Competition Law and Intellectual Property Rights: Is the Property Rights’ Approach Right?

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I. INTRODUCTION

The intersection between competition law and intellectual property has been a contentious issue since the very beginnings of European Communities (EC) competition law. Both intellectual property and competition law pursue the aim of enhancing economic welfare and innovation, but their direct objectives seem to be in conflict. Whereas intellectual property focuses on the reward of inventive effort and the inventor’s incentives to innovate by conferring an exclusive right on the use of the invention, competition law emphasises the dissemination of innovation by ensuring diffusion and access.

It follows that there may be instances of conflict between intellectual property law and competition law. This mainly happens in situations of

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1 The European Courts initially drew a distinction between the existence and the exercise of an IP right (Cases 56 & 58/64 Consten and Grundig [1966] ECR 299 at 345; Case 24/67, Parke Davis [1968] ECR 55 at 62). In principle, the existence of the IP right, its ‘specific subject matter’ or ‘essential function’ should not be affected by competition law. However, the distinction does not provide a safe harbour for IP rights as the ECJ has also considered abusive practices that fall within the scope of the ‘specific subject matter’ of the IP right in certain ‘exceptional circumstances’. The Court also gives a broad definition to the term ‘exercise’, thus keeping an important discretion as to the scope of the application of competition law.

2 Promoting innovation is one of the objectives of competition law. See Commission Notice—Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements OJ 2004 C 101/2, para 7.

cumulative innovation, which refers to the situation of successive innovations built upon earlier innovations, and when the intellectual property (IP) rights are used strategically in order to exclude market access and harm consumers.

One of the side effects of this conflict is the emergence of the ‘property rights’ analogy in envisaging IP rights. It is not the first time that the analogy of IP rights with tangible property has been emphasised. The rhetoric of ‘property rights’ played an *ex post facto* role in legitimating the granting of property rights in ideas, every time IP rights were placed in a defensive position. Considered as a form of property, IP rights benefit from a high level of esteem and legal protection that could lead to a weak application of or even immunity from competition law enforcement. The rhetoric of ‘property rights’ therefore plays an important role in legitimating IP rights and in defining a framework for the interface between intellectual property and competition, which is largely biased in favour of IP rights.

The increasing number of references in competition law discourse to the need to establish an analogy between physical property rights and intellectual property may accordingly be explained by the growing tension between these two areas of law which is the result of the recent expansion of intellectual property protection. The analogy drawn with tangible property rights extends beyond competition law. Article 17 (2) of the Charter of Fundamental Rights of the European Union, which proclaims the right of

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5 Sherman, B and Bently, L above n 4, 206.

6 Nevertheless, it is also clear that property is not an absolute right. European Union law emphasises the ‘social function’ of property, according to which, property rights can be restricted for reasons of public interest. See Case 265/87, *Herman Schrader HS Kraftfutter GmbH v Hauptzollamt Gronau* [1989] ECR 2237, para 15. Competition law constitutes a ‘general interest’ objective that could justify a restriction on the scope of property rights. See Case T–65/98, *Van den Bergh Foods Ltd v Commission* [2003] ECR II–4653, para 170.

7 Rahnasto, I. above n 3, 57 (‘[p]art of the property theory is that the rights, duties and privileges accompanying the property are absolute and universal’).


property extends the guarantee laid down in its subsection 1 on tangible property to intellectual property.

This study will argue that the ‘property rights’ analogy is misleading and does not contribute to the proper understanding of the relations between competition law and intellectual property. This claim will be substantiated in Section II by the fact that IP rights have distinct characteristics, not present in physical property rights. Section III demonstrates that the “property rights” rhetoric emerged at a period during which IP rights were considered as monopolies. Its aim was therefore to reverse the previous ‘monopoly rights’ analogy. The evolution of competition law towards a more economic approach to defining monopoly power has nevertheless reduced the original attractiveness of the ‘property rights’ approach.

One of the limitations of the ‘property rights’ analogy is that it may lead to the application of anti-trust law doctrines crafted for tangible property rights, such as the essential facilities doctrine, without taking sufficiently into account the specific objective of IP, the enhancement of innovation. Section IV will compare the Magill\textsuperscript{10} and NDC/Health\textsuperscript{11} decisions of the European Court of Justice (ECJ) with the European Commission’s approach in Microsoft\textsuperscript{12} and in its recent discussion paper on Article 82 EC,\textsuperscript{13} and will highlight that by developing specific anti-trust law standards for unilateral refusals to license intellectual property, EC competition law internalises intellectual property concerns within anti-trust. No such effort is made for physical property rights. Competition law could therefore be conceived of as a complementary tool that addresses the shortcomings of a specific intellectual property regime, as will underline the example of the EC Directive on the Legal Protection of databases.\textsuperscript{14} Section V will demonstrate that competition law concerns are also often “internalised” within the boundaries of IP, thus revealing the existence of a dialectical relation between these two areas of law.\textsuperscript{15}

The ‘property rights’ approach nevertheless perceives intellectual property and competition law as autonomous disciplines, normatively closed to each other. Considered as ‘property’ or something more than normal property, IP rights may be subjected to a specific, more or less


\textsuperscript{11} Case C–418/01 IMS Health GmbH v NDC Health (IMS) [2004] ECR I–5039.

\textsuperscript{12} Microsoft, above n 8.


\textsuperscript{15} Rahnasto, I above n 3, 36.
deferential, antitrust standard, which, however, will not take into account the aims pursued by the specific IP rights protection itself or the fact that the balance between reward and dissemination of innovation may be different according to the characteristics of each economic sector. This absence of a continuous cognitive relationship between the two disciplines highlights the closure of the systems, which is a consequence of the ‘property rights’ logic. It is submitted that the constitution of a dialectical relation between the two disciplines will be facilitated if intellectual property is perceived as a form of regulation. Consequently, Section VI of this study will examine the regulatory theory of intellectual property as well as the implications of this theory for the antitrust/IP interface.

II. THE MISLEADING CHARACTER OF THE PROPERTY RIGHTS ANALOGY: THE INTERVENTION OF PUBLIC AUTHORITIES IN THE DEFINITION OF IP RIGHTS

A brief consideration of the legal regime that applies to intellectual property underlines the need to avoid simplistic analogies with physical property rights. According to Spence, an important difference with property rights in tangibles is that intellectual property rights do not exclude others from the enjoyment of the relevant subject matter, but only from its use in one of a broadly or narrowly defined range of ways.16 The limited duration as a matter of law of all intellectual property rights except trade marks is certainly a characteristic that does not exist as such for tangible property rights.17 Once the duration of a patent has expired, that which has been protected is in the public domain (open access) and can no longer be owned as property.

One could also add the conditions of validity of a patent, which have no equivalent in tangible property rights. A patentable invention should be novel, non-obvious and capable of industrial application and must not fall ‘as such’ within any of the categories of subject-matter specifically excluded.18 The examination of the conditions of patentability is done by a specialised regulator, the Patent Office. This highlights the most important difference between intellectual property rights and property rights in

17 Landes, WM and Posner, RA The Economic Structure of Intellectual Property Law (Cambridge, Mass, Harvard University Press, 2003) 34 (the doctrine of adverse possession may limit the duration of a normal property right. However, the effects of the adverse possession are different to the extent that ‘adverse possession shifts ownership from one person to another, whereas the expiration of a fixed-duration intellectual property right eliminates ownership and makes the work a part of the public domain’).
tangibles: the intervention of a regulatory agency in the definition of the
down. Landes and Posner observe that:
equating intellectual property rights to physical property rights overlooks the
much greater governmental involvement in the former domain than in the latter,
at least in a mature society in which almost all physical property is privately
owned, so that almost all transactions involving such property are private.
Government is continuously involved in the creation of intellectual property
rights through the issuance of patents, copyrights and trademarks. Skeptics of
government should hesitate to extend a presumption of efficiency to a process by
which government grants rights to exclude competition with the holders of the
rights.19

Landes and Posner do not argue that the judiciary is not involved in the
enforcement of these rights, but that the definition of the scope of these rights,
especially patents, is made mainly by an administrative agency, under the
supervision of a specialist court.20 Specialist courts cannot be considered as
equivalent to generalist courts as it is more likely to have a mission orienta-
tion and favour a broad scope of protection for intellectual property rights.21
However, this is not necessarily the case in all areas of intellectual property,
as generally trade marks, trade secrecy and publicity rights laws appear to be
rather common law oriented and can therefore be considered efficient.22

The importance of this point should not be underestimated. By consider-
ing that certain intellectual property rights such as patents are not common
law rights but simple creations of an administrative process, it is possible to
argue that they should not benefit from the thesis of the efficiency of com-
mon law23 and that they could be the outcome of a regulatory capture.24

19 Landes, W and Posner, R above n 17, 415. Contra Meiners, RE and Staaf, RJ ‘Patents,
Copyrights, and Trademarks: Property or Monopoly?’ (1990) 13 Harvard Journal of Law and
Public Policy 911, 916–917 (‘patents, copyrights, and trademarks granted recognition by the
State are essentially the same as recognition by the State of claims in real property’).
20 In the UK, the specialist patent courts are the Patents Court of the Chancery Division of
the High Court and the Patents County Court.
21 Landes, W and Posner, R above n 17, 418; Jaffe, AB and Lerner, J Innovation and Its
Discontents (Princeton, NJ, University Press, 2004) 9–16 and Lunney, GS ‘Patent law, the
Economic Review 1.
22 According to the efficiency theory of the common law: Posner, R Economic Analysis of
23 Landes, W and Posner, R above n 17, 417 (common law refers to ‘any body of Law that is
judged created’). The same claim that physical property rights benefit from a superior presump-
tion of efficiency has also been made for civil law systems by Bouckaert, B ‘What is Property?’
(1990) 13 Harvard Journal of Law and Public Policy 775, 790 (‘the origin of intellectual prop-
erty rights has its historical roots in deliberate interventions by political authorities rather than
in a spontaneously evolved continental legal tradition’. Therefore, the ‘presumption of rightness’
that exists for tangible property, which incurred a long process of evolution, cannot be extended
to IP).
24 Hovenkamp, H The Antitrust Enterprise—Principle and Execution (Cambridge, Mass, Harvard
University Press, 2005) 250–251 (giving examples of interest-group capture of IP protection).

Despite the fact that there are important differences between physical property rights and IP rights, the ‘property rights’ rationale has been one of the main engines of the expansion of the protection of intellectual property rights. The use of the terminology of property rights is not fortuitous. The objective pursued was to underscore the historic link between intellectual property (mainly patents) and monopoly.

The use of the term ‘property’ does not necessarily confer an absolute antitrust immunity. One of the attributes of property rights is exclusivity. Exclusivity means that the owner of the property has the right to exclude others from exercising her rights of use without permission. The right to exclude was also the cornerstone of the legal conception of ‘monopoly’, before the consolidation of the more economic concept of market power.

If monopoly is considered as a synonym for exclusive right, then by definition the owner of a patent is a monopolist. But if the meaning of monopoly is the condition that generates social loss, in economics this condition is present only ‘when the demand curve has a negative slope in the region at which output is occurring’. This is not always the case for intellectual property rights, as there may be substitute products or technologies which are not covered by the property rights and could be used instead by consumers. The owners of the intellectual property rights may therefore be limited in their capacity to charge a monopoly price as they should also take into account the competitive pressures exercised by competing products or technologies.

As competition law has graduated both in the United States and in Europe towards a more economic approach, the presumption that an intellectual property right may confer monopoly power has been weakened and

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28 On the distinction between the legal and the economic definitions of monopoly see, Mason, ES ‘Monopoly in Law and Economics’ (1937) 47 Yale Law Journal 34.
ultimately abandoned. The ECJ was quick to state in Deutsche Grammophon that the mere possession of intellectual property rights does not automatically amount to a dominant position. It instead examined the position of the firm in the relevant market and the ability of the IP holder to ‘impede the maintenance of effective competition over a considerable part of the relevant market, having regard in particular to the existence and position of any producers or distributors who may be marketing similar goods or goods which may be substituted for them’. In Magill, the ECJ confirmed that ‘so far as dominant position is concerned, it is to be remembered at the outset that mere ownership of an intellectual property right cannot confer such a position’. Although there is no presumption that IP rights confer market power, they may however reinforce the inference of a dominant position if the undertaking has also a high market share.

The evolution of competition law towards a more positive approach to intellectual property can also be illustrated by the specific standards that apply to refusals to grant access or license intellectual property, compared with physical property rights.

IV. COMPETITION LAW AND REFUSALS TO GRANT ACCESS TO INTELLECTUAL PROPERTY: TOWARDS THE RECOGNITION OF THE SPECIFIC NATURE OF INTELLECTUAL PROPERTY

The application of Article 82 EC, prohibiting abuses by an undertaking of its dominant position, to unilateral refusals to license IP rights has been an important issue since the decisions of the ECJ in Volvo v Veng and CICRA v Renault. In these cases, the ECJ held 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 does not constitute an abuse of a dominant position. Otherwise, the IP holder would be deprived of the substance of his exclusive right. However, the Court did not go as far as to create an irrebuttable presumption for the exercise of IP

31 Concerning the US see Illinois Tool Works Inc v Independent Ink Inc, 547 US (2006). The Supreme Court abandoned the presumption that a patent confers market power upon the patentee. See also, US Dept of Justice and FTC, above n 8, §2.2.
34 Magill, above n 10, para 46.
rights. A refusal to license may constitute an abuse if the exercise of the IP right would involve, on the part of the undertaking, ‘certain abusive conduct’.\textsuperscript{37} In these cases, the Court did not seem to develop a different test for unilateral refusals to license IP from the test which was usually applied to unilateral refusals to deal. In subsequent decisions, the Court extended the scope of Article 82 EC to cover the acquisition by a dominant firm of an exclusive patent licence of an alternative technology\textsuperscript{38} or a refusal to license IP rights in order to defend an existing monopoly power.\textsuperscript{39}

The case law has subsequently moved, however, towards the adoption of a different standard which takes into consideration the specificity of intellectual property rights.\textsuperscript{40} This evolution started in \textit{Magill} with the adoption of the ‘new product rule’, the ECJ refusing to apply to IP rights the essential facilities doctrine, as it does for physical property rights. Applied by some early US decisions to property rights in tangibles, the essential facilities doctrine imposes on dominant firms affirmative duties to assist their competitors.\textsuperscript{41} The justification is that because of the control of an essential facility (sometimes called bottleneck) the monopolist may be able to extend his monopoly power from ‘one stage of production to another’ (leverage theory).\textsuperscript{42}

Under the essential facilities doctrine, a vertically integrated monopolist will be required to share some input in a vertically related market with someone operating downstream. This will be the case only if it is feasible

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\textsuperscript{37} Case 53/87 \textit{Renault} above n 36, para 9 (the ECJ addressed the issue of the possible monopolisation by the automobile manufacturers of the spare parts they were producing, because of the exclusivity conferred on them by the design rights. The examples of abusive conduct that the ECJ gave (arbitrary refusal to supply spare parts to independent repairers, the fixing of prices at an unfair level or a decision no longer to produce spare parts for a particular model) reflect its concern that, by purchasing an automobile (which is a substantial investment), consumers are locked in to a specific automobile manufacturer for a substantial period of time. The manufacturer will therefore be able to exploit its position and extract monopolistic profits. However, the ECJ’s concern is sector specific, as the locked in effect is particularly important regarding automobiles, but not for other products. My position is therefore that these sector specific and consumer protection–like concerns are better addressed by IP law than by competition law, which applies to all sectors and for all types of IP rights. This seems also to be the recent approach of the Commission, which excluded spare parts for complex products from the IP protection of designs).

\textsuperscript{38} \textit{Tetra Pak} above n 35.

\textsuperscript{39} Case T-504/93, \textit{Tiercé Ladbroke SA v Commission} [1997] ECR II–923 (the objective of the French racecourses was not to extend their monopoly in Belgium (leverage theory) but to protect their monopoly in the French market, which could be threatened if the Belgian companies were able to take bets for French races).


\textsuperscript{42} \textit{MCI v AT&T}, 708 F2d 1081 (7th Cir, 1983).
for the monopolist to provide the facility, the competitor would be reasonably and practically unable to duplicate it and the denial of the use of the facility will deprive the competitor of an essential input, thus enabling the dominant firm to extend its monopoly power in a related market. Contrary to the traditional leverage theory, the essential facilities doctrine has a structural and not a behavioural component, in the sense that ‘a monopolist’s status (as the owner of the facility and a competitor in the market that relies on the facility) rather than any affirmative conduct determines liability’.43

The application of the essential facilities doctrine to intellectual property would have limited the ability of IP rights holders to refuse to license their IP rights. The adoption of a more lenient standard for refusals to license IP rights than for other refusals to supply was therefore necessary in order to protect the investments made by the IP holders and their incentives to innovate. Consequently, a refusal to license is considered abusive only if the IP right is an indispensable input and the refusal excludes all competition in the relevant market downstream. These conditions are no different from those applied to tangible property rights. However, the ‘new product or service’ test adopted by the ECJ and the related ‘incentives to innovation’ test developed by the European Commission in the Microsoft decision epitomise the specificity of refusals to license IP rights compared to other refusals to deal.

A. The “New Product or Service” Rule

The ECJ adopted the ‘new product’ rule in Magill, where it held that the exercise of an exclusive right by the intellectual property owner may, in exceptional circumstances, involve abusive conduct.44 By insisting on the requirement that the refusal to license prevented the sale of a new kind of product for which there was unsatisfied demand, the ECJ appeared to consider the necessity to protect innovation in the market. By imposing this condition and by also requiring proof that the secondary market would be monopolised as a result of the refusal to license, the Court implicitly refused the application of the essential facilities doctrine. According to this doctrine, it is the monopolist’s status as the owner of the facility and the reliance on the facility of a competitor in a secondary market that determine liability.45 Contrary to the case law on refusals to license IP rights, the refusal to grant access to an essential facility ‘of itself’ constitutes abuse, even in the absence of other anti-competitive conduct.46

44 Magill above n 10.
45 Hovenkamp, H Janis, M and Lemley, M above n 43, 18.
The ECJ re-affirmed in *IMS/NDC Health* that, except in exceptional circumstances, a refusal to license IP rights cannot by itself constitute an abuse of a dominant position, and therefore refused to apply, as the Commission did, the essential facilities doctrine to IP rights. The ECJ held that these exceptional circumstances exist when the refusal to license is unjustified, prevents ‘the emergence of new products or services’ for which there is a potential consumer demand (‘new product or service rule’) and excludes ‘all competition’ on a secondary market, these conditions being cumulative.

By requiring that the refusal to license should prevent the emergence of new products or services the ECJ implicitly acknowledged the distinction between intellectual property and physical property, as this condition does not exist for a refusal to grant access to tangible property.

The ECJ also explained that the ‘new product or service’ rule (hereinafter referred as ‘new product rule’) limits the finding of abuse for a refusal to license a copyright 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 copyright, 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. It is not clear if the Court meant that the new product rule applies for a refusal to license any intellectual property rights, or only for copyrights. In *Renault* and *Volvo*, both of which involved rights of design on spare parts, the exceptional circumstances were held to exist even if the refusal to license did not impede the emergence of a new product. If the ECJ takes the broad view, then one could conclude that the exceptional circumstances identified in *Renault* and *Volvo* are no longer valid if they do not obstruct the emergence of a new product.

The test adopted by the ECJ is less far-reaching than that proposed by Advocate General Tizzano, who defined the new product rule broadly as covering the situation of a competing undertaking ‘intending to produce goods or services of a “different nature”, which integrate specific requirements not yet satisfied by existing goods and services and which are in competition with those of the owner of the right’.

The ECJ seems to require more than a mere improvement. The product should not be directly substitutable to the products already offered by the

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48 *IMS* above n 11 paras 34–35.
51 *Ibid*, para 49, emphasis added.
52 See also Korah, V above n 40, 145 (‘the remarks of the ECJ in Volvo were not necessary to the decision, whereas those in IMS were’).
53 Opinion of AG Tizzano in Case C-418/01 above n 11, para 62.
intellectual property owner in the secondary market. The standard used by the Court is, however, ambivalent and could give rise to different interpretations. Indeed, some national courts and competition authorities have adopted a restrictive interpretation of the ‘new product rule’ while others have ignored it or have suggested alternative tests. It is, however, clear that the new product rule does not go as far as requiring that the new product constitutes a different relevant market, nor that it should be ‘novel’, according to intellectual property law standards.

Christian Ahlborn, David Evans and Jorge Padilla suggest that the new product is one ‘that satisfies potential demand by meeting the needs of consumers in ways that existing products do not’, ‘bringing in at current prices consumers who were not satisfied before’, and thus expanding the market ‘by a significant amount’. According to the authors, the burden of proof should be allocated to the party requesting the licence, as it is that party that possesses the relevant information and would ultimately have the means to prove that it satisfies the new product requirement.

While this solution has the benefit of being clear and operational, it would create a risk of not covering anti-competitive practices that put innovation and consumers’ interest at risk. As I have already mentioned, cumulative innovation may benefit existing consumers with better quality products without necessarily expanding demand. Innovation also consists of new methods that lower production costs in existing products. Preserving more choice for existing consumers is also an important objective of competition law, even if this does not necessarily expand demand by a significant amount. By focusing on the sole quantity of output this definition of the


56 See in France, Conseil de la concurrence, Rapport Annuel 2004, 141–52 (it is possible to apply the essential facilities doctrine to IP rights) available at www.conseil-concurrence.fr/user/index.php (last visited 20 March 2006); Conseil de la concurrence, Decision 05-D-25, 31 March 2005, Yvert & Tellier (the existence of a potential consumer demand makes the product ‘new’) available at www.conseil-concurrence.fr/user/avis.php?avis=05-D-25 (last visited 20 March 2006); Cour d’appel de Paris, 31 January 2006, NMPP v MLP, RG n° 2005/14782 (the new product rule is not mentioned) and in Germany, Bundesgerichtshof, 13 July 2004, n° KZR 40/02, Standard-Spundfaß (the norm or quasi-norm nature of the patent triggers antitrust liability, without it being necessary to prove the emergence of a new product), Case note, Herrlinger, J and Buch, M (II February 2005) e-Bulletin available at http://concurrences.fr (last visited 20 March 2006).


58 Ibid at 1149.
‘new product’ rule does not take fully into account the implications of refusals to license IP rights to innovation and consumer welfare.

B. The Incentives to Innovation Balance Test: A More Adequate Solution for Cumulative Innovation?

Despite the adoption by the ECJ of the ‘new product rule’ in IMS/NDC Health, the standard used by the European Commission in its Microsoft decision, one month earlier, provides a different starting point in order to achieve the effective protection of innovation and consumer welfare.59 The facts are well known. The Commission considered that Microsoft had infringed Article 82(b) of the EC Treaty by refusing to supply to Sun Microsystems the necessary information enabling them to establish interoperability between their work group server operating systems and Microsoft’s PC operating system Windows. Microsoft has a dominant position on the PC operating market and Windows is the de facto standard for interoperability in work group networks.60

Microsoft was ordered to disclose interoperability information in a reasonable, non-discriminatory and timely way.61 While the Commission did not contemplate compulsory disclosure of the source code of Windows and the disclosure measure covered only interface specifications,62 it acknowledged that ‘it cannot be excluded that ordering Microsoft to disclose such specifications and allow such use of them by third parties restricts the exercise of Microsoft’s intellectual property rights’.63 The specific characteristics of intellectual property rights were not prima facie taken into account. The Commission observed that ‘there is no persuasiveness to an approach that would advocate the existence of an exhaustive checklist of exceptional circumstances and would have the Commission disregard a limine other circumstances of exceptional character that may deserve to be taken into account when assessing a refusal to supply’.64 The infringement decision was certainly largely based on the leverage theory, which was also present in the Magill and IMS/NDC Health cases. Indeed, Microsoft’s refusal to provide interface specifications would have the effect to extend its market power from the client PC operating system market into the work group server operating system market.65

60 Ibid, para 779.
61 Ibid, paras 999–1010.
62 See on the distinction paras 568–572.
63 Ibid, paras 546 and 1004.
64 Ibid, para 555.
65 Ibid, paras 772 and 788.
However, the Commission also referred to the fact that Microsoft's refusal to supply information under Windows 2000 was an illegal disruption of previous levels of supply, under the previous version of Windows. The Commission’s conduct was not just a refusal to supply but also involved, as the ECJ mentioned in the Volvo and Renault cases, ‘certain abusive conduct’. The reference to the previous cases on refusals to supply highlights the non-exhaustive character, according to the Commission, of the ‘exceptional circumstances’ in which a refusal to license IP rights may be considered an abuse of a dominant position, a position which could contradict the judgment of the ECJ in IMS/NDC Health. However, it is still unclear if the ECJ considered in IMS/NDC that the exceptional circumstances were necessary or merely sufficient for the refusal to disclose information to constitute an abuse of a dominant position. That is an issue that will be resolved by the Court of First Instance when it will examine on the merits the Microsoft’s action for annulment of the Commission’s decision.

The Commission also took into consideration as an aggravating factor the fact that Microsoft had previously disclosed part of the corresponding interface specifications in order to gain a foothold in the work group server market for its product. Once Microsoft managed to induce acceptance in the market for its product, the company held back access to information relating to interoperability with the Windows environment.

The dominant company therefore used an open network approach when this was necessary, and gained acceptance for its own product in the market, but after the attainment of this objective it suddenly changed course and refused interoperability. The Commission seemed implicitly to consider that this is not competition on the merits, as Microsoft’s success was partly the consequence of value added to the network by its competitors which were led to believe that Microsoft would continue to provide interoperability. The decision to continue to supply an existing customer is nevertheless an issue that should not come within the realms of competition law, as it will have the result of locking in dominant firms with their existing customers, without them being able to terminate their business relation.

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66 Ibid, para 556. The discontinuance of previous supply was a factor that the ECJ took into consideration in Case 6/73, ICI & Commercial Solvents/Commission [1974] ECR 223.
67 Volvo v E Veng above n 36, para 9 and CICCRA v Renault above n 36 para 17.
68 Cf Korah, V above n 40, 144 (the exceptional circumstances in IMS/NDC Health are exhaustive) with Anderman, S ‘Does the Microsoft Case Offer a New Paradigm for the Exceptional Circumstances Test and Compulsory Copyright Licenses under EC Competition Law?’ (2004) 1 Competition Law Review 7, 13–14 (exceptional circumstances in IMS were not exhaustive).
70 Microsoft/W2000, above n 8, para 584.
71 Ibid, para 588.
other than by relying on a possible objective justification, which is ‘particularly inappropriate in fast changing markets’.\(^\text{72}\)

It should be remembered, however, that the issue in the Microsoft case was not a refusal to supply or to license a specific firm but a general pattern of conduct refusing interoperability. Even if the Commission’s reference to the case law on disruption of existing supplies may give the impression that there is no limiting principle for the duty to supply an existing customer, the Commission’s decision should be considered in the context of the need to maintain interoperability and should not be extended to refusals to license. European competition law seeks to protect the competitive process, and it is tolerably clear that a refusal of interoperability from a de facto industry standard hurts the competitive process, as it denies competition between different technological standards. Open access is also the most appropriate strategy for enhancing cumulative innovation.

It is also noteworthy that the Commission avoided any reference to the new product test. In this context, Microsoft’s conduct did not have such an effect, as there was no new product to be produced or marketed by its competitors in the work group server market. The Commission’s decision seems to be in contradiction to the position followed by the ECJ in IMS/NDC Health. The balance test proposed by the Commission however, reflected, its concern that Microsoft’s conduct could reduce the incentives of its competitors to innovate\(^\text{73}\) (and produce new products in the future) as well as limit consumer choice.\(^\text{74}\)

Microsoft has put forward the same justification as in the US litigation: the need to protect its own incentives to innovate by preserving its intellectual property rights.\(^\text{75}\) The Commission rejected that claim by affirming that intellectual property rights ‘cannot as such constitute a self-evident objective justification for Microsoft’s refusal to supply’.\(^\text{76}\) In that respect it followed the position of the Federal Circuit in the US Microsoft case.\(^\text{77}\)

The Commission considered that innovation is an objective for both intellectual property and competition law\(^\text{78}\) and adopted a balance test focused on innovation incentives, concluding that:

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\text{a detailed examination of the scope of the disclosure at stake leads to the conclusion that, on balance, the possible negative impact of an order to supply on}
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\(^\text{72}\) Hovenkamp, H Janis, M and Lemley, M above n 43, 34; Ahlborn, C, Evans, D and Padilla, J above n 57, 1146.
\(^\text{73}\) Microsoft above n 8 para 694.
\(^\text{74}\) Ibid, para 700.
\(^\text{75}\) Ibid, para 709.
\(^\text{76}\) Ibid, para 710.
\(^\text{77}\) US v Microsoft Corp., 253 F 3d 34, 63 (DC Cir, 2001) (Microsoft’s argument that the exercise of an intellectual property right cannot give rise to antitrust liability ‘borders on the frivolous’).
\(^\text{78}\) Microsoft above n 8, para 712.
Microsoft’s incentives to innovate is outweighed by its positive impact on the level of innovation of the whole industry (including Microsoft). As such the need to protect Microsoft’s incentives to innovate cannot constitute an objective justification that would offset the exceptional circumstances identified.79

On examination, the test seems broader than the ‘new product’ rule. First, the Commission takes into account the incentive of the competitors of the dominant firm to innovate in the future. This was not an issue considered in *Magill* and *IMS/NDC Health*, where the question was about products which, absent the refusal to supply, had been sold or were to be offered in the market.

Secondly, the Commission included in its analysis Microsoft’s incentive to innovate. In *Magill* and *NDC Health* the Court only referred to the dominant firm’s competitors, which had the intention to enter the secondary market in order to offer a new product and were excluded by the dominant firm. However, in *Microsoft*, the Commission also took into account Microsoft’s incentives to innovate in comparing the situation where Article 82 applies with the alternative situation where Microsoft’s anti-competitive behaviour remains unfettered.80 According to the Commission:

Microsoft’s research and development efforts are spurred by the innovative steps its competitors take in the work group server operating system market. Were such competitors to disappear, this would diminish Microsoft’s incentives to innovate.81

In other words, because of the nature of the market, Microsoft’s incentive to innovate was maintained, while that of its competitors was also preserved.

The analysis of the incentive of a dominant firm or of its rivals in the secondary market to innovate extends the scope of Article 82 in comparison with the new product rule. This is based on the assumption that competitive pressure increases the dominant firm’s incentive to innovate. This is also linked to the belief that a competitive market is the optimal structure for innovation. Surprisingly, while the Commission focused its analysis on innovation incentive, it also affirmed that ‘intellectual property rights are not in a different category to property rights as such’.82 The case law of the ECJ on physical property rights does not, however, adopt the new product rule or include any dynamic efficiency consideration in balancing property rights with competition policy concerns.83

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80 *Ibid*, para 725.
81 *Ibid*, para 725.
83 Oscar Bronner, above n 50 para 41.
C. The Discussion Paper on Article 82 EC and the Intellectual Property–Antitrust Interface

The recent DG Competition discussion paper on the application of Article 82 EC to exclusionary abuses also highlights the specific anti-trust standards applied to refusals to license intellectual property rights. Innovation is acknowledged as one of the objectives of competition law, which should take into account ‘both the effect of having more short-run competition and the possible long-run effects on investment incentives’. The discussion paper integrates refusal to license IP rights into the chapter on refusals to supply. It examines three situations of refusal to supply without, however, ruling out that there may be others: the termination of an existing supply relationship, the situation where one or more companies are refusing to start supplying an input and where this input consists of information necessary for interoperability.

An existing supply relationship creates a ‘rebuttable presumption that continuing these relationships is pro-competitive’. This presumption may have far-reaching consequences for the ability of a dominant undertaking to choose its own business partners or to extend its own activities. It is noteworthy that the Commission does not distinguish between intellectual property rights and other property rights. A decision to terminate or renew a licence of IP rights previously granted may also fall within this presumption. The plaintiff or the Commission would need to prove that the dominant firm’s behaviour in reality amounts to a termination which is likely to have a negative effect on competition in the downstream market. The burden of proof then shifts to the defendant, who has the difficult task of claiming objective justifications and efficiencies as a possible defence of its conduct.

The Commission’s approach to first refusals to supply an input is more lenient, but still restrictive. The plaintiff needs to prove that the refusal to supply an indispensable input is likely to have a distorting foreclosure effect. The input may be an intellectual property right, as it is sufficient to identify a captive, potential or hypothetical market. According to the Commission, ‘such is the case where there is actual demand for the input on the part of undertakings seeking to carry out the activity for which the input is indispensable’. The Commission follows the ECJ’s decision in IMS/NDC, where it was held that for Article 82 to apply one should identify two different and interconnected stages of production, the intellectual property right forming one stage of the production process. The

84 DG Discussion Paper above n 13 paras 237–42.
85 Ibid, para 213.
86 Ibid, para 217.
87 Ibid, para 227.
88 IMS, above n 11 paras 44–45.
Commission should nevertheless have taken into consideration that in IMS/NDC the ‘1860 brick structure’ was a de facto industry standard, which is not the case for every IP right. The burden of proof then shifts to the dominant undertaking, which may claim, as a possible defence, objective justifications and efficiencies.

Adopting an ex ante perspective, the discussion paper insists on the need to consider whether the investments that led to the existence of the indispensable input would have been made ‘even if the investor had known that it would have a duty to supply’. The importance of the investments made for the acquisition of the intellectual property right initiates a distinction between valuable (in the sense of the investment made) and not so valuable IP rights. The test will be difficult to apply and also raises the question whether this is a slight incursion into the existence/exercise dichotomy. In order to avoid the latter the Commission interestingly adds that, if the investments have not been particularly significant, ‘it may be likely that the investment would have been made even knowing that a duty to supply would be imposed’.

While the previous paragraphs may imply that the Commission does not distinguish between intellectual property rights and physical property rights, the ambiguity is cleared definitively in the discussion paper’s specific section on unilateral refusals to license IP rights. The Commission repeats that it is only under exceptional circumstances that the refusal to license may constitute an infringement of Article 82 EC.

The Discussion paper suggests the adoption of two tests: the ‘new product rule’ and the ‘incentives to innovate’ test, thus confirming the distinction made between IP rights and other property rights. First, in order to constitute an infringement, the refusal to grant a licence should prevent:

the development of the market for which the licence is an indispensable input, to the detriment of consumers. This may only be the case if the undertaking which requests the licence does not intend to limit itself essentially to duplicating the goods or services already offered on this market by the owner of the IPR, 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.

Secondly,

a refusal to licence an IPR protected technology which is indispensable as a basis for follow-up innovation by competitors may be abusive even if the licence is not sought to directly incorporate the technology in clearly identifiable new goods and services. The refusal of licensing an IPR protected

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89 DG Discussion Paper above n 13 para 236.
90 Ibid.
91 Ibid, para 239.
technology should not impair consumers’ ability to benefit from innovation brought about by the dominant undertaking’s competitors’.92

The objective followed by the Commission is clear: ensure the compatibility of the balance of incentives test with the ‘new product rule’ adopted by the ECJ. This objective is achieved. By requiring the proof that the refusal to license may prevent the emergence in the future, of innovation which could take the form of new products, this test is compatible with the ‘new product rule’ standard of the ECJ. If it may have the effect of extending the scope of Article 82, this is because the balancing innovation incentives test takes fully into account the objective of protecting cumulative innovation, which is an issue that has not been adequately addressed by the ‘new product rule’. Indeed, the ‘new product rule’ is formalistic and does not take into consideration the situation where the IP holder occupies a prospect and blocks the entry into this prospect (or innovation) market of rivals that could develop new products and technologies in the future. Rochelle Dreyfuss is right to observe that ‘[i]f the emergence of new products and nascent technologies are impeded, competition law ought to step in’ because ‘clearly, such ex post limitations on licensing practices are less intrusive into the incentive system than restructuring intellectual property law ex ante and across the board’.93

The implementation of this test in practice could, however, give rise to difficulties. The courts are not generally well equipped to conduct the type of prospective cost-benefit analysis that would be necessary in order to balance the incentives of the dominant firm and its rivals to innovate. In that respect, Microsoft was a relatively easy case. The Commission did not undertake the difficult task of balancing incentives to innovate, as it assumed that the incentives of Microsoft were not hampered by the prohibition of the refusal to supply interoperability. However, if the dominant firm’s incentives to innovate were affected by the prohibition of the refusal to license, it would be necessary to conduct a proper cost-benefit analysis, which may prove a difficult task for the judiciary, at least in the absence of detailed guidelines.

In addition, the discussion paper identifies refusals to supply information for interoperability (the situation that arose in the Microsoft decision) as a specific case of refusal to supply.94 The necessary elements to be considered are the conditions that normally apply to refusal to supply a new customer

92 Ibid, para 240.
94 DG Discussion Paper above n 13 paras 241–42.
and the existence of a leveraging effect. However, these conditions do not apply if the refusal to provide interoperability involves IP rights, the later being examined according to ‘high standards for intervention’.95

D. The Need to Apply an Overall ‘Decision Theory’ Framework

It should be clear by now that the case law has developed multiple standards in order to tackle the anti-competitive exercise of intellectual property rights. Despite the use of the ‘property rights’ rhetoric, the competition law authorities and the courts do not apply the essential facilities doctrine and take into account the need to protect innovation. The standards used are nevertheless complex and fact-specific, and ultimately a source of uncertainty for firms.

The need for an overall approach is highlighted by Ahlbors, Evans and Padilla, who suggest an ‘error-cost framework’, which is structured in two stages. First, economic theory and evidence will be used ‘to assess the cost and likelihood of errors resulting from condemning welfare-increasing business practices or condoning welfare reducing ones’; in a second stage, ‘a legal rule that minimizes the expected cost of intervention taking into account the possibility of legal error’ will be ‘selected from a spectrum of standards ranging from per se legality to per se illegality, including the rule of reason’.96 The authors start from the assumption that ‘what matters is the impact of forcing access on the incentives to innovate, and not the nature of the property rights at stake’.97 What applies to intellectual property rights should also apply to other property rights, as both are ‘the result of previous investment or risk taking’.98

This starting position may be criticised, as it is not always true that IP rights are the result of significant previous investment or risk taking. In addition, this approach does not take into account the different degrees of ‘previous investment and risk taking’. An insignificant inventive effort will be considered in the same way as a significant one would be. The authors’ assumption may be explained by the fact that they try to avoid the difficulties of balancing incentives to innovate with anti-competitive effects (allocative inefficiencies), which, they consider, is ‘an extremely complex’ and ‘daunting task’ for courts.99 However, even if one could agree that this is an important issue which has not yet been resolved, it is not a valid reason for

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95 Ibid.
96 Ahlborn, C Evans, DS and Padilla, J above n 57, 1129.
97 Ibid, 1141.
98 Ibid, 1156 (‘a similar approach should be applied to the assessment of unilateral refusals to provide access to physical infrastructure or to any other tangible or intangible property’).
adopting such a strong assumption. If courts are considered able to conduct a rather complex balancing approach and take into account dynamic efficiencies in implementing article 81(3) EC, there is no reason why they cannot be able to exercise the same kind of analysis in implementing Article 82 EC.

Based on their first assumption, the authors advocate that ‘the optimal legal standard for the antitrust assessment of refusals to license IP by dominant companies takes the form of a modified \textit{per se} legality rule, where compulsory licensing is required only in exceptional circumstances’.\textsuperscript{100} This is the case only when compulsory licensing is ‘most likely to result in a long-run welfare increase’.\textsuperscript{101} However, the standard proposed is, in reality, a \textit{per se} legality one, as the authors add that ‘there is no practical way to restrict compulsory licensing to those situations in which it would necessarily improve consumer welfare in the long run’.\textsuperscript{102} This conclusion stems from another assumption that may also be criticised. According to Ahlborn, Evans and Padilla, the existence of compulsory licensing will inevitably reduce the incentive \textit{ex ante} for the IP holder to take the risk for investing in new products.\textsuperscript{103} However, even if this hypothesis may be a plausible generalisation, it does not always hold.\textsuperscript{104} The increasing competition in the secondary market will exercise pressure on the IP holder to innovate, as this will be the only way of maintaining its competitive advantage over its competitors. The disincentive created by the compulsory licence may well exist, but it is also important to consider that the IP holders will still have a first mover advantage as it would probably not be before a substantial period of time that their rivals would be able to compete in equal terms. Moreover, it would be possible for the inventor to increase his revenues from licensing.

Furthermore, Ahlborn, Evans and Padilla apply the ‘cost-error framework’ to anti-trust but not to intellectual property, which, they assume, is the outcome of a meritorious investment and ‘risk taking’ process.\textsuperscript{105} However, this double standard is not justifiable. Ironically, this approach supposes that decision analysis theory may be useful for assessing antitrust, which is essentially a judge-made law that follows an adversarial process, but not for examining IP rights, which are granted by a regulatory body, and therefore it is more likely to be subject to decision errors or capture.

\textsuperscript{100} Ibid, 1143.
\textsuperscript{101} Ibid.
\textsuperscript{102} Ibid.
\textsuperscript{103} Ibid, 1129.
\textsuperscript{104} For a more extensive analysis of this argument, see Ritter, C ‘Refusal to Deal and Essential Facilities: Does Intellectual Property Require Special Deference Compared to Tangible Property?’ (2005) 28 World Competition 281, 294–7.
\textsuperscript{105} Ahlborn, Evans, DS and Padilla, AJ above n 57, 1141.
Indeed, the protection of IP has expanded considerably in the last 20 years following the transformation of economic structures and the focus on international competitiveness. Even trivial ‘inventions’ may benefit from IP protection. The ex post case-by-case analysis of competition law may in certain regards be superior to the ex ante approach of intellectual property, as ‘market information available when IP rights are granted is not as complete as the information available when antitrust cases arises’.

In addition, the protection of intellectual property is backward looking. The examination of the patent application focuses on the ‘prior art’, and there is no assessment of the existence of possible substitutes or potential competition. The problem is particularly acute in emerging industries where prior art is difficult to locate, as it is disseminated in scientific journals or in the form of informal know how, with the result that the patent officer’s examination can easily be flawed.

Type I errors (over-expansion of IP rights) are therefore more likely to happen than type II errors (under-inclusiveness of IP protection). By limiting the negative effects of type I errors, caused by broad intellectual property protection, competition law is a necessary complement to intellectual property law.

On the above basis, competition law’s intervention is justified if IP law has failed to guarantee the level of innovation in the market. This is what happened in Magill where intellectual property rights were granted to simple data without any inventive effort having been made. The European Community’s Directive on the legal protection of databases, which provides high levels of protection for databases, may illustrate the side-effects of careless intellectual property protection. The Directive was adopted following an intense lobbying effort by database companies and is a compromise between the lower ‘sweat of the brow’ copyright protection that was granted to databases in some EU Member States (eg, UK, Ireland) and the higher standard of copyright protection granted by other Member States (eg France). It established a legal framework giving a high level of copyright protection to ‘original’ databases which, ‘by reason of the selection or arrangement of their contents constitute the author’s own intellectual creation’.

106 May, C and Sell, SK above n 4, 143.
107 See the examples quoted by Jaffe, A and Lerner, J above n 21, 32–35 (eg, a patent on ‘sealed crustless sandwich’ or a patent on a ‘method of exercising a cat’, which obviously are not examples of meritorious investment and ‘risk taking’).
108 Ritter, C above n 104, 287.
110 Dreier, T ‘Balancing Proprietary and Public Domain Interests: Inside or Outside of Proprietary Rights?’ in Dreyfuss, R Zimmerman, D and First, H (eds) Expanding the Boundaries of Intellectual Property (Oxford, OUP, 2001) 295, 312 (antitrust remedies ‘should be reserved for exceptional situations where intellectual property law has failed’).
111 Directive 96/9/EC above n 14.
112 Art 3 (1) of ibid.
and a new form of ‘sui generis’ protection to non-original databases if the
‘maker’ of the database showed ‘that there has been qualitatively and/or
quantitatively a substantial investment in either the obtaining, verification or
presentation of the contents’ of the database.113

The Directive protects a simple compilation of existing basic informa-
tion, which is the result of some kind of investment. The objective of this
form of IP protection is therefore not to protect innovation but to protect
the investments of the database ‘makers’ against the ‘parasitic behaviour’ of
free riders.114 The ‘sui generis’ protection granted has the potential to pro-
duce important anti-competitive effects. Contrary to copyright protection,
which distinguishes between the idea, which stays in the public domain, and
the expression of the idea, which is protected, the database directive gives
the chance of excluding the re-utilisation of the data by others. This is par-
ticularly risky for competition, ‘in cases, where a database is the only pos-
sible source of the data contained therein, such as telephone directories, tel-
vision program listings or schedules of sporting events’ and may result in
‘an absolute downstream information monopoly in derivative information
products and services’.115

In response to this risk, Article 16 of the Directive required the Com-
misson to submit a report examining whether the application of the sui
generis right ‘has led to abuse of a dominant position or other interference
with free competition which would justify appropriate measures being
taken, including the establishment of non-voluntary licensing arrange-
ments’. Indeed, while the first proposal of the Database Directive provided
for the possibility of compulsory licensing in order to limit the risk of anti-
competitive effects, these provisions were removed from its final version,
which limited the right of the database ‘maker’ only in exceptional circum-
stances.116 This is probably why recital 47 provides that the Directive is
without prejudice to the application of Community or national competition
rules, therefore making it possible to limit the rights of the database ‘mak-
ers’ through competition law. The application of competition law can there-
fore be seen to be triggered by the failure of the text of the database Directive
to take properly into account the protection of cumulative innovation and
competition.

The national courts and the ECJ have interpreted the ‘quantitative sub-
stantial investment’ requirement of the Directive restrictively in order to

113 Art 7(1) of ibid.
115 Hugenholtz, PB ‘Abuse of Database Right: Sole-Source Information Banks under the EU
Database Directive’ in Lévêque, F and Shelanski, H (eds), above n 43, 203.
OJ 1992 C 156/4, Art 8(1) and (2).
avoid the emergence of anti-competitive effects. Indeed, the ECJ curtailed the scope of the protection by explicitly refusing to adopt the ‘spin off’ doctrine, developed by some Dutch courts, which would make it possible to provide *sui generis* protection for databases generated as ‘by-products’ of the main activities of the database ‘maker’ over which the latter has a *de facto* monopoly (e.g., television programme listings, railway schedules, etc), which is the situation that arose in *Magill*.

The ECJ distinguished between creating and obtaining data in order to assemble the contents of a database. It also considered that the activity of creating materials that make up the content of a database did not constitute substantial investment in the sense of the directive, and that therefore a single-source database was not protected under *sui generis* rights.

By adopting a narrow interpretation of the scope of the Directive the Court avoided the situation where single-source databases would benefit from the *sui generis* protection and as a result enable the database ‘makers’ to abuse their dominant position over the information they create. The recent evaluation report on the Database directive also considers the risk of potential anti-competitive effects and examines different options for its future, ranging from the simple repeal of the Directive to the preservation of the status quo. While the Commission notes the ‘attachment’ of the EU database industry to *sui generis* protection for factual compilations and their ‘considerable resistance’ to any reform (an indication of the ‘specific-interest group’ character of this legislation), it also remarks on the weak empirical support for such a system of protection. Alternatives for protecting the investments made that are less restrictive exist. Indeed, the United States opted for a system of liability and not of property rights in protecting the investments of the database ‘makers’.


119 *Fixtures Marketing Ltd v Oy Veikkaus Ab* above n 117 para 34.


121 First Evaluation of Directive 96/9/EC on the legal protection of databases, above n 114, 5.

122 *Feist Publications v Rural Telephone Service Company*, 499 US 340 (1991) (the Supreme Court refused to accept that information contained in a telephone directory could be protected under copyright laws. A database may be copyrighted only if it possesses some ‘minimal degree of creativity’).
is based on unfair competition principles which protect the database ‘maker’ against misappropriation only if, as a result, there will be market harm.\textsuperscript{123}

The limitation of the scope of intellectual property protection makes it possible also to consider \textit{ex ante} (before the grant of the IP right) the effects on competition of intellectual property protection and therefore constitutes a conceivable option for attaining the right balance between competition law and intellectual property.\textsuperscript{124} The European Commission’s recent proposal to amend Directive 98/71/EC on the legal protection of designs\textsuperscript{125} illustrates the dialectic relationship between the scope of IP rights and competition law.\textsuperscript{126} By removing Members States’ option to provide design protection for spare parts of complex products, such as motor vehicles, the Commission seeks to avoid the constitution of monopolies in the aftermarket for spare parts for which ‘there is no practical alternative’.\textsuperscript{127} The proposal codifies the case law of the ECJ in \textit{Renault} and \textit{Volvo},\textsuperscript{128} whose effect could have been curtailed by the generalisation of the ‘new product rule’ to all refusals to license IP rights, following the ECJ’s judgment in \textit{IMS/NDC} some months earlier.\textsuperscript{129}

However, limitation of the scope of the IP rights is not always easy to achieve, especially because this will necessitate the harmonisation of national intellectual property laws and the emergence of a unified intellectual property enforcement system. A more viable option would be to ‘internalize’ competition law concerns within intellectual property by developing ‘built-in balancing factors in intellectual property laws’.\textsuperscript{130} This also constitutes an important difference between IP and physical property rights.


\textsuperscript{124} The adjustment of the duration of the IP protection is another option. See, Kaplow, L ‘The Patent–Antitrust Intersection: A Reappraisal’ (1984) 97 Harvard Law Review 1813, 1840 (‘setting the patent life and determining patent-antitrust doctrine are interdependent endeavors; in other words, the system of equations that defines the optimization process must be solved simultaneously’ and at 1841: ‘the ideal institutional arrangement would involve a single entity with control over both policy instruments’). However, this is unlikely to happen as the duration of the IP protection is usually determined by international treaties, which is impossible or extremely difficult to amend.


\textsuperscript{127} \textit{Ibid}, 9.

\textsuperscript{128} See above n 36 and 37.


\textsuperscript{130} Rahnasto, I above n 3, 64.
IV. THE INTEGRATION OF COMPETITION LAW CONCERNS IN INTELLECTUAL PROPERTY LAW

Intellectual property has developed its own mechanisms in order to set limits on abusive exploitation of intellectual property rights. There are different IP instruments that restrict the patentee’s rights *ex post*. According to the exhaustion doctrine, the rights of the patent holder are ‘exhausted’ after first sale by the right-owner or with his consent. However, this doctrine relates to the free circulation of the goods embodying the patent right and does not solve one of the main issues covered by this article, the possibility of the patent-holder to block cumulative innovation. The reverse doctrine of equivalents and compulsory licensing may in these circumstances provide a more adequate tool for protecting cumulative innovation. However, none of these instruments covers pure competition law concerns, such as the leveraging of the monopoly power granted by the exclusive right to an adjacent market or the strategic use of the IP right in order to increase rivals’ costs, to the detriment of consumers.

The patent misuse doctrine addresses these specific concerns. The doctrine was created in the US with the objective of avoiding the leveraging by patent holders of their monopoly power from the patented goods market to another market that was previously competitive. It was later extended to cover other commercial practices, such as tying, minimum resale price maintenance and non-competition clauses, but not unilateral refusals to deal. While having characteristics that distinguish it from the US patent misuse doctrine, the evolution of the misuse rule in Britain is not materially different. Established by the UK Patents Act of 1907 and embodied in

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132 The reverse doctrine of equivalents in US patent law provides an excuse from infringement liability when the subservient innovation adds a considerably important value to the pioneer invention. Merges, RP and Duffy, JF *Patent Law and Policy: Cases and Materials* (Lexis Nexis, 2002) 1000; A recent decision of the Federal Circuit (*Tate Access Floors, Inc v Interface Architectural Res, Inc*, 279 F.3d 1357, 1368 (Fed Cir 2002)) has cast doubt on the continuing validity of the doctrine but, in the absence of a Supreme Court precedent, it is still good law.
133 According to S 49 of the Patents Act 1977, once a British patent has been granted, the Comptroller has the discretion to grant compulsory licensing after balancing a variety of considerations.
134 The patent misuse doctrine constitutes an affirmative defence to an action for patent infringement, the counter-claimant defendant arguing that the patentee is improperly attempting to extend the scope of the patent or is violating antitrust laws. On the patent misuse doctrine in US law, see ABA Section of Antitrust Law Intellectual Property Misuse: Licensing and Litigation (Chicago, ILL, ABA Publishers, 2000).
135 *Dawson Chem Co v Rohm & Haas Co*, 448 US 176 (1980). See also S 271(d) of the Patent Act, which was added by the Patent Misuse Reform in 1988 and which provide that ‘no patent owner otherwise entitled to relied for infringement or contributory infringement of a patent shall be denied relied 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’.
section 44 of the UK Patents Act of 1977, it was restrictively construed by the courts and essentially covered tying arrangements. Section 44 of the UK Patents Act was finally repealed by section 70 of the Competition Act in 1998 in order to bring UK legislation into line with EC competition law, which exempted certain tying arrangements from the application of Article 81 EC.136

A stronger internalisation option would be to consider competition law concerns in defining patentability. A recent report of the Federal Trade Commission recommends that the Patent and Trademark Office (PTO) should consider ‘possible harm to competition along with other possible benefits and costs, before extending the scope of patentable subject matter’.137 The Report also proclaims the need to ‘expand consideration of economic learning and competition policy concerns in patent law decision-making by increasing communications between the PTO and the antitrust agencies’.138 These recommendations insist on the importance of trans-disciplinary links between IP and competition law and illustrate the fact that intellectual property and competition law are becoming a unified field.139

There is a danger that the rhetoric of ‘property rights’ may artificially impede that trend. Indeed, ‘propertarianism’ (and the possible slippery slope towards the concept of subjective rights) may render difficult the infusion into intellectual property of a degree of instrumentalism.140 The conception of intellectual property as a form of regulation may provide a better starting point.

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138 Ibid.
140 For a definition of this concept, see Drahos, P A Philosophy of Intellectual Property (Aldershot, Dartmouth, 1996) 214. It should be noted that, contrary to the legal conception of ‘property rights’, economic analysis of law fully adheres to the instrumental approach and considers property rights as a form of collective action in the market place along with other tools such as direct regulation, liabilities, rewards and taxes. See Shavell, S Foundations of Economic Analysis of Law (Cambridge, Mass, Belknap Press of Harvard University Press, 2004) 93–4; Posner, R above n 22, 47 (distinguishing between ‘formal property rights’ and the way economists describe them as ‘every device—public or private, common law or regulatory, contractual or governmental, formal or informal—by which divergences between private and social costs or benefits are reduced’); Krier, JE ‘The (Unlikely) Death of Property’ (1990) 13 Harvard Journal of Law and Public Policy 75, 76 and 78 (‘[regulation and property] are simply variations in a more general category of operational techniques. Property is just a system of regulation and vice versa’).
V. IP AS A FORM OF REGULATION

An instrumental approach presents the advantage that it avoids the danger of considering IP rights as monopolies or, as Drahos puts it, ‘monopoly privileges’. The terminology of ‘monopoly privileges’ does not, however, avoid the pitfall of considering that an exclusive right is automatically a monopoly. Drahos uses the term ‘monopoly’ because it has a negative connotation and therefore could give more strength to his argument on the necessity to impose duties on the holders of IP rights. The term ‘privilege’ is also used for the same reason.

Nonetheless, Drahos’ definition of IP rights as ‘monopoly privileges’ which give rise to corresponding duties does not avoid an internal inconsistency: how is it possible to argue that something is still a ‘privilege’ if at the same time it generates duties to the privilege holder? When does a privilege increasingly burdened with duties stop being a privilege? Drahos’ definition also links the existence of duties to the idea of monopoly privilege and assumes that these are constant. If someone benefits from the same privilege as another person, both should be burdened with the same duties. However, this is not always true. The duties imposed on patent holders vary. A patent holder without a dominant position on the relevant market does not incur the same duties as a patent holder with a dominant position when deciding to adopt a tying practice. The nature of the ‘monopoly privilege’ of both patent holders is nevertheless the same. Therefore, it seems necessary to search for another concept which will be flexible enough to take into account the different situations. The concept of regulation avoids the negative connotation of the term ‘monopoly privilege’ and is flexible enough to facilitate more effective interaction between IP and competition law.

However, it would be wrong to define a priori an abstract point of equilibrium between intellectual property and competition law which should be achieved anyway. This is a matter for the courts and regulators to resolve on a case–by–case basis. My analysis does not have the ambition of conceptualising in general IP rights as a form of regulation but of finding adequate terminology with which to frame the competition law discourse on IP. I will compare the practical implications of the terminology of ‘regulation’ on the anti-trust law–IP interface with those of the rhetoric of ‘property rights’ and will conclude that the terminology of ‘regulation’ is better suited to the constitution of a dialectical relation between competition law and intellectual property. This is not to deny that IP lawyers may take the view that in other circumstances property rights terminology will be more appropriate.

141 Drahos, P above n 140, 223–4.
A. The Regulatory Theory of IP

The idea is not a new one. In his concurring opinion in the *Picard v United Aircraft Corp.* in 1942, Judge Frank of the Second Circuit court of appeals analysed patents as ‘public franchises, granted by the government, acting on behalf of the public’. Endorsing the view that patents were monopolies was nevertheless for him ‘superficial thinking’, as patents may be a stimulus to competition and may offer the opportunity to small firms to compete with important corporations and attract investors. The problem therefore ‘is not whether there should be monopolies but rather, what monopolies there should be, and whether and how much they should be regulated’. Judge Frank observed that if patents are viewed as public franchises:

> it is, accordingly, appropriate to ask whether the holder of such a public franchise should be permitted, without any governmental control whatever, to decide that no public use should be made of the franchise during its life or only such public use as the franchise-holder, in its utterly unregulated discretion, deems wise, and at such prices as it sees fit to extract. We accord no such powers to the holder of a public franchise to run a bus line or to sell electric power.

Although there are differences between public franchises on networks and public franchises for innovation purposes, the parallelism drawn by Judge Frank is particularly useful for the analysis and is compatible overall with the historical roots of intellectual property. The protection of ‘monopolies’ in new inventions and the situations of natural monopoly in network industries may indeed be considered as the two remaining exceptions to the traditional common law principle as well as to the prohibition of monopolies, now enshrined in competition law. Their nature as exceptions to the rule inevitably raises questions concerning possible ‘regulatory’ constraints to the ‘monopolist’s’ actions. The study of the evolution of public franchises in the late nineteenth century can provide an interesting illustration of the inevitable substitution of long relational contracts, such as public franchises, with regulation. Patents may also ‘fit the model of

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142 *Picard v United Aircraft Corp*, 128 F 2d 632, 645 (2nd Cir 1942), Judge Frank (concurring opinion)

143 *Ibid.*, 643 (‘the threat from patent monopolies in the hands of such outsiders may create a sort of competition—a David versus Goliath competition—which reduces the inertia of some huge industrial aggregations that might otherwise sluggish’).

144 *Ibid*.


146 See also Anderman, S above n 68, 22 (IP rights can be viewed as ‘a form of licence or leasehold conferred by the state’).

the relational contract, particularly if one views the patent owner and the state as engaging in a long-term, open ended contract’. 148

The term ‘regulation’ is predominantly taken to refer to a form of collective intervention with the aim of correcting market failures. 149 IP rights impose obligations on third parties, not as a consequence of a contract, tort or voluntary exchange, but because of the direct intervention of the government, which aims to ‘stimulate particular activities to foster the general welfare’. 150 Consequently, IP rights ‘have nothing to do with the classical notion of property, but rather have to be qualified as a kind of government intervention in the market place’. 151 By conferring property rights on ideas, the government seeks not only to facilitate market transactions, as is the case for physical property rights, but also to correct a market failure, which is in this case ‘free riding that occurs when innovations are too easily copied, and the corresponding decrease in the incentive to innovate’. 152 This is a fact that is often forgotten by the ‘extreme free marketers’, who ‘might rail at the excesses of regulation or antitrust’ but ‘they tend to accept the system of intellectual property rights as if it were handed from a mountaintop’. 153 Yet, as Hovenkamp observes:

IP laws create property rights. But so do state created exclusive franchises and filed tariffs. In fact, the detailed regulatory regimes that we call the IP laws are filed with very rough guesses about the optimal scope of protection – ranging from the duration of patents and copyrights to the scope of patent claims and fair use of copyrighted material. The range of government estimation that goes on in the IP system is certainly as great as in regulation of, say, retail electricity or telephone service. Further, the IP regime is hardly immune from the legislative imperfections that public choice theory uncovers. 154

Other authors have criticised the reward theory of patents, which ‘emphasises only one dimension of the patent instrument—compensation for innovation—and ignores the role of patents as means of regulating markets’. 155 The same point is also made by Bently and Sherman, for whom patents are ‘regulatory tools’ which are used by governments in order to achieve

150 Bouckaert, B above n 23, 805 (IP rights ‘are exogenous to the inner logic of private law’ and ‘the only difference (with government regulation) is that the users of the ideas compensate producers directly without the intermediation of the government’).
151 Ibid, 806.
152 Hovenkamp, H above n 24, 228.
154 Ibid, 337.
155 Ghosh, S above n 148, 1351.
economic as well as non-economic ends. For example, the patent offices should also take into account ‘the external effects of the impact of technology on the environment or health’.

Furthermore, Burk and Lemley argue that patent law is an industry- and technology-specific regulation. Different patent theories, such as prospect patents, incentives, cumulative innovation and anti-commons operate differently according to the particular industry’s settings. Exploring the enforcement of patents in the US, Burk and Lemley identify several ‘policy levers’, which help the patent offices and the courts to frame IP doctrines which correspond to the needs of cumulative innovators and consumers. The existence of sector-specific IP protection on semi-conductors, software, medicinal products and biotechnology in Europe may better illustrate the point.

B. Implications for the Competition Law–Intellectual Property Interface

The regulatory theory of IP may provide a better platform than the ‘property rights’ rhetoric for establishing a dialectical relationship between competition law and IP. In particular, it will allow consideration of the internalisation of competition concerns within the IP regime, while avoiding the application of the essential facilities doctrine.

The example of the Microsoft case is worthy of note. Microsoft argued that Article 6 of the EC Software Directive provided an adequate remedy for competition law concerns, as it authorised the decompilation of ‘parts of a software program’, without the permission of the copyright holder, if this was ‘indispensable to obtain the information necessary to achieve the interoperability of an independently created computer program with other programs’. While this possibility was subject to certain

156 Bently, L and Sherman, B above n 136, 329.
157 Ibid.
160 Ibid, 1687–1689 (eg, while it is necessary to assure a broad patent protection for biotechnological and chemical inventions, ‘because of their high cost and uncertain development process’, this is not the case with the software industry).
conditions. Microsoft argued that the balancing of IP with competition law concerns had already been done by the Software Directive, which provided a standard of ‘full interoperability’. Accordingly, the application of Article 82 was redundant and would have ‘upset the careful balance between copyright and competition policies struck by the Software Directive’.

The Commission refused Microsoft’s claims. Taking a dogmatic approach, it emphasised the quasi-constitutional character of Article 82, which cannot be ‘superseded’ by ‘secondary Community legislation’. The Commission remarked that the Software Directive simply provided for a passive duty of interoperability. In any event, recital 27 of the Directive explicitly stated that its provisions were without prejudice to the application of competition rules under Articles 81 and 82 EC. However, while affirming the primacy of Article 82, the Commission examined at length Microsoft’s claim that its rival, Sun required a high degree of interoperability that went ‘beyond the full interoperability’ requirement of the Software Directive. By doing so, it implied that if the Software Directive did not explicitly mention that a refusal to grant interoperability might constitute an abuse of a dominant position and if Microsoft provided the ‘full interoperability’ required by the Directive, Article 82 EC might not have applied in this case. It was indeed clear that the Software Directive avoided adopting measures restraining competition and did not provide any express or implied anti-trust immunity. The decompilation requirement that it imposed was therefore a minimum standard to achieve.

The situation is not very different from the ‘federal regulatory immunity’ doctrine which applies in US anti-trust law, according to which anti-trust should not apply if it were to frustrate the economic goals pursued by a specific regulatory regime. This ‘immunity’ (the term ‘deference’ is preferable in this case) could be either explicitly mentioned by the regulatory

163 In particular, according to Art 6(c), the independently created program should not be ‘substantially similar in its expression’ to the de-compiled programs. This requirement is less far-reaching than the ‘new product rule’ of IMS/NDC Health, above n 11, as it does not exclude decompilation for creating independent competing products, which may accomplish the same functions as the decompiled program, without however being substantially similar to the latter.
164 Microsoft/W2000, above n 8, para 750.
165 Ibid, para 743.
166 Ibid, para 744.
168 Ibid, para 763 (interpreted a contrario).
statute itself or implied in order ‘to avoid conflicts between regulatory and antitrust requirements’.\footnote{Ibid, 232.} Competition law should not frustrate the regulatory goals of IP rights protection. Consequently, competition law will be less likely to apply if the IP regime has already internalised competition concerns and provided an effective system of remedies that may guarantee an adequate level of dissemination of the innovation. This approach avoids an across-the-board application of competition law which will overlook the particular characteristics of the industry and of the particular IP regime.

The absence of extensive Community harmonisation of IP rights may, however, be an obstacle to the expansion of this doctrine. Contrary to US antitrust law, European competition law does not exempt from competition law enforcement, practices that have already been subject to the regulation of a Member State.\footnote{Cf. Commission Decision 2003/707, Deutsche Telekom AG, OJ 2003 L 263/9 (an action for annulment of this decision was brought before the CFI—Case T–271/03) with Verizon Communications Inc Law Offices of Curtis V Trinko, LLP, 540 US, 398, 413 (2004). See however, Commission decision 2004/207, T-Mobile Deutschland/O2 Germany, OJ 2004 L 75/32, para 95 (the alternative offered by a sector specific regulatory remedy is a factor to be considered).} Community harmonisation of IP rights has also been mainly achieved by directives, which leave to the Member States an important margin of discretion regarding the way in which dissemination of innovation concerns could finally be implemented.\footnote{The implementation of the decompilation defence of Art 6 of the Software Directive above n 161, in the UK illustrates the risks of regulatory diversity between Member States. See Bently, L and Sherman, B above n 136, 219–21.} It should be possible in this case to have recourse to the residual application of competition law.

It follows that the extent of competition law deference to the IP regime will depend on the degree (and detail) of Community harmonisation and the effective internalisation of dissemination concerns within the particular IP regime. If this is the case, the implication should be that competition law does not impose additional access or interoperability requirements, unless otherwise explicitly mentioned. The Community legislature would therefore be in a position to define the balance between incentives and dissemination according to the characteristics of the particular economic sector or IP regime, without undue interference from competition law. Indeed, advocating the existence of a hierarchy between intellectual property and competition law, for the simple reason that the latter is a Community competence enshrined in the Founding Treaties, whereas the former remains largely a national competence or the product of derivative legislation, is a legalistic approach which neglects the fact that both regimes are complementary tools in the regulation of innovation.
Adopting a regulatory approach to IP will also make possible the establishment of interdisciplinary and trans-national networks which will enhance interaction between the different patent offices, judges and competition authorities, as is already happening with the European regulatory networks in telecommunications, electricity and gas.174

These are some of the implications of the regulatory approach to the competition law–IP interface, but other possibilities could also be explored. It is clear, however, that the abandonment of the sterile ‘property rights’ approach is a prerequisite for establishing a real dialectical relationship between competition law and IP.

VI. CONCLUSION

The emergence of a particular discourse is often the response to a situation of conflict between policies pursuing different objectives. The property rights rhetoric has been instrumental in providing some degree of deference to intellectual property rights during a period of active anti-trust enforcement. However, circumstances have evolved. Innovation has become an objective of competition law. The relationship between the two disciplines is no longer antagonistic, but complementary. At the same time, intellectual property protection has expanded considerably and is often granted to trivial inventions. This evolution challenges the usefulness of the property rights approach which aimed at defending IP rights against a disproportionate application of competition law. In fact, the property rights rhetoric does not contribute to the understanding of the need to balance incentives to innovation with that of enhancing cumulative innovation to the benefit of the consumers. It is also misleading as the analogy between IP rights and property rights on tangibles cannot stand close scrutiny. Indeed, from an economic analysis perspective, IP rights present different characteristics from property rights on tangibles. This entails the emergence of different competition law standards in assessing refusals to license IP rights from those employed for ‘normal’ property rights. Competition law concerns have also been internalised in intellectual property, which reveals the close links between these two areas of law. On the contrary, the rhetoric of ‘property rights’ is static as it visualises IP and competition law in separate spheres, rendering more difficult the establishment of a dialectical relationship between the two. It is submitted that the

174 On the need to develop informal trans-disciplinary links between competition law and IP, see also Kovacic, WE ‘Competition Policy and Intellectual Property: Redefining the Role of Competition Agencies’ in Lévêque, F and Shelanski, H (eds), above n 43, 1, 9 (advocating ‘the development of new cooperative networks in which competition agencies work with collateral government institutions, such as rights-granting authorities, to study the interaction of these regulatory regimes’).
conceptualisation of IP as a form of regulation may provide a useful theoretical basis for a better understanding of the interactions between competition law and intellectual property. It will make possible the realisation of the objectives of both of these two areas of law, while also taking into account, in assessing the appropriate levels of regulation, the specific circumstances of each economic sector.