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***The Peculiar “New Product” Requirement
in European Refusal to License Cases:
A US Perspective***

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I. INTRODUCTION

In this paper, I take issue with one aspect of the “new product” requirement set out by the Court of Justice in *Magill*¹ and reaffirmed, or perhaps reinterpreted, by the Court in *IMS Health*.² I do not question the basic thrust of the requirement, which I take to be an insistence that a challenger, to succeed in forcing a dominant firm to license its intellectual property, must itself contribute something new to the market. But in my view the ECJ has gone beyond that goal in stating that a refusal to license “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”.³

In effect, this requirement holds that the greater the degree of competition between the parties in the downstream market, the less likely it is that competition law will require a license. Although many commentators have addressed the “new product” requirement,⁴ they have not generally focused on this issue. The focus of much of the commentary has been on how “new” the “new product” must be without distinguishing whether its novelty should be measured against the dominant firm’s own downstream product (if any) or

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¹ Joined Cases C-241/91 P and C-242/91 P, *RTE and ITP v Commission* [1995] ECR I-743 (“*Magill*”).

² Case C-418/01, *IMS Health GmbH & Co. OHG and NDC Health GmbH & Co. KG* [2004] ECR I-5039 (“*IMS Health*”). There are several other decisions and opinions related to the *IMS Health* case. See Commission Decision 2002/165/EC of 3 July 2001 (Case COMP D3/38.044 – *NDC Health/IMS HEALTH: Interim Measures*), 2002 OJ L59/18, withdrawn by Commission Decision 2003/741/EC of 13 August 2003 (Case COMP D3/38.044 – *NDC Health/IMS Health: Interim Measures*), 2003 OJ L 26869; Order of the President of the Court of First Instance, Case T-184/01 R, *IMS Health Inc. v Commission* [2001] ECR II-3193; Order of the President of the Court, Case C-481/01 P(R), *NDC Health Corp.* [2002] ECR I-3401; Opinion of Advocate General Tizzano of 2 October 2003, Case C-418/01, *IMS Health GmbH & Co. OHG and NDC Health GmbH & Co. KG* [2004] ECR I-5039.

³ Case C-418/01, *IMS Health*, para. 49.

⁴ See, e.g., James S. Venit, “Article 82 EC: Exceptional Circumstances: The IP/Antitrust Interface after *IMS Health*”, <http://www.iue.it/RSCAS/Research/Competition/2005/200510-CompVenit.pdf>, at 16-18; Christian Ahlborn, David S. Evans and A. Jorge Padilla, “The Logic & Limits of the ‘Exceptional Circumstances Test’ in *Magill* and *IMS Health*”, 28 *Fordham Journal of International Law* 1109 (2005); Josef Drexler, “Abuse of Dominance in Licensing and Refusal to License: A ‘More Economic Approach’ to Competition by Imitation and to Competition by Substitution”, in Claus-Dieter Ehlermann and Isabela Atanasiu, eds., *European Competition Law Annual 2005: The Interaction between Competition Law and Intellectual Property Law*, Hart Publishing, 2007; Heike Schweitzer, “Controlling the unilateral exercise of intellectual property rights: A multitude of approaches but no way ahead?” (forthcoming).

against its upstream intellectual property.⁵ It is that issue on which I will focus. Although I accept that a challenger, to gain access to another's intellectual property, must make an additional contribution in a downstream market, I argue that the presence of the intellectual property owner in the downstream market should not make it more difficult for the firm seeking access to the intellectual property to prevail.

The flaws of the *IMS Health* approach on its own terms will be discussed below, but at this point it will just be noted that a recent US case took the opposite approach. Whereas under the ECJ's "new product" requirement a case for access is weakened by direct competition between the two parties, the Federal Circuit Court of Appeals held in *Intergraph Corp. v. Intel Corp.*⁶ that the success of a case *requires* such competition:

"Although the viability and scope of the essential facility theory has occasioned much scholarly commentary, no court has taken it beyond the situation of competition with the controller of the facility, whether the competition is in the field of the facility itself or in a vertically related market that is controlled by the facility. That is, there must be a market in which plaintiff and defendant compete, such that a monopolist extends its monopoly to the downstream market by refusing access to the facility it controls."⁷

The discussion of this issue, and of the difference between the relevant European and US approaches, will proceed in several steps. First, I will discuss the distinction between this issue and the separate question of whether there must be two-market leveraging. Second, I will discuss the shortcomings in the European test's treatment of the presence of the intellectual property owner in the downstream market. Third, I will discuss the very different weaknesses of the US approach. I will conclude with some general observations.

II. THE "MARKET LEVERAGING" ISSUE

Because this paper is primarily about market relationships, it is useful at the outset to distinguish the discussion here from another market-relationship issue that has been

⁵ See, e.g., Ahlborn, Evans and Padilla, *supra* note 4.

⁶ 195 F.3d 1346 (Fed. Cir. 1999).

⁷ 195 F.3d at 1357 (citations omitted). See also *Aquatherm Industries, Inc. v. Florida Power & Light Co.*, 145 F.3d 1258, 1261, 1262 (11th Cir. 1998) ("By stating a monopoly leveraging claim under these facts, Aquatherm in effect asks this court to extend *Berkey Photo* to a situation in which a monopolist projects its power into a market it not only does not seek to monopolize, but in which it does not even seek to compete. There is no support for such an extension in either the language of § 2 or the case law interpreting it."), quoted in *Intergraph*, cited in previous footnote, 195 F.3d at 1361.

A similar view was taken by the Court of First Instance in Case T-504/93, *Tiercé Ladbroke SA v. Commission* [1997] ECR II-923. See *infra* text accompanying notes 23-24.

Patterson, "The Peculiar 'New Product' Requirement in European Refusal to License Cases", in Ehlermann and Marquis, *European Competition Law Annual 2007: A Reformed Approach to Article 82 EC*, forthcoming 2008.

discussed in the *IMS Health* context.⁸ That is the issue of market leveraging: whether a case for access to intellectual property requires that the intellectual property itself constitute, or at least be a part of, a separate relevant antitrust market, or if it is sufficient for the intellectual property to be an important (or indispensable, or essential) input for products supplied in a downstream market. This issue is important in this context because, as I will argue later, the significance that the ECJ attributes to the presence of the intellectual property owner in the downstream market is inappropriate if that market is distinct from the upstream one.

In *IMS Health* the ECJ held that “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”.⁹ This stops short of requiring that the upstream product be in or constitute a relevant market. On the other hand, the Court also said that “it is sufficient that a potential market or even hypothetical market can be identified”.¹⁰ This indicates that the intellectual property at issue should be capable of being defined as a relevant market, even if no such active market yet exists.

However, that such a market definition will generally be possible seems evident, given the other requirements of the *IMS Health* test. If the intellectual property is truly indispensable or essential, it has no substitutes, and thus must constitute a relevant antitrust market of its own. The relevant market test is one of demand, and for those sellers that require “indispensable” intellectual property as an input there is no “sufficient substitutability” or “reasonable interchangeability” with other products. As a result, it seems clear that intellectual property that is indispensable for production of another product would define a relevant market.

This point is obscured in the cases because in some of them the upstream product had never been sold separately. However, that can just as easily be explained by the monopolist’s decision to keep the downstream market to itself as by any economic factor that would keep the upstream product from being a relevant antitrust market. That is, the decision of a supplier not to provide a particular product does not mean that there is no demand for the product, and demand is the factor that defines a relevant market.

Indeed, those commentators who insist that market leveraging must be present do not actually argue, as a factual matter, that the upstream products in these cases would not be relevant antitrust markets. Instead, they generally argue only that there should be a requirement that the plaintiff establish the existence of such a market.¹¹ In the intellectual

⁸ This issue has been discussed in Venit, *supra* note 4; Robert Pitofsky, Donna Patterson and Jonathan Hooks, “The Essential Facilities Doctrine Under U.S. Antitrust Law”, 70 *Antitrust Law Journal* 443 (2002); Paul D. Marquardt and Mark Leddy, “The Essential Facilities Doctrine and Intellectual Property Rights: A Response to Pitofsky, Patterson, and Hooks”, 70 *Antitrust Law Journal* 847 (2003).

⁹ Case C-418/01, *IMS Health*, para. 45.

¹⁰ *Ibid.*, para. 44.

¹¹ Marquardt and Leddy, *supra* note 8, at 849-55. Conversely, an article arguing that there is no requirement that the plaintiff define two separate markets does not really address whether in the cases it cites, the plaintiff

Patterson, “The Peculiar ‘New Product’ Requirement in European Refusal to License Cases”, in Ehlermann and Marquis, *European Competition Law Annual 2007: A Reformed Approach to Article 82 EC*, forthcoming 2008.

property area, though, there is ample precedent for potential markets. The US antitrust agencies' Guidelines for the Licensing of Intellectual Property describe the use of "technology markets" and "innovation markets,"¹² either of which could involve technologies that have not yet been marketed. Indeed, the example that the Guidelines provide for the analysis of a technology market describes the analysis in a context "[b]efore the firms use their technologies internally or license them to third parties".¹³ Several challenges to pharmaceutical company mergers have also involved products that had not yet been marketed.

But to say that the intellectual property in these cases constitutes a relevant market is not necessarily to say that there are two separate markets. It could be that the intellectual property market is effectively the only market at issue. Thus, although the commentary on this issue has focused on whether the upstream intellectual property is a relevant market,¹⁴ the better question would seem to be whether the downstream product is in fact distinct from the upstream one. In that respect, it seems, *IMS Health* directs attention to the correct question.¹⁵ As described by the Court, a key issue in these cases is that of "distinguish[ing] an upstream market, constituted by the product or service [to which access is sought], 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".¹⁶

It is true, though, that even if the upstream intellectual property is analytically a separate market, there may be practical considerations that counsel against requiring the licensing of a product that never been licensed before. We might decline to require licensing because the absence of any previous licensing arrangement would make it

could have defined two markets, although that is the relevant question. See Pitofsky *et al.*, *supra* note 8, at 458-61.

¹² U.S. Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* 8-13 (April 6, 1995). The Guidelines are available at the DOJ's website: <http://www.usdoj.gov/atr/public/guidelines/0558.htm>.

¹³ *Ibid.*, Example 2, at 8-9.

¹⁴ This has been true even when the context is the essential facility doctrine, which has not generally emphasized the need to demonstrate an upstream market:

"Market" is here used in its normal sense of a demand for and a supply of a product or service. It does not include the mere possibility of granting licences of the intellectual property right. If there is such a right, it is always in principle possible to licence it. But that does not create a market for the purposes of the essential facility principle, and it could not do so, without making every intellectual property right subject to compulsory licensing."

John Temple Lang, "The Application of the Essential Facility Doctrine to Intellectual Property Rights under European Competition Law", conference on Antitrust, Patent and Copyright, Ecole des Mines, Paris, 15-16 January 2004, at 9 n. 19. The paper is available at:

http://www.cerna.enscm.fr/cerna_regulation/Documents/ColloqueAntitrust2004/TempleLang.pdf.

¹⁵ *Cf.* Temple Lang, cited in previous footnote, at 13 ("The more clearly distinct the two markets are, and the greater the restriction of competition on the second market which results from the refusal to supply, the stronger the argument for compulsory licensing."); Venit, *supra* note 4, at 16 ("[R]etention of the requirement in *Magill* that the product the would-be licensee seeks to introduce be a novel one that is not offered by the owner of the IPR has the potential to compensate for elimination of the leveraging requirement if this novelty requirement, which embraces the key goal of the IP system, is strictly applied.").

¹⁶ Case C-418/01, *IMS Health*, para. 42.

Patterson, "The Peculiar 'New Product' Requirement in European Refusal to License Cases", in Ehlermann and Marquis, *European Competition Law Annual 2007: A Reformed Approach to Article 82 EC*, forthcoming 2008.

difficult to establish the terms on which a license should be made.¹⁷ Marquardt and Leddy, for example, argue that “there is no reason to believe that antitrust enforcement agencies or courts are equipped to determine the ‘correct’ price of intellectual property”.¹⁸

In fact, however, this same concern can arise even where the intellectual property owner has previously licensed the intellectual property. The owner’s willingness to license its property in some circumstances at particular prices does not mean that the same price is appropriate for all circumstances. It is generally accepted that an intellectual property owner is entitled to price discriminate among various licenses of its property.¹⁹ John Temple Lang argues that in these cases it might be appropriate to require the grant at better terms than the intellectual property owner has given to others.²⁰ The reverse is also true: it might be that the appropriate terms for a particular compelled license should be more favorable to the owner than were those used for previous licensing arrangements.

To sum up, it seems that the question of defining an upstream intellectual property market should not pose an obstacle to a refusal to license case. The key question, instead, is whether the downstream market in which the license is sought is sufficiently independent of the intellectual property itself. “Community law allows a dominant company to use intellectual property rights in the market in which they primarily apply, but it may be an abuse to cut off an input which is essential on another market, if that would otherwise be unlawful”.²¹ The remainder of this paper proceeds in light of this conclusion, focusing on the distinction between the downstream market and the intellectual property.

III. THE ECJ’S “NEW PRODUCT” APPROACH

The conceptual problems with the *IMS Health* test can be seen if one considers either of two sorts of cases: those in which the party seeking access to a monopolist’s intellectual property provides a product very different from that of the monopolist, and those in which the party seeking access provides a product identical to that of the monopolist. The first type of case can be illustrated by reference to the figure below, in which the dotted lines represent possible dividing lines between relevant antitrust markets U, D1, and D2, and the curved line represents the boundary of the monopolist firm:

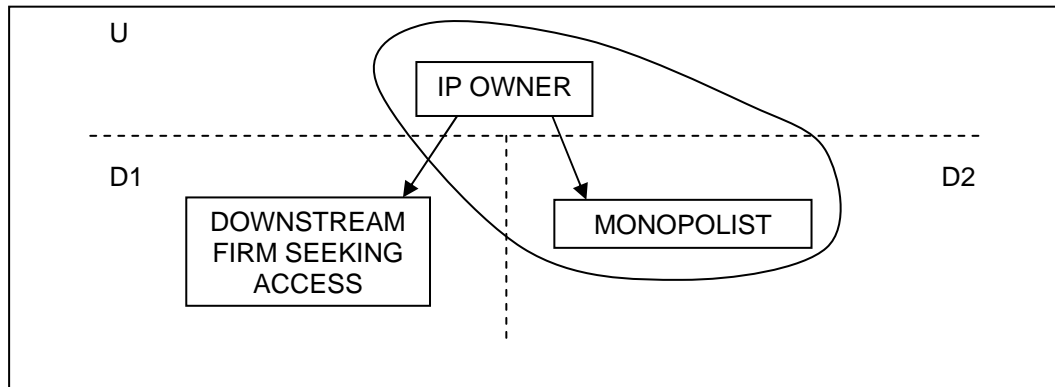
¹⁷ Marquardt and Leddy, *supra* note 8, at 855-56 and n. 30.

¹⁸ *Ibid.*, at 856 n. 30.

¹⁹ Temple Lang, *supra* note 14.

²⁰ *Ibid.*, at 5 and n. 11.

²¹ *Ibid.*, at 13.



The Court's requirement that the party seeking access must be providing a "new product" could mean, as shown in the figure, that downstream markets D1 and D2 are distinct. If so, then the monopolist is not actually present in the relevant downstream market, i.e., market D1, in which access is being sought. This in fact seems to be the situation, or one of the situations, contemplated by the ECJ, in that in the *Magill* case the copyright owners were not in the market for comprehensive weekly television listings, but provided only single-channel listings, which the court appeared to view as products in a separate market.²² (One might reasonably wonder, though, why an intellectual property owner would refuse to grant a license in a market where its own products did not compete.)

But if the monopolist is not present in the relevant downstream market, then the case is one that, as was described above and will be discussed further below, the Federal Circuit said in *Intergraph* should not succeed. The Court of First Instance has also taken this position in *Tiercé Ladbroke*.²³ In that case, the arguably jointly dominant firms, French *sociétés de courses*, or race courses, refused to grant a license covering their copyrighted broadcast signals of horse races in France. The potential licensee sought to have access to those signals in Belgium, where it operated, but where the *sociétés* did not. The CFI found this factor to be decisive:

[N]either the absence of technical barriers to the transmission of French sound and pictures in Belgium nor the fact that the applicant might be regarded, from an overall perspective, as a potential competitor of the *sociétés de courses* is sufficient for the refusal to supply sound and pictures to be regarded as constituting an abuse of a dominant position since the *sociétés de courses* themselves are not present in the separate geographical market on which the applicant operates and, secondly, they have not granted any licence to other operators on that market.²⁴

²² The Court referred to the CFI's finding that there was "no actual or potential substitute for a [comprehensive] weekly television guide". Joined Cases C-241/91 P and C-242/91 P, *Magill*, cited *supra* note 1, para. 52.

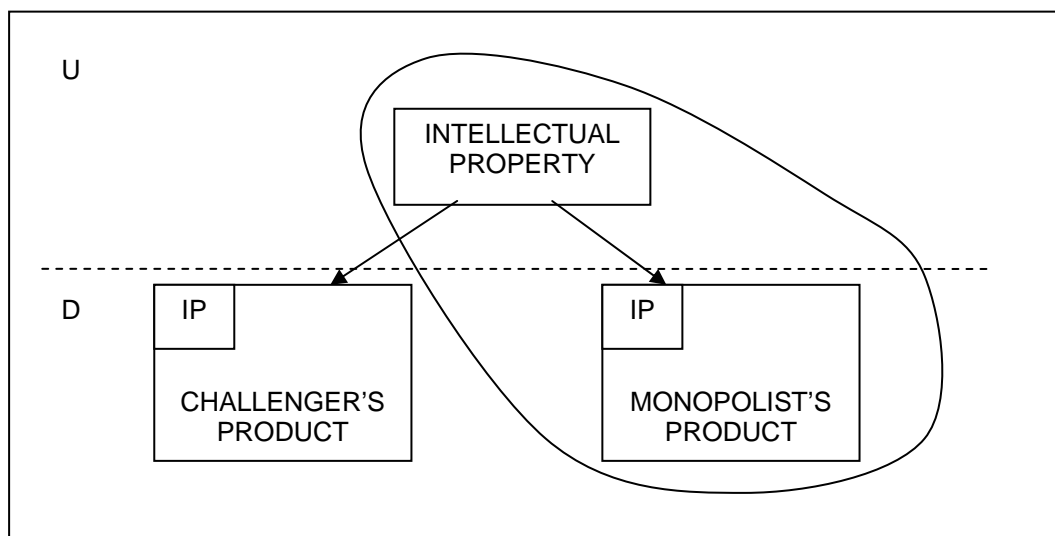
²³ Case T-504/93, *Tiercé Ladbroke SA v Commission*, cited *supra* note 7.

²⁴ *Ibid.*, para. 129

The ECJ in *IMS Health* did not reconcile this apparent conflict between its approach and that of *Tiercé Ladbroke*.

In any event, perhaps the Court in *IMS Health* did not mean to require that D1 and D2 be separate relevant markets but rather intended also to include circumstances in which the products of the monopolist and the challenger comprise a single relevant market in which the two parties sell differentiated products. That seems somewhat inconsistent with the Court's language, which referred to a "new product for which there is a potential consumer demand",²⁵ but it is certainly a possible reading of the case.²⁶

At the least, it appears that the Court's view is that the more similar to the monopolist's product is the one offered by the party seeking access, the less compelling is the case for a license. That seems incorrect, though. Even if the two products offered in the downstream market were identical, that would not necessarily show that no license is required. Suppose, for example, that a firm has intellectual property which is an essential element of a downstream product, but which makes up only 10% of the downstream product's value. Suppose also that the monopolist and the challenger offer (or, in the challenger's case, that it seeks to offer) identical products in the downstream market. This can be represented in the figure as follows:



This does not seem an implausible interpretation of many factual circumstances. Although one might question whether any intellectual property that is "essential" or "indispensable" to a downstream product can really be only a small part of that product, one might consider, for example, interoperability information, as in the *Microsoft* case.²⁷

²⁵ *IMS Health*, para. 38

²⁶ The Court might have meant only that the new product generated additional demand that *could* be met, though less well, by the dominant firm's own product.

²⁷ See Commission Decision of 24.03.2004 relating to a proceeding under Article 82 of the EC Treaty (Case COMP/C-3/37.792, *Microsoft*).

Although Microsoft argued that its interface specifications were themselves the field of competition, the Commission rejected that argument, pointing to evidence of the importance of other product characteristics.²⁸ In a recent article, Eleanor Fox discussed another example (see below). In such a case, it does not appear that the possibility of a compelled license should be excluded.

How, though, should the importance of the intellectual property be assessed? Hovenkamp, Janis, and Lemley argue that, in the US, “it seems fair to characterize the law as distinguishing between cases in which the intellectual property right itself is that facility to which the plaintiff wants access and cases in which intellectual property rights exist but are incidental to the control of the facility itself”.²⁹ However, this does not seem to capture the situation in the figure above. The examples mentioned by these authors are those in which either the intellectual property owner did not rely on its intellectual property rights or the right is only an “incidental” part of the upstream essential facility at issue.³⁰ In contrast, in *Magill* and *IMS Health*, the intellectual property right was coextensive with the claimed facility.³¹

Another possibility would be to consider the investment involved in creating the intellectual property, perhaps in comparison to the effort made in the downstream market. In a recent article,³² Eleanor Fox discussed a US case, *New York Mercantile Exchange, Inc. v. Intercontinental Exchange, Inc.*,³³ which illustrates the possibility of a disproportionate relationship between the two. The parties were commodity exchanges, and customers demanded that their contracts employ settlement prices set, allegedly by formula, by the incumbent. The incumbent argued that its settlement prices were copyrighted, and it refused to provide them in a timely manner to the challenger. By this means, as Fox describes, the incumbent was able to deny “a necessary input which was merely mechanistic, not creative” in order to harm competition in “the principal market”.³⁴

²⁸ *Microsoft*, § 5.3.1.3.1

²⁹ Herbert Hovenkamp, Mark D. Janis and Mark A. Lemley, “Unilateral Refusals to License in the U.S.”, at 26. Available at: <http://ssrn.com/abstract=703161>.

³⁰ *Ibid.* As an example of the latter type of case, they suggest *MCI Communications Corp. v. AT&T*, 708 F.2d 1081 (7th Cir. 1983), where the plaintiff sought access to local telephone distribution lines, i.e., the “last mile”. The authors say that access in such a case would presumably not turn on the existence of patented electronic switches in those lines.

³¹ In *Magill*, however, the facility was information, rather than the sort of creative contribution to which copyright protection is usually limited. See Temple Lang, *supra* note 14, at 2-3. Indeed, access to the facility could perhaps have been denied without reliance on the copyright, if the television stations could have withheld the information and released it only when it was too late to be useful in preparing the composite weekly program guide.

³² Eleanor M. Fox, “A Tale of Two Jurisdictions and an Orphan Case: Antitrust, Intellectual Property, and Refusals to Deal”, 28 *Fordham International Law Journal* 952 (2005).

³³ 323 F. Supp. 2d 559 (S.D.N.Y. 2004).

³⁴ Fox, *supra* note 32, at 963-64. The court rejected the plaintiff’s Section 2 claims under the Sherman Act. Although it did not focus on the intellectual property aspect of the case, it did note that “NYMEX has a legitimate business interest in preventing its competitor, ICE, from free-riding on NYMEX’s settlement prices”. 323 F. Supp. 2d at 571. It is not clear, however, whether it was referring to intellectual property in its reference to free-riding, because it then said “NYMEX’s settlement prices have value because they are

This issue is taken up further below, but the point here is that it is not, or at least not only, the distance between the two downstream products that is important, but the distance between the downstream products and the upstream intellectual property. Generally speaking, one can ask whether the downstream market is within the scope of the intellectual property owner's rights. Although that is a difficult conceptual question, there are a variety of ways to answer it, at least in certain circumstances.³⁵

It is important to recognize that the scope of the intellectual property right is defined by the limits of those rights, not by the definition of infringement. Referring to *Volvo v Veng*, James Venit has stated that one of the forms of abuse identified in that case – “the refusal to supply protected body panels to independent repair shops – would also come squarely within the scope of the IP monopoly”.³⁶ But that is true only if the scope of the monopoly is viewed as encompassing *any* refusal to license, without regard to the market where the effects of that refusal are felt or to the purpose of the refusal.³⁷ That makes the scope of the intellectual property right turn on the general definition of infringement, not on the particular patent or copyright at issue.

For the scope inquiry to have independent content, it must have reference to the limits of protection provided by the intellectual property right at issue. In the case of patent rights, that protection is defined by the patent claims, and in copyright, by the protected expression. Where it is competition in a downstream market that is at issue, the downstream market will almost inevitably involve innovation and competition that is not encompassed within the definition of the intellectual property rights in the upstream market. Hence, as John Temple Lang has said, “[t]he more clearly distinct the two markets are, and the greater the restriction of competition on the second market which results from the refusal to supply, the stronger the argument for compulsory licensing”.³⁸

Actually, the *IMS Health* test might serve to address this issue, but it is a very under-inclusive means of doing so. *IMS Health* asks, as discussed above, whether the two products in the downstream market are significantly different. If those two downstream products in fact differ significantly, it seems likely that each of them, or at least one of them, must also differ significantly from the intellectual property itself. That is, it seems that it would be difficult for the products to differ from each other while being, at the same time, very similar to the intellectual property. But the *IMS Health* approach ignores the possibility that the downstream products could be very different from the upstream intellectual property even if they are quite similar *vis-à-vis* each other.

viewed as proxies for market prices, and NYMEX has a legitimate interest in preventing rivals from free-riding on this reputation”. *Ibid.*

³⁵ I have previously proposed tests for this issue in specific contexts. See Mark R. Patterson, “When Is Property Intellectual? The Leveraging Problem”, 73 *Southern California Law Review* 1133 (2000); Mark R. Patterson, “Inventions, Industry Standards, and Intellectual Property”, 17 *Berkeley Technology Law Journal* 1043 (2002).

³⁶ Venit, *supra* note 4, at 9.

³⁷ Venit would apparently confine the scope inquiry to look at acts otherwise forbidden.

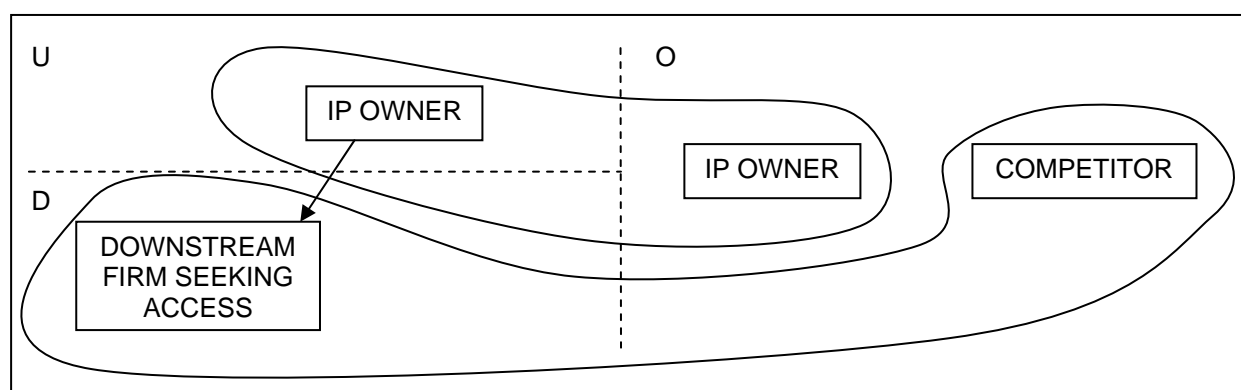
³⁸ Temple Lang, *supra* note 14, at 13.

Specific problems with using a scope inquiry to address the refusal to license issue are discussed in the concluding section below. The argument here is simply that *if* the downstream market is outside the scope of the dominant firm’s intellectual property, the fact that the dominant firm itself is in that downstream market should not in itself defeat a challenger’s effort to compel a license of the intellectual property, even if the products of the dominant firm and the challenger are identical in the downstream market.

IV. A US APPROACH: *INTERGRAPH V. INTEL*

There are also problems with the test set out by the Federal Circuit Court of Appeals in *Intergraph Corp. v. Intel Corp.*, which requires that the monopolist be a competitor in the market in which access to the facility is sought. Although the court in *Intergraph* was not entirely clear on the rationale for this holding, it said that “the presence of a competitive relationship is fundamental to invoking the Sherman Act to force access to the property of another”.³⁹ But in *Intergraph*, and in the only case that it cited as relying on the same principle,⁴⁰ there was indeed a competitive relationship – the competitive relationship was simply in another market.

This presents the question, then, of whether the owner of an essential facility should be permitted to deny that facility in order to harm a competitor in a market other than the one in which the two compete. That is, the circumstances are as shown in the following figure, in which again the dashed lines represent divisions between markets and the curved shapes represent firm boundaries:



The question is whether it should be permissible for the intellectual property owner, operating in the upstream market U and in an other market O, to deny its

³⁹ *Intergraph Corp. v. Intel Corp.*, cited *supra* note 6, at 1357 (Fed. Cir. 1999) (citations omitted).

⁴⁰ See *Caribbean Broadcasting System, Ltd. v. Cable & Wireless plc*, 148 F.3d 1080 (D.C. Cir. 1998). In *Caribbean Broadcasting*, the plaintiff competed with one defendant that was partly owned by the other defendant. However, the court determined that it did not have jurisdiction over the plaintiff’s competitor (*ibid.* at 1089-91), which left the part-owner as the only available defendant. The court rejected the essential facility claim because that part-owner did not itself compete in the relevant market. *Ibid.* at 1087-89.

competitor in market O access to its intellectual property in market D, even if the two are not competitors in market D. On the one hand, such a denial certainly does not appear to be competition on the merits in market O. On the other hand, though, it is not clear that a loss of potential profits to the competitor in market D should hinder its ability to compete in market O.

However, the problem may be not so much the ability of the competitor to compete in market O as its incentive to do so. If the competitor anticipates significant profits in market D, which could be lost through denial of the intellectual property if it seeks to compete in market O, it may choose not to compete in market O at all. That is, the problem is not that being denied intellectual property in market D harms the challenger's ability to compete in market O. The problem instead is that competing in market O destroys its ability to compete in market D.

In fact, this appears to describe very well the facts of *Intergraph*. In the case, market D was a computer graphics workstation market, market U was "various special benefits, including proprietary information and products", which Intel provided to its "strategic customers",⁴¹ and market O was a market for "high-end microprocessors", in which Intergraph claimed that it competed through its ownership of relevant patents in that market.⁴² When Intergraph sued Intel for patent infringement based on Intel's conduct in market O, Intel cut off the supply of its proprietary information from market U to Intergraph, allegedly making Intergraph unable to compete in market D. Intel had apparently been quite willing to provide the proprietary information to Intergraph prior to Intergraph's initiation of the patent infringement suit.

It also describes some of the conduct in the US *Microsoft* case, although there the conduct was not treated as raising intellectual property issues.⁴³ The court in *Microsoft* described the company's threat, made to Apple Computer, to cease producing Microsoft's Mac Office program, which would have been a severe blow to Apple. The reason for the threat was Microsoft's dissatisfaction with Apple's unwillingness to enter into an exclusive deal to include only Microsoft's Internet Explorer on Apple computers. Thus, Mac Office (or office productivity software) was market U, personal computers were market D, and web browsers were market O. (Although Apple did not itself produce a web browser, it could be viewed as a participant in that market to the extent that it was compensated by Netscape for including Netscape's Navigator browser on its computers.)

The court pointed to the effect of the subsequent Microsoft-Apple exclusive deal as an anticompetitive one of restricting distribution of competing web browsers, and it was unwilling to accept Microsoft's argument that the deal was pro-competitive because it was part of a package of arrangements between the two companies:

⁴¹ *Intergraph*, 195 F.3d at 1349-50.

⁴² *Ibid.* at 1355.

⁴³ See *United States v. Microsoft Corp.*, 253 F.3d 34, 72-74 (D.C. Cir. 2001).

“Microsoft offers no procompetitive justification for the exclusive dealing arrangement. It makes only the irrelevant claim that the IE-for-Mac Office deal is part of a multifaceted set of agreements between itself and Apple; that does not mean it has any procompetitive justification. Accordingly, we hold that the exclusive deal with Apple is exclusionary, in violation of § 2 of the Sherman Act.”⁴⁴

Although the court’s holding here was not the result of a claim by Apple for access to continued production of Mac Office, the court devotes a considerable portion of its discussion to the threat to cut off Mac Office. It is possible that the court would have found the exclusive arrangement to be a violation even without the threat, but the discussion gives the impression that the court relied on that threat in finding a violation.

The circumstances in the figure above also echo the issue in EC law of what sort of “associative links” must exist among the markets in which a firm has a dominant position, in which it abuses that dominance, and in which the effects of the abuse are felt.⁴⁵ The relationships represented in the figure are somewhat similar to those in *AKZO*,⁴⁶ where AKZO, a dominant firm in the organic peroxides market, responded to a challenge by ECS in the sales of organic peroxides in the plastics market – market O? – by charging “unreasonably low prices” in the flour additives market – market D? – a market that was “vital” to ECS. Furthermore, as the ECJ said, “AKZO did not adopt its behaviour in order to strengthen its position in the flour additives sector, but to preserve its position in the plastics sector by preventing ECS from extending its activities to that sector”.

In these cases the argument for a finding of abuse, and in *Intergraph* for mandated access, seems strong. As the *Microsoft* court’s unwillingness to accept Microsoft’s justification shows, it is difficult for the defendants in these cases to point to an objective justification or legitimate business purpose for their actions. The very fact that the effects of those actions take place in other markets makes their legitimacy questionable. One could perhaps imagine a case in which there was no competition between the monopolist and the challenger in *any* market, and in that case the *Intergraph* rule might make sense. But in that case it would be hard to imagine why the monopolist would engage in anticompetitive conduct at all. The more likely scenario is the one seen in these cases, and there it makes little sense to give monopolists *carte blanche* to do harm whenever they can find a way to link two markets in which they face competition.

Moreover, this argument is even stronger in the intellectual property context. As described above, intellectual property rights, arguably unlike other property rights, have a defined scope. Because a case like this involves the use of intellectual property to gain an advantage in an entirely unrelated market – and thus a market that is outside the scope of

⁴⁴ *Ibid.* at 74 (citation and quotation of Microsoft’s brief omitted).

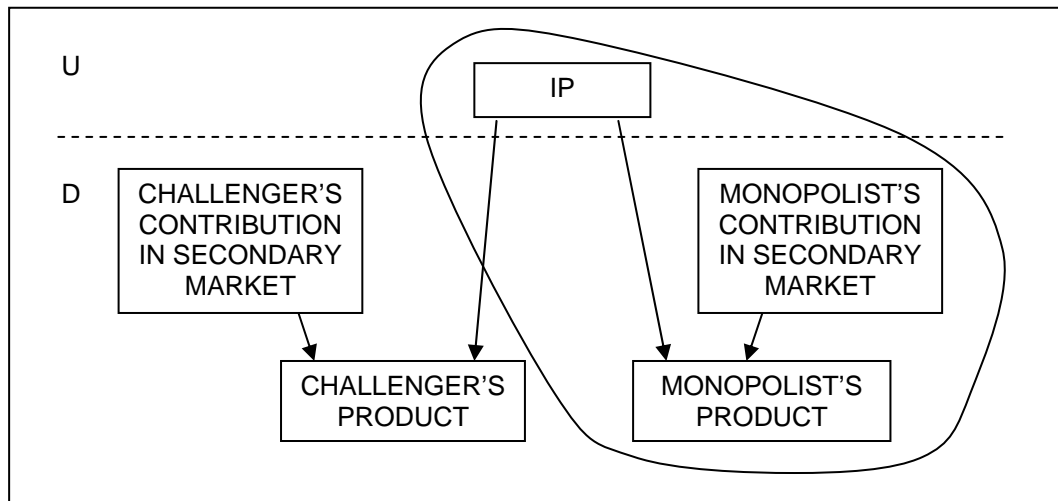
⁴⁵ See Case C-333/94 P, *Tetra Pak International SA v Commission* [1996] ECR I-5951.

⁴⁶ Case C-62/86, *AKZO Chemie BV v Commission* [1991] ECR I-3359.

the intellectual property right – there seems little justification for allowing the intellectual property right to prevent the application of normal antitrust principles.

V. OBSERVATIONS ON THE SCOPE INQUIRY

The typical case at issue here, if the intellectual property and the product in which it is embodied are in different markets, looks like this:



This figure makes clear the scope inquiry. The question is why, as a result of its intellectual property contribution in the upstream market, the monopolist should also be able to exclude competition in the downstream market, if that market is distinct. Generally speaking, an intellectual property right in one market gives its owner no right to injure competition in another market. Moreover, the contributions, including innovative contributions, in the secondary, downstream markets can be as significant as those in the upstream one, so there is no *a priori* reason to favor the upstream market.

It would perhaps be possible to conduct a balancing inquiry, weighing the anticompetitive effects in the downstream market against the pro-competitive innovative effects in the upstream market. This in fact is what the European Commission appears to have done in *Microsoft*. But to do this is to apply an antitrust approach to an intellectual property problem. The goal of intellectual property law is not to strike such a balance in an individual case, but to create a framework that provides a satisfactory balance overall. And that framework contemplates that the intellectual property owner will receive protection against competition for its own innovation, but not that it will be permitted to extend that protection beyond the scope of that innovation.

Thus, as stated above, what is required is an inquiry into whether the downstream product is within the scope of the claims of the patent, or the expression protected by copyright. That is, what is required is not an economic inquiry but a technical one, as the nature of intellectual property would suggest. James Venit has questioned such an

Patterson, "The Peculiar 'New Product' Requirement in European Refusal to License Cases", in Ehlermann and Marquis, *European Competition Law Annual 2007: A Reformed Approach to Article 82 EC*, forthcoming 2008.

approach, noting that “[t]o the extent that novelty is a more difficult concept to apply than leveraging, or involves a subjective element, the erosion of IPRs resulting from *IMS Health* may be greater than appears”.⁴⁷ But it seems unlikely that the scope inquiry could be more difficult than a relevant market one, which is notoriously difficult. Particularly for new or hypothetical markets, where economic data may be lacking, it seems that a focus on the nature of products, in a manner akin to an infringement inquiry, is likely to prove more tractable than a focus on market definition and market power.

Moreover, the intellectual property owner will often have available to it options to obviate the inquiry entirely. If the owner believes that its contribution to the downstream market is significant enough to justify a monopoly in that market, the owner may be able to seek intellectual property protection in that market as well as in the upstream one. For example, suppose the *IMS Health* case had arisen in the US. In that scenario, if IMS Health believed that its 1860 brick structure provided special benefits in the provision of pharmaceutical data, it could have sought business method patent protection for that technique. In that case, with intellectual property protection in the market at issue, there would be no question about the owner’s right to exclude in that market.

Of course, the owner of intellectual property in an upstream market might be denied such protection in a downstream market, but that in itself is significant. If the relevant patent authorities refuse to grant protection for the intellectual property owner’s contribution in the downstream market for a reason of patentability, such as obviousness, that would be evidence that the owner should not be able to control access to that market through its upstream intellectual property.⁴⁸ The same may be true even if the reason for the inability to obtain downstream protection is the fact that patent protection is unavailable for the type of product or service at issue, as in jurisdictions where business-method protection is not available. The unavailability of such protection would suggest that the balance has been struck in favor of competition for such products or services, and it would be inappropriate for the intellectual property owner to use upstream protection of a different product or service to circumvent that limitation.⁴⁹

It is true that, if the monopolist has never offered its upstream intellectual property separately, mandated access raises the specter of allowing others to demand licenses for any portion of a product incorporating intellectual property:

⁴⁷ Venit, *supra* note 4, at 18.

⁴⁸ That would be so, at least, if the contribution in the downstream market were viewed as obvious in light of prior art that was not the patentee’s. If the contribution in the downstream market were made obvious as a result of the patentee’s own contribution in the upstream market, the question would be more difficult. Whether the inquiry in this context should incorporate all the details of patent law is not clear.

⁴⁹ *Cf. Fashion Originators’ Guild of America v. FTC*, 312 U.S. 457 (1941). This point is related to the fact that in some of these cases, like *Magill*, the intellectual property protection at issue was not really necessary to accomplish the dominant firm’s goals, but appears simply to have been a convenient means of furthering those goals.

“The implications of the “potential market” concept, if adopted without limiting principles, would be far-reaching. Every process patent is an input. New functions can always be added to software. A compound medicine is always a product different from its component medicines. Many patents are for “follow-on” inventions. The law could hardly impose a duty to share important internally-generated competitive advantages with direct competitors, on demand, merely on the basis of their intention to offer a product with some new characteristics. It would be unsatisfactory if a dominant company had to decide whether it was free to refuse a licence merely on the basis of a competitor’s allegations about the degree of novelty of a product which the competitor was not yet in a position to produce, and which it would certainly be unwilling to describe in detail.”⁵⁰

These concerns are valid ones, but it is not clear that they should always be decisive. It is worth noting that several of the “downstream” examples given in the quotation above would themselves likely be patented or copyrighted. That is true, for example, of software with new functions, of compound medicines, and of follow-on inventions. It will also often be true of products produced with new processes. In such instances, the intellectual property owner will be protected not only by its upstream intellectual property protection (which may, however, be limited as described here) but also by independent downstream protection.

Furthermore, the essential facility doctrine itself, without regard to the intellectual property context, has safeguards that could in many cases address the concerns expressed above. For example, for access to be compelled, the upstream intellectual property has to be truly essential and not duplicable, which will exclude many claims. And it must also be feasible for the intellectual property owner to license the intellectual property. That means, at the least, that the intellectual property owner is able practically to provide access to the intellectual property without prohibitive expense.⁵¹

The feasibility requirement could also be interpreted to require that access by others to the intellectual property not hinder the owner’s ability to capture the benefits of its innovation. This factor could also be considered in Europe under the rubric of the intellectual property owner’s ability to justify its refusal to license by showing an objective justification for the refusal.⁵² It is not clear that it will always be easy to design licensing

⁵⁰ Temple Lang, *supra* note 14, at 18 (footnote omitted).

⁵¹ For example, it could perhaps be prohibitively expensive to write and enforce contractual terms that would prevent disclosure of the intellectual property beyond the party receiving access.

⁵² Whether an ability to reap sufficient profits from intellectual property would constitute an objective justification is not entirely clear:

“The status of the second condition identified by the ECJ [in *Magill*] depends on whether ‘objective justification’ includes the reward for, and incentive to, innovation that underlies the grant of a monopoly under IP law. The EU Courts have not to date elaborated on the meaning of this condition in the IP context so that it remains something of a black hole. To the extent the ECJ would accept that the refusal of the IP owner to grant licenses can be ‘objectively’ justified by the

arrangements that will adequately compensate the owner. For example, it is generally accepted that an intellectual property owner is entitled to price discriminate in its licensing practices. It may not be easy, however, to compel licenses in such a way that the intellectual property owner is able to maintain its discriminatory pricing.⁵³ If not, it seems appropriate to view compelled licensing as infeasible.

One might view the “new product” requirement’s attention to the presence of the intellectual property owner in the downstream market as addressing this issue.⁵⁴ If the intellectual property owner is not present in the downstream market, a compelled license in that market is not likely to interfere with its licensing approach, even in other markets. Although arbitrage between markets would theoretically be possible, the intellectual property owner could presumably make use of field-of-use licensing to prevent arbitrage.

VI. CONCLUSION

The purpose of this paper is to question the *IMS Health* rule’s award to an intellectual property owner of any downstream market that relies on its intellectual property, so long as the intellectual property owner serves the downstream market itself. As Temple Lang puts it, “one competitor in a downstream market must not be able to get control over the only source of supply of an input which is essential in that market, and monopolise the market by shutting off supply to its rivals”.⁵⁵ Only if the upstream intellectual property owner has also made a protectable contribution in the downstream market should it be entitled to monopolize that market as well.

preservation of the incentive to innovate through the reaping of its monopoly reward, this condition would also be consistent with IP law.”

Venit, *supra* note 4, at 11. Cf. the Commission’s Decision in *Microsoft*, cited *supra* note 27; judgment of the CFI of 27 September 2006, Case T-168/01, *GlaxoSmithKline Services Unlimited v Commission* [2006] ECR II-2969, *pending appeal*: Cases C-501/06 P, C-513/06 P, C-515/06 P and C-519/06 P.

⁵³ This might be true, for example, for innovations that improve production processes. Although in theory one might be able to structure payments for the use of such processes, in practice such arrangements might be difficult. Cf. Ioannis Lianos, “Competition Law and Intellectual Property Rights: Is the Property Rights Approach Right?”, in John Bell and Claire Kilpatrick, eds., *Cambridge Yearbook of European Legal Studies* Hart Publishing, 2006, at 153, 163 (asking why the “new product” test appears to allow compelled licensing for new products, but not for new production processes).

⁵⁴ Other commentators have suggested, on the other hand, that a likely source of that aspect of the test was a focus on the intellectual property owner’s failure to exploit its intellectual property. See Venit, *supra* note 4, at 2, 9; Temple Lang, *supra* note 14.

⁵⁵ Temple Lang, *supra* note 14, at 6.

Patterson, “The Peculiar ‘New Product’ Requirement in European Refusal to License Cases”, in Ehlermann and Marquis, *European Competition Law Annual 2007: A Reformed Approach to Article 82 EC*, forthcoming 2008.