formed two distinct products). *Id.* at 49. The functionality test was then readdressed in Krehl v. Baskin Robbins Ice Cream Co., 664 F. 2d 1348 (9th Cir. 1982) (where the Court held that the fact that Baskin-Robbins conditioned the license of its trademark to the purchase of the ice creams exclusively from the franchisor did not violate the antitrust rules on the ground that the trademark formed one single product with the ice-creams). *See also* Jack Walters & Sons Corp., v. Morton Buildings, Inc., 1983 WL 1798 (E.D. Wis. 1983), Smith v. Mobil Oil Corp., 667 F. Supp. 1314 (1987).

[171] Krehl v. Baskin Robbins Ice Cream Co., 664 F. 2d 1348 (9th Cir. 1982) at 1353.

[172] *Id.* at 1353.

[173] *Id.* at 1354.

[174] *Id. See also* Principe v. McDonald's Corp., 631 F. 2d 303 (4th Cir. 1980) (where McDonald's was alleged to tie the license of the trademark to the store lease and a $ 15,000 deposit on the ground that the supposed "tied" items did not constitute separate products. According to the Court "the proper inquiry is not whether the allegedly tied products are associated in the public mind with the franchisor's trademark, but whether they are integral components of the business method being franchised". The Court further explained that "where the challenged aggregation is an essential ingredient of the franchised system's formula for success, there is but single product and no tie in exists as a matter of law"). *Id* at 309.

[175] *Id.* at 1353.

[176] Jefferson Parish Hospital v. Hyde, 466 U.S. 2, (1984) ("By conditioning his sale of one commodity on the purchase of another, a seller coerces the abdication of buyers' independent judgment as to the 'tied' product's merits and insulates it from the competitive stresses of the open market. But any intrinsic superiority of the 'tied' product would convince freely choosing buyers to select it over others, anyway."). *Id.*, at 13, citing Times-Picayune Publishing Co. v. United States, 345 U.S. 594, 605 (1953).

[177] Northern Pacific Ry. V. United States, 356 U.S. 1, at 6 ("where the buyer is free to take either product by itself there is no tying problem").

[178] Ungar v. Dunkin' Donuts of America, 531 F.2d 1211 (1976), *denied* 429 U.S. 823 (where franchisees who took the Dunkin' Donuts trademark were required to purchase the supplies from companies that met

the control specifications set out by the franchisor. The Court rejected the contention of an illegal tie on the ground that the forcing condition was not met). *See also* Kentucky Fried Chicken v. Diversified Packaging Corp., 549 F.2d 368 (1977)(where the Court pointed out that for the purpose of a tie, coercion is established if franchisees are required to buy the items from the franchisor, or at least from a firm in whose sales the franchisor has a financial stake. Instead, when franchisees are only required to buy the items from approved sources there cannot be a finding of tie-in since the evils of tying, foreclosure of the tied market for competitors and suppression of the franchisees' option to shop around are absent).

[179] *Ungar*, 531 F.2d at 1224 ("Obviously, with respect to the first element [proof of coercion], a formal agreement is not necessary, although it is sufficient"); Mozart Co. v. Mercedes-Benz of N. Am., 593 F. Supp. 1506, at 1517 (N.D. Cal. 1984)(tying language alone is sufficient despite evidence that it was not enforced).

[180] Mozart Co. v. Mercedes-Benz of N. Am., 593 F. Supp. 1506 (where the dealership agreement compelled exclusive dealers of Mercedes cars not to by the replacement part from other than Mercedes-Benz of North America).

[181] 466 U.S. 2, at 15, 16 (explaining that "application of the per se rule focuses on the probability of anticompetitive consequences").

[182] *See* Casey v. diet Center, 590 F. Supp. 1561, at 1566 (where the court stated that "the Supreme Court in Hyde made it clear that coercion, i.e. forcing, is simply a manifestation of market power").

[183] Mozart Co. v. Mercedes-Benz of N. America, Inc., 593 F. Supp. 1506, at 1512, 1513 (where the Court stated that to establish a per se illegal tying a claimant had to demonstrate that two separate products are involved, that the seller has sufficient economic leverage in the tying market to appreciably restrain competition in the tied product market, and that the tie-in affects a not insubstantial amount of interstate commerce).

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[184] 466 U.S. 2 (1984).

[185] *Id.* at 13-14.

[186] *Id.* at 26-29.

[187] Grappone, Inc., v. Subaru of New England, Inc., 858 F.2d 792, 797 (1st Cir. 1988) (implying at least 30 % share must be shown); Will v. Comprehensive Accounting corp., 776 F.2d 665, 672 (7th Cir. 1985), *cert. denied*, 475 U.S. 1129 (1986).

[188] Mozart co. v. Mercedes-Benz of N. Am., Inc., 593 F. Supp. 1506, 1519 (N.D. Cal. 1984) ("the plaintiff must show that a significant number of customers in the market have accepted the tie-in, and that there are no explanations other than MBNA's economic power for that acceptance").

[189] United States v. Loew's, Inc., 371 U.S. 38, 45 (1962) ("even absent a showing pf market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness of its attributes").

[190] Fortner Enterprises v. United States Steel corp., 394 U.S. 495, 505("Fortner I") (1969) ("uniqueness confers economic power only when other competitors are in some way prevented from offering the distinctive product themselves. Such barriers may be legal, as in the case of patented or copyrighted products [...]").

[191] Thompson v. Metropolitan Multi-list, Inc., 934 F.2d 1566, 1576 (1991).

[192] Will v. comprehensive Accounting Corp., 776 F.2d 665, 672 (7th Cir. 1985), *cert. denied*, 475 U.S. 1129 (1986); *see Jefferson Parish*, 466 U.S. at 37-38 and n.7; *Thompson*, 934 F.2d at 1577-78 (relying on barriers to entry in finding issue of economic power).

[193] Casey v. diet Center, Inc., 590 F.Supp. 1561, 1569 (1984); *see also Mozart Co.* F.Supp. 1506, 1519 (1984) ("A prestigious and desirable trademark can be persuasive evidence of economic power, but this court is unwilling to determine, as a matter of law, that the prestige of the Mercedes-Benz trademark, taken together with the evidence of the product's technological safety and luxury preeminence, bestows on MBNA sufficient economic power to force its dealers to accept an illegal tie-in.").

[194] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 49-50 (1971) (upholding the District Court ruling that "Chicken Delight's unique registered trademark, in combinaison with its demonstrated power to impose a tie-in, established as a matter of law the existence of sufficient market power to bring the case within the Sherman Act" on the ground that "there is no reason why the presumption that exists in the case of the patent or copyright does not apply to the trademark").

[195] Capital Temporaries, Inc., v. Olsten corp., 506 F.2d 658, 663 (2d Cir. 1974).

[196] 466 U.S. 2 (1984).

[197] 466 U.S. 2, 27-28 ("Tying arrangements need only to be condemned if they restrain competition on the merits by forcing purchase that would not otherwise be made. A lack of price or quality competition does not create this type of forcing."); *but see* Digidyne Corp. v. data Gen. Corp., 734 F.2d 1336, 1342 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985).

[198] *Jefferson Parish*, 466 U.S. 2, 16.

[199] *Fortner I,* 394 U.S. 495, 501 (stating that the standard is "whether a total amount of business, substantial enough in terms of dollar-volume so as not to be merely a *de minimis*, is foreclosed to competition by the tie").

[200] Some lower courts have, however, stated that there must be some showing of actual competitive effect in the market for the tied item; *Will*, 776 F.2d 665, 674 (7th Cir. 1985) (threshold showing required that there is a "substantial danger that the tying seller will acquire market power in the tied product market"), *cert. denied*, 475 U.S. 1129 (1986).

[201] AAMCO Automatic Transmission Inc., v. Tayloe, 407 F.Supp. 430, 436 (E.D. Pa. 1976).

[202] 466 U.S. 2 (1984).

[203] *See supra,* II-C.

[204] 187 Supp. 545 (D.C.E.D.Pa. 1960), *aff'd Per Curiam*, 365 U.S. 567 (1961).

[205] *Id.* at 580.

[206] Standard Oil Co. of Cal. v. United States, 337 U.S. 293, 306 (1948).

[207] Susser v. Carvel Corp., 332 F.2d 505, 515 (2d Cir. 1964) ("the justification for this control requires proof that the specifications for the products to substitute for those offered by Carvel would be so complex and detailed as to make it impracticable for Carvel to establish such specifications").

[208] *Carvel,* 332 F.2d 505 (2d Cir. 1964).

[209] Siegel v. Chicken Delight Inc., 448 F.2d 43 (9th Cir. 1971), *cert. denied* 405 U.S. 955 (1972).

[210] Metrix Warehouse, Inc., v. Daimler-Benz Aktiengesellschaft, 828 F.2d 1033 (4th Cir. 1986).

[211] Baker v. Simmons Co., 307 F.2d 458 (1st Cir. 1962), *cert. denied*, 382 U.S. 820 (1965).

[212] Krhl v. Baskin-Robbins Ice Cream Co., 664 F.2d 1348, 1353 n. 12 (9th Cir. 1982).

[213] Mozart Co. v. Mercedes-Benz of N. Am., Inc., 833 F.2d 1342 (9th Cir. 1988), *cert. denied,* 488 U.S. 870 (1988).

[214] *Id.*

[215] 466 U.S. 2, 33.

[216] *Id.* at 8.

[217] The crucial difference between the rule of reason approach and the per se approach is the importance of the business justifications. Whereas under the rule of reason, the plaintiff bears the burden of proving of showing the adverse anticompetitive effect of the conduct at issue on balanced on its possible economic justifications, under the per se treatment, the plaintiff has only the burden of identifying the tying arrangement. Once the illegal conduct is characterized in its elements, it is presumed anticompetitive, and the defendant bears the burden of convincing the judges that his arrangement is justified on an economic basis.

[218] *See supra* at III-B.

[219] *See supra* n. 162.

[220] *See supra* n. 187.

[221] Jefferson Parish Hospital v. Hyde, 466 U.S. 2, 33 (1984) ("The 'per se' doctrine in tying cases has thus always required an elaborate inquiry into the economic effects of the tying arrangement") (Brennan, J., concurring in part); *see also* Martino v. McDonald's Corp., 625 F.Supp. 356, 360 (N.D. Ill., E.D. 1985) ("increasingly, the per se rule has yielded to a redefinition of the market and more searching market analysis"); Grappone, Inc., v. Sabru of New England, Inc., 858 F.2d 792, 794 (1st cir. 1988) ("tying's anticompetitive mechanism is not obvious").

[222] *Jefferson Parish*, 466 U.S. 2, 33 (1984) (Brennan, J., concurring in part).

[223] Dam, *Fortner Enterprises v. United States Steel: "Neither a Borrower Nor a lender Be*, 1969 Supp.Ct.Rev. 1, 19 ("The weakness of the per se methodology is that it places crucial importance on the definition of the practice. Once an arrangement falls within the defined limits, no justification will be heard").

[224] *See supra* n. 203.

[225] 466 U.S. 2, 11 (1984) ("It is clear, however, that every refusal to sell two products separately cannot be said to restrain competition").

[226] 332 F.2d 505 (2d Cir. 1964).

[227] *Id.* at 520.

[228] 549 F.2d 368 (5th Cir. 1977).

[229] *Id.* at 375.

[230] *Id.*

[231] *Id.*

[232] 776 F.2d 665 (7th Cir. 1985).

[233] *Id.* at 673.

[234] Jefferson Parish Hospital v. Hyde, 466 U.S. 2 (1984).

[235] Alan H. Siberman, *Antitrust Issues in Distribution: a Review of Advanced Problems in Vertical antitrust Behavior*, 928 PLI/CORP 155, 226 (1996) (stating that readers should not expect clarity in tying antitrust materials).

[236] *See supra* n. 165 and accompanying text.

[237] 466 U.S. 2, 20 (1984).

[238] *See supra* n and accompanying text.

[239] Jack Walker & Sons Corp., v. Morton buildings, Inc., 1983 WL 1798 (E.D.Wis. 1983) (stating concerning the one or two products issue that "an extended discussion was warranted due to the complexities of the tying issue [and] the cloudiness of the various court decisions").

[240] Will v. comprehensive accounting Corp., 776 F.2d 665, 674 (7^{th} Cir 1985), *cert. denied,*475 U.S. 1129 (1986).

[241] Daniel E. Lazaroff, *reflections on Eastman Kodak Co. v. Image Technical Services, Inc.: continued Confusion regarding Tying Arrangements and Antitrust jurisprudence*, 69 WALR 101 (1994) (pointing out in particular that "the differing approaches of the majority and justice O'Connor's concurring opinion in Hyde reflects just how much uncertainty remained in the area of tie-ins").

[242] 504 U.S. 451 (1992).

[243] Eastman Kodak Co. v. Image Technical Services, Inc., 405 U.S. 451, 454-57 (1992).

[244] *Id.* at 457-58.

[245] *Id.* at 457.

[246] *Id.*

[247] I*d.*

[248] *Id.* at 458.

[249] 902 F.2d 612 (9^{th} Cir. 1990).

[250] Id., at 615-616.

[251] Id., at 616 (there is "an issue of material fact as to whether Kodak has sufficient economic power in the

tying market to restrain competition appreciably in the ties market").

[252] Id., at 617.

[253] Id., at 618-619.

[254] Id., at 620.

[255] 504 U.S. 451, 486 (1992).

[256] Id., at 455.

[257] 405 U.S. 451, 462 (1992) ("there must be sufficient consumer demand so that it is efficient for a firm to provide service separately from parts."); *see also supra* n. 162 and accompanying text.

[258] 405 U.S. 451, 462 (1992).

[259] Id. at 463 ("By that logic we would be forced to conclude that there can never be separate markets, example, for cameras and film, computers and software, or automobile and tires. That is an assumption we are unwilling to make.").

[260] id. at 463.

[261] Id., at 462.

[262] Id., at 477-78.

[263] Id., at 467.

[264] Ibid.

[265] id., at 471.

[266] Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 503 (1969).

[267] Eastman Kodak Co. v. Image Technical Services, Inc., 405 U.S. 451, 466 (1992).

[268] Ibid.

[269] Id., at 469 ("The extent to which one market prevents exploitation of another market depends on the extent to which consumers will change their consumption of one product in response to a price change in another").

[270] Id., at 471 ("But there could easily be a middle, optimum price at which the increased revenues from the higher-priced sales of service and parts would more than compensate for the lower revenues from lost equipment sales").

[271] Id., at 477-78 ("We conclude, then, that Kodak has failed to demonstrate that respondents' inference of market power in the service and parts markets is unreasonable, and that, consequently, Kodak is entitled to summary judgment. It is clearly reasonable to infer that Kodak has market power to raise prices and drive out competition in the aftermarkets since respondents offer direct evidence that Kodak did so. It is also plausible, as discussed above, to infer market power where locked-in consumers, high information costs, and discriminatory pricing limited and perhaps eliminated any long-term loss").

[272] Id., at 472.

[273] Id., at 473.

[274] *Eastman Kodak*, 405 U.S. at 475.

[275] Ibid.

[276] Ibid.

[277] Id., at 475-76.

[278] Id., at 476.

[279] Id., at 476-77.

[280] Id., at 477.

[281] Id., at 477-78.

[282] Id., at 486.

[283] United States v. Grinnell Corp., 384 U.S. 563, at 570-71 (1966) ("The offense of monopoly of § 2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from the growth or development as a consequence of a superior product, business acumen, or historic accident").

[284] *Eastman Kodak*, 405 U.S. 451, at 481.

[285] Ibid.

[286] *Eastman Kodak*, 405 U.S., at 481.

[287] Ibid.

[288] Kodak asserted that its marketing policy in connection with parts and service was aimed at ensuring high quality of its products, controlling inventory costs, and preventing Kodak's competitors from exploiting its investment. The majority pointed out that ISOs provided quality service which were preferred by some customers, and that in achieving such quality they had engaged in substantial investments. Id., at 483-85.

[289] Id., at 485.

[290] Id., at 486.

[291] Ibid.

[292] Id., at 493.

[293] Id., at 494, n. 2.

[294] Id., at 500-01, citing Virtual maintenance, Inc. v. Prime Computer, Inc., 957 F.2d 1318, 1328 (6th Cir. 1992) ("Defining the market by customer demand after the customer has chosen a single supplier fails to take into account that the supplier [...] must compete with other similar suppliers to be designated the sole source in the first place"); *see also* Grappone, Inc. v. Subaru of New England, Inc., 858 F.2d 792, 798 (1st

Cir. 1988) ("we do not see how much dealer investment [in facilities to sell Subaru products]... could easily translate into Subaru market power of a kind that, through tying. Could ultimately lead to higher than competitive prices for consumers").

[295] Id., at 493 ("I find this a curious form of market power on which to premise the application of a per se proscription. It is enjoyed by virtually every manufacturer of durable goods requiring aftermarket support with unique, or relatively unique goods").

[296] Id., at 495-96 ("If Kodak set generally supracompetitive prices for either spare parts or repair services without reduction in the price of its machines, rational consumers would simply turn to Kodak's competitors for photocopying and micrographic systems. True, there are - as the Court notes - the occasional irrational consumers that consider only the hardware cost at the time of purchase (a category that regrettably includes the Federal Government, whose 'purchasing system', we are told, assigns foremarket purchases and aftermarket purchases to different entities). But we have never before premised the application of antitrust doctrine on the lowest denominator of consumer").

[297] Id., at 496 ("Information costs, or, more accurately, gaps in the availability and quality of consumer information, pervade real-world markets; and because consumers generally make do with 'rough cut' judgments about price in such circumstances, in virtually any market there are zones within which otherwise competitive suppliers may overprice their products without losing appreciable market share. We have never suggested that the principal players in a market with such commonplace informational deficiencies (and, thus bands of apparent consumer pricing indifference) exercise market power in any sense relevant to the antitrust laws") for information costs; id., at 497 ("The court narrower point, however, is undeniable true. There will be consumers who, because of their capital investment in Kodak equipment, will tolerate some level of service-price increases before changing equipment brands; this is necessary true for every maker of unique parts for its own products. But this circumstantial leverage created by consumer investment regularly crops up in smoothly functioning, even perfectly competitive,

markets, and in most - if not all - of its manifestations, it is of no concern to the antitrust laws") for switching costs.

[298] Id., at 497.

[299] Id., at 502 ("I would instead evaluate the aftermarket tie alleged in this case under the rule of reason where the tie'' actual anticompetitive effect in the tied product market, together with its potential economic benefits, can be fully captured in the analysis").

[300] Id., at 486-87 ("Per se rules of antitrust illegality are reserved for those situations where logic and experience show that the risk of injury to competition from the defendant's behavior id so pronounced that it is needless and wasteful to conduct the usual judicial inquiry into the balance between the behavior's procompetitive benefits and its anticompetitive costs").

[301] Id., at 501 (noting that the courts have refused to apply the per se rule to non-pricing vertical restraints, and that accordingly the same assumption should drive the Court's reasoning where dealing with intrabrand restraints in tying where competition is present at the interbrand level).

[302] Id., at 502 ("In the absence of interbrand power, a manufacturer's bundling of aftermarket products may serve a multitude of legitimate purposes").

[303] *See supra,* III-D.

[304] On this question, *see* Daniel E. Lazaroff, *Reflections on Eastman Kodak Co. v. Image Technical services, Inc.,: Continued Confusion Regarding tying Arrangements under Antitrust Jurisprudence,* 69 WASH. L. REV. 101, 139-145 (JANUARY, 1994).

[305] Eastman Kodak Co. v. Image Technical Services, Inc., 504 U.S. 451, 479 (1992).

[306] Id., at 467.

[307] *See supra*, n. 60.

[308] 1995 IP Licensing Guidelines, § 5.3 (emphasis added); *see also*, Joseph Kattan, *Prospective on the 1995 Intelletual Property Guidelines,* in 9 ANTITRUST 3 (Sum. 1995).

[309] *See* Roy B. Taylor Sales, Inc., v. Hollymatic Corp. 28 F.3d 1379, 1382 (5th Cir. 1994) ("An illegal tie may be shown by proof that the tying firm exerts sufficient control over the tying market to have likely anticompetitive effect on the tied market. This is sometimes described as 'per se' illegality. This label makes sense when describing price fixing or horizontal market division, but is confusing here because it insists on an inquiry into market power as a predicate to 'per se' illegality"); Data General Corp. v. Grumman Systems Support Corp., 36 F.3d 1147, 1179 (1st Cir. 1994) (distinguishing the regulation of tying under 'per se' treatment and the rule of reason approach); *se also*, Breaux Brothers Farms, Inc., v. Teche Sugar Co., 21 F.3d 83, 886 (5th Cir. 1994) (referring to both methods, but stressing out that "the per se rule, of course, obviates the need for full consideration of actual market conditions").

[310] Daniel E. Lazaroff, *supra*, n. 304 at 142.

[311] *See supra*, II-C.

[312] Ibid.

[313] *See supra*, n. 20 and accompanying text.

[314] 1995 IP Licensing Guidelines, *supra* n. 60 at § 5.3; *see also,* Alicia Jayne Moore, *In the Matter of Tying – a Reasonable Rule ?*, C137 ALI-ABA 219 (JAN. 1995).

[315] Service and training, Inc. v. Data General Corp., 963 F.2d 680,688 (4th Cir. 1992) (citing Jefferson Parish Hospital v. Hyde).

[316] Eastman Kodak Co. v. Image Technical Services, Inc., 504 U.S. 451, 483 (1992).

[317] *See supra*, n. 60.

[318] *See supra*, n. 206 and accompanying text.

[319] Daniel E. Lazaroff, *supra* n. 241 at 139.

[320] *See supra*, n. 13 and accompanying text.

[321] *See supra*, n. 294; *see also* Smikline corp. v. Eli Lilly & Co., 575 F.2d 1056, 1063 (3rd Cir.), *cert. denied*, 439 U.S. 838 (1978) (stating that similar or substitute products are those that "have the ability – actual or potential – to take significant amounts of business away from each other").

[322] Tunis Bros. Co. v. Ford motor Co., 952 F.2d 715, 722 (3rd Cir. 1991).

[323] Philip E. Areeda & Herbert Hovenkamp, Antitrust law, ¶ 518.1g at 471 & n.26 (Supp. 1990).

[324] Virtual Maintenance, Inc. v. Prime computer, Inc., 957 F.2d 1318, 1327 (6th Cir. 1992) (Virtual I) (where the Court rejected to plaintiff's contention that the relevant market was constituted solely by the defendant's products on the ground that it was "based solely on one customer's requirements", which "this

court has held ... does not create a separate product market"); *see also* International Logistics Group, Ltd. V. Chrysler Corp., 884 F.2d 904, 908 (6th Cir. 1989).

[325] *See supra*, n. 258 and accompanying text.

[326] Ibid.

[327] Kodak's equipment was unique in the sense that it was not compatible with another manufacturer's products. Then, by virtue of Kodak's policy, replacement parts as well as servicing became also unique as Kodak restricted the availability to its replacement parts, thus preventing the ISOs from getting aware of the functioning of Kodak's products (equipment and replacement parts), *see supra*, n. 243 and accompanying text.

[328] *See supra*, n. 273 and accompanying text.

[329] Philip E. Areeda & Herbert Hovenkamp, Antitrust Law ¶ 1701.2 at 994-95 (Supp. 1995).

[330] Digital Equipment Corp. v. Uniq Digital Technologies, Inc., 73 F.3d 756, 762 (7th Cir. 1996) (criticizing the consideration of the majority in Kodak that the lack of information at the time of the purchase was an antirust concern. According to the Court, this element would be more a deception problem to be addressed in the course of a commercial case); *see also* Justice Scalia dissenting opinion, *supra*, IV-A.

[331] Virtual Maintenance, Inc. v. Prime Computer, Inc., 11 F.3d 660, 664 (6th Cir. 1994) (where the Court, in light of Kodak, considered software supports of Ford hardware, which, pursuant to a license agreement were provided only by the defendant, to define a relevant product market for the purpose of tying law); *see also* Allen-Myland, Inc. v. International Business Machines corp., 33 F.3d 194 (3rd Cir. 1994).

[332] *See supra,* n. 13 and accompanying text; *see also* on the issue of market definition for differentiated goods, James A. Keyte, *Market Definition and Differentiated Products: the Need for s Workable Standard,* 63 ANTITRUST.L.J. 697 (SPRING 1995).

[333] *See supra*, n. 19.

[334] *see* Joseph Kattan, *Market Power in the Presence of an Installed Base,* 62 ANTITRUST.L.J. 1 (SUMMER 1993) (stating that the lock-in problem may be found in markets characterized by strong network externalities or technological standards, which will usually be considered as an antitrust market).

[335] *See Philip E. Areeda & Herbert Hovenkamp, supra*, n. 223 ¶ 1709.2c2 at 965.

[336] Id., at 966.

[337] *See supra,* n. 274 and accompanying text; *see also*, *Philip E. Areeda & Herbert Hovenkamp, supra*, n. 223 ¶ 1709.2c2 at 965; *see also,* Robert H. Lande, *Chicago Takes it on the Chin: Imperfect Information Could Play a Crucial Role in the Post-Kodak World*, 62 ANTITRUST.L.J. 193, 200 (SUMMER 1993) (while assessing the impact of the Kodak decision in the franchising context, the author states that "if, consistent with Kodak, we posit imperfect information at the time of the franchise contracts' signing, this kind of scenario might become an antitrust concern. Could the contract that contained the 'unfair' tying arrangement or other vertical restraints constitute antitrust violation ?").

[338] George A. Haye, *Is the Glass Half-Empty or Half-Full ?: Reflections on the Kodak Case,* 62 ANTITRUST.L.J. 177, 186 (SUMMER 1993).

[339] *See supra,* III-C.

[340] Ibid.

[341] *see supra,* n. 288 and accompanying text.

[342] *Philip E. Areeda & Herbert Hovenkamp, supra* n. 223 ¶ 1709.

[343] S*ee supra*, n. 235 and accompanying text.

[344] *See supra, Robert H. Lande*, n. 237 at 198 (wondering "when is information imperfect enough to affect the choice of a large percentage of customers and dramatically affect competition in a market" as in the real world information is almost never perfect); *see also*, Michael W. Klass & Richard T. Rapp, *Litigating the Key Economic Issues under Kodak,* 7-SPG ANTITRUST 14, 15 (SPRING 1993).

[345] *See supra,* p. 38; *see also Robert H. Lande, supra,* n. 237 at 194.

[346] *Philip E. Areeda & Herbert Hovenkamp, supra,* n. 223 at 969.

[347] *See supra, George A. Haye*, n. 238 at 187.

[348] *Philip E. Areeda & Herbert Hovenkamp, supra,* n. 223 ¶ 1709.2e. at 976.

[349] *See supra*, n. 10 and accompanying text.

[350] *Philip E. Areeda & Herbert Hovenkamp, supra,* n. 223 ¶1709.2f. at 981.

[351] *See Philip E. Areeda & Herbert Hovenkamp, supra,* n. 223 ¶ 1709.2f. at 982.

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[352] Eastman Kodak Co. v. Image Technical services, Inc, 504 U.S. 451, 497 (1992) (after explaining that 'circumstantial leverage' may be found in numerous economic relationships, Justice Scalia stated that "[l]everage, in the form of circumstantial power, plays a role in each of these relationships; but in none of them is the leverage attributable to the dominant party's market power in any relevant sense. Though that power can plainly work to the injury of certain consumers, it produces only a brief perturbation in competitive conditions—not the sort of thing the antitrust laws do or should worry about").

[353] *See supra*, n. 197 and accompanying text.

[354] *Grappone, supra*, n. 294 at 796-797; *see also* after Kodak Digital Equipment Corp. v. Uniq digital Technologies, Inc., 73 F.3d 756 (7th Cir. 1996) (rejecting the argument that market imperfections suffice to infer the requisite market power for the purpose of tying law).

[355] *Philip E. Areeda & Herbert Hovenkamp, supra,* n. 223 at 982-83; *Michael W. Klass & Richard T. Rapp, supra,* n. 344 at 14 (stating that if courts interpreting Kodak set very low thresholds for the presence and degree of such potentially exploitable costs, and are willing to accept arguments about possible price discrimination with little evidence, it could be difficult for any manufacturer to escape. But whatever the thresholds, the issues for both plaintiffs and defendants are the same: how to demonstrate that such power exists (or not), how to assess its significance, and how to forecast the likelihood that it will persist—to show that the power is not simply 'circumstantial' power held by Justice Scalia's swimming pool contractor who discovers a five-ton boulder in your backyard"); *Robert H. Lande*, n. 237 at 198.

[356] Herbert Hovenkamp, *Market Power in Aftermarkets: Antitrust Policy and the Kodak Case*, 40 UCLA L.REV. 14471459 (AUG. 1993) (pointing out that "what may appear to be significant power over price when one looks only at aftermarket may be nothing more than the price discretion in a moderately competitive product differentiated market. In that case, claims of 'market power' offenses, such as tying or

attempt to monopolize the maintenance or other aftermarkets relating to one's own brand, cannot be sustained").

[357] *George A. Haye, supra* n. 238 at 187-188.

[358] Ibid.

[359] *Daniel E. Lazaroff, supra* n. 241 at 146.

[360] *See supra*, n. 358 and accompanying text.

[361] *See Joseph Kattan supra*, n. 334 at 1-2 ("Kodak [...] has the potential to extend antitrust law to contractual disputes that are not usually believed to implicate antitrust concerns. To the extent that the Court wished to capture only situations where significant classes of consumers might be exploited to substantial degrees, further work may be required to circumscribe antitrust intervention to cases that raise genuine competitive issues"); *see also,* Digital Equipment Corp. v. Uniq Technologies, Inc., 73 F.3d 756, 763 (7th Cir. 1995) (when rejecting the plaintiff's arguments, the Court pointed out that the case at bar was "a mundane commercial case, in which a buyer has used the antitrust laws to postpone paying its debts. Time for payment is at hand").

[362] Gordon B. Spivack & Carolyn T. Ellis, *Kodak: Enlightened Antitrust Analysis and Traditional Tying Law,* 62 ANTITRUST L.J. 203, 207-08 (SUMMER 1993).

[363] *See Daniel E. Lazaroff, supra* n. 241 at 160 (concluding that "the Court in Kodak provides an unclear and mixed message that makes prediction rather difficult even for the most diligent observers and analysts").

[364] *See in general,* Sheila J. McCartney, *Licensing Alternatives to Limit Antitrust and Misuse Exposure: Part I,* 7 NO.4J.PROPRIETARY RTS. 19, 22 (APRIL 1995).

[365] *See supra*, III-B.

[366] *See supra,* n. 359 and accompanying text.

[367] *Sheila J. McCartney, supra* n. 364 at 23.

[368] *See supra* III-B.

[369] Ibid.

[370] Ibid.

[371] *See supra* n. 358 and accompanying text.

[372] *Sheila J. McCartney, supra* n. 364 at 23.

[373] *See supra* III-C.

[374] Ibid.

[375] *See in particular,* Justice O'Connor dissenting opinion in Jefferson Parish Hospital v. Hyde, 466 U.S. 2, 35 1984 (stating that "the time has therefore come to abandon the 'per se' label and refocus the inquiry on the adverse economic effects, and the potential economic benefits, that the tie may have"); *see also* Justice Scalia dissenting opinion in Eastman Kodak Co. v. Image Technical services, Inc., 504 U.S. 451, 501 1992 (stating that it "would instead evaluate the aftermarket tie alleged in this case under the rule of reason, where the tie's actual anticompetitive effect in the tied product market, together with its potential economic benefits, can be fully captured in the analysis").

[376] *See in particular, Daniel E. Lazaroff, supra* n. 241 at 151 (calling for a practical rule of reason approach: "[t]o avoid confusion, achieve fairness, and further antitrust policy, courts should abandon the per se and quasi-per se approaches completely and replaces them with a single rule of reason approach. The test would then be the classic rule of reason—a balancing of any anticompetitive effects against any procompetitive effects. This will place tying arrangements in their proper place as non-pricing vertical restraints. In so doing, courts may also confine alleged affirmative defenses to those which benefit competition and weigh the alleged procompetitive effects against any anticompetitive affects. [...] A clear and concise repudiation of per se language could contribute much in the way of guidance for lower federal courts, business people, the practicing bar, and the academic community").

[377] *See supra* n. 197 and accompanying text.

[378] *See supra* n. 281 and accompanying text.

[379] On EC competition law, *see generally* Valentine Korah, *From Legal Form toward Economic Efficiency—Article 85(1) of the EEC treaty in Contrast to U.S. Antitrust, in* II THE ANTITRUST IMPULSE: AN ECONOMIC, HISTORICAL AND LEGAL ANALYSIS 1107 (Theodore P. Kovaloff 1994); *see also* Lynne Puckett, *European Competition Law: Managing the "Chameleon" of Antitrust-Technology Joint Ventures*, 19 MD.J.INT'L L. & TRADE 47 (Spring 1995).

[380] *A. Lynne Puckett, supra* n. 379 at 52-53

[381] Rome Treaty, article 85(3).

[382] Council regulation 17/62, 1962, O.J. (L 204) (allowing the Commission to grant individual exemptions under article 85(3) or issue negative clearance); a negative clearance is a finding by the Commission that a particular agreement or practice does not fall within the prohibition of article 85(1).

[383] Article 2 of Regulation 17/62, *supra* n. 382 .

[384] Article 9(1) of Regulation 17/62, *supra* n. 382 .

[385] *A. Lynne Puckett, supra* n. 379 at 55-56.

[386] *Valentine Korah, supra* n. 279; *see also Licensing Block Exemptions and Essential Facilities, in* INTERNATIONAL ANTITRUST LAW AND POLICY 345 (Barry E. Hawk ed. 1995).

[387] Edward E. Vassallo, *Licensing and Franchising,* 341 PLI/CORP 165 (September-October 1992).

[388] Commission Regulation (EEC) No. 4087/88, O.J. 1988 L359.

[389] TERRENCE F. MACLAREN, LICENSING LAW HANDBOOK 201 (1992).

[390] Commission Regulation, *supra* n. 382 .

[391] *Edward E. Vassallo, supra* n. 387 (analyzing Community law affecting licensing as well as franchising).

[392] Commission Regulation, article 2, *supra* n. 382 .

[393] Campari, OJ 1978 L70/69; *see also* Eighteen Report on Competition Policy, (para. 69).

[394] *See* Norman E. Rosen statement in *Licensing Block Exemptions and Essential Facilities supra* n. 386 at 346 (stating that block exemption will continue to support the very important goal of "security for

prospective licensors and licensees in knowing with some certainty the circumstances under which license agreements will be approved").

[395] *See supra* n. 381 and accompanying text.

[396] *See supra* n. 382 and accompanying text.

[397] Janusz A. Ordover & Robert D. Willig, *Economist's View: the Department of Justice Draft Guidelines for the Licensing and Acquisition of Intellectual Property*, 9-SPG ANTITRUST 29, 32 (SPRING 1995).

[398] Id., at 32 (where the authors criticize the safety zone established by the 1995 IP Licensing Guidelines for market power assessment because it is "a concentration-based antitrust safety zone, which seems to be both arbitrary and (possibly) unworkable").

[399] Id. at 33.

[400] *See supra* n. 309 and accompanying text.

[401] *Janusz A. Ordover & Robert D. Willig*, *supra* n. 398 at 33 ("A more powerful enhancement to the current Guidelines would be an obverse of the rightly discredited 'Nine No-No's': a list of 'Yes-Yesses' of licensing arrangements that, absent delimited extraordinary circumstances, would be free of a risk of challenge. Here the Division could follow the European Union practice of issuing 'block exemptions' that effectively immunize certain business conduct from challenge under articles 85 and 86 of the Treaty of Rome").

[402] *See supra* III.

[403] Jefferson Parish Hospital v. Hyde, 466 U.S. 2, 32 (1984) (Justices Brennan and Marshall joining the majority opinion as to the per se treatment of tying on the ground that it was Congressional intent: "As the opinion for the Court demonstrates, we have long held that tying arrangements are subject to evaluation for per se illegality under Section 1 of the Sherman Act. Whatever merit this policy arguments against this longstanding construction of the Act might have, Congress, presumably aware of our decisions, has never changed the rule by amending the Act. In such circumstances, our practice usually has been to stand by a settled statutory interpretation and leave the task of modifying the statute's reach to Congress.").