UPSETTING THE BALANCE IN INTELLECTUAL PROPERTY RIGHTS:

A Comparison of the Competition Law Decision of the European Court of Justice in *IMS Health* and the Antitrust Decision of the U.S. Supreme Court in *Verizon v. Trinko*

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I. Introduction

What is the relationship between intellectual property rights and the public interest in having competitive markets? What should it be? These are not just an academic questions. These are essential questions for courts trying to determine the relationship between intellectual property rights and competition law. Two recent and notable examples of the courts exploring these issues are the European Court of Justice's decision in *IMS Health GmbH & Co. v. NDC Health GmbH & Co.* [1] and the U.S. Supreme Court's decision in *Verizon Communications, Inc. v. The Law Offices of Curtis V. Trinko, LLP.* [2]

Courts, regulators, enforcement agencies and firms are considering these decisions from other jurisdictions for how the relationship between intellectual property rights and competition law is balanced.

For example, on March 24, 2004 the European Commission announced, after a five year investigation, that Microsoft Corporation breached E.U. competition law by leveraging its near monopoly in the market for personal computer operating systems into markets for media player software and work group server operating systems.[3]

In response, Microsoft announced that it will appeal the decision in part on the basis that "the Commission is seeking to make new law that will have an adverse impact on intellectual property rights and the ability of dominant firms to innovate. …the novel legal standards announced in the Decision will affect all industries, altering market dynamics and reducing incentives for research and development that are essential to global economic growth." [4] Microsoft has further alleged that the decision ignores international treaty obligations designed expressly to prevent this type of broad-based compulsory licensing of intellectual property rights, such as Article 13 of the WTO's

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[1] European Court of Justice Case No. C-418/01, 29 April 2004 [*IMS Health*].
[2] 124 S.Ct. 872 (2004), *rev'g* 305 F.3d 89 (2nd Cir. 2002) [*Trinko*].
[3] Commission Decision of 24.03.2004 relating to proceeding under Article 82 of the EC Treaty (Case Comp/C-3/37.792 Microsoft).
[4] Microsoft Corporation, *The European Commission's Decision in the Microsoft Case ands its Implications for Other Companies and Industries,* Statement dated 19 April 2004.

Agreement on Trade-Related Aspects of Intellectual Property Rights. [NTD – introduce the remedy given by the Commission first?]

When the decision of the European Court of Justice in *IMS Health* was announced on April 29, 2004, Microsoft took heart from the decision, and in particular a three part test proposed for determining when a refusal to licence by a dominant firm constitutes an anticompetitive act.

Separately in the United States, Assistant Attorney General for antitrust, R. Hewitt Pate, has twice condemned the Commission's decision in the Microsoft case:[5]

> my concern is that decisions of this type may be interpreted in ways that chill lawful product improvements that benefit consumers. If the result is that a dominant firm simply cannot improve its product by the addition of features until that product becomes sufficiently inferior that its dominance is eroded, then the inconsistency with the core principles of U.S. is plain. Even if a workable standard could be advanced, the potential for anticompetitive and anticonsumer consequences would remain high, both in a U.S. system in which enforcement is amplified through private treble damages litigation, and in an EC system where the threshold for finding "dominance" appears much lower. Again, our concern is that while certain competitors may well benefit from intervention, consumers and innovation ultimately may not.[6]

This paper will examine, briefly and comparatively, the recent decision of the European Court of Justice[7] in *IMS Health* and the most recent and forceful pronouncement of the U.S. Supreme Court in the area of refusal to deal, to evaluate Mr. Pate's concerns, and to try to illuminate the issues that arise at the intersection of intellectual property law and competition law.

II. Outline and History of the Relationship of IP Law and Competition Law

Intellectual property law and competition law were not developed with integrated policy rationales, such as one would expect to find in the development of a civil code. The policy justifications for intellectual property law are based on broad generalizations, and are currently the subject of some debate. The current 'official' position on the

[5] U.S. Department of Justice, Antitrust Division, Press Release, Assistant Attorney General for Antitrust, R. Hewitt Pate, Issues Statement on the EC's Decision in the Microsoft Investigation (March 24, 2004), online: <http://www.usdoj.gov/atr/public/press_releases/2004/202976.htm>; and Speech, Roundtable Conference with Enforcement Officials: Remarks by R. Hewitt Pate, Assistant attorney General, Antitrust Division, Presented at the American Bar Association, Section of Antitrust Law, Spring Meeting, Washington, DC , April 2,2004, online: <http://www.usdoj.gov/atr/public/speeches/203088.htm>.
[6] Roundtable Conference with Enforcement Officials, *supra* note 5.
[7] The court will also be deciding on Microsoft's appeal.

relationship between the policy goals of the two can be summarized by a quotation from the U.S. 1995 *Antitrust Guidelines for the Licensing of Intellectual Property* :

> The intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare. The intellectual property laws provide incentives for innovation and its dissemination and commercialization by establishing enforceable property rights for the creators of new and useful products, more efficient processes, and original works of expression. In the absence of intellectual property rights, imitators could more rapidly exploit the innovators and investors without compensation. Rapid imitation would reduce the commercial value of innovation and erode incentives to invest, ultimately to the detriment of consumers. The antitrust laws promote innovation and consumer welfare by prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers.[8]

The idea is that while competition law is concerned with the acquisition or maintenance of monopoly power by unfair means, intellectual property law grants a limited right to exclude others from using or copying an idea. The right to exclude others gives the holder of an intellectual property right an opportunity to reap a reward if the innovation is sufficiently beneficial to society. If the idea is successful, the holder of the right can charge supracompetitive prices, resulting in some losses to society as a whole. But the justification for the intellectual property 'monopoly' is that, on the whole, society has a net gain because of the innovation. This balancing of losses and benefits is generally accomplished through time limits on the intellectual property rights granted.[9]

But the intellectual property laws, and the balance that they have struck between losses and benefits, did not arise from economic analysis. Initially men considered ideas to be a gift from the gods and not the property of any one person.[10] Such positions continued well in to the time of Luther.[11] But ideas could also be dangerous, and so there emerged systems of prepublication censorship, such as state-licensed monopolies to control the printing and publishing trades, and the use of royal letters of patent or "privileges" to give exclusive monopolies.[12] With the grant of these privileges to printers and manufacturers began a struggle between creators and entrepreneurs to reap the economic rewards that came with the exclusivity of the privilege.

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[8] ABA Antitrust Section, *The 1995 Federal Antitrust Guidelines for the Licensing of Intellectual Property: Commentary and Text* (Chicago: American Bar Association, 1996) at 72-73.
[9] [NTD - Example of time limits?]
[10] Carla Hesse, "The rise of intellectual property, 700 B.C. – A.D. 2000: an idea in the balance", *Daedalus*, Spring 2002, at p. 26, online: <http://www.amacad.org/publications/spring2002/hesse.pdf>.
[11] *Ibid.* at 28-29.
[12] *Ibid.* at 29.

> Satisfying and sorting out these conflicting claims provoked a host of new of pressing new questions: Were ideas a gift from God, as traditional authorities claimed, or were they the property of those who made them manifest, as authors now asserted? Was a "privilege" a "grace," or was it rather the legal ratification of an anterior, natural right to property? Upon what basis could the governments of nations or cities restrict or confirm natural privileges? Could a secular foundation be articulated for the regulation of the publication and circulation of ideas?[13]

In this period there arose quite naturally a momentous debate about the origin and nature of ideas, and arguments were advanced for the perpetual ownership of 'book privileges' by authors based on a natural rights thesis that books were strictly the product of the author's labour. On the other hand, some thought that perpetual rights for authors were just a way to protect the monopoly of book publishers. They considered ideas to be inherent in nature and to be equally and simultaneously accessible to all:

> Ideas are intrinsically social: they are not produced by individuals alone; they are the fruit of a collective process of experience.[14]

This became what is known as the utilitarian doctrine that there is no natural property in ideas, and that granting exclusive legal rights to individuals for their expression of the ideas could only be justified because such an arrangement was the best legal mechanism for encouraging the production and transmission of new ideas, a manifest public good.[15]

The competition between the natural rights theorists and the proponents of the utilitarian doctrine was resolved in the passing of copyright statutes in various countries, with the statutes varying according to the relative political strengths of the two sides. The political strength of the idea in a particular jurisdiction was related to the economic interests of its citizens. Nations that were net exporters of intellectual property, such as France, Germany and England, favored the natural rights doctrine. Developing nations that were net importers of intellectual property, such as the United States and Russia, refused to sign international agreements and insisted upon a utilitarian view of copyright. Until the U.S. became a net exporter of intellectual property it was what would now be called a 'nation of pirates', somewhat as China is viewed today.

In contrast to intellectual property law, competition law is of very recent vintage. In the United States the original *Sherman Act* was adopted in 1890 as the "charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade."[16] Since

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[13] *Ibid.* at 33.
[14] *Ibid.* at 36.
[15] Hesse, *ibid.* ascribes the formulation of this doctrine to the French philosopher Condorcet writing about the time of the American revolution.
[16] As described in *Northern Pacific Railway v. United States,* 356 U.S. 1 (1958).

that time American antitrust law has made much more rigorous use of micro-economic analysis as the being the ideal basis for antitrust policy and law. And the Supreme Court has noted that free competition is the baseline on which the patent system's incentive to creative effort depends.[17] But until recently this analysis did not much involve policies towards intellectual property. As recently as 2002, the suggestion that the Antitrust Section of the American Bar Association should comment on a matter of intellectual property law and policy[18] resulted in a lively debate within the Section. The idea that there should be some economic analysis performed to determine the effects of the policy was not universally accepted.

And considering the number of years that the utilitarian doctrine has been argued, there has been relatively little empirical work done on the nature of the economic benefits being traded off in the short term for the long term benefits of innovation. The economic workings of the system are not well known.[19] With regard to patents, there is evidence that patents are a much more effective incentive in certain sectors where the inventions tend to be discrete, such as chemical processes, pharmaceuticals and medical equipment. In sectors where it usually requires several innovations to bring a product to market, such as semiconductors, telecoms, computers and software, patents may actually have a negative effect on innovation.[20]

In this context, statements about the effect of certain competition law interventions in cases involving intellectual property rights having a detrimental effect on innovation should really be answered by the question: "Detrimental relative to what?" There is a balance to be achieved to arrive at an optimization of consumer welfare, but the empirical construction of that balance is not well known, particularly in specific cases. It appears that what is needed is further analysis of the factors that govern the relationship of intellectual property law and competition law, rather than warnings about reduced benefits. Given the history of the debate between natural rights proponents and the advocates of the utilitarian doctrine, warnings may sometimes be perceived as simply indicating whose economic interests are being threatened.

Accordingly in reviewing the two most recent pronouncements from the senior courts, one issue to keep in mind is whether any advancements were made in the analysis of the relationship.

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[17] *Bonito Boats Inc. v. Thunder Craft Boats, Inc.,* 489 U.S. 141 (1989) at 156, cited in Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy: A Report,* October 2003 at 8.

[18] As to whether the ABA as a whole should grant the request of the Intellectual Property Section to support the position of the Government in *Eldred v. Ashcroft* that copyright terms were legally lengthened to life of the author plus 70 years.

[19] See for example Petra Moser, "How do Patent Laws Influence Innovation? Evidence from Nineteenth – Century World Fairs", NBER Working Paper Series, Working Paper 9909

[20] Dan L. Burk and Mark L. Lemley, "Is Patent Law Technology-Specific?", 17 Berkeley Technology Law Journal 1155 (2002); Wesley M. Cohen, Richard R. Nelson, and John P. Walsh, " Protecting their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or not)", *National Bureau of Economic Research* Working Paper 7552 (February, 2000).

III. *Verizon Communications, Inc. v. Trinko*

The first point that must be made regarding the decision of the U.S. Supreme Court in **(“***Trinko***”)** decided January 13, 2004, is that it is not really an intellectual property case. The rights held by Verizon arose under the *Telecommunications Act of 1996*[21] as a local exchange carrier serving New York State. Prior to the 1996 Act, Verizon, like other carriers, enjoyed an exclusive franchise within its local service area. The 1996 Act sought to facilitate market entry by competitors.

But the *Trinko* case is about unilateral refusal to deal on the part of a monopolist, and in that regard it is fully comparable to competition cases involving refusal to deal by the holders of intellectual property rights. In reaction to the decision of the European Commission in the Microsoft investigation, the U.S. Assistant Attorney General for Antitrust, R. Hewitt Pate, declared that “unilateral competitive conduct [is] the most ambiguous and controversial area of antitrust enforcement.” [22] It is even more controversial, and ambiguous when the refusal involves intellectual property rights, for reasons that will be discussed more fully later.

The 1996 Act imposed certain duties upon local telephone companies such as Verizon in order to facilitate market entry by competitors, and establishes a complex regime for monitoring and enforcement. Trinko was a customer of one of the competitors that entered the market, and in essence Trinko, on behalf of others similarly situated, launched a class action complaint alleging that breach of the incumbent Verizon’s duty under the 1996 Act to share its network with its competitors constituted a claim under §2 of the *Sherman Act.* [23]

In late 1999 there were complaints from Verizon’s competitors that many orders were going unfilled, in violation of Verizon’s obligation to provide operation support systems functions to competitors. In return for providing this and other concessions, Verizon was given access to markets to which it had previously been denied entry. The Federal Communications Commission (“FCC”) and New York’s Public Service Commission opened parallel investigations which led to Verizon entering into a consent decree with the FCC.

The day after Verizon entered into the consent decree with the FCC, Trinko filed its class action alleging that Verizon had filled competitors’ orders on a discriminatory basis as part of anticompetitive scheme to discourage customers from signing on with its competitors. The complaint was dismissed in District Court as, among other things, failing to state a proper claim under §2 of the *Sherman Act*. However, the Court of Appeals for the Second Circuit reinstated the complaint with respect to the antitrust

[21] Pub.L. 104-104, 110 Stat. 56 [“1996 Act”].
[22] Press Release, *supra* note 5.
[23] 26 Stat.209.

claim.[24] The Supreme Court granted certiorari only on the question of whether the antitrust claim could stand.

The Supreme Court started its analysis by noting that just because Verizon had duties under the 1996 Act does not mean that these duties can be enforced by means of an antitrust claim. Generally, regulated entities are shielded from antitrust scrutiny, as it is assumed that the legislators have balanced the private interest of the business and the public interest in competitive markets appropriately. But the 1996 Act has a clause that "nothing in this Act or the amendments made by this Act shall be construed to modify, impair, or otherwise supersede the applicability of any of the antitrust laws."[25]

To decide whether there was an antitrust offence the Court had to look to whether there was something more than the simple possession of monopoly power in the relevant market.[26] The Court then went on to make a statement about innovation that is at the heart of this discussion:

> The mere possession of monopoly power, and the concomitant charging of monopoly prices, is not only not unlawful; it is an important element of the free market system. The opportunity to charge monopoly prices – at least for a short period – is what attracts "business acumen" in the first place; it induces risk taking that produces innovation and economic growth. To safe guard the incentive to innovate, the possession of monopoly power will not be found unlawful unless it is accompanied by an element of anticompetitive *conduct.*[27]

The Court thus took the position that anticompetitive conduct is what distinguishes a lawfully acquired monopoly, such as often exists with respect to intellectual property, from an abuse of a dominant position. Obviously it will therefore be important to be able to recognize such conduct clearly.

The issue in dispute in *Trinko* was whether an antitrust claim arose out of Verizon's failure to comply with its obligations to share its local access facilities with its competitors on a non-discriminatory basis. In that regard, the Court stated that:

> Compelling such firms to share the source of their advantage is in some tension with the underlying purpose of antitrust law, since it may lessen the incentive for the

[24] 305 F. 3d 89, 113 (2002).
[25] 110 Stat. 143, 47 U.S.C. §152, as cited on p. 6 of the decision.
[26] As stated in *United States v. Grinnell Corp.*, 384 U.S. 563, 570-571 (1966), an offense requires in addition to the possession of monopoly power:

> "the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident."

[27] *Trinko*, *supra* note 2 at 7

> monopolist, the rival, or both to invest in those economically beneficial facilities…..Thus as a general matter, the Sherman Act "does not restrict the long recognized right of [a] trader or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal." *United States v. Colgate & Co.*, 250 U.S. 300, 307 (1919).[28]

The Court noted that the right to refuse to deal is not unqualified,[29] such as where a refusal to cooperate with rivals can constitute anticompetitive conduct. The Court then stated that:

> We have been very cautious in recognizing such exceptions, because of the uncertain virtue of forced sharing and the difficulty of identifying and remedying anticompetitive conduct by a single firm.[30]

So the concerns with finding anticompetitive behavior in these contexts arise out of a concern about the loss of innovation incentive, the problem of incorrect recognition that would lead to a disincentive to innovate, and in finding an appropriate remedy. The problem of finding a correct remedy plagues much of competition law.

Having set out the standards and principles, the Court thendistinguished the leading exception to the right to refuse to deal, its decision in *Aspen Skiing*.[31] In that case the anticompetitive behavior was inferred from the fact that the defendant had unilaterally terminated a voluntary "(*and thus presumably profitable)* course of dealing suggested a willingness to forsake short term profits to achieve an anticompetitive end."[32] On the other hand, in *Trinko* had never voluntarily dealt with its rivals, and the interconnection price was determined by the regulator. A refusal to connect at that price does not provide inferences about whether or not there was anticompetitive intent. Accordingly the Court found that there was not a recognized antitrust claim based on refusal to deal.[33]

The Court also very briefly ruled that the "essential facilities" doctrine was inapplicable to this matter. It also specifically did not take a position either recognizing or repudiating the doctrine.

Having reached that conclusion, the Court then went on for another five pages to emphasize its concern that this was not a case in principle for the extension of the exceptions to the right to refuse to deal. The Court pointed out that:

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[28] *Trinko*, *supra* note 2 at 8.
[29] Citing the Court's decision in *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.,* 472 U.S. 585, 601 (1985).
[30] *Trinko*, *supra* note 2 at 8.
[31] *Supra* note 29.
[32] *Ibid*., at 9.
[33] *Ibid.* at 11.

> One factor of particular importance is the existence of a regulatory structure designed to deter and remedy anti-competitive harm. Where such a structure exists, the additional benefit to competition provided by antitrust enforcement will tend to be small, and it will be less plausible that the antitrust laws contemplate such additional scrutiny.[34]

In summary, in order for there to be an abuse of monopoly power the Supreme Court will require clear evidence of an anticompetitive act, and cases where doubt exists as to the nature of the alleged anticompetitive act will be resolved in favor of the defendant. The reasons for this are that deterrence of the rewards to a legally achieved monopoly would deter businesses from striving for such legal monopolies.

As to what is the precise test for finding such anticompetitive acts, there is still some question. Some have argued that in *Trinko* the Court proposed short–term profit sacrifice as the test,[35] It is also suggested that motive or intent is now a central element. On the other hand it is clear that the Court has overruled its own finding in *Kodak*[36] that suggested that a refusal to deal with exclusionary effect is unlawful unless the defendant proves that there are "valid business reasons." That burden now appears to be reversed.

IV. *IMS Health GmbH & Co. v. NDC Health GmbH& Co.*

The facts in *IMS Health* are relatively complex and must be first reviewed in order to understand the European Court of Justice's decision. These are given in some detail in the decision of the European Commission (the "Commission Decision").[37]

A. The Facts

Pharmaceutical companies use information about doctors' prescribing habits to evaluate and develop their marketing programs. Intercontinental Marketing Services Inc. (IMS), a U.S. company, is the world's number one supplier of such information. IMS Health GmbH & Co. OHG is the German subsidiary. The collection of information about doctors' prescribing habits is limited in some jurisdictions by laws protecting personal information; and in Germany, under the *Bundesdatenschutzgesetz*[38] and the equivalent laws in the Länder, not only can the prescribing habits of identifiable doctors not be

[34] *Ibid.* at 12.
[35] Robert A. Skitol, "Correct Answers to Large Questions about *Verizon v. Trinko*", *The Antitrust Source,* May 2004, available on line at: http://www.antitrustsource.com .
[36] *Eastman Kodak Co. v. Image Technical Services, Inc.* 504 U.S. 451 (1992).
[37] *NDC Health v. IMS Health,* Case COMP D3/38.044, 3 July 2001.
[38] Vom 20.12.1990, BGBl. I S 2594, as amended by *Gesetz zur Änderung des Bundesdatenschutzgesetzes und anderer Gesetze,* BGBl. vom 22.05.2001 S.904.

collected, but each reporting cell must have at least three pharmacies within it.[39] Accordingly, it is necessary for IMS Health and its competitors to develop reporting segments in Germany that do not violate privacy rights yet provide their customers, the pharmaceutical companies, with meaningful information to apply in making marketing decisions and rewarding sales representatives. These reporting segments are referred to as "bricks." Apparently, to keep the brick structure stable it was necessary to have at least four or five pharmacies in a brick.

The bricks themselves also served as the basis for the organization of the sales teams of the pharmaceutical companies. Initially IMS Health divided Germany into 418 bricks, but that structure was not sufficiently accurate for their customers.[40] To improve acceptance of its products, some years prior, IMS had established a working group known as the RPM[41] working group.[42] The working group was comprised of representatives of customer firms, and it met twice a year to make suggestions for improving and optimizing market segmentation in light of their particular requirements. IMS and NDC took markedly different positions regarding the effect that the group had on the development of what became known as the "1860 Brick Structure." The final structure is based heavily on the divisions of the German postal code system. IMS also distributed the structures to other parties in the industry so that the structures became the normal standard for the compilation of regional evaluations of the German pharmaceutical market.

When NDC's predecessor, as a competitor, tried to enter the German market, it at first used a brick structure with 2201 segments. This structure was rejected by potential customers as they could not, for example, compare data provided for the previous year by IMS with new data that would be provided by the competitor. The competitor modified its structure to include the 1860 Brick Structure used by IMS.

IMS then brought suit against the competitor alleging a breach of copyright as well as unfair competition.[43] The Landgericht found for IMS and the competitor was barred from using the 1860 Brick Structure or any derivatives of this structure as an infringement of copyright.[44] The court did not take a view on the involvement of the RPM working group in the development of the 1860 Brick Structure. They considered IMS to be at least a joint owner of the copyright, and thus entitled to bar its competitors from using the structure under German copyright law.[45] NDC then asked for a licence from IMS for the use of the 1860 Brick Structure pending resolution of the copyright claim. This request was refused and IMS threatened copyright infringement proceedings against both

[39] Commission Decision, *supra* note 1 at para. 14.
[40] Opinion of Advocate General Tizzano , 2 October 2003, *IMS Health*, at para. 4.
[41] For "Regionaler Pharmazeutischer Markt."
[42] Opinion, *supra* note 40, at para. 6.
[43] Commenced on May 26, 2000 in Frankfurt Landgericht.
[44] There were actually a series of decisions. The initial one was delivered on 12 October, 2000.
[45] Opinion, *supra* note 40, at para. 10, referring to the *Gesetz über Urheberrecht und verwandte Schutzrechte* vom 9. September 1965, zuletzt geändert durch Gesetz vom 1. September 2000 (BGBl. I,S. 1374).

suppliers of data and customers if they used NDC's data containing the 1860 Brick Structure or a derivative.

NDC then sought relief from the European Commission that eventually led to the decision of the European Court of Justice that will be discussed here.

B. The Decision of the Court

The matter was a referral from the Landgericht Frankfurt-am-Main on three questions regarding the interpretation of Article 82 of the EC Treaty (ex Article 86). The three questions were:

1. Is the refusal to grant a licence to use a brick structure for the presentation of regional sales data by an undertaking in a dominant position which owns the copyright to a competitor, when the competitor cannot develop an alternative brick structure for the presentation of the data that it proposes to offer because of customer resistance to change, an abuse of dominant position?

2. What effect would the participation by users in the development of the brick structure, now protected by copyright and owned by a dominant undertaking, have on the determination of whether the refusal by that undertaking to grant a licence to use that structure is abusive?

3. What is the effect of the outlay, particularly in terms of cost, that potential users have to provide in order to be able to purchase market studies presented on the basis of a structure other than that protected by copyright?[46]

The Court regarded the second and third questions as essentially seeking to clarify "the relevant criteria for the determination of whether use of the 1860 Brick Structure, which is protected by copyright, is indispensable for enabling a potential competitor to gain access to the market."[47] Citing the decision in *Bronner,*[48] the Court stated that :

> According to paragraph 46 of *Bronner,* in order to accept the existence of economic obstacles, it must be established, at the very least, that the creation of those products or services is not economically viable for production on a scale comparable to that of the undertaking which controls the existing product or service.[49]

The Court took note of the findings of the Advocate General that account must be taken of the fact that the high level of participation by the pharmaceutical companies in the improvement of the 1860 Brick Structure has created a dependency by users in regard to

[46] *IMS Health, supra* note 1 at paras. 21-23.
[47] *Ibid.* at para. 24.
[48] *Bronner* [1998] ECR I-7791, Case C-7/97.
[49] *IMS Health* , at para. 28.

that structure.[50] The Court then answered the second and third questions by stating that the degree of participation and the cost of alternatives were factors that must be taken into account in determining whether the protected structure is indispensable for marketing studies of that kind.

With respect to the first question, the Court started from two basic premises:

> 34. According to settled case-law , the exclusive right of reproduction forms part of the owner's rights, so that refusal to grant a licence, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute abuse of a dominant position (judgment in Case 238/87 *Volvo,* cited above, paragraph 8, and *Magill*, paragraph 49).
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> 35. Nevertheless, as is clear from that case-law, exercise of an exclusive right by the owner may, in exceptional circumstances, involve abusive conduct (*Volvo,* paragraph 9, and *Magill*, paragraph 50).

Drawing upon the analysis of the *Magill* case in *Bronner,* the Court stated that there are three cumulative conditions to be satisfied for a refusal to deal to be considered abusive. They are:

1. that the refusal is preventing the emergence of a new product for which there is a potential consumers demand;
2. that the refusal is unjustified;
3. that the refusal will exclude any competition on a secondary market.

A key question lies in the interpretation of the third requirement. What are the relevant markets in the case? Need they be existing or possible? Citing the opinion of the Advocate General,[51] the Court finds that it is sufficient "[t]hat a potential market or even hypothetical market can be identified. Such is the case where the products or services are indispensable in order to carry on a particular business and where there is actual demand for them on the part of undertakings which seek to carry on the business for which they are indispensable."[52] It then leaves it to the national court to determine if the 1860 Brick Structure constitutes, upstream, an indispensable factor in the downstream supply of German regional sales data for prescription drugs.

With respect to the first condition, that the refusal prevent the emergence of a new product, the Court stated that the refusal may only be abusive "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,

[50] Opinion, at paras. 83 and 84.
[51] Opinion, at paras. 56-59.
[52] *IMS Health*, at para. 44.

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."[53]

With respect to the second requirement, that the refusal be unjustified, the Court made no specific observations, other than that the considerations must be objective.

V. Analysis and Discussion

Both the U.S. Supreme Court in the *Trinko* decision and the European Court of Justice in the *IMS Health* decision start from the position that a monopoly or dominant position *per se* is not a problem, and that exclusive grants of rights from the state (telecommunications in the case of *Trinko,* and copyright in the case of *IMS Health)* are not the concern of competition law by themselves.

The European Court of Justice is more explicit in saying that for copyright, the "refusal to grant a licence, even if it is the act of a undertaking holding a dominant position, cannot in itself constitute abuse of dominant position". In *Trinko*, the Supreme Court merely stated that the existence of a regulatory structure designed to deter and remedy anticompetitive harm is an important factor to be considered and likely to cause a court to decide that there has not been an anticompetitive refusal to deal.

It should be noted that in the United States the Appeal courts have taken somewhat different positions on refusals to deal when applied to intellectual property. Firstly in *Image Technical Services, Inc. v. Eastman Kodak Co.*, [54] the Ninth Circuit held that a patent provides a presumption that a patentee's refusal to deal has a valid business justification for any consumer harm, but that an opposing party could rebut that presumption.[55] Later the Court of Appeals for the Federal Circuit ("CAFC") in its decision, *In re: Independent Service Organizations Antitrust Litigation* [56] ("*CSU*"), declined to follow the decision of the Ninth Circuit because the position taken by the Ninth Circuit would necessitate an inquiry by the court into the subjective intent of the patent owner. The CAFC instead chose to adopt an objective rule, so long as that anticompetitive effect is not extended beyond the statutory patent grant.[57] The Supreme

[53] *Ibid.* at para. 49.
[54] 125 F.3d 1195 (9^{th} Cir. 1997), *cert. denied,* 523 U.S.1094 (1998).
[55] Dale L. Carlson and Nathaniel J. Zylstra, *Tipping the Balance at the Patent/Antitrust Interface: CSU v. Xerox,* Wiggin & Dana, Patent Practice Update, April 26, 2001.
[56] 203 F.3d 1322, 53 U.S.P.Q.2d 1852(Fed. Cir. 2000), *cert. denied* 121 S.Ct. 1077 (Feb. 20, 2001).
[57] *Ibid.* at 1327-28.

> "[I]n the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws. We [the Federal Circuit] therefore will not inquire into his subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect, so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant."

Court declined to hear the case, and thus the conflict between the two decisions was not resolved. This is one of the reasons that the decision in *Trinko* with respect to a refusal to deal has generated so much interest. Lawyers and others are seeking clues as to what criteria the Supreme Court may use to determine whether a refusal to deal is an anticompetitive act.

It thus appears that the Supreme Court's careful statement that the existence of a regulatory structure would be "considered" as a factor in determining whether there has been an anticompetitive act is designed deliberately to not specify the defining criteria that would determine when a refusal to deal by a dominant holder of an intellectual property right or telecommunications right would be an abuse. As with their refusal to hear the appeal regarding *CSU,* the Court may feel that it is not yet time to be so specific.

On the other hand, the Supreme Court has made some very strong statements regarding the principles to be used in determining when there should be an exception to the general rule that a refusal to deal by a dominant right holder is not anticompetitive. The Supreme Court has said that because of a concern that the incentive for businesses to innovate might be lessened by an incorrect application of the antitrust remedy, courts should be very cautious. This is a policy concern based on an economic analysis. The premise is that society as a whole will be better off because of the gains in innovation generally by businesses striving to achieve the dominant position, than it will if these businesses perceive that their dominant position (and monopoly pricing) would be diminished by requiring them to share the right (and the dominance, resulting in reduced prices) with competitors.

The European Court of Justice has adopted a different approach in *IMS Health,* while still retaining some flexibility on the factual determinations as to what is an anticompetitive act. By establishing the three cumulative conditions to be satisfied in order to consider a refusal to deal to be abusive, it has extended the analysis of the problem in a manner similar to that in *CSU.* The three conditions will now be examined in detail.

Only the first condition, the requirement that the refusal to deal prevent the emergence of a new product, and the third condition, that the refusal exclude **<u>all</u>** competition in a secondary market, were given any substance in the decision. The second condition, that the refusal be unjustified, was left for the national court to resolve using the facts before it. It is suggested that the European Court of Justice has thus tried to untangle two further criteria or principles from the undifferentiated bundle of facts deposited before it, but left the second condition as a sort of a catch-all for the remaining collection of facts out of which organizational principles have yet to be determined. In this way the EJC has retained some of the flexibility that the U.S Supreme Court appears to seek to retain, but has developed some principles that will give guidance to businesses trying to plan their affairs.

The first condition, the requirement that the emergence of a new product be prevented by the refusal to deal, carries within it a recognition that the intellectual property has validity within its own sphere or market. Thus the condition recognizes the principle that a refusal to licence is an essential part of the rights granted to the owner of the intellectual property as a reward for its innovation. A refusal to licence is part of the right to exclude others from copying the intellectual property. For that reason, as the Court put it:

> in the balancing of the interest in protection of copyright and the economic freedom of its owner, against the interest in protection of free competition the latter can prevail only where refusal to grant a licence prevents the development of the secondary market to the detriment of consumers.[58]

The third condition has two key requirements. The third condition states that in order for a refusal to deal by a dominant owner of intellectual property rights to be abusive, the refusal must exclude **any** competition in a **secondary** market. Drawing upon the decision in *Bronner,* the court decided that it is necessary to distinguish an upstream market, constituted by the product or service to which access has been refused (in the *Bronner* case this was the market for the home delivery of newspapers), from the secondary downstream market, where the product or service to which access has been refused is used for the production of another good or service (in the *Bronner* case this was the market for the daily newspapers themselves).[59] In the ultimate decision in the *IMS Health* case, the primary market will likely be structures for analyzing pharmaceutical sales in Germany, and the secondary market will be the sales data reports themselves.

The important feature of this aspect of the decision of the European Court of Justice in *IMS Health* is in the use of what might be called a market based analysis. Firstly it presumes a primarily economic rationale for intellectual property rights. As a reward for whatever innovation there was in the 1860 Brick Structure, IMS Health was granted a copyright that allowed it to exclude others from using its idea, and therefore reap monopoly profits from the exploitation of the innovation. But the right is not unlimited. Implicit in this analysis is the assumption that the copyright was a limited grant of rights to one market. It is supposedly not to be leveraged to earn monopoly profits in secondary markets, or is it?

The protection of the copyrighted product is not restricted only to its primary market. Part of the third condition requires that **any** competition be excluded from the secondary market. It is not clear what the rationale is for this requirement, other than the rationale that intellectual property rights should only be restricted where the product or service protected is an "essential facility". There is no further discussion on this point in either the decision itself or the Opinion of Advocate General Tizzano. One policy rationale for the limited exception to the protection afforded by copyright would be a limitation on the economic rewards where the elimination of all competition in a secondary market allows for an broad extension of monopoly pricing that results in a reward to the holder considerably out of proportion to the innovation developed, and thus disrupts the balance between protection of copyright(reward for innovation) and the economic freedom of the owner and the interest of society in a competitive market.

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[58] *IMS Health, supra* note 1, at para. 48.
[59] *Ibid.* at para. 42.

VI. Conclusion

It is not possible to draw broad conclusions about large topics from a review of two decisions. The debate over what is the appropriate balance between intellectual property law and competition law will obviously increase in volume as the Microsoft appeal moves forward. The more interesting question is whether it will also increase in quality by an effort to further refine the principles that make up the relationship between intellectual property and competition law in the economic models that are used to guide the increasingly knowledge dependent world economy. Or will the debate simply reflect the economic interests of the participants.

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