

WORLD INTELLECTUAL PROPERTY ORGANIZATION (WIPO)

REFUSALS TO LICENSE IP RIGHTS – A COMPARATIVE NOTE ON POSSIBLE APPROACHES

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I. INTRODUCTION

1. The WIPO Secretariat has been mandated by WIPO Member States to work on the interface between Intellectual Property (IP) and Competition Policy with a view to ensuring that IP be used as a tool for the promotion of economic and social development. For that purpose, the Committee on Development and Intellectual Property (CDIP) asked the WIPO Secretariat to implement a two-year project that reflected the thrust of three of the forty-five recommendations, the implementation of which the CDIP supervises.¹ That project was finalized within the two-year assigned period (2010-2011).²

2. Once the project was concluded, the work on the interface between IP and Competition was mainstreamed into the regular program and budget of the Secretariat, for the biennium 2012-2013. But, although this work has been extracted from the purview of the CDIP, it continues being guided by the mentioned three recommendations.

3. An introductory analysis of the potential competitive implications of refusals to license is one of the components of the work plan for the current biennium. Its spirit corresponds to recommendation 7, which calls for the promotion of a better understanding of the interface between IPRs and competition policies, so that those Members with less experience in the pro-development management of IP can benefit from the experience of other Member States.³

4. Therefore, this study has been elaborated only with that goal in mind. It does not seek to make any sort of recommendations. Moreover, in its elaboration the Secretariat has kept in mind that it has no mandate for interpreting or construing the provisions of international or regional treaties, as well as national statutes. Therefore, all statements herein contained should be taken with that caveat.

5. In addition, this Note is merely introductory in nature, and is not intended to be exhaustive or conclusive. There are two main reasons for such an approach. First, the manners in which refusals to license implicate competition law principles and rules are so diverse and fact-dependent that it would be nearly impossible to try to cover all possible variations of problems and solutions. Second, Member States have certain flexibilities at their disposal, and therefore may analyze the same scenarios from different perspectives. Therefore, this Note could constitute the beginning of a more in-depth study that could be carried on at a national or regional level, taking into account specificities that do not fit well in a general study.

6. Intellectual property rights (IPRs) are fundamentally the right to say 'no,' or, in other words, the right to exclude. Almost invariably, they are defined by international agreements and national statutes in a negative way, thereby expressing their essentially exclusive nature. For example, most of the provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), of 1994, which define the rights granted to

¹ The recommendations in question are recommendations 7, 23 and 32. The complete text of the forty five recommendations is available at <www.wipo.int/ip-development/en/agenda/recommendations.html>.

² The results of the activities carried out under the project are available at <www.wipo.int/ip-competition/en/>.

³ Recommendation 7 reads:

"Promote measures that will help countries deal with intellectual property-related anti-competitive practices, by providing technical cooperation to developing countries, especially LDCs, at their request, in order to better understand the interface between IPRs and competition policies."

IP owners, do so by providing for the right to prevent others from copying or using the subject matter of protection.⁴

7. In this aspect, IPRs differ sharply from property rights in tangible goods. Law is about the regulation of social conduct. Every time one wishes to do something that interferes with (and consequently reduces) other persons' freedom, one needs permission from the law. It follows that the law must give him/her the power to use his/her tangible property, because such a use is naturally exclusive and rivalrous in nature, and thus interferes with other persons' freedom: possession over a tangible good is rivalrous and therefore *de facto* excludes others *per se* from possessing it. For example, if a person erects a house on a piece of land, no one else can erect another house in the same place. There is simply no space for that. That is why property rights in tangible goods are primarily defined as rights *to use and exploit*. There is no need for the law to establish the right to prevent others from using a piece of land as a primary prerogative, because that exclusion is a natural (if not physical) consequence of possession. By contrast, IPRs are property rights in *intangible* goods. Being intangible, the possession of their subject matter does not *de facto* impede *per se* others from possessing them simultaneously. In economics jargon, IPRs cover non-rival subject matter.⁵ Therefore, the right in that subject matter must be, primarily, protected by a legal right *to exclude* others from using (or copying) them, for possession alone is not enough to secure exclusivity. This explains why intellectual property rights are usually stated in a negative manner (i.e., the right to exclude others from doing something rather than the positive right to do something), as opposed to rights in tangible goods. In other words, this explains why the essence of IPRs is the right to say 'no' – this negative dimension corresponds to the very intangible nature of the subject matter protected.

8. But in spite of this, it is not uncommon that the exercise by IPR owners of their primary right be seen with suspicion, if not with outright condemnation. This widespread attitude results from the misguided notion that IPRs are monopolies and that, therefore, their ownership invariably confers dominant market power – hence, their exclusionary exercise is considered socially reproachable in itself.⁶ It is important, therefore, to have a bird's eye view on how far WIPO Member States go in ensuring that their national laws and practices protect the right of IPR owners to say 'no,' especially given the international standards set by the TRIPS Agreement.

⁴ Articles 14.1 (performances) and 14.3 (broadcasting), 16.1 (trademarks), 22 to 24 (geographical indications), 26 (industrial designs), 28.1 (patents), 36 (layout-designs) and 39.2 (undisclosed information). Exceptions to this can be found in the Berne Convention for the Protection of Literary and Artistic Works (lastly revised in 1971), which enunciates copyrights with a positive declination: for example, Article 9.1 provides that "Authors of literary and artistic works protected by the Convention shall have the exclusive right of *authorizing* the reproduction of these works, in any manner or form." This positive language is also found in two provisions of the TRIPS Agreement (Article 11: "the right *to authorize* or to prohibit the commercial rental to the public"; Article 14.2: "the right *to authorize* or prohibit the direct or indirect reproduction of [...] phonograms"). These are, however, exceptional cases that do not change the essentially negative nature of IPRs, copyrights included. After all, where a Contracting Party to the Berne Convention puts Article 17 in motion (by prohibiting the circulation, presentation or exhibition of any work or production) there are no positive rights left – only the right to exclude remains, as clarified by the Panel Report in *China – Measures Affecting the protection and Enforcement of Intellectual Property Rights*, complaint by the United States (WT/DS362/R, of January 26, 2009, adopted by the Dispute Settlement Body on March 20, 2009).

⁵ However, not every subject matter of IPRs is entirely or indifferently non-rival. The possession of a trade secret by one hundred persons makes that secret less valuable than if only ten persons exploited it. It follows that trade secrets can be said to be non-rival because the less people possess them, the more valuable they are. As far as trademarks are concerned, some brands, in particular luxury brands, are not indifferent to the number of users. The conspicuous consumption of branded luxury goods must be reserved to a few – otherwise the brand will lose its prestige with a necessary consequence on prices. On conspicuous consumption, see Thorstein Veblen, *The Theory of the Leisure Class – An Economic Study of Institutions* (The Modern Library, New York, 1934).

⁶ It is in this context that there have been proposals to establish a mechanism of automatic compulsory licenses of patents, under which the patent owner would not be entitled to refuse to license, but rather to receive remuneration from any users. A similar system, under the title of "certificates of invention," was established by the Patent and Trademark Law of Mexico, of 1976 (in parallel to a traditional patent system).

9. IPR owners' rights to exclude others from using their protected intangible assets are at the heart of the IP system. However, the legal implications of this core right have led to different approaches and treatments in WIPO Member States' national statutes as well as in their construction by courts and agencies in charge of enforcing IP and antitrust law.

10. This Note aims to provide a brief overview of the various approaches found in a number of jurisdictions that are committed to applying internationally harmonized IP standards, such as those set in the Paris and Berne Conventions, as well as in the TRIPS Agreement. As aforementioned, the objective is not to find or recommend a consistent approach – that being impossible, given the widely different possible approaches to the issue – but simply to categorize in a logical fashion the various treatments given to the same topic. At the same time, the intention of this Note is just to sample national statutes and practices, not to undertake an exhaustive exercise of analysis of principles. Basically, this Note tries to answer a question: how do WIPO Member States apply the principles and rules of competition law to refusals to license IPRs?

11. There are two possible ways in which an IPR owner can refuse to license his/her right. One way is simply saying 'no' to a third party who seeks to engage in a voluntary licensing agreement. A slightly different (but essentially the same) modality consists of the IPR owner not waiting for being asked for permission, and suing an alleged infringer, or threatening a potential infringer. The second way can occur when, asked for a permission to use his/her IPR, the owner asks for very high royalties⁷ or other unacceptable conditions.⁸ Under certain circumstances, excessive or unfair licensing conditions may comprise the refusal to transfer to a voluntary licensee certain elements of the licensed technology or know-how, thus giving rise to a breach of contract.⁹ Such a contract breach, besides constituting a civil tort, could have other consequences if it had an abusive nature with or without anticompetitive consequences, as will be noted below.

12. The national statutes of WIPO Member States have taken three different approaches to the antitrust interface with refusals to license IPRs. We could see those approaches as steps that gradually increase in complexity. At a first step, the refusal to license is referred to as a mere expression of the right by statutes, guidelines and court opinions. At a second step, refusals to license are deemed abuses. Here, legal solutions may vary, because national statutes tend to qualify the abusive exercise of IPRs by associating it with certain circumstances that make the otherwise lawful exercise of the right an abuse. The third step

⁷ See e.g., the Guidelines for the Use of Intellectual Property under the Antimonopoly Act, 2007, issued by the Japan Fair Trade Commission, and the Review Guidelines on Undue Exercise of Intellectual Property Rights, of March 31, 2010, issued by the Korea Fair Trade Commission. (See Annex 2)

⁸ “[...] the Ninth Circuit in *Metronet Services Corporation v US West Communications* [329 F.3d 986 (9th Cir 2003)] explicitly recognised that a constructive refusal could be inferred from situations in which access is not refused outright but where the imposition of unreasonable terms and conditions results in practical denial of access.” Ian Eagles and Louise Longdin, *Refusals to License Intellectual Property – Testing the Limits of Law and Economics*, p. 130 (Hart Publ., Oxford and Portland, 2011). *A contrario* this is the thrust of the language of Article 31(b) of the TRIPS Agreement (“the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful [...]”). The fact that the IPR owner has accepted to grant an authorization but on terms and conditions that are commercially unreasonable (whatever that means) implies that he has refused to license. Besides “constructive refusals,” national competition authorities may also see “margin squeeze” as a potential antitrust violation. “Margin squeeze” occurs when “a dominant firm charges a price for an input in an upstream market that, compared to the price it charges for the final good using the input in the downstream market, does not allow a rival in the downstream market to compete.” International Competition Network (ICN), *Report on the Analysis of Refusals to Deal with a Rival Under Unilateral Conduct Laws*, Presented at the 9th Annual Conference of the ICN, Istanbul, Turkey, April 2010, at 3. That notion may eventually apply to refusals to license patents and know-how, whereas technology can be treated as “an input in an upstream market.”

⁹ This may be deemed, however, a matter of contract law, rather than of antitrust.

is even more complex, both legally and economically¹⁰: abusive refusals to license may reach, in certain cases, the status of antitrust violations and, therefore, may trigger the harsh sanctions that such illegal practices entail.

II. THE RIGHT TO REFUSE TO LICENSE AS THE CORE OF IPRs

13. Absent an aggravating or qualifying factor, refusing to license either a competitor or a non-competitor should not be reprimanded by law. Actually, as explained above, to say ‘no’ is the very expression of the IPR conferred.

14. The language of the first sentence of Article 31(b) of the TRIPS Agreement (“such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time”) has been understood by a number of commentators as providing for a different solution. However, that is not the case. Article 31(b) merely establishes refusals to license (under reasonable conditions and terms) as formal requisites for granting a compulsory license of a patent, but not as grounds. If refusals to license were to be invariably seen as a sufficient ground for the grant of compulsory licenses, Article 28.2 would make no sense, for patent owners would have no “right [...] to conclude licensing contracts” but rather an obligation to conclude those contracts. Such a situation would lead to undermining private property rights – and the consequent annulment or voiding of the effects of Article 28.1.

15. As noted earlier, the notion that the right to refuse to license is at the core of IPRs derives from the very way those rights are established by international agreements, such as the TRIPS Agreement. Various national statutes and guidelines make this understanding clear so as to assure IPR owners of the relative freedom with which they are bestowed to exploit their assets the way they see fit. At a statutory level, perhaps the most unequivocal statements in this direction can be found in the United States patent statute (35 U.S.C. 271) and the Canadian Competition Act (§79(b)).¹¹ Several WIPO Member States convey the same understanding in Guidelines on the enforcement of antitrust laws. These are, for example, the cases of Canada,¹² the Republic of Korea¹³ and Japan.¹⁴ Moreover, a vast number of court opinions in various jurisdictions have echoed the same understanding.¹⁵

16. The view that the right to refuse to license is the cornerstone of the IP system may be (and has been) mistaken as an invitation for IP owners to litigate in defense of their exclusivity. Litigation is sometimes seen with concern because of the transaction costs it entails. However, if not used as a tool of sham threats and anticompetitive maneuvers – which are the exception, not the rule, because of the heavy sanctions that they may give rise to¹⁶ – judicial enforcement of IPRs does not only build up social respect for IP but also permits the construction of principles and rules which are frequently left unsettled by

¹⁰ The increase in complexity arises from the necessary intervention of antitrust specific concepts, such as the relevant product and the relevant market.

¹¹ See Annex 1.

¹² See Annex 2.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ See *Image Technical Services v. Eastman Kodak Co.*, 125 F.3d 1195 (10th Cir. 1997), *certiorari denied*, 523 U.S. 1094 (1998); *In re Independent Service Organizations v. Xerox Corporation*, 203 F.3d 1322, 1325 (CAFC 2000). See also the judgments of the European Court of Justice in the *IMS Health*, *Volvo* and *CICRA* cases, Annex 3.

¹⁶ On sham litigation, see the Study on the Anti-Competitive Enforcement of Intellectual Property (IP) Rights: Sham Litigation (April, 2012), prepared by the Institute for Applied Economic Research (IPEA) for the WIPO Project on Intellectual Property and Competition, and submitted to the Committee on Development and Intellectual Property (CDIP). CDIP/9/INF/6 REV, of July 30, 2012.

legislation. Litigation is the expression of a functional IP regime that gives voice to its fundamental role – that of fostering innovation and market competition.

17. Actually, the freedom of IPR owners to refuse to authorize the use of his/her intangible assets to unwanted partners is not different from the general freedom that firms, even if detaining monopoly power, have to refuse to deal with other parties. This freedom has been consistently affirmed by the Supreme Court of the United States and followed with no divergence by U.S. Federal Courts.¹⁷ (see Box 1)

Box 1

On the monopolists' right to refuse to deal

"Monopolists needn't acquiesce to every demand placed upon them by competitors or customers; a monopolist's duties are negative – to refrain from anticompetitive conduct -- rather than affirmative -- to promote competition. [citation omitted]. Just as the monopolist has no duty to deter the sale of its own equipment by promoting that of a competitor, [...] so too it has no duty to incur contractual liability itself by excusing its customers from their contractual obligations. We recognized the sufficiency of exactly that type of 'self-serving' business justification in *Olympia Equipment*, where we observed that 'consumers would be worse off if a firm with monopoly power had a duty to extend positive assistance to new entrants, or having extended it voluntarily a duty to continue it indefinitely. The imposition of such a duty would make firms that possessed or might be thought to possess monopoly power, however laudably obtained, timid about [...] competing with new entrants.' [citation omitted] By the same token, consumers would be worse off if a firm had a duty under the antitrust laws to release customers from their contractual obligations; it is anything but efficient for a firm to abandon its contractual rights at the behest of customers who are no longer happy with their bargain, even when consumers might be better off (at least in the short run) if they did so. Imposing that type of affirmative obligation on a monopolist -- whether explicitly or by refusing to acknowledge the legitimacy of such refusals -- would penalize the monopolist for refusing to surrender a lawfully obtained monopoly, a result courts have long foresworn." *State of Illinois v. Panhandle Eastern Pipe Line Co.*, 935 F.2d 1469 (7th Cir. 1991).

This doctrine is known as the "Colgate doctrine" because it was first established by the Supreme Court in *United States v. Colgate & Co.*, 250 U.S. 300 (1919). Later the Colgate doctrine was qualified: the monopolist is not obliged to justify his/her refusal to deal "where there had been no prior dealing between the parties." See Eagles and Longdin, *supra* note 7, p. 134, commenting on *Verizon Communications Inc. v. Law Offices of Curtis V Trinko*, 540 U.S. 398 (2004).

18. At the other end of the spectrum would be the sanction of refusals to license IPRs without any sort of qualification. That, as said, would ultimately amount to denying IP protection altogether. Among those statutes of WIPO Member States scrutinized for this Note, only the Industrial Property Statute of Egypt, of 2002,¹⁸ and the Law on Intellectual Property of Vietnam, of 2005,¹⁹ seem to have taken such an approach, even if the right to refuse under certain laws is more limited than under others. And even in the case of Egypt, as discussed below, the statutory language may call for a different reading.

19. The ICN report above mentioned says that "For many agencies the type of intellectual property involved (e.g. patents versus trade secrets) does not change the analysis. [note omitted]. The United States notes that, although the basic antitrust principles applied in

¹⁷ The same understanding is accepted by a large number of national competition agencies, as noted by the ICN report (*supra* note 8, at 11).

¹⁸ See *infra* paragraph 33.

¹⁹ Article 145(c) of Law No. 50/2005, reads:

"Bases for compulsory licenses of inventions

"1. In the following cases, the right to use an invention may be licensed to another organization or individual under a decision of the competent state agency defined in Clause 1, Article 147 of this Law without permission from the holder of exclusive right to use such invention:

[...]

"(c) Where a person who wishes to use the invention fails to reach an agreement with the holder of exclusive right to use such invention on the entry of an invention license contract in spite of his/her efforts made within a reasonable time for negotiation on satisfactory commercial price and conditions; [...]"

Having in view that proviso (d) establishes that the practice of anti-competitive acts "banned by competition law," one may conclude that proviso (c) identifies a refusal to license as a stand alone ground for compulsory licenses.

cases involving refusals to deal are the same for all forms of property, including IP, the outcome of a refusal to deal case could be affected by the form of the IP involved.”²⁰ This is in line with Article 21 of the TRIPS Agreement, which prohibits compulsory licenses of trademarks. However, if the nature of the IP title does not have a particular impact on the antitrust analysis of refusals to deal, the nature of the subject matter covered has. The ICN report provides an example: information (protected by IP) necessary to achieve the interoperability of products.²¹ Other examples could easily be found, such as patent subject matter that corresponds to mandatory technical standards,²² or when the use of a patented invention is necessary for the use of another patented invention, where the latter involves an important technical advance of considerable economic significance in relation to the invention claimed in the first patent.²³ It should be noted that in the case of the last example, the owner of the first patent is entitled to a cross-compulsory license. Compulsory licenses of dependent patents are not necessarily linked to problems of competition. The main issue is to make the commercial exploitation of relevant – but dependent – inventions possible, so as to benefit consumers. Otherwise, technically and economic inventions might remain idle because of the refusal by the owner of the basic invention. To this extent, the arguments in favor of market freedom that are behind the *Colgate* doctrine yield to considerations of consumer protection.

III. REFUSALS TO LICENSE AS ABUSES OF IPRs

19. To say ‘no’ may be seen by statutes and courts as an abuse of IPRs, when associated to certain circumstances that qualify that ‘no’ as contrary to the objectives of the law.²⁴

20. The notion of abuse of IPRs is referred to in Article 5(A)(2) of the Paris Convention²⁵ and Article 8.2 of the TRIPS Agreement.²⁶ The fact that IPR abuses are the subject of multilateral provisions, however, does not mean that they are a settled notion. In fact, the diversity of ways that WIPO Member States identify grounds for abusive behavior by IP

²⁰ See *supra* note 8, at 23.

²¹ In this same context, in its report to the OECD Competition Committee, Policy Roundtables, Competition, Patents and Innovation II, 2009 (DAF/COMP(2009)22, the European Commission made the important comment that

“Although intellectual property rights were raised as a justification by Microsoft, the gist of the case concerned a refusal to disclose secret information, the innovative character of which was unclear. The information at stake was indispensable to compete viably against Microsoft in the relevant market and Microsoft’s refusal had already allowed it to achieve a dominant position, and risked eliminating competition in that market. Competitors were prevented from bringing to customers new and improved products that interoperate with Windows, in contradiction with Article 82 (b).

“The 2004 Decision did not order the compulsory licensing of Microsoft IP, but the disclosure of certain interoperability information. In doing so, the Commission carefully established that the conditions judged to be sufficient by the ECJ in its compulsory licensing *IMS Health* ruling (indispensability of the refused right, risk of elimination of all competition, preventing the emergence of new products and services for which there is a potential consumer demand) were met in the Microsoft case.

“The Commission when taking its decision considered not only Microsoft’s incentives to innovate but the incentives of the whole market to innovate. It concluded that Microsoft’s refusal to disclose the interoperability information was itself reducing the incentives of rivals to bring innovative products to the market because without the interoperability information they will not be in a position to compete on the merits. The objective of the remedy is to induce rivals to innovate along with the dominant company.”

Id. at 161.

²² 42 U.S.C. §7608.

²³ TRIPS, Article 31(I).

²⁴ Abuse means “To make excessive or improper use of a thing, or to employ it in a manner contrary to the natural or legal rules for its use.” *Black’s Law Dictionary*, abridged 6th ed., West Publ., St. Paul, 1991.

²⁵ Article 5(A)(2) of the Paris Convention reads:

“Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.”

²⁶ Article 8.2 of the TRIPS Agreement reads:

“Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders [...].”

owners shows that there is no harmony in that field. The reason is straightforward: because abuse means the use of rights in a way contrary to the objectives of the law, the notion of abuse is symbiotically linked to the very objectives that the law sets for IP. And these objectives can vary greatly, which means that the modalities of abuses also vary. Therefore, it is difficult, if not impossible, to find a common denominator to IPR abuses.

21. The most “traditional” sort of abuse of IPRs – which can be found in the statutes of a majority of WIPO Member States of all levels of economic development – concerns the failure to commercially work patented inventions.²⁷ Traditionally, the obligation to exploit has been understood as the obligation to *locally* work the invention, which means that making the patented product available through importation would not meet that obligation. (see Box 2).

Box 2

Failure to work: use, abuse or neither?

The obligation to work the invention has two different meanings: generally, it means that the patent owner has the duty of making the patented product or the product made with the patented process available to potential consumers; specifically, it means that the patent owner is under the *duty* of supplying the national market with the patented product or the product made with the patented process that has been manufactured in the territory of the granting country. The second meaning is known as “*the local working requirement*.” It follows an industrial policy rationale, according to which patents are granted to promote the establishment of domestic industries by means of imports of foreign technology, and local invention and innovation. According to this rationale, patents are not simply granted for promoting invention and innovation. Or, in other words, patents are granted to promote *national*, rather than *foreign* invention and innovation.

Traditionally, the obligation to exploit has meant actually the obligation to *locally* exploit the invention, which means that making the patented product available through importation would not meet that obligation.¹ Because of the inherent conflict of the local exploitation requirement with international free trade – if all WTO Members imposed that patent owners could only discharge themselves from the obligation to work their inventions by means of local manufacture, then international trade of patented goods would cease completely – the TRIPS Agreement has adopted language that accommodates the obligation to make the patented articles (or the articles manufactured with the patented process) available on the national market with national treatment of goods (rather than of inventors). The relevant language of Article 27.1 of the TRIPS Agreement reads:

“[...] patents shall be available and patent rights enjoyable without discrimination as to [...] whether products are imported or locally produced.”

Actually, that language can be seen as transposing into the field of IPRs the principle of national treatment of goods, as set by Article III.4 of the GATT 1947:

“The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use.”

This is, however, a matter of contention among WTO Members.

(1) “[...] importation or sale of the patented product, or of the article manufactured by a patented process, will not normally be regarded as ‘working’ the patent.” G.H.C. Bodenhausen, *Guide to the Application of the Paris Convention for the Protection of Industrial Property*, p. 71 (BIRPI 1969, WIPO reprinted, Geneva, 1991).

22. The problem of the language of Article 5(A)(2) is that, as said above, the core right that is granted to IP owners is the right to exclude others. As a corollary of the right to say ‘no,’ certain provisions – including in the TRIPS Agreement – can also be found asserting positively the rights of patent owners – the right to license and the right to assign.²⁸ However, these rights exist in their positive dimension because, and only because, of their negative core. After all, if the patent owner were not primarily entitled to refuse to license,

²⁷ The designation of failure to exploit as abuse of IPRs has also been extended by the Paris Convention to utility models and industrial designs (Article 5(A)(5) and Article 5(B), respectively).

²⁸ Article 28.2 of the TRIPS Agreement provides:

“Patent owners shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts.”

he/she would not be endowed with a right to license – he/she would be actually *obliged* to license. That is why Article 28.2 of the TRIPS Agreement uses the word “also.” This word means that the positive rights are complementary and consequent to the right to exclude.

23. Patent owners have the right to exclude, and not necessarily the right to exploit the invention. The right to exploit, when it exists, does not stem from the patent, but from the inexistence of prohibitory regulation. This means that it is not easy to understand how one can commit an abuse by failing to work the patent – a right that he/she does not have as a result of the patent. This is not the place to explain why Article 5(A)(2) was drafted in that way, but it can be said that the records of the Diplomatic Conference of the Paris Convention Revision at The Hague, in 1925, show that its apparently paradoxical language is a result of a delicate compromise – a sort of constructive ambiguity – between those Contracting Parties that wanted to keep the sanction of revocation for the failure to work and those that wanted to limit the sanction to compulsory licenses – at least, at an immediate level. A third position, in minority, championed by the United States, was that not to exploit was within the right of the patent owner. The solution was to follow the second approach by using language inspired by the UK Patent Statute of 1907, which reflected the notion that failing to make available those products whose trade was the subject of a monopoly grant was an abuse of that grant. This idea stemmed from the Statute of Monopolies, of 1624.²⁹

24. In general, according to the practice of WIPO Member States, a refusal to license may be deemed an abuse when it leads to

- Failure to make the products embodying the patented invention available on the local market, either by local manufacturing (see Box 2) or by importing,³⁰ and the patent owner has not given reasonable justifications for this failure; or
- Prejudice to the establishment or development of domestic commercial or industrial activities.³¹

25. We will see under the next section that a number of WIPO Member States treat these circumstances as anticompetitive effects of the exclusionary power of patents, rather than as mere abuses. The difference may be significant not only in terms of applicable sanctions – antitrust violations do not need to be sanctioned merely by compulsory licenses; they may lead to the outright revocation or forfeiture of the IPRs used as market power levers, because the restrictions in Article 5 of the Paris Convention in this regard would not apply – but also in procedural terms. Abusive practices do not need to be scrutinized in a judicial or administrative process before a compulsory license is granted. By contrast, anticompetitive practices do (Article 31(k) of the TRIPS Agreement). It follows that when the need for remedying anticompetitive refusals is invoked as ground for granting a compulsory license the provisions of Article 31(k) of TRIPS must be applied. This explains why the three statutes mentioned above (Australia, India and the United Kingdom), which see those

²⁹ The diplomatic records of the Diplomatic Conference held at The Hague, in 1925, contain an explicit reference to the Statute of Monopolies in this context:

“The British and American delegations have reached an agreement as to one proposal to which all the other delegations immediately adhered: it establishes the principle of suppression of forfeiture for failure to work, but leaves to contracting countries the faculty of keeping the obligation of working and of sanctioning it by means of a compulsory license system to be imposed on the patentee, and even of keeping forfeiture if the compulsory license is not, actually, sufficient to prevent monopoly abuse; this is a formula inspired in the English statute of monopolies, of 1623.”

Actes de la Conférence Réunie à La Haye du 8 Octobre au 6 Novembre 1925, p. 540 (Bureau International de l'Union, Berne, 1926).

³⁰ *E.g.*, France (Act 96-1106, of 1996, Article L613-11(b)), Germany (Patent Law as amended in 2009, Art. 24(5)), Andean Community of Nations (gathering Bolivia, Colombia, Ecuador and Peru) (Decision 486 of 2000, Article 60). See Annex 2.

³¹ See *e.g.*, the statutes of Australia, India and the United Kingdom (Annex 2).

circumstances as merely abusive, require that the prospective beneficiary of the compulsory license make a serious attempt to obtain a voluntary license before applying for the compulsory license, whereas two statutes mentioned in the next section (Argentina and the Dominican Republic), which treat those as anticompetitive practices, waive that requirement (Law 24,572, of 1996, of Argentina, Article 44, second sentence; Law 20.00, of 2000, of the Dominican Republic, Article 43, §2; Law No. 82, of 2002, of Egypt, Article 23(5), second paragraph). In the case of the statutes of Australia, India and the United Kingdom, Article 31(k) does not apply because the practices in question are deemed abusive, but not anti-competitive. By contrast, the laws of Argentina and the Dominican Republic deem those practices anti-competitive, and thus, in accordance with Article 31(k), they waive the need for prior (and unsuccessful) negotiations with the patent holder.

IV. REFUSALS TO LICENSE IPRs AS ANTICOMPETITIVE PRACTICES

26. At times, typically under exceptional circumstances, the refusal to authorize a third party to use an IP protected asset may amount to a violation of competition or antitrust laws to the extent that such refusal constitutes an attempt to monopolize or to maintain a monopoly in a relevant market or, in broader terms, it constitutes an abusive expression of a market dominant position. Per definition, anticompetitive refusals are abuses that, by contrast with the abuses mentioned in the previous section, have anticompetitive effects.³²

27. The relevant market in the context of refusals to license corresponds either to the market of the product embodying or bearing the IP right in question or to the market of the right itself or to its subject matter. For example, as far as the refusal to license a patent is concerned, the relevant market may be confined to the claimed invention (and the associated know-how). This will necessarily narrow the antitrust analysis to the market of a single patented invention. But if there are alternative technologies available, the market will comprise those other technologies – including, eventually, the predictability of future new technical developments, because these may generate pressure on the patent holder.

28. As noted above, mere refusals to license are rarely anticompetitive, because of two important factors: refusing to license is not wrong,³³ meaning that, even when the refusal has anticompetitive effects, valid business justifications may exempt the patent owner from antitrust laws;³⁴ secondly, rarely do IP rights alone accord market power.³⁵ Besides, a

³² This dichotomy is reflected, e.g., in Article 15.1(15) of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), as follows: “Nothing in this Chapter shall be construed to prevent a Party from adopting measures necessary to prevent anticompetitive practices that may result from the abuse of the intellectual property rights set out in this Chapter, provided that such measures are consistent with this Chapter.” The full text of the DR-CAFTA is available at <www.ustr.gov>. This language, even if different and with a different meaning, keeps the same thrust as Article 8.2 of the TRIPS Agreement. Both are essentially anti “non-violation” procedures, to the extent there would be no need for permitting a Contracting Party (or a WTO Member) to adopt measures that are consistent with the provisions of the Agreements, unless they are read in a fashion that gives them some (not total) immunity against non-violation complaints.

³³ See *supra* notes 11 to 15 and accompanying text as well as Box 1.

³⁴ See, e.g., *In re Independent Service Organizations v. Xerox Corporation*, 203 F.3d 1322, 1326 (CAFC 2000); *Data General Corporation v. Grumman Systems Support Corporation*, 36 F.3d 1147, 1187 (First Cir. 1994), *aff’d in part*, 36 F.3d 1147 (1st Cir. 1994). See Annex 3.

³⁵ See the Antitrust Guidelines for the Licensing of Intellectual Property, issued by the U.S. Department of Justice and the Federal Trade Commission, of April 6, 1995. See Annex 2. When these Guidelines were issued U.S. courts had no consensual view on this issue, as the Guidelines noted. But the quoted text was later confirmed by the United States Supreme Court in *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 45-46 (2006):

“Congress, the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee. Today, we reach the same conclusion, and therefore hold that, in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.”

Id., p. 45-46.

refusal to license can be anticompetitive only when the prospective licensee is a competitor (actual or potential) in the relevant market.³⁶

Box 3

Refusals to license design rights in the car industry

To refuse to give a competitor access to a market that the IP owner has created him/herself should be generally considered to be within the right granted to the IP owner. “[...] a company does not violate the Sherman Act by virtue of the natural monopoly it holds over its own product. [citation omitted] [...] as we discussed previously a claim cannot lie against TNT for the monopolization of its own product.” *TV Communications Network, Inc. v. TNT*, 964 F.2d 1022, 1025, 1026 (10th Cir. 1992). See also *IMS Health GmbH & Co.*, Case C-418/01, judgment of the Fifth Chamber of the European Court of Justice on April 29, 2004: “Therefore, the refusal by an undertaking in a dominant position to allow access to a product protected by an intellectual property right, where that product is *indispensable* for operating on a secondary market, may be regarded as abusive only where the undertaking which requested the licence does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the intellectual property right, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand.” *Id.* at paragraph 49. The ECJ judgments are available at <curia.europa.eu>.

This is, for example, the case of the refusal by car makers to authorize independent spare parts manufacturers to make and sell parts that are covered by industrial design certificates. If considered separately, each visible, external part of the car body is a market in itself (the front left wing of a car made by manufacturer X, model Y, year Z, is not interchangeable with any other part of the same car or of any other car of any other maker). This means that the relevant market for that part is exclusively the product of the creation of that car maker. There are different approaches among WIPO Member States to this matter. One could argue that industrial design registrants should not be required to allow for new entrants in a market that is the exclusive result of their creativity. However, the solution could be different for independent repairers, because for them car parts are not separated, individual products. For independent repairers, car parts are actually a “cluster market,” in which it is important to have access to all parts that compose a certain car model. And yet independent repairers do not manufacture car parts; the core of their business is to service cars. Therefore, they do not compete with car makers in manufacturing car parts. At this point, thus, the problem ceases to be one of competition law and becomes one of consumer protection. Hovenkamp, *id.* p. 92. This commentator also advises that it is not necessarily correct to find separate market power in the aftermarket when the monopolist profits in spare parts are relatively insignificant as compared to the overall price paid by the consumer during the car lifetime, as from the moment of the purchase. So, an alternative best solution that accommodates the fundamental rights of industrial design owners and yet protects the legitimate interests of locked-in consumers is to ensure the availability of spare parts manufactured by or under the control of the owners at reasonable prices to independent repairers – but provided the exclusive rights are preserved and the parts are manufactured by the design owners or with their authorization. This was the solution offered by the European Court of Justice in *AB Volvo v. Erik Veng*, Case 238/87, judgment of October 5, 1988. A similar holding can be found in *CICRA v. Renault*, Case 53/87, judgment of October 5, 1988. Actually, this solution may be considered to be in line with Article 26.2 of the TRIPS Agreement, which provides that “Members may provide limited exceptions to the protection of industrial designs, provided that such exceptions do not unreasonably conflict with the normal exploitation of protected industrial designs and do not unreasonably prejudice the legitimate interests of the owner of the protected design, taking account of the legitimate interests of third parties.” On the application of Article 26.2 to the spare parts exception, see Friedrich-Karl Beier, *Protection for Spare Parts in the Proposals for a European Design Law*, p. 868-869, 25 IIC 6, 868-869 (1994), and Ana Gerdau de Borja, *Exceptions to Design Rights: The Potential Impact of Article 26(2) TRIPS*, [2008] EIPR 500.

29. Actually, it is the exercise of IPRs (by saying ‘no’ to a request for licensing or by enforcing them) that ultimately permits them to accomplish their economic function insofar as they instigate competitors to create their own intangible assets around the protected ones. It is this effort of constant creation of intangible assets that are different from those that existed previously that lures clients, gives rise to new businesses and in general puts progressive economies in motion. In other words, it is the static dimension of IP that allows for its dynamic dimension to operate.³⁷ It is well settled that IP owners have no duty to help

³⁶ “A relevant market is the smallest grouping of sales for which the elasticity of demand and supply are sufficiently low that a firm with 100% of that grouping could profitably reduce output and increase price substantially above marginal cost.” Herbert Hovenkamp, *The Law of Competition and its Practice*, p. 83 (West Publ., St. Paul, 1994).

³⁷ See *Data General Corporation v. Grumman Systems Support Corporation*, 761 F.Supp. 185, 192 (D. Mass. 1991), *aff’d in part*, 36 F.3d 1147 (1st Cir. 1994). See Annex 3.

competitors. Actually, propensity by IP owners to engage cooperatively with competitors should be followed by authorities with care because, where significant market shares are thus acquired or maintained, such an attitude tends to reveal anticompetitive collusion.³⁸

30. This means that refusals to license must either be associated with certain serious circumstances, or have certain dire consequences so as to be deemed anticompetitive. In general, the anticompetitive nature of refusals to license IPRs is associated with the concept of *essential facilities*. “A facility is ‘essential’ if it is otherwise unavailable and cannot be ‘reasonably or practically duplicated’.”³⁹ When it comes to refusals to deal in general, monopolization is not confined to essential facilities.⁴⁰ But the essential facilities doctrine has a very narrow impact on refusals to license IPRs, because of their inherent capacity of being alter-created or alter-invented. No IP title or right is – or should be – capable of constituting an insurmountable barrier for competitors who wish to enter the same relevant market. In other words, IP should never be an essential facility.⁴¹ When it is, the IPRs in question are likely to be invalid or exceptional circumstances (which have, in general, a regulatory dimension) transform them into essential facilities. The example that comes immediately to mind is technical standards; *i.e.*, if IPRs are ‘technical standards’ in a particular relevant market these IPRs are ‘essential’ for competitors to compete in that market.⁴² However, the essential facility doctrine for IPRs has been also invoked in other situations, such as consumers’ lock-in in the case of visible parts of car bodies, when covered by industrial designs.⁴³ The impossibility of repeating clinical data necessary for obtaining the marketing approval of certain regulated products because of the risks they create for humans, animals and the environment might be another example of an essential facility that constitutes an unsurpassable barrier for subsequent registrants.

31. A number of WIPO Member States, however, seem to impose upon patentees a greater burden of care than on owners of other types of property, and make the line between the regular exercise of IP exclusivity and anticompetitive abuses much more elusive.

³⁸ This aspect was highlighted by the report published by the United States Department of Justice and the Federal Trade Commission in April 2007 (*Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition (2007)*, available at <www.usdoj.gov/atr/public/hearings/ip/222655.pdf> and at <www.ftc.gov/reports/index.shtml>) with a quote from *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko*, 540 U.S. 398, 408 (2004): “compelling negotiation between competitors may facilitate the supreme evil of antitrust: collusion.” The agencies noted that “imposing liability for such refusals [to license] arguably would go beyond requiring firms to refrain from anticompetitive conduct that harms rivals and would instead compel firms to reach out and affirmatively assist their rivals.” *Id.*, at 28.

³⁹ *Image Technical Services v. Eastman Kodak*, 125 F.3d 1195, 1210 (9th Cir. 1997).

⁴⁰ See *Image Technical Services*, p. 1209. See Annex 3.

⁴¹ The possibility, by definition, of alter-creating or alter-inventing competing, alternative IPR assets, defeats the second tenet of the essential facility test created by the Court of Appeals for the Seventh Circuit, in *MCI Communications Corp. v. AT&T Co.*, 798 F.2d 1081 (7th Cir. 1983): (1) control of the essential facility by a monopolist; (2) a competitor’s inability practically or reasonably to duplicate the essential facility; (3) the denial of the use of the facility to a competitor; and (4) the feasibility of providing the facility. *Id.* p. 1132-1133. IPRs should never be a barrier against the invention, creation or origination of competing, alternative intangible assets. This doctrine was established by the United States Supreme Court in *Le Roy v. Tatham*, 55 U.S. 156 (1852) (“A patent is not good for an effect, or the result of a certain process, as that would prohibit all other persons from making the same thing by any means whatsoever. This, by creating monopolies, would discourage arts and manufactures, against the avowed policy of the patent laws. *Id.* p. 175), and was invoked subsequently in *O’Reilly v. Morse*, 56 U.S. 62 (1853) and *Corning v. Burden* 56 U.S. 252 (1854). Recently, this doctrine of alternativeness was invoked by the District Court’s decision in *Data General*, supra note 37, in the context of copyright. In the context of trademark and trade dress protection, the doctrine of alternativeness was mentioned in *Wallace International Silversmiths, Inc. v. Godinger Silver Art*, 916 F.2d 76, 81 (2nd Cir., 1990): “We therefore abandon our quibble with the aesthetic functionality doctrine’s nomenclature and adopt the Restatement’s view that, where an ornamental feature is claimed as a trademark and trademark protection would significantly hinder competition by limiting the range of adequate alternative designs, the aesthetic functionality doctrine denies such protection.” *Id.* p. 81.

⁴² This seems to be the approach of the Patent Law of the People’s Republic of China. Article 48(2) of its Patent Law indicates that, once the exercise of patent rights is determined to be monopolistic and that it has a negative impact on competition, a compulsory license shall be granted. See Annex I.

⁴³ See a brief discussion on this matter in Box 3.

32. One Member State that apparently has imposed a strict standard of conduct on patent owners is Egypt. Article 23, §3, of Law No. 82, of 2000, establishes that the mere refusal to license a patent, where “suitable terms” are offered, may be sanctioned by a compulsory license. Such refusal seems to be deemed an autonomous ground, that is, the compulsory license can be granted without the need for any additional condition or circumstance (such as lack of exploitation – which is set as an independent ground for a compulsory license in §4).⁴⁴ However, it should be noted that the Egyptian statute establishes that the Patent Office may grant non-voluntary licenses on various grounds (including refusals to license) “subject to the approval of a ministerial committee, to be established by a decision of the Prime Minister.” (Article 23, first paragraph). The setting of such an institutional filter at a political level suggests that the granting of compulsory licenses is not automatic, and depends on public policy considerations, thereby suggesting the adoption of a rule of reason as opposed to a per se approach.

33. The same rigorous treatment of patents associated with market power is found in the statutes of Argentina, the Dominican Republic and Egypt.⁴⁵ The relevant statutory provisions of those three countries are very similar. They all provide for the possibility of granting compulsory licenses in a number of circumstances, in which the patent in question is deemed to have anticompetitive effects, regardless of whether that party has previously requested a voluntary license – even though two of the circumstances (selling under unreasonable terms and refusing to supply) imply a refusal to license. Those circumstances are

(a) The patentee’s setting of excessive pricing (Egypt), taking into account market average prices, or setting discriminatory prices, in particular when there are offers to supply the market at prices significantly lower than those offered by the patentee for the same product (Argentina, Dominican Republic⁴⁶);

(b) Discrimination among the clients in respect of prices and selling conditions thereof (Egypt);

(c) Refusal to supply the local market on reasonable commercial terms (Argentina, Dominican Republic, Egypt);

(d) The obstruction of business or production (Argentina, Dominican Republic);

⁴⁴ It seems that Egypt has set the various elements listed in Article 31 of the TRIPS Agreement as conditions for the imposition of compulsory licenses as grounds for their granting rather than as conditions. For example, §1 of Article 23 provides that compulsory licenses may be granted “(1) Where the competent Minister finds — under the circumstances — that the exploitation of the patent will benefit the following: (a) Public non-commercial interest. This includes the preservation of national security, health, environment and food safety. (b) Cases of emergency or circumstances of extreme urgency.” However, Article 31(b) of the TRIPS Agreement identifies those circumstances as situations in which the requirement of prior voluntary negotiations may be waived by national law, not as reasons or grounds for granting compulsory licenses.

⁴⁵ Article 42, Law No. 20.00, of May 8, 2000, of the Dominican Republic; Article 23, fifth paragraph, Law No. 82, of 2002, of Egypt; Article 44, Law 24,481 amended by Law 24,572, of 1996, of Argentina. See Annex 1. It should be noted that the provisions in the statute of Argentina that treat as anticompetitive the exercise of patentees’ exclusive rights have been strongly criticized, on the ground that such treatment basically denies the very exclusive nature of the rights and undermines their social and pro-competitive function, in particular to the extent it prevents the patentee from setting prices as he/she sees fit as well as from refusing to deal with competitors. See Raúl A. Etcheverry (dir.), *Código de Comercio*, vol. 6, *Propiedad Industrial*, pp. 791-793 and 801-802 (Hammurabi, 2006, Buenos Aires).

⁴⁶ In the Dominican Republic several years ago two compulsory licenses were granted on the ground that a local generic manufacturer would be able to sell exactly the same ingredient on the market at a price ten times lower than the patentee’s, and still keeping a reasonable profit. The licenses were later invalidated by a court because of the absence of a prior analysis of the anticompetitive nature of patentee’s practices. At the time this Note is being elaborated this issue is still pending.

(e) Ceasing the production of the protected commodity or producing such in a quantity that does not bring about the proportion between the productivity and the market needs (Egypt);⁴⁷ and

(f) Acting or behaving in a way that has a negative effect on the freedom of competition, in accordance with the applicable statutory provisions (namely, those set in Competition, Antitrust or Anti-Monopoly Acts) (Argentina, Dominican Republic, Egypt).

34. Other anticompetitive limits to the right to refuse to license IPRs have been found in the following circumstances:

(a) The IPR in question has been acquired unlawfully;⁴⁸

(b) The IPR in question is being used beyond its scope;⁴⁹ and

(c) The action enforcing the IPR in question is a sham.⁵⁰

35. It should be noted that “use of an IPR beyond its scope” is a broad and vague formula, with various possible meanings. One possible meaning is cross-market leveraging, by which the market dominant IP owner uses his/her IP so as to monopolize another market, where the IP does not prevail. Tying IP protected articles with non-IP articles is one example of such leveraging. Other examples of going beyond the scope of IP are the charging of royalties for the use of a patented invention after the patent expiry⁵¹ or the attempted enforcement of patent rights that are not specifically based on actual claims.

36. It should be noted, however, that even if the three elements listed in paragraph 34 have been qualified as limits to the exercise of IPRs, they are actually not specific to IPRs, but rather correspond to the unlawful exercise of any sort of right (with anticompetitive intent and/or impact).

⁴⁷ Apparently, under Egyptian Patent Law failure to sufficiently work the invention is not merely an abuse of rights, but indeed an antitrust violation.

⁴⁸ See, e.g., *In re Independent Service Organizations* (CAFC 2000), and *Image Technical Services v. Eastman Kodak Co.*, 125 F.3d 1195 (10th Cir. 1997), *certiorari denied*, 523 U.S. 1094, 1216 (1998). See Box 4. An example of this practice is inequitable conduct.

⁴⁹ See *Image Technical*, *id.*

⁵⁰ See *In re Independent Service Organizations* (CAFC 2000). See Annex 3. An example of this practice is enforcing a patent after its expiry (or demanding the payment of royalties for post-expiry exploitation) or enforcing unduly broadly claims.

⁵¹ *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). Sham litigation is a difficult practice to prove, because it is based on intent. However, enforcing patent rights based on an interpretation of law that has been unequivocally rejected by courts could be deemed as sham (that is, groundless) attempt to delay the entry of competitors.

Box 4**For the purposes of antitrust law, unlawfully acquired IPRs and lawfully acquired “bad” IPRs are the same**

The enforcement of inappropriate or poorly designed IPRs, even if lawfully acquired, is likely to produce anti-competitive effects that are equivalent to the refusal to license the use of IPRs unlawfully acquired. In a judgment given in what has become known as the Magill case,¹ the European Court of Justice held that the refusal by the owners of copyrights in TV program listings to license an independent publisher of a weekly TV magazine was abusive of dominant power to the extent that the copyright owners had a monopoly in those listings (they created the information themselves) and their refusal prevented the creation of a new product. Besides, the refusal was not necessary to protect the copyrights. This decision contrasts sharply with the opinion of the United States Supreme Court in *Feist Publications, Inc. v. Rural Tel. Services Co., Inc.* (1991), in which the Court denied copyright protection in a telephone directory for lack of creative activity beyond the mere “sweat of the brow.”² After all, the real problem in Magill should not have been the abuse of a dominant position, because that position would have been the result of the work and the efforts of the broadcasting companies. The problem in Magill is that a collection of purely factual elements, organized in a chronological order, should not have qualified for copyright protection. Because of the particular structure of the European Communities in 1995, the ECJ could not deny the enforceability of copyright that was set at the national level. But the ECJ compensated for its limitation by authorizing Magill to use RTE, ITV and BBC copyrighted TV program lists without any sort of remuneration. Indirectly, that led to the same conclusion reached by the Supreme Court of the United States in *Feist*.

This same view was implied by the Chairman of the Competition Committee of the Organization for Economic Cooperation and Development (OECD), Prof. Frédéric Jenny, during a Roundtable held by the OECD in 2009: “The Chairman agreed that the courts did not and could not make a judgment on whether or not these IPRs were justified. In the case of *McGill* [*sic*], the competition authorities were called to fix a problem which really originated from the fact that a right had been granted when it should not have been.”³

¹ *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v Commission*, Joined cases C-241/91 P and C-242/91 P, Judgment of the Court of 6 April 1995.

² *Feist Publications, Inc. v. Rural Tel. Services Co., Inc.*, 499 U.S. 340 (1991).

³ OECD, Policy Roundtables, Competition, Patents and Innovation II, 2009 (DAF/COMP(2009)22, at 231.

V. CONCLUSION

37. Situations in which an IPR owner could be criticized for refusing to license his/her active assets to a competitor are rare and exceptional. Refusing to license is at the core of an IP right. Therefore, denying IPR owners the right to refuse to license is the same as denying the exploitation of the very IP. There are, however, some few situations in which the IP owner may be deprived from his/her intrinsic right to say ‘no.’ These situations should be the exception rather than the rule, and they should be treated with caution by courts, intellectual property offices and competition authorities. In other words, *per se* approaches are mostly inconvenient and counterproductive. Punishing IPR owners because they exercise their very basic right conferred to them under applicable laws, without any aggravating factor, even if by exercising their right they embarrass competitors, is likely to undermine the very foundation of the IP system, eliminating its attractive power for merchants and manufacturers, and reducing its pro-competitive appeal by failing to instigate competitors to create alternative, competing IP assets.

38. Because of the crucial importance of the discussions covered in this Note, further analysis is required, namely by means of the identification of concrete examples in a number of jurisdictions and the comparison of the decisions taken by national authorities as regards the solutions found to address anticompetitive practices. The ultimate product of such complementary analysis of refusals to license might constitute a set of best practices to which national authorities of those countries with less experience might resort as an illustrative reference or soft guidance.

ANNEXES

ANNEX 1

NATIONAL AND REGIONAL STATUTES

(Relevant excerpts; Source: WIPO Lex, unless otherwise indicated; some additional statutes are mentioned in the Note)

Argentina

Law of Patents and Utility Models (Law 24,481 amended by Law 24,572 TO 1996 - BO 22/3/96-) Amended by Law 25,859

EXCEPTIONS TO RIGHTS GRANTED

OTHER UNAUTHORIZED USE OF THE PATENT HOLDER

Article 44 - will be granted the right of exploitation conferred by a patent without the authorization of the owner, if the competent authority has determined that the patentee has engaged in anticompetitive practices. In these cases, subject to resources that are incumbent upon the patentee, the grant shall be made without following the procedure laid down in Article 42. For the purposes of this Act, be deemed anticompetitive practices, including the following: a) comparatively excessive pricing, for the market average

or discriminatory for the patented products, in particular when there are offers to supply the market at prices significantly lower than those offered by the patentee for the same product;

- b) Refusal to supply the local market on reasonable commercial terms;
- c) The obstruction of business or production;
- d) Any other act that falls within the conduct considered punishable by Law No. 22,262.

Australia

Patents Act 1990 (consolidated as of 1 January 2011)

Chapter 12 – Compulsory licences and revocation of patents

133 Compulsory licences

(1) [...] a person may apply to the Federal Court, after the end of the prescribed period, for an order requiring the patentee to grant the applicant a licence to work the patented invention.

[...]

(2) After hearing the application, the court may, subject to this section, make the order if satisfied that:

(a) all the following conditions exist:

(i) the applicant has tried for a reasonable period, but without success, to obtain from the patentee an authorisation to work the invention on reasonable terms

and conditions;

(ii) the reasonable requirements of the public with respect to the patented invention have not been satisfied;

[...]

135 Reasonable requirements of the public

(1) For the purposes of sections 133 and 134, the reasonable requirements of the public with respect to a patented invention are to be taken not to have been satisfied if:

(a) an existing trade or industry in Australia, or the establishment of a new trade or industry in Australia, is unfairly prejudiced, or the demand in Australia for the patented product, or for a product resulting from the patented process, is not reasonably met, because of the patentee's failure:

[...]

(iv) to grant licences on reasonable terms; or [...]

Canada

Competition Act (R.S.C., 1985, c. C-34)⁵²

(Act current to August 16, 2012 and last amended on March 12, 2010)

79. (1) Where, on application by the Commissioner, the Tribunal finds that

- (a) one or more persons substantially or completely control, throughout Canada or any area thereof, a class or species of business,
- (b) that person or those persons have engaged in or are engaging in a practice of anti-competitive acts, and
- (c) the practice has had, is having or is likely to have the effect of preventing or lessening competition substantially in a market, the Tribunal may make an order prohibiting all or any of those persons from engaging in that practice.

[...]

(5) For the purpose of this section, an act engaged in pursuant only to the exercise of any right or enjoyment of any interest derived under the Copyright Act, Industrial Design Act, Integrated Circuit Topography Act, Patent Act, Trade-marks Act or any other Act of Parliament pertaining to intellectual or industrial property is not an anti-competitive act.

⁵² Available at <www.laws.justice.gc.ca/eng/acts/C-34/index.html>.

China, People's Republic of**Patent Law, as last amended in 2008 (effective as of October 1, 2009)****Chapter VI****Compulsory License for Exploitation of a Patent**

Article 48 Under any of the following circumstances, the patent administration department under the State Council may, upon application made by any unit or individual that possesses the conditions for exploitation, grant a compulsory license for exploitation of an invention patent or utility model patent:

[...]

(2) The patentee's exercise of the patent right is in accordance with law, confirmed as monopoly and its negative impact on competition needs to be eliminated or reduced.

Anti-monopoly Law⁵³

Adopted at the 29th meeting of the Standing Committee of the 10th National People's Congress of the People's Republic of China on August 30, 2007

Article 55 This Law does not govern the conduct of business operators to exercise their intellectual property rights under laws and relevant administrative regulations on intellectual property rights; however, business operators' conduct to eliminate or restrict market competition by abusing their intellectual property rights shall be governed by this Law.

⁵³ Available at <www.china.org.cn/government/laws/2009-02/10/content_17254169.htm> (accessed on August 30, 2012).

Dominican Republic**Law No. 20.00, of May 8, 2000****Article 42.-Compulsory Licenses for Anti-competitive Practices**

Compulsory licenses shall be granted when the General Agency for Industrial Property has determined that the patent holder has indulged in anti-competitive practices. In such cases, without prejudice to the appeals available to the patent holder, the concession shall be carried out without the need to apply the procedure set forth in numeral 2 of Article 43.

For the purposes of this law, the following practices, among others, are considered to be anti-competitive:

- a) Setting excessive or discriminatory prices for the patented products. In particular, when there are offers of supply to the market at prices significantly lower than those offered by the patent holder for the same product.
- b) Failure to supply the market under reasonable commercial conditions.
- c) Hindrance of commercial or productive activities
- d) The other actions set forth as such by this code and every other action which national legislation typifies as anti-competitive, limiting or restrictive to competition.

Egypt

Law No. 82 of 2002 Pertaining to the Protection of Intellectual Property Rights, Patents of Invention, Utility Models, Layout Designs of Integrated Circuits and Undisclosed Information

The Patent Office - after the approval of a Ministerial Committee established by a decree from the Prime Minister - shall grant compulsory licenses for the exploitation of the invention. The committee shall determine the financial rights of the patentee upon the issuance of such licenses, in the following circumstances:

Fifth- If the abuse of the patentee has been proven, or if it has been proven that he practiced his rights afforded by the patent in an anti competitive manner, and these include the following:

- 1- Overpricing the products protected by a patent, or the discrimination among the clients in respect of the prices and the selling conditions thereof.
- 2- Not supplying the market with the protected product, or providing it with unfair conditions.
- 3- Ceasing the production of the protected commodity or producing such in a quantity that does not bring about the proportion between the productivity and the market needs.
- 4- Acting or behaving in a way that has a negative effect on the freedom of competition, in accordance with the declared legal constraints.
- 5- Practicing the rights entitled by law in a way that has a negative effect on the transfer of technology. In all the previous cases, the compulsory license shall be issued without need for negotiations, or the lapse of a certain period of time in negotiations, even when the compulsory license does not aim at meeting the needs of the domestic market. [...]

France**Intellectual Property Code****Article L613-11**

(Act No. 93-1420 of 31 December 1993 Art. 1, Art. 5 Official Journal of January 1, 1994)

(Act No. 96-1106 of 18 December 1996 Art. 5 Official Journal of December, 1996)

On expiry of a period of three years from the grant of a patent or four years from the filing date of the application and subject to the conditions laid down in the following Articles, any public or private legal person may be granted a compulsory license under the patent provided that, at the time of the application for such license and failing legitimate reasons, neither the owner of the patent nor his successor in title:

- a) Has begun to work or has made real and effective preparations for working the invention that is the subject matter of the patent on the territory of a Member State of the European Community or another State party to the Agreement on the European Economic Area;
- b) Has marketed the product that is the subject matter of the patent in a quantity sufficient to satisfy the needs of the French market.

The same shall apply where working, as mentioned under (a) above, or marketing, as mentioned under (b) above, in France has been discontinued for more than three years.

For the purposes of the application of this Article, the importation of patented goods manufactured in a State party to the Agreement Establishing the World Trade Organization shall be considered working of the patent.

Germany

Patent Law (as amended by the Law of July 31, 2009)

Section 24

(1) A non-exclusive authorization to commercially use an invention shall be granted by the Patent Court in individual cases in accordance with the following provisions (compulsory license) if

1. the person seeking a license has unsuccessfully endeavored during a reasonable period of time to obtain from the patentee consent to use the invention under reasonable conditions usual in trade; and

2. public interest commands the grant of a compulsory license.

(2) When the person seeking a license is unable to exploit an invention for which he holds protection under a patent of later date without infringing the patent of earlier date, said person shall be entitled to the grant of a compulsory license from the owner of the patent of earlier date if

1. the condition stipulated in subsection (1), no. 1, is fulfilled and

2. the invention of said person includes, in comparison with the invention under the patent of earlier date, an important technical progress of considerable commercial significance. The patentee may request the grant of a counter-license under reasonable conditions by the person seeking a license for the use of the patented invention of later date.

(3) Subsection (2) shall apply *mutatis mutandis* if a plant breeder cannot obtain or exploit a plant variety patent without infringing an earlier patent.

(4) A compulsory license under the provisions of subsection (1) may only be granted for a patented invention in the field of semiconductor technology if said grant is necessary to remove an anti-competitive practice on the part of the patentee that has been established in judicial or administrative proceedings.

(5) When a patentee does not work the patented invention or does not work it predominantly in Germany, compulsory licenses under the provisions of subsection (1) may be granted to ensure an adequate supply of the patented product to the domestic market. Importing shall insofar be deemed to constitute working of the patent in Germany.

India**Patent Act of 1970 as amended in 2002**

84(I) At any time after the expiration of three years from the date of the sealing of a patent , any person interested may make an application to the Controller for grant of compulsory licence on patent on any of the following grounds, namely:--

- a) that the reasonable requirements of the public with respect to the patented invention have not been satisfied; or
- b) that the patented invention is not available to the public at a reasonable affordable price; or
- c) that the patented invention is not worked in the territory of India.

Peru**Decision 486⁵⁴**

Common Intellectual Property Regime Signed in the city of Lima, Peru on the fourteenth of September of two thousand.

(Non official translation)

THE COMMISSION OF THE ANDEAN COMMUNITY

Article 59.- Owners of patents shall be under the obligation to exploit their patented inventions in any Member Country, either directly or through a person they authorize to do so.

Article 60.- For the purposes of this Chapter, exploitation shall be understood to mean the industrial manufacture of the patented product or the full use of the patented process, including the distribution and marketing of the results thereof on a scale sufficient to satisfy the demands of the market. Exploitation shall also be understood to mean the importation of the patented product, including its distribution and marketing, where this is done on a scale sufficient to satisfy the demands of the market. Where the patent refers to a process that does not result in a product, the requirements for marketing and distribution shall not be enforced.

⁵⁴ Available at <comunidadandina.org/ingles/normativa/D486e.htm> (accessed on August 10, 2012).

United Kingdom**Patents Act 1977 as revised in 1999****Section 48A.1(a)(ii)**

In the case of an application made under section 48 above [for a compulsory license] in respect of a patent whose proprietor is a WTO proprietor, the relevant grounds are -

(a) where the patented invention is a product, that a demand in the United Kingdom for that product is not being met in reasonable terms;

(b) that by reason of the refusal of the proprietor of the patent concerned to grant a licence or licences on reasonable terms -

(i) the exploitation in the United Kingdom of any other patented invention which involves an important technical advance of considerable economic significance in relation to the invention for which the patent concerned was granted is prevented or hindered; or

(ii) the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced;

(c) that by reason of conditions imposed by the proprietor of the patent concerned on the grant of licences under the patent, or on the disposal or use of the patented product or on the use of the patented process, the manufacture, use or disposal of materials not protected by the patent, or the establishment or development of commercial or industrial activities in the United Kingdom, is unfairly prejudiced.

United States of America

Patent Law, 35 U.S.C. 271

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:

[...]

(4) refused to license [...] any rights to the patent; [...]

ANNEX 2

GUIDELINES
(Relevant excerpts)

Canada

Intellectual Property Enforcement Guidelines, of 2000, p. 7, issued by the Competition Bureau of Canada⁵⁵

The mere exercise of an IP right is not cause for concern under the general provisions of the *Competition Act*. The Bureau defines the mere exercise of an IP right as the exercise of the owner's right to unilaterally exclude others from using the IP. The Bureau views an IP owner's use or non-use of the IP also as being the mere exercise of an IP right.

The unilateral exercise of the IP right to exclude does not violate the general provisions of the *Competition Act* no matter to what degree competition is affected.

To hold otherwise could effectively nullify IP rights, impair or remove the economic, cultural, social and educational benefits created by them and be inconsistent with the Bureau's underlying view that IP and competition law are generally complementary.

The Bureau applies the general provisions of the *Competition Act* when IP rights form the basis of arrangements between independent entities, whether in the form of a transfer, licensing arrangement or agreement to use or enforce IP rights, and when the alleged competitive harm stems from such an arrangement and not just from the mere exercise of the IP right and nothing else.

Applying the *Competition Act* in this way may limit to whom and how the IP owner may license, transfer or sell the IP, but it does not challenge the fundamental right of the IP holder to do so. If an IP owner licenses, transfers or sells the IP to a firm or a group of firms that would have been actual or potential competitors without the arrangement, and if this arrangement creates, enhances or maintains market power, the Bureau may seek to challenge the arrangement under the appropriate section of the *Competition Act*.⁵⁶

⁵⁵ Available at <www.competitionbureau.gc.ca> (accessed on August 10, 2012).

⁵⁶ See Annex 1.

Japan

Guidelines for the Use of Intellectual Property under the Antimonopoly Act, 2007, issued by the Japan Fair Trade Commission, p. 11⁵⁷

Restrictions by the right-holder to a technology such as not to grant a license for the use of the technology to an entrepreneur (including cases where the royalties requested are prohibitively expensive and the licensor's conduct is in effect equivalent to a refusal to license; hereinafter the same shall apply) or to file a lawsuit to seek an injunction against any unlicensed entrepreneur using the technology are seen as an exercise of rights and normally constitutes no problem.

However, if any such restriction is found to deviate from or run counter to the intent and objectives of the intellectual property systems [...], it is not recognizable as an exercise of rights. It then constitutes private monopolization if it substantially restrains competition in a particular field of trade.

⁵⁷ Available at <www.jft.go.jp> (accessed on August 10, 2012).

Korea, Republic of**Review Guidelines on Undue Exercise of Intellectual Property Rights, of March 31, 2010, issued by the Korea Fair Trade Commission, p.12:⁵⁸**

The patent system grants exclusive right to patentees for the working of relevant inventions in order to provide a fair reward for innovative invention and to promote the development of new technology. Therefore, the ability of the patentee within reasonable bounds to refuse to grant a license to protect its rights, in general, is deemed to be a fair exercise of its patent right. However, the acts, as described below, of unfairly refusing to grant a license, and thereby threatening to restrict fair trade can be determined to be outside the bounds of fair exercise of patent rights.

Refusing to grant a license includes not only the act by patentees of refusing to grant a license, but also the acts of causing a third party to refuse to grant a license or of demanding excessive consideration or conditions which are practically or economically impossible to satisfy, or any act which has same effect as a refusal to grant a license as well as the refusal to supply, refusal to purchase, refusal to commence or continue trade.

⁵⁸ Available at <eng.ftc.go.kr> (accessed on August 10, 2012).

United States of America

Antitrust Guidelines for the Licensing of Intellectual Property, p. 4, issued by the U.S. Department of Justice and the Federal Trade Commission, of April 6, 1995:⁵⁹

Market power is the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time.[note omitted] The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power. [note omitted] If a patent or other form of intellectual property does confer market power, that market power does not by itself offend the antitrust laws. As with any other tangible or intangible asset that enables its owner to obtain significant supracompetitive profits, market power (or even a monopoly) that is solely “a consequence of a superior product, business acumen, or historic accident” does not violate the antitrust laws. [note omitted] Nor does such market power impose on the intellectual property owner an obligation to license the use of that property to others. As in other antitrust contexts, however, market power could be illegally acquired or maintained, or, even if lawfully acquired and maintained, would be relevant to the ability of an intellectual property owner to harm competition through unreasonable conduct in connection with such property.

⁵⁹ Available at <justice.gov/atr/public/guidelines/0558.htm> (accessed on August 10, 2012).

ANNEX 3

CASE LAW
(Relevant Excerpts)

Data General Corp. v. Grumman Systems Support Corp., 761 F. Supp. 185 (D.C. Mass. 1991), *aff'd* 36 F.3d 1147 (1st Cir. 1994)

OPINION

[...]

B. Exclusionary Conduct

In *Aspen*, the Court found the conduct of Skiing Co. to be exclusionary. The Court placed emphasis on the consumers' desire for the product, the refusal of Skiing Co. to accept the order of single-day tickets by Highlands, the refusal of Skiing Co. to accept the fully backed vouchers, and the general availability around the country of multi-area passes that competed with single-area tickets. Consequently, the Court concluded that Skiing Co.'s conduct not only "tends to impair the opportunities of rivals, but also either does not further competition on the merits or does so in an unnecessarily restrictive way." 472 U.S. at 605 n. 32 (citing 3 P. Areeda & D. Turner, *Antitrust Law* 78 (1978)).

Grumman insists that *Aspen* is analogous to this case. DG had a cooperative policy with TPMs which fostered competition. It then broke off the policy of licensing all diagnostics and selling spare-parts and other support services directly to TPMs. It will now sell those products only to owners of DG systems for use on their own systems. In the sense that *Aspen* addresses the issue of prior promotion of competition in a market that is later halted, this case is analogous. Numerous points, however, differentiate the cases.

DG developed the diagnostics, training, and other services to support the owners of DG equipment. It offers all the services, except MV/ADEX, to the owners regardless of whom they use for maintenance. In *Aspen*, the consumer was denied the use of the fully financed vouchers in the "Adventure Pack" by Skiing Co. merely because the skier would ski Highlands during the vacation. In this case, DG will sell its service products, except the copyrighted diagnostic MV/ADEX, to any ultimate consumer regardless of whether they now or later use a TPM. No "quasi-exclusive dealing" is present.

Grumman and other TPMs have the opportunity to develop competing diagnostics and tools for maintenance. Two diagnostics have, in fact, been developed by TPMs. Grumman asserts that these competing diagnostics are not functionally equivalent to MV/ADEX in such capacities as formatting Argus disks. The Navy, in accepting bids for a maintenance contract, rejected Grumman's bid because of the shortcomings of the competing diagnostics. Naturally, the manufacturer has significant advantages in developing the maintenance services. DG knows the system before it is released to the public and can begin development of a diagnostic earlier; it has immediate contact with the owner, who will need maintenance in the future; and it has name recognition. While these advantages create significant barriers for TPMs, according to Justice Douglas they represent historic accident -- the natural benefit of being a manufacturer. See also *Berkey Photo, Inc. v. Eastman Kodak Co.*, 603 F.2d 263 (2nd Cir. 1979).

Grumman protests that it is unable to produce a diagnostic because it cannot get the necessary schematics and DG could easily drive any competing diagnostic into obsolescence by simple modifications in design. In protecting any secret in the design of its computers, DG may normally limit the number of schematics that it sells to the owners of its equipment. The accusation that DG can easily thwart TPMs from developing competing diagnostics is serious. The courts have recognized such behavior of shifting the configuration of hardware to suppress the competition as an exclusionary practice. See *Digital Equipment Corp. v. System Industries, Inc.*, slip op., 1990 U.S. Dist. LEXIS 715, 1990-1 Trade Cases (CCH) P 68,901 (D.Mass. January 16, 1990); *California Computer Products*,

Inc. v. International Business Machines Corp., 613 F.2d 727 (9th Cir. 1979). Grumman, however, makes no allegations that DG has in fact attempted to subvert competitors' efforts to develop and implement competing diagnostics. TPMs have demonstrated the ability to develop diagnostics, even if they are not as efficient as MV/ADEX.

Consequently, this case differs from *Aspen* in the following respects: 1) DG will sell its services, except MV/ADEX, to ultimate consumers regardless of who performs their maintenance; 2) TPMs, unlike Highlands, are able to develop service packages that allow competition; and 3) with the exception of its restrictive licensing of MV/ADEX, DG does not engage in any "quasi-exclusive dealing." See P. Areeda, *Essential Facilities: An Epithet in Need of Limiting Principles*, 58 Antitrust L.J. at 848-851.

In addition to arguing that *Aspen's* proscription against changing a cooperative policy merely to drive the competition out governs this case, Grumman argues that MV/ADEX is an essential facility which DG must share with its competitors. Ordinarily, there is no limitation on a company's freedom to generate its own intellectual property, but grants of exclusionary power, such as a copyright, are not without limits. See *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1207 (2d Cir. 1981). The crux of Grumman's essential facilities argument is that only the manufacturer of computer systems is capable of developing a diagnostic tool which is an essential device in the repair of those computers. The leading essential facilities case in the monopoly area is *Otter Tail Power Co. v. United States*, 410 U.S. 366, 35 L. Ed. 2d 359, 93 S. Ct. 1022 (1973). In that case, the Supreme Court did not create a new test for determining when a monopolist may refuse to sell an essential facility, but continued to apply the general prohibition against unlawfully foreclosing competition. 410 U.S. at 377 (citing *United States v. Griffith*, 334 U.S. 100, 107, 92 L. Ed. 1236, 68 S. Ct. 941 (1948)). Our court of appeals briefly addressed the issue and viewed the developing doctrine in a restrictive light. *Interface Group, Inc. v. Mass. Port Authority*, 816 F.2d 9 (1st Cir. 1987):

The doctrine aims to prevent a firm with monopoly power from extending that power "from one stage of production to another, and from one market to another." *MCI Communications Corp. v. American Tel. & Tel. Co.*, 708 F.2d 1081, 1132 (7th Cir. 1983), *cert. denied* 464 U.S. 891, 78 L. Ed. 2d 226, 104 S. Ct. 234 (1983).

Interface, 816 F.2d at 12. The court in *MCI* set out a four-part test for the doctrine: 1) control of the essential facility by a monopolist; 2) a competitor's inability practically or reasonably to duplicate the essential facility; 3) the denial of the use of the facility to a competitor; and 4) the feasibility of providing the facility. The *MCI* test obviously cannot be applied blindly to monopolists who hold intellectual property rights. Otherwise, the balance struck in *SCM* will be upset and every significant patent or copyright will be deemed an essential facility.

Both *MCI* and *Otter Tail* involve legally regulated monopolists who refused the plaintiff access to a distribution network. By refusing access to the plaintiff, the defendant attempted to gain monopoly power in second markets, long-distance telephone communications and local electricity distribution, respectively. The theory of these cases and *United States v. Terminal Railroad Assoc.*, 224 U.S. 383, 56 L. Ed. 810, 32 S. Ct. 507 (1912) (a § 1 case) has been characterized as a "bottleneck." See *MCI*, 708 F.2d at 1132. The bottleneck which DG is alleged to control is the understanding of its own computer systems. Presumably, if TPMs were provided with all the schematic information about the system, they would be able to produce a diagnostic that is as fully capable as MV/ADEX. It is DG's position as the manufacturer that allegedly gives it the capability to produce the alleged essential facility. The case law has consistently affirmed that a manufacturer is under no obligation to pre-disclose or disclose its knowledge about its products so that competition may arise in the related peripheral hardware, software, and repair services markets. See *Berkey Photo v. Eastman Kodak*, *supra*. The underlying thrust of Grumman's essential facilities claim is that if it cannot force DG to share its knowledge, the essential facilities doctrine requires DG to

share the fruits of its knowledge. As the First Circuit stated in a different factual context, "this view of the essential facilities doctrine, however, considerably overstates its scope." *Interface*, 816 F.2d at 12. DG does not have monopoly power in the sale of computer systems and thus is not using a bottleneck to create another monopoly. The "bottleneck" of its superior knowledge in the design of DG computers is insufficient to invoke the essential facilities doctrine; a better mousetrap is not necessarily an essential facility. The Sherman Act has not been interpreted to require manufacturers to abandon their advantage in creating accessories to their systems. If manufacturers of complex and innovative systems were required to share with competitors the development of accessories, because they had a possibly absolute advantage through producing the system, the incentives of copyright and patent laws would be severely undermined. Not only would the manufacturer, who is in the best position to create these accessories, have less incentive to do so, but also the impetus for competitors to reverse engineer and produce competing solutions would be reduced.

Even though I conclude that there is a material issue as to market power, Grumman has not asserted any facts that would indicate that DG has engaged in any unlawful exclusionary conduct, Count V (Monopolization), Count VI (Attempt to Monopolize), Count VII (Conspiracy to Monopolize), and Count IX (Refusal to deal) do not survive the motion for summary judgment.

[...]

Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997)*OPINION**

[...]

Kodak also objects to the attempted monopolization and monopolization jury instructions on the grounds that they fail to describe adequately the "essential facilities" doctrine, which Kodak contends is the controlling law in unilateral refusal to deal cases. Kodak asserts that this doctrine is the sole legal theory which could require Kodak to sell "all parts." Kodak argues that the essential facilities doctrine required the jury to find that Kodak's parts monopoly carries "the power to eliminate competition."

Kodak's challenge raises a novel issue: whether a monopolist is liable under § 2 of the Sherman Act for an anticompetitive refusal to deal only under an "essential facilities" theory, that is, only when the refusal involves something "essential" to the survival of competitors. As noted, Kodak would answer affirmatively; we reject this theory. Instead, relying on *Kodak* and *Aspen Skiing*, we endorse the ISOs' theory that § 2 of the Sherman Act prohibits a monopolist from refusing to deal in order to create or maintain a monopoly absent a legitimate business justification. We need not apply the essential facilities doctrine.

Section 2 of the Sherman Act prohibits a monopolist's unilateral action, like Kodak's refusal to deal, if that conduct harms the competitive process in the absence of a legitimate business justification. See *Kodak*, 504 U.S. at 483 n.32 (citing *Aspen Skiing*, 472 U.S. at 602). Unilateral refusals to deal often concern an "essential" facility. See *Otter Tail Power Co. v. United States*, 410 U.S. 366, 35 L. Ed. 2d 359, 93 S. Ct. 1022 (1973). In *Alaska Airlines*, we defined the essential facilities doctrine, generally, as: imposing "liability when one firm, which controls an essential facility, denies a second firm reasonable access to a product or service that the second firm must obtain to compete with the first." 948 F.2d 536, 542. A facility is "essential" if it is otherwise unavailable and cannot be "reasonably or practically duplicated." *Anaheim v. Southern California Edison Co.*, 955 F.2d 1373, 1380 (9th Cir. 1992).

In *Otter Trail Power Co. v. United States*, the Supreme Court held that the defendant, Otter Trail Power, used its electrical utility equipment, an "essential facility," to gain monopoly power over all commercial electrical services. 410 U.S. at 377-79. Otter Trail Power generally sold both wholesale and retail electrical services. Later it refused to provide only wholesale electrical services to several municipalities which intended to supply retail electrical services to the ultimate customers. The Court held that Otter Trail Power's refusal to supply "only wholesale" services eliminated competition in the downstream market for retail services as Otter Trail Power owned the only "facility" capable of supplying these services. The Court held that such "exclusionary" conduct violated § 2 of the Sherman Act. *Id.*

In *Alaska Airlines*, we interpreted *Otter Trail* as requiring plaintiffs proceeding under the "essential facilities" doctrine to establish that the controlled facility "carries with it the power to eliminate competition in the downstream market." 948 F.2d at 544; see, e.g., *Twin Laboratories, Inv. v. Weider Health & Fitness*, 900 F.2d 566, 569 (2d Cir. 1990) ("A successful 'essential facilities' plaintiff must prove that denial of access has caused it 'severe handicap' [in the market]."). Kodak faults the district court for failing to instruct the jury that to be liable under § 2, Kodak's exclusionary conduct must have "eliminated competition" in the downstream service market.

The Supreme Court has never explicitly held that a § 2 refusal to deal claim can only be established under the "essential facilities" rubric. In *Kodak* the Supreme Court never

discussed the essential facilities doctrine; nor do any of the cases cited by the Court employ the essential facilities analysis. See 504 U.S. at 483 (citing *Grinnell Corp.*, 384 U.S. at 570-71; *United States v. Aluminum Co. of America*, 148 F.2d 416, 432 (2d Cir. 1945), and *Aspen Skiing*, 472 U.S. at 600-605). Rather in discussing a firm's right to "refuse to deal with its competitors," the Supreme Court noted, citing *Aspen Skiing*, that this right "exists only if there are legitimate competitive reasons for the refusal." *Kodak*, 504 U.S. at 483 n.32.

The Supreme Court considered a refusal to deal claim in *Aspen Skiing* without referencing the essential facilities doctrine. *Aspen Skiing* involved a § 2 challenge by one Aspen ski resort against the owner of the remaining three ski resorts in Aspen, a monopolist in the recreational ski market. The plaintiff proceeded under an essential facilities theory alleging that a previously available "all-Aspen" ski pass, granting the holder access to all four Aspen ski areas, was an essential facility. The jury agreed and awarded damages. The Tenth Circuit affirmed. *Aspen Highlands Skiing Corp. v. Aspen Skiing Co.*, 738 F.2d 1509, 1517-23 (10th Cir. 1984). The Supreme Court also affirmed, but did not rely on the "essential facilities" doctrine. *Aspen Skiing*, 472 U.S. at 611 n.44 ("Given our conclusion that the evidence amply supports the verdict under the instructions as given by the trial court, we find it unnecessary to consider the possible relevance of the 'essential facilities' doctrine . . .").

The Supreme Court began its analysis in *Aspen Skiing* with a discussion of the "right to refuse to deal," a right the Court characterized as highly valued but not "unqualified." *Id.* at 601. The Court, quoting extensively from *Lorain Journal Co. v. United States*, 342 U.S. 143, 155, 96 L. Ed. 162, 72 S. Ct. 181 (1951), held that the right to refuse to deal was "neither absolute nor exempt from regulation" and when used "as a purposeful means of monopolizing interstate commerce" the exercise of that right violates the Sherman Act. *Aspen Skiing*, 472 U.S. at 602. Thus "the long recognized right . . . [to] freely [] exercise [one's] own independent discretion as to parties with whom he will deal" does not violate the Sherman Act "in the absence of any purpose to create or maintain a monopoly." *Id.* (quoting *Lorain Journal* 342 U.S. at 155) (emphasis in the original) (citations omitted). In *Aspen Skiing* the Court noted that a defendant's refusal to deal was evidence of its' intent "relevant to the question whether the challenged conduct is fairly characterized as 'exclusionary' or 'anticompetitive' - to use the words in the trial court's instructions - or 'predatory,' to use a word that scholars seem to favor." *Id.*

Next, the Court reasoned that a monopolist's refusal to deal was not limited to the specific facts of *Lorain Journal*, but also covered the *Aspen Skiing* defendant-monopolist's election "to make an important change in a pattern of distribution that had originated in a competitive market and had persisted for several years." 472 U.S. at 603. The Court noted that competitors in other markets continued to use interchangeable lift tickets and thus inferred that "such tickets satisfy consumer demand in free competitive markets." *Id.* The Court concluded that although such conduct was not "necessarily anticompetitive," the posture of the case and the strength of the evidence presented compelled the Court to uphold the jury's finding of liability. The Court noted that the challenged instructions correctly required the jury to distinguish "between practices which tend to exclude or restrict competition on the one hand, and the success of a business which reflects only a superior product, a well-run business, or luck, on the other." *Id.* Other instructions properly informed the jury that the defendant's refusal to deal "does not violate Section 2 if valid business reasons exist for that refusal." *Id.* at 605. By ignoring the essential facilities doctrine in *Aspen Skiing*, the Supreme Court endorsed the application of traditional § 2 principles to unilateral refusal to deal cases. Jury Instructions Nos. 28 and 29 here covered the requirements set forth in *Aspen Skiing*.⁶ Like the Supreme Court in *Aspen Skiing*, we are faced with a situation in which a monopolist made a conscious choice to change an established pattern of distribution to the detriment of competitors. *Id.* at 603. Although the service market prior to Kodak's parts policy had not "originated in a competitive market and persisted for several years," *id.*, the ISO service market had existed for three years and was growing rapidly before Kodak implemented its parts policy. Our case is factually distinguishable from *Aspen Skiing* in several respects: here

there are no readily comparable competitive markets; ISO profits were not halved after the imposition of the anticompetitive policies; and there are two markets at issue, rather than only one. Further, unlike most essential facilities cases and this case, *Aspen Skiing* did not involve the effects of a supplier's refusal to deal with its customers in order to control a downstream market. Notwithstanding these distinctions, both the analysis in *Aspen Skiing* and *Kodak* footnote 32 suggest that *Aspen Skiing* applies here. Like the First Circuit in *Data General v. Grumman Systems Support*, 36 F.3d 1147 (1st Cir. 1994), we believe the Supreme Court, in *Aspen Skiing*, endorsed a more general application of § 2 principles to refusal to deal cases. See *Data General*, 36 F.3d at 1183-84 (plaintiff alleging § 2 refusal to deal claim "need not tailor its argument to a preexisting 'category' of unilateral refusals to deal."). The district court's Jury Instruction No. 29 was proper.

[...]

B. Intellectual Property Rights

[...]

Kodak's challenge raises unresolved questions concerning the relationship between federal antitrust, copyright and patent laws. In particular we must determine the significance of a monopolist's unilateral refusal to sell or license a patented or copyrighted product in the context of a § 2 monopolization claim based upon monopoly leveraging. This is a question of first impression.

[...]

7 In 1988, Congress amended the patent laws to provide that "no patent owner otherwise entitled to relief for infringement . . . of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of . . . (4) [the patent owner's] refusal to license or use any rights to the patent." 35 U.S.C. § 271(d) (1988).

The First Circuit has observed that this amendment "may even herald the prohibition of all antitrust claims . . . premised on a refusal to license a patent." *Data General*, 36 F.3d at 1187 (citing Richard Calkins, "Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims," 38 Drake L. Rev. 175, 192-97 (1988-89)). The amended statutory language does not compel this result, and Calkins and other commentators agree that § 271(d)(4) merely codified existing law. See Calkins, 38 Drake L. Rev. at 197; 5 Donald S. Chisum, *Patents*, § 19.04[1] at 19-295 (1992) ("The 'refusal to license' provision received little attention in the floor statements, primarily because the provision was intended to codify existing law."). The amendment does, however, indicate congressional intent to protect the core patent right of exclusion.

Federal copyright law "secures a fair return for an author's creative labor" in the short run, while ultimately seeking "to stimulate artistic creativity for the general public good." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156, 45 L. Ed. 2d 84, 95 S. Ct. 2040 (1975) (internal quotations omitted). The Copyright Act grants to the copyright owner the exclusive right to distribute the protected work. 17 U.S.C. § 106. This right encompasses the right to "refrain from vending or licensing," as the owner may "content [itself] with simply exercising the right to exclude others from using [its] property." *Data General*, 36 F.3d at 1186 (quoting *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127, 76 L. Ed. 1010, 52 S. Ct. 546 (1932)); see *Stewart v. Abend*, 495 U.S. 207, 228-29, 109 L. Ed. 2d 184, 110 S. Ct. 1750 (1990) ("nothing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright.")

Clearly the antitrust, copyright and patent laws both overlap and, in certain situations, seem to conflict. This is not a new revelation. We have previously noted the "obvious tension"

between the patent and antitrust laws: "one body of law creates and protects monopoly power while the other seeks to proscribe it." *United States v. Westinghouse Electric Corp.*, 648 F.2d 642, 646 (9th Cir. 1981) (citations omitted). Similarly, tension exists between the antitrust and copyright laws. See *Data General*, 36 F.3d at 1187.

Two principles have emerged regarding the interplay between these laws: (1) neither patent nor copyright holders are immune from antitrust liability, and (2) patent and copyright holders may refuse to sell or license protected work. First, as to antitrust liability, case law supports the proposition that a holder of a patent or copyright violates the antitrust laws by "concerted and contractual behavior that threatens competition." *Id.* at 1185 n.63 (citation omitted). In *Kodak*, the Supreme Court noted:

[we have] held many times that power gained through some natural advantage such as a patent, copyright, or business acumen can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'

504 U.S. at 480 n.29 (quoting *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594, 611, 97 L. Ed. 1277, 73 S. Ct. 872 (1953) and citing *Northern Pacific R. Co. v. United States*, 356 U.S. 1, 2 L. Ed. 2d 545, 78 S. Ct. 514 (1958); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 92 L. Ed. 1260, 68 S. Ct. 915 (1948); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 463, 82 L. Ed. 371, 58 S. Ct. 288 (1938)).

Case law also supports the right of a patent or copyright holder to refuse to sell or license protected work. See *Westinghouse*, 648 F.2d at 647. In *United States v. Westinghouse Electric Corp.*, we held that "the right to license [a] patent, exclusively or otherwise, or to refuse to license at all, is the 'untrammelled right' of the patentee." *Id.* (quoting *Cataphote Corporation v. DeSoto Chemical Coatings, Inc.*, 450 F.2d 769, 774 (9th Cir. 1971)); see *Zenith Radio Corp.*, 395 U.S. at 135 (the patent holder has the "right to invoke the State's power to prevent others from utilizing [the] discovery without [the patent holder's] consent") (citations omitted); *Tricom Inc. v. Electronic Data Systems Corp.*, 902 F. Supp. 741, 743 (E.D. Mich. 1995) ("Under patent and copyright law, [the owner] may not be compelled to license . . . to anyone.") (citations omitted).

2.

Next we lay out the problem presented here. The Supreme Court touched on this question in *Kodak*, i.e., the effect to be given a monopolist's unilateral refusal to sell or license a patented or copyrighted product in the context of a § 2 monopoly leveraging claim. In footnote 29, previously discussed, the Supreme Court in *Kodak* refutes the argument that the possession by a manufacturer of "inherent power" in the market for its parts "should immunize [that manufacturer] from the antitrust laws in another market." 504 U.S. at 480 n.29. The Court stated that a monopolist who acquires a dominant position in one market through patents and copyrights may violate § 2 if the monopolist exploits that dominant position to enhance a monopoly in another market. Although footnote 29 appears in the Court's discussion of the § 1 tying claim, the § 2 discussion frequently refers back to the § 1 discussion, and the Court's statement that "exploiting [a] dominant position in one market to expand [the] empire into the next" is broad enough to cover monopoly leveraging under § 2. *Id.* [note omitted] By responding in this fashion, the Court in *Kodak* supposed that intellectual property rights do not confer an absolute immunity from antitrust claims.

The *Kodak* Court, however, did not specifically address the question of antitrust liability based upon a unilateral refusal to deal in a patented or copyrighted product. *Kodak* and its amicus correctly indicate that the right of exclusive dealing is reserved from antitrust liability. We find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright. [note omitted] Courts do not generally view a monopolist's unilateral refusal to license a patent as "exclusionary conduct." See *Data*

General, 36 F.3d at 1186 (citing *Miller Insituform, Inc. v. Insituform of North America*, 830 F.2d 606, 609 (6th Cir. 1987) ("A patent holder who lawfully acquires a patent cannot be held liable under Section 2 of the Sherman Act for maintaining the monopoly power he lawfully acquired by refusing to license the patent to others."); *Westinghouse*, 648 F.2d at 647 (finding no antitrust violation because "Westinghouse has done no more than to license some of its patents and refuse to license others"); *SCM Corp.*, 645 F.2d at 1206 ("where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws.").

[...]

**In Re Independent Service Organizations Antitrust Litigation v.
Xerox Corporation, 203 F.3d 1322 (CAFC, 2000)**

OPINION

[...]

Intellectual property rights do not confer a privilege to violate the antitrust laws. See *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1362, 52 U.S.P.Q.2D (BNA) 1641, 1652 (Fed. Cir. 1999). "But it is also correct that the antitrust laws do not negate the patentee's right to exclude others from patent property." *Id.* (citation omitted). "The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist." *Abbott Lab. v. Brennan*, 952 F.2d 1346, 1354, 21 U.S.P.Q.2D (BNA) 1192, 1199 (Fed. Cir. 1991). "The patent right must be 'coupled with violations of § 2', and the elements of violation of 15 U.S.C. § 2 must be met." [note omitted] *Id.* (citations omitted). "Determination of whether the patentee meets the Sherman Act elements of monopolization or attempt to monopolize is governed by the rules of application of the antitrust laws to market participants, with due consideration to the exclusivity that inheres in the patent grant." *Id.* at 1354-55, 21 U.S.P.Q.2D (BNA) at 1199 (citations omitted).

A patent alone does not demonstrate market power. See *id.* at 1355, 21 U.S.P.Q.2D (BNA) at 1199. The United States Department of Justice and Federal Trade Commission have issued guidance that, even where it exists, such "market power does not 'impose on the intellectual property owner an obligation to license the use of that property to others.'" *Intergraph*, 195 F.3d at 1362, 52 U.S.P.Q.2D (BNA) at 1652 (citing United States Department of Justice and Federal Trade Comm'n Antitrust Guidelines for the Licensing of Intellectual Property 4 (1995)). There is "no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent . . ." *Id.* (citing *Image Technical Servs. v. Eastman Kodak Co.*, 125 F.3d 1195, 1216, 44 U.S.P.Q.2D (BNA) 1065, 1079 (9th Cir. 1996)). The patentee's right to exclude is further supported by section 271(d) of the Patent Act which states, in pertinent part, that "no patent owner otherwise entitled to relief . . . shall be denied relief or deemed guilty of misuse or *illegal extension of the patent right* by reason of his having . . . (4) refused to license or use any rights to the patent . . ." 35 U.S.C. § 271(d) (1999) (emphasis added).

The patentee's right to exclude, however, is not without limit. As we recently observed in *Glass Equipment Development Inc. v. Besten, Inc.*, a patent owner who brings suit to enforce the statutory right to exclude others from making, using, or selling the claimed invention is exempt from the antitrust laws, even though such a suit may have an anticompetitive effect, unless the infringement defendant proves one of two conditions. 174 F.3d 1337, 1343, 50 U.S.P.Q.2D (BNA) 1300, 1304 (Fed. Cir. 1999) (citing *Nobelpharma*, 141 F.3d at 1068, 46 U.S.P.Q.2D (BNA) at 1104). First, he may prove that the asserted patent was obtained through knowing and willful fraud within the meaning of *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 177, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965). See *Glass Equip. Dev.*, 174 F.3d at 1343. Or he may demonstrate that the infringement suit was a mere sham to cover what is actually no more than an attempt to interfere directly with the business relationships of a competitor. See *id.* (citing *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 144, 81 S. Ct. 523, 5 L. Ed. 2d 464 (1961)). Here, CSU makes no claim that Xerox obtained its patents through fraud in the Patent and Trademark Office; the *Walker Process* analysis is not implicated.

"Irrespective of the patent applicant's conduct before the [Patent and Trademark Office], an antitrust claim can also be based on [an] allegation that a suit is baseless; in order to prove that a suit was within *Noerr's* 'sham' exception to immunity, [see *Noerr*, 365 U.S. at 144, 81 S. Ct. 523], an antitrust plaintiff must prove that the suit was both *objectively* baseless and

subjectively motivated by a desire to impose collateral, anti-competitive injury rather than to obtain a justifiable legal remedy." *Nobelpharma*, 141 F.3d at 1071, 46 U.S.P.Q.2D (BNA) at 1107 (citing *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60-61, 26 U.S.P.Q.2D (BNA) 1641, 1646, 123 L. Ed. 2d 611, 113 S. Ct. 1920 (1993)). "Accordingly, if a suit is not objectively baseless, an antitrust defendant's subjective motivation is immaterial." *Id.* at 1072, 46 U.S.P.Q.2D (BNA) at 1107. CSU has alleged that Xerox misused its patents but has not claimed that Xerox's patent infringement counterclaims were shams.

To support its argument that Xerox illegally sought to leverage its presumably legitimate dominance in the equipment and parts market into dominance in the service market, CSU relies on a footnote in *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451, 480 n.29, 112 S. Ct. 2072, 2089 n.29, 119 L. Ed. 2d 265 (1992), that "the Court has held many times that power gained through some natural and legal advantage such as a patent, . . . can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'" Notably, *Kodak* was a tying case when it came before the Supreme Court, and no patents had been asserted in defense of the antitrust claims against Kodak. Conversely, there are no claims in this case of illegally tying the sale of Xerox's patented parts to unpatented products. Therefore, the issue was not resolved by the *Kodak* language cited by CSU. Properly viewed within the framework of a tying case, the footnote can be interpreted as restating the undisputed premise that the patent holder cannot use his statutory right to refuse to sell patented parts to gain a monopoly in a market *beyond the scope of the patent*. See, e.g., *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576, 14 U.S.P.Q.2D (BNA) 1034, 1037 (Fed. Cir. 1990) ("[A] patent owner may not take the property right granted by a patent and use it to extend his power in the marketplace improperly, i.e. beyond the limits of what Congress intended to give in the patent laws.").

The cited language from *Kodak* does nothing to limit the right of the patentee to refuse to sell or license in markets within the scope of the statutory patent grant. In fact, we have expressly held that, absent exceptional circumstances, a patent may confer the right to exclude competition altogether in more than one antitrust market. See *B. Braun Med., Inc. v. Abbott Lab.*, 124 F.3d 1419, 1427 n.4, 43 U.S.P.Q.2D (BNA) 1896, 1902 n.4 (Fed. Cir. 1997) (patentee had right to exclude competition in both the market for patented valves and the market for extension sets incorporating patented valves).

CSU further relies on the Ninth Circuit's holding on remand in *Image Technical Services* that "while exclusionary conduct can include a monopolist's unilateral refusal to license a [patent] or to sell its patented . . . work, a monopolist's 'desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers.'" 125 F.3d at 1218, 44 U.S.P.Q.2D (BNA) at 1081 (citing *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187, 32 U.S.P.Q.2D (BNA) 1385, 1417 (1st Cir. 1994)). By that case, the Ninth Circuit adopted a rebuttable presumption that the exercise of the statutory right to exclude provides a valid business justification for consumer harm, but then excused as harmless the district court's error in failing to give any instruction on the effect of intellectual property rights on the application of the antitrust laws. See 125 F.3d at 1219-20, 44 U.S.P.Q.2D (BNA) at 1081. It concluded that the jury must have rejected the presumptively valid business justification as pretextual. See *id.* This logic requires an evaluation of the patentee's subjective motivation for refusing to sell or license its patented products for pretext. We decline to follow *Image Technical Services*.

We have held that "if a [patent infringement] suit is not objectively baseless, an antitrust defendant's subjective motivation is immaterial." *Nobelpharma*, 141 F.3d at 1072, 46 U.S.P.Q.2D (BNA) at 1107. We see no more reason to inquire into the subjective motivation of Xerox in refusing to sell or license its patented works than we found in evaluating the subjective motivation of a patentee in bringing suit to enforce that same right. In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or

selling the claimed invention free from liability under the antitrust laws. We therefore will not inquire into his subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect, so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant. See *Glass Equip. Dev.*, 174 F.3d at 1343, 50 U.S.P.Q.2D (BNA) at 1304. It is the infringement defendant and not the patentee that bears the burden to show that one of these exceptional situations exists and, in the absence of such proof, we will not inquire into the patentee's motivations for asserting his statutory right to exclude. Even in cases where the infringement defendant has met this burden, which CSU has not, he must then also prove the elements of the Sherman Act violation.

We answer the threshold question of whether Xerox's refusal to sell its patented parts exceeds the scope of the patent grant in the negative. [note omitted] Therefore, our inquiry is at an end. Xerox was under no obligation to sell or license its patented parts and did not violate the antitrust laws by refusing to do so.

B.

The Copyright Act expressly grants a copyright owner the exclusive right to distribute the protected work by "transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3) (1996). "The owner of the copyright, if [it] pleases, may refrain from vending or licensing and content [itself] with simply exercising the right to exclude others from using [its] property." *Data General*, 36 F.3d at 1186, 32 U.S.P.Q.2D (BNA) at 1416 (citing *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127, 52 S. Ct. 546, 547, 76 L. Ed. 1010 (1932)).

The Supreme Court has made clear that the property right granted by copyright law cannot be used with impunity to extend power in the marketplace beyond what Congress intended. See *United States v. Loew's, Inc.*, 371 U.S. 38, 47-48, 83 S. Ct. 97, 103-04, 9 L. Ed. 2d 11 (1962) (block booking of copyrighted motion pictures is illegal tying in violation of Sherman Act). The Court has not, however, directly addressed the antitrust implications of a unilateral refusal to sell or license copyrighted expression.

The Tenth Circuit has not addressed in any published opinion the extent to which the unilateral refusal to sell or license copyrighted expression can form the basis of a violation of the Sherman Act. We are therefore left to determine how that circuit would likely resolve the issue; the precedent of other circuits is instructive in that consideration. The Fourth Circuit has rejected a claim of illegal tying, supported only by evidence of a unilateral decision to license copyrighted diagnostic software to some but not to others. See *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680, 686, 23 U.S.P.Q.2D (BNA) 1102, 1106 (4th Cir. 1992). In reaching this conclusion, the court recognized the copyright owner's exclusive right to "sell, rent, lease, lend, or otherwise distribute copies of a copyrighted work," *id.* (citing 17 U.S.C. § 106(3)), and concluded that "Section 1 of the Sherman Act does not entitle 'a purchaser . . . to buy a product that the seller does not wish to offer for sale.'" *Id.* (citing *Jefferson Parish Hosp. Dist. v. Hyde*, 466 U.S. 2, 24 n.40, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984)).

Perhaps the most extensive analysis of the effect of a unilateral refusal to license copyrighted expression was conducted by the First Circuit in *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147, 32 U.S.P.Q.2D (BNA) 1385. There, the court noted that the limited copyright monopoly is based on Congress' empirical assumption that the right to "exclude others from using their works creates a system of incentives that promotes consumer welfare in the long term by encouraging investment in the creation of desirable artistic and functional works of expression [...] We cannot require antitrust defendants to prove and reprove the merits of this legislative assumption in every case where a refusal to license a copyrighted work comes under attack." *Id.* at 1186-87, 32 U.S.P.Q.2D (BNA) at 1416. The court went on to establish as a legal standard that "while exclusionary conduct can include a monopolist's unilateral refusal to license a copyright, an author's desire to exclude others from use of its copyrighted work is a presumptively valid

business justification for any immediate harm to consumers." See *id.* at 1187, 32 U.S.P.Q.2D (BNA) at 1417. The burden to overcome this presumption was firmly placed on the antitrust plaintiff. The court gave no weight to evidence showing knowledge that developing a proprietary position would help to maintain a monopoly in the service market in the face of contrary evidence of the defendant's desire to develop state-of-the-art diagnostic software to enhance its service and consumer benefit. See *id.* at 1188-89, 32 U.S.P.Q.2D (BNA) at 1418.

As discussed above, the Ninth Circuit adopted a modified version of this *Data General* standard. Both courts agreed that the presumption could be rebutted by evidence that "the monopolist acquired the protection of the intellectual property laws in an unlawful manner." *Image Technical Servs.*, 125 F.3d at 1219, 44 U.S.P.Q.2D (BNA) at 1082 (citing *Data General*, 36 F.3d at 1188, 32 U.S.P.Q.2D (BNA) at 1418). The Ninth Circuit, however, extended the possible means of rebutting the presumption to include evidence that the defense and exploitation of the copyright grant was merely a pretextual business justification to mask anticompetitive conduct. See *id.* The hazards of this approach are evident in both the path taken and the outcome reached. The jury in that case was instructed to examine each proffered business justification for pretext, and no weight was given to the intellectual property rights in the instructions. See 125 F.3d at 1218, 1220 n.12, 44 U.S.P.Q.2D (BNA) at 1082 n.12. This permitted the jury to second guess the subjective motivation of the copyright holder in asserting its statutory rights to exclude under the copyright laws without properly weighing the presumption of legitimacy in asserting its rights under the copyright laws. While concluding that the failure to weigh the intellectual property rights was an abuse of discretion, the Ninth Circuit nevertheless held the error harmless because it thought the jury must have rejected the presumptive validity of asserting the copyrights as pretextual. See *id.* at 1219-20, 44 U.S.P.Q.2D (BNA) at 1081-82. This is in reality a significant departure from the First Circuit's central premise that rebutting the presumption would be an uphill battle and would only be appropriate in those rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act. See *Data General*, 36 F.3d at 1187 n.64, 1188, 32 U.S.P.Q.2D (BNA) at 1417 n.64.

We believe the First Circuit's approach is more consistent with both the antitrust and the copyright laws and is the standard that would most likely be followed by the Tenth Circuit in considering the effect of Xerox's unilateral right to refuse to license or sell copyrighted manuals and diagnostic software on liability under the antitrust laws. We therefore reject CSU's invitation to examine Xerox's subjective motivation in asserting its right to exclude under the copyright laws for pretext, in the absence of any evidence that the copyrights were obtained by unlawful means or were used to gain monopoly power beyond the statutory copyright granted by Congress. In the absence of such definitive rebuttal evidence, Xerox's refusal to sell or license its copyrighted works was squarely within the rights granted by Congress to the copyright holder and did not constitute a violation of the antitrust laws.

[...]

Judgment of the European Court of Justice
5 October 1988
In Case 238/87
Reference to the Court under Article 177 of the EEC Treaty by the High
Court of Justice, Chancery Division, Patents Court, London, for a preliminary
ruling in the proceedings pending before that court between

AB Volvo

and

Erik Veng (UK) Ltd

on the interpretation of Article 86 of the EEC Treaty,

[...]

8 It must also be emphasized that the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right. It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a licence cannot in itself constitute an abuse of a dominant position.

9 It must however be noted that the exercise of an exclusive right by the proprietor of a registered design in respect of car body panels may be prohibited by Article 86 if it involves, on the part of an undertaking holding a dominant position, certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation, provided that such conduct is liable to affect trade between Member States.

10 In the present case no instance of any such conduct has been mentioned by the national court. Accordingly, and having regard to the answer given to the second question, it is unnecessary to give an answer to the first and third questions. 1 1 It must therefore be stated in reply to the second question submitted by the national court that the refusal by the proprietor of a registered design in respect of body panels to grant to third parties, even in return for reasonable royalties, a licence for the supply of parts incorporating the design cannot in itself be regarded as an abuse of a dominant position within the meaning of Article 86.

[...]

Judgment of the European Court of Justice**5 October 1988****In Case 53/87****Reference to the Court under Article 177 of the EEC Treaty by the tribunale civile e penale (Civil and Criminal District Court), Milan, for a preliminary ruling in the proceedings pending before that court between****Consorzio italiano della componentistica di ricambio per autoveicoli (CICRA) and Maxicar****and****Régie nationale des usines Renault****on the interpretation of Articles 30 to 36 and 86 of the EEC Treaty**

[...]

The second question

14 By its second question, the national court wishes to establish, essentially, whether the obtaining of protective rights in respect of ornamental models for car bodywork components and the exercise of the resultant exclusive rights constitute an abuse of a dominant position within the meaning of Article 86 of the Treaty.

15 It should be noted at the outset that the mere fact of securing the benefit of an exclusive right granted by law, the effect of which is to enable the manufacture and sale of protected products by unauthorized third parties to be prevented, cannot be regarded as an abusive method of eliminating competition.

16 Exercise of the exclusive right may be prohibited by Article 86 if it gives rise to certain abusive conduct on the part of an undertaking occupying a dominant position such as an arbitrary refusal to deliver spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model remain in circulation, provided that such conduct is liable to affect trade between Member States.

17 With reference more particularly to the difference in prices between components sold by the manufacturer and those sold by the independent producers, it should be noted that the Court has held (judgment of 29 February 1968 in Case 24/67 *Parke Davis and Co.* [1968] ECR 55) that a higher price for the former than for the latter does not necessarily constitute an abuse, since the proprietor of protective rights in respect of an ornamental design may lawfully call for a return on the amounts which he has invested in order to perfect the protected design.

18 In those circumstances, it must be stated in reply to the second question submitted by the national court that:

(i) the mere fact of obtaining protective rights in respect of ornamental designs for car bodywork components does not constitute an abuse of a dominant position within the meaning of Article 86 of the Treaty;

(ii) the exercise of the corresponding exclusive right may be prohibited by Article 86 of the Treaty if it involves, on the part of an undertaking holding a dominant position, certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers,

the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation, provided that such conduct is liable to affect trade between Member States.

[...]

**Judgment of the European Court of Justice (Fifth Chamber)
29 April 2004
In Case C-418/01**

Reference to the Court under Article 234 EC by the Landgericht Frankfurt am Main (Germany) for a preliminary ruling in the proceedings pending before that court between

IMS Health GmbH & Co. OHG

and

NDC Health GmbH & Co. KG,

on the interpretation of Article 82 EC

[...]

34 According to settled case-law, the exclusive right of reproduction forms part of the rights of the owner of an intellectual property right, so that refusal to grant a licence, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute abuse of a dominant position (judgment in Case 238/87 *Volvo* [1988] ECR 6211, paragraph 8, and *Magill*, paragraph 49).

35 Nevertheless, as is clear from that case-law, exercise of an exclusive right by the owner may, in exceptional circumstances, involve abusive conduct (*Volvo*, paragraph 9, and *Magill*, paragraph 50).

36 The Court held that such exceptional circumstances were present in the case giving rise to the judgment in *Magill*, in which the conduct of the television channels in a dominant position which gave rise to the complaint consisted in their relying on the copyright conferred by national legislation on the weekly listings of their programmes in order to prevent another undertaking from publishing information on those programmes together with commentaries, on a weekly basis.

37 According to the summary of the *Magill* judgment made by the Court at paragraph 40 of the judgment in *Bronner*, the exceptional circumstances were constituted by the fact that the refusal in question concerned a product (information on the weekly schedules of certain television channels), the supply of which was indispensable for carrying on the business in question (the publishing of a general television guide), in that, without that information, the person wishing to produce such a guide would find it impossible to publish it and offer it for sale (*Magill*, paragraph 53), the fact that such refusal prevented the emergence of a new product for which there was a potential consumer demand (paragraph 54), the fact that it was not justified by objective considerations (paragraph 55), and was likely to exclude all competition in the secondary market (paragraph 56).

38 It is clear from that case-law that, in order for the refusal by an undertaking which owns a copyright to give access to a product or service indispensable for carrying on a particular business to be treated as abusive, it is sufficient that three cumulative conditions be satisfied, namely, that that refusal is preventing the emergence of a new product for which there is a potential consumer demand, that it is unjustified and such as to exclude any competition on a secondary market.

39 In light of the order for reference and the observations submitted to the Court, which reveal a major dispute as regards the interpretation of the third condition, it is appropriate to

consider that question first. The third condition, relating to the likelihood of excluding all competition on a secondary market.

40 In that regard, it is appropriate to recall the approach followed by the Court in the *Bronner* judgment, in which it was asked whether the fact that a press undertaking with a very large share of the daily newspaper market in a Member State which operates the only nationwide newspaper home-delivery scheme in that Member State refuses paid access to that scheme by the publisher of a rival newspaper, which by reason of its small circulation is unable either alone or in cooperation with other publishers to set up and operate its own home-delivery scheme under economically reasonable conditions, constitutes abuse of a dominant position.

41 The Court, first of all, invited the national court to determine whether the home delivery schemes constituted a separate market (*Bronner*, paragraph 34), on which, in light of the circumstances of the case, the press undertaking held a de facto monopoly position and, thus, a dominant position (paragraph 35). It then invited the national court to determine whether the refusal by the owner of the only nationwide home-delivery scheme in a Member State, which used that scheme to distribute its own daily newspapers, to allow the publisher of a rival daily newspaper access to it deprived that competitor of a means of distribution judged essential for the sale of its newspaper (paragraph 37).

42 Therefore, the Court held that it was relevant, in order to assess whether the refusal to grant access to a product or a service indispensable for carrying on a particular business activity was an abuse, to distinguish an upstream market, constituted by the product or service, in that case the market for home delivery of daily newspapers, and a (secondary) downstream market, on which the product or service in question is used for the production of another product or the supply of another service, in that case the market for daily newspapers themselves.

43 The fact that the home-delivery service was not marketed separately was not regarded as precluding, from the outset, the possibility of identifying a separate market.

44 It appears, therefore, as the Advocate General set out in points 56 to 59 of his Opinion, that, for the purposes of the application of the earlier case-law, it is sufficient that a potential market or even hypothetical market can be identified. Such is the case where the products or services are indispensable in order to carry on a particular business and where there is an actual demand for them on the part of undertakings which seek to carry on the business for which they are indispensable.

45 Accordingly, it is determinative that two different stages of production may be identified and that they are interconnected, inasmuch as the upstream product is indispensable for the supply of the downstream product.

46 Transposed to the facts of the case in the main proceedings, that approach prompts consideration as to whether the 1 860 brick structure constitutes, upstream, an indispensable factor in the downstream supply of German regional sales data for pharmaceutical products.

47 It is for the national court to establish whether that is in fact the position, and, if so be the case, to examine whether the refusal by IMS to grant a licence to use the structure at issue is capable of excluding all competition on the market for the supply of German regional sales data on pharmaceutical products.

The first condition, relating to the emergence of a new product

48 As the Advocate General stated in point 62 of his Opinion, that condition relates to the consideration that, in the balancing of the interest in protection of the intellectual property

right and the economic freedom of its owner against the interest in protection of free competition, the latter can prevail only where refusal to grant a licence prevents the development of the secondary market to the detriment of consumers.

49 Therefore, the refusal by an undertaking in a dominant position to allow access to a product protected by an intellectual property right, where that product is indispensable for operating on a secondary market, may be regarded as abusive only where the undertaking which requested the licence does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the intellectual property right, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand

50 It is for the national court to determine whether such is the case in the dispute in the main proceedings.

The second condition, relating to whether the refusal was unjustified

51 As to that condition, on whose interpretation no specific observations have been made, it is for the national court to examine, if appropriate, in light of the facts before it, whether the refusal of the request for a licence is justified by objective considerations.

52 Accordingly, the answer to the first question must be that the refusal by an undertaking which holds a dominant position and owns an intellectual property right in a brick structure indispensable to the presentation of regional sales data on pharmaceutical products in a Member State to grant a licence to use that structure to another undertaking which also wishes to provide such data in the same Member State, constitutes an abuse of a dominant position within the meaning of Article 82 EC where the following conditions are fulfilled:

- the undertaking which requested the licence intends to offer, on the market for the supply of the data in question, new products or services not offered by the owner of the intellectual property right and for which there is a potential consumer demand;
- the refusal is not justified by objective considerations;
- the refusal is such as to reserve to the owner of the intellectual property right the market for the supply of data on sales of pharmaceutical products in the Member State concerned by eliminating all competition on that market.

[...]