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UNILATERAL REFUSALS TO DEAL IN INTELLECTUAL PROPERTY AFTER *IMAGE TECHNICAL SERVICES, INC. v. EASTMAN KODAK CO.*

Brian F. Ladenburg

Abstract: While the Federal Patent and Copyright Acts give patent and copyright holders limited exclusive rights in intellectual property, the Sherman Act prohibits combinations or conspiracies that restrain trade and monopolization. Although firms possessing intellectual property generally exercise their statutory exclusionary rights without running afoul of the antitrust laws, conduct may plausibly be authorized by intellectual property law but forbidden by antitrust. In construing the two statutory schemes, federal courts have generally held that conduct authorized by the intellectual property laws, in the absence of some further inculpatory action, cannot form the basis for antitrust liability. The Ninth Circuit departed from this trend in the recent opinion of *Image Technical Services, Inc. v. Eastman Kodak Co.*, holding that a unilateral refusal to deal in patented and copyrighted material can alone constitute sufficiently exclusionary conduct to state a section 2 Sherman Act claim for monopolization or attempted monopolization. In so holding, the Ninth Circuit ignored relevant precedent and crafted a test that offers little practical guidance on the limits of a patent or copyright holder's exclusionary powers in the context of a Sherman Act section 2 claim. This Note argues that, while the Ninth Circuit reached the correct conclusion in this case, the court's broad test insufficiently protects holders of intellectual property from antitrust attack for exercising their statutorily-authorized exclusive rights, and offers no compelling tangible benefit to consumers.

The federal antitrust and intellectual property laws claim to embrace the same broad policies of encouraging the development and marketing of novel products in a competitive marketplace; yet, in practice the two statutory schemes are sometimes in tension. Section 2 of the Sherman Act forbids monopolization and attempted monopolization,¹ while the Patent and Copyright Acts confer property rights that allow their holders to exclude others from either using, making, selling,² or reproducing and distributing³ protected items or works for a statutorily-designated period. In most situations, those holding patents or copyrights can conduct their business without fear of running afoul of the Sherman Act.⁴

1. 15 U.S.C. § 2 (1994).

2. Patent Act, 35 U.S.C. § 154 (1994).

3. Copyright Act, 17 U.S.C.A. § 106 (West Supp. 1998).

4. Because the Sherman Act is also concerned with such things as concerted action and tying arrangements, and the intellectual property laws merely grant a limited right to engage in exclusionary conduct, holders of intellectual property can often conduct their business without fear of running afoul of the federal antitrust laws. For example, section 1 of the Sherman Act condemns combinations and conspiracies in restraint of trade, which can include tying arrangements and price

However, when the specific conduct that federal intellectual property law authorizes would raise antitrust concerns in the absence of copyright or patent protection, courts must harmonize the conflicting statutory schemes. Recently, the Ninth Circuit addressed such a problem in *Image Technical Services, Inc. v. Eastman Kodak Co. (Kodak II)*.⁵ The court concluded that a firm's unilateral refusal to deal⁶ in intellectual property constitutes exclusionary conduct under section 2 of the Sherman Act, which prohibits monopolization and attempted monopolization.⁷

The *Kodak II* court decision, heard after remand, builds on the U.S. Supreme Court's well-known holding in the same case (*Kodak I*) that markets may be defined in a firm-specific manner for purposes of section 2 analysis.⁸ The *Kodak II* court found Kodak's intellectual property rights in its copyrighted diagnostic software and patented replacement parts to be insufficient business justifications for its exclusionary conduct in refusing to deal with downstream, aftermarket competitors.⁹ The Ninth Circuit held, in a case of first impression, that behavior expressly authorized by the intellectual property statutes can alone constitute exclusionary conduct sufficient to sustain a Sherman Act section 2 claim for monopolization or attempted monopolization.¹⁰

This Note argues that by subjecting a firm to a Sherman Act section 2 claim because of the very exclusionary conduct authorized by the intellectual property laws, the Ninth Circuit has deviated from a pattern of more sensible antitrust deferral to patent and copyright law in cases where antitrust forbids that which patent and copyright expressly permit.

fixing. 15 U.S.C. § 1 (1994). See *Arizona v. Maricopa County Med. Soc'y*, 457 U.S. 332, 250–52 (1982). These antitrust concerns do not pose as great a risk of direct conflict with the intellectual property laws as section 2 of the Sherman Act, which potentially implicates a single firm.

5. 125 F.3d 1195 (9th Cir. 1997) [*Kodak II*], cert. denied, 118 S. Ct. 1560 (1998).

6. Courts have applied the term "unilateral refusal to deal" to the conduct of a firm that, by its own volition and in the absence of a conspiracy among others, simply refuses to deal with a competitor or customer. See *infra* note 14 and accompanying text. The term is used chiefly as a means of distinguishing between unilateral conduct and concerted conduct. Refusals to deal by multiple market participants are generally referred to as "group boycotts," and are often evaluated under section 1 of the Sherman Act as illegal combinations or conspiracies in restraint of trade. See *infra* note 14.

7. 15 U.S.C. § 2 (1994).

8. *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 481–82 (1992) [*Kodak I*].

9. *Kodak II*, 125 F.3d at 1218.

10. *Id.* Many courts have imposed antitrust scrutiny and liability on conduct involving intellectual property; however, the *Kodak II* court was the first to find a violation in the absence of some additional inculpatory conduct not authorized by the intellectual property laws. See *infra* text accompanying note 76.

This deviation threatens to undermine the delicate balance the intellectual property laws have struck between competing public policy demands on intellectual property.¹¹ The rebuttable presumption test the Ninth Circuit adopts¹² emasculates the property rights conferred by the intellectual property laws by introducing a novel intent consideration into intellectual property law analysis. The test effectively treats conduct involving protected intellectual property in the same way that antitrust law treats all other conduct in the context of section 2 monopolization claims. The result weakens the protections afforded patent and copyright holders; in turn, this may threaten to diminish the incentives to disclose inventions and ideas that underlie intellectual property law.

Part I of this Note examines the underlying statutory and case law that preceded the Ninth Circuit's opinion in *Kodak II*. Part II discusses the Ninth Circuit's opinion and explains that the court deviates from prior federal and Ninth Circuit cases by subjecting to antitrust scrutiny the very exclusionary conduct normally sanctioned by the intellectual property laws. Part III argues that the Ninth Circuit's new test, while billed as a carefully-crafted compromise, actually strips the intellectual property laws of their power by jeopardizing a concrete, affirmative right to exclude with a loose "rebuttable presumption" test for reasonableness. This Note concludes that the Ninth Circuit's new test serves no compelling antitrust purpose; yet, it risks jeopardizing the intellectual property laws' effectiveness by undermining the policies underlying the federal patent and copyright systems.

I. THE RELATIONSHIP BETWEEN ANTITRUST AND INTELLECTUAL PROPERTY LAW

Federal courts have often been forced to reconcile the apparently competing demands of antitrust and intellectual property law. While both statutory schemes reflect a broad policy aimed at achieving a robust and competitive marketplace, the means employed to achieve that goal differ significantly. Antitrust law strives for efficiency and consumer welfare and forbids marketplace conduct, whether perpetrated by one or many firms, that leads to inefficiency or harms consumer welfare.¹³ Among the

11. For a discussion of the competing public policy interests the Patent and Copyright Acts seek to balance, see *infra* notes 51–52 and accompanying text.

12. See *Kodak II*, 125 F.3d at 1218.

13. See generally *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 458–59 (1993) (discussing broad purpose of Sherman Act: to protect competition, not competitors).

many activities antitrust law may forbid—price fixing, price discrimination, group boycotts, and geographic market-division agreements, for example—monopolization poses the greatest risk of direct conflict with intellectual property law. The problem arises from the law's conflicting treatment of exclusivity. On one hand, antitrust law forbids a firm from obtaining exclusive or near-exclusive control of a market. On the other hand, the holder of intellectual property possesses the exclusive right to exploit the patented or copyrighted product. When the product protected by intellectual property law constitutes its own allegedly monopolized antitrust market, courts must resolve a direct conflict between the statutes. The Ninth Circuit in *Kodak II* faced such a problem and construed the two statutory schemes in deviation from precedent and in contravention of the underlying policies justifying both antitrust and intellectual property law. An explanation of antitrust and intellectual property laws helps to demonstrate the trouble with the Ninth Circuit's approach.

A. *Antitrust Laws*

1. *Monopolization and Attempted Monopolization Under the Sherman Act*

Section 2 of the Sherman Act forbids monopolization and attempted monopolization, whether perpetrated by unilateral or concerted action.¹⁴ In *United States v. Grinnell Corp.*, the U.S. Supreme Court formulated a

14. Section 2 of the Sherman Act provides:

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding \$10,000,000 if a corporation, or, if any other person, \$350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

15 U.S.C. § 2 (1994).

The distinction between unilateral and concerted action is crucial. Unilateral conduct is conduct by one firm or market participant, while concerted action and conspiracies necessarily involve the coordinated action of many firms. Concerted refusals to deal, often referred to as "group boycotts," have long been illegal, usually under section 1 of the Sherman Act. *See, e.g.*, *Mannington Mills, Inc. v. Congoleum Indus.*, 610 F.2d 1059, 1072-73 (3d Cir. 1979); *Moraine Prods. v. ICI Am., Inc.*, 538 F.2d 134, 138-45 (7th Cir. 1976); *United States v. Krasnov*, 143 F. Supp. 184, 199 (E.D. Pa. 1956), *aff'd per curiam*, 355 U.S. 5 (1957). A unilateral refusal to deal, however, must be analyzed under the stricter standards of a section 2 monopolization or attempted monopolization claim. This analysis requires a factual inquiry into the degree of market power and the exclusionary practices of the defendant. *See infra* text accompanying note 16.

general two-prong test for liability under section 2 of the Sherman Act.¹⁵ A prima facie monopolization case requires (1) possession of monopoly power in the relevant market by the alleged monopolist, and (2) 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.¹⁶ The second prong, referred to as the “conduct element,” requires a showing that the firm with monopoly power uses that power to foreclose competition, gain a competitive advantage, or destroy competition.¹⁷ To establish an attempted monopolization claim, the plaintiff must show (1) a specific intent to control prices or destroy competition, (2) predatory or anticompetitive conduct directed at accomplishing that purpose, (3) a dangerous probability of achieving monopoly power, and (4) causal antitrust injury.¹⁸ In sum, a prima facie case of monopolization or attempted monopolization requires a plaintiff to show both market or monopoly power and exclusionary conduct indicative of an intent to monopolize.

2. *Refusals to Deal as Exclusionary Conduct Under Section 2*

While the Sherman Act generally imposes no duty to deal with competitors,¹⁹ it prohibits unilateral refusals to deal by firms with monopoly power when no legitimate business reasons can explain the refusal because such conduct betrays an intent to monopolize. The U.S. Supreme Court acknowledged such a duty to deal with competitors in *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, which held that one dominant ski resort’s unilateral decision to terminate an agreement with its competitor to offer an “all Aspen” ski pass could constitute exclusionary conduct sufficient to state a section 2 claim.²⁰ The Court stressed that the right to select customers and associates is not

15. 384 U.S. 563 (1966).

16. *Id.* at 570–71.

17. *Image Tech. Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1208 (9th Cir. 1997) (citing *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 482–83 (1992)).

18. *Rebel Oil Co. v. Atlantic Richfield Oil Co.*, 51 F.3d 1421, 1434 (9th Cir. 1995).

19. *See, e.g., Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 600 (1985) (“[E]ven a firm with monopoly power has no general duty to engage in a joint marketing program with a competitor.”); *accord* *United States v. Colgate & Co.*, 250 U.S. 300, 307 (1919); *Mutual Fund Investors, Inc. v. Putnam Management Co.*, 553 F.2d 620, 626 (9th Cir. 1977); *Westinghouse Elec. Corp. v. CX Processing Lab., Inc.*, 523 F.2d 668, 673 (9th Cir. 1975); Robert Bork, *The Antitrust Paradox* 344 (1978) (“Present law leaves the individual firm free to refuse to deal with others . . .”).

20. 472 U.S. at 585.

unqualified,²¹ and that a refusal to deal may trigger liability if motivated by an intent to monopolize.²² Consequently, a firm with monopoly power may refuse to deal only when the refusal is supported by a legitimate business justification.²³

Sometimes the monopolist bears the burden of establishing the legitimacy of its business justifications as an affirmative defense subsequent to a *prima facie* showing of exclusionary conduct.²⁴ In evaluating the termination of the area ski-pass agreement under section 2, the *Aspen* Court characterized the decision to terminate the agreement as a monopolist's decision to make an important change in the nature of the marketplace in a manner that upsets established, and presumptively efficient, patterns.²⁵ While this observation was not central to the Court's holding, it was a factor in the Court's decision to uphold section 2 liability in the absence of a legitimate business reason for the refusal.²⁶ The Court reasoned that a firm's deviation from an established (and hence presumptively competitive and efficient) pattern suggests that the underlying reasons for the change may not be procompetitive and beneficial to the consumer.²⁷ After *Aspen*, a monopolist's²⁸ unilateral refusal to deal with competitors is legal only if valid business reasons justify its actions.²⁹ Following *Aspen*, a *prima facie* showing of a section 2 violation by a firm that unilaterally refuses to deal can be rebutted with a showing that the conduct was motivated by legitimate business

21. *Id.* (citing *Lorain Journal Co. v. United States*, 342 U.S. 143, 153 (1951) (holding that magazine publisher's refusal to sell advertising to businesses that advertised with competitor violated section 2)).

22. *Id.* at 602–03.

23. *Id.* at 604–05, 608–10 (discussing proffered business justifications of ski resort in terminating joint ticket agreement with its competitor).

24. *Infra* note 30 and accompanying text.

25. *Aspen*, 472 U.S. at 604.

26. *Id.*

27. While the Court recognized that the decision to change an established pattern is not necessarily exclusionary conduct *per se*, the procedural posture of the case—before the court on a summary judgment appeal—required it to view all facts in the light most favorable to *Aspen Highlands*. *Id.*

28. Any section 2 claim must establish monopoly power and intent to monopolize. As this Note is chiefly concerned with the second of these elements, the remaining discussion will assume the ready establishment of monopoly power. *See supra* text accompanying note 16.

29. *See Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 483 (1992) (“Liability turns, then, on whether ‘valid business reasons’ can explain Kodak’s actions.”).

justifications.³⁰ Courts have refrained from establishing rote formulae for analyzing the legitimacy of business justifications, instead engaging in case-by-case basis evaluations when examining proffered business justifications.³¹

Notably, the disputes in the line of cases culminating in *Aspen* that forged the legitimate-business-justification defense did not involve refusals to deal in intellectual property.³² Consequently, the courts that developed this test for evaluating unilateral refusals to deal did not weigh the countervailing interests that arise when the products a firm refuses to deal to competitors are also protected by intellectual property law.

3. *Public Policy and Economic Concerns of Antitrust*

Antitrust law seeks to achieve efficient allocation of resources by securing and maintaining a competitive marketplace. The Sherman Act seeks to protect competition, not competitors.³³ Recognizing the danger that a monopolist will restrict output to suboptimal levels and raise prices, section 2 of the Sherman Act forbids monopolization or attempted monopolization.³⁴ As noted above, the two-pronged test for liability under section 2 is designed to distinguish between firms that achieve their dominant market position on merit and those that do so through anticompetitive or exclusionary conduct.³⁵

Section 2 of the Sherman Act reflects Congress's judgment that scrutiny of the conduct of single firms is only appropriate when it presents a significant danger of monopolization, and evaluating unilateral conduct under this lenient standard ensures that antitrust laws will not dampen efforts of a single aggressive entrepreneur.³⁶ Hence, courts have

30. *See, e.g., id.*; *High Tech. Careers v. San Jose Mercury News*, 996 F.2d 987, 990 (9th Cir. 1993); *Oahu Gas Serv., Inc. v. Pacific Resources, Inc.*, 838 F.2d 360, 368 (9th Cir. 1988).

31. Given the highly fact-intensive nature of the inquiry into the reasonableness of a firm's practices, coupled with the immense variety of fact patterns that may arise, this approach makes sense. *See generally Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1183–84 (1st Cir. 1994) (suggesting that *Aspen* cast doubt on proposition that any single rule or formula will determine legality of refusal to deal).

32. *See Aspen*, 472 U.S. 585 (involving refusals to deal in ski lift tickets); *Otter Tail Power Co. v. United States*, 410 U.S. 366 (1973) (involving refusal to sell wholesale electricity); *Lorain Journal Co. v. United States*, 342 U.S. 143 (1951) (involving refusal to sell advertising in magazine).

33. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 488 (1977) (citations omitted).

34. *See supra* note 14 and accompanying text.

35. *Supra* notes 16–17 and accompanying text.

36. *See Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 768 (1984).

been more reluctant to impose liability under the Sherman Act to one firm acting alone than to several firms acting in concert—a scenario inherently “fraught with anticompetitive risk.”³⁷ Because “without bounds, claims based on unilateral conduct will proliferate,”³⁸ a prima facie case under section 2 requires proof of monopoly power and intent to monopolize described above.³⁹ This can nevertheless be rebutted upon a showing that the challenged conduct is supported by a legitimate business justification.⁴⁰ The high burden required to prevail on a section 2 claim reflects the policy of the Sherman Act to protect consumers and competition, not individual competitors.

B. Intellectual Property Law

1. Affirmative Rights to Exclude in the Patent and Copyright Acts

The federal Patent Act⁴¹ and Copyright Act⁴² confer on patent and copyright holders analogous rights to exclude others from exploiting protected work.⁴³ While the statutes differ significantly on the nature of the protections afforded,⁴⁴ both statutes confer a property right that expressly authorizes their owners to exclude others from exploiting their products.⁴⁵ While the property rights these statutes grant are sometimes confusingly labeled “monopolies,”⁴⁶ to avoid confusion this Note simply

37. *Id.* at 768–69.

38. *Image Tech Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1218 (9th Cir. 1997), *cert. denied*, 118 S. Ct. 1560 (1998).

39. *Supra* text accompanying note 16.

40. *Supra* note 23 and accompanying text.

41. 35 U.S.C. § 154 (1994).

42. 17 U.S.C.A. § 106 (West Supp. 1998).

43. The Patent Act provides:

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

35 U.S.C. § 154(a)(1). The Copyright Act lists the exclusive rights granted to copyright holders. 17 U.S.C.A. § 106(1)–(6) (West Supp. 1998).

44. Philip Areeda & Donald Turner, *Antitrust* ¶ 711, at 201–02 (1996).

45. *See* 17 U.S.C.A. § 106; 35 U.S.C. § 154.

46. *See, e.g., Axis S.p.A. v. Micafil, Inc.*, 870 F.2d 1105, 1111 (6th Cir. 1989) (“Patent laws grant a monopoly for a limited time. . . . Thus, a lawfully acquired patent creates a monopoly that does not

refers to the rights expressly authorized by these statutes as the “patent grant” or the “copyright grant.”⁴⁷ These intellectual property laws impose no duty upon their holder to use or practice the protected invention or idea;⁴⁸ rather, they merely vest their holder with the property right to exclude others from that privilege for a limited period of time.⁴⁹

2. *Public Policy Considerations and Economic Justifications for Granting Intellectual Property Protection*

The Patent and Copyright Acts address problems unique to intellectual property. Unlike real or personal property, ideas—whether the creative ideas of authors that copyright law protects or the useful, non-obvious inventions that patent law protects—are intangible.⁵⁰ This intangibility presents two closely related problems: “inappropriability and indivisibility.”⁵¹ Both derive from the free replicability of ideas at low or no cost.

Authors and inventors who have labored to produce their works, knowing that others may copy the works and sell them at a fraction of the

violate the antitrust laws.”); *Orth-O-Vision, Inc. v. Home Box Office*, 474 F. Supp. 672, 686 (S.D.N.Y. 1979) (referring to copyright owner’s “legal monopoly” over copyrighted material).

47. In refraining from referring to a “patent monopoly,” one avoids confusing an economic conclusion in antitrust law with a statutorily-authorized property right in patent and copyright law. This distinction is nothing new. *See, e.g., Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 221 (1980) (“The boundary of a patent monopoly is to be limited by the literal scope of the patent claims.”); *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1160 n.8 (6th Cir. 1978) (“The loose application of the pejorative term ‘monopoly’ to the property right of exclusion represented by a patent, can be misleading. Unchecked it can destroy the constitutional and statutory scheme reflected in the patent system.”). *See generally In re Independent Servs. Org. Antitrust Litig.*, 989 F. Supp. 1131, 1133–36 (D. Kan. 1997).

48. *Standard Oil Co. v. United States*, 283 U.S. 163, 179 (1931); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981); *SCM v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981). *See generally Areeda & Turner*, *supra* note 44, at 186. The Patent Misuse Reform Act of 1988 reinforced this by stating that no patent holder shall be deemed guilty of misuse or illegal extension of the patent grant by refusing to license or use any of the rights of the patent. Pub. L. No. 100-703, 102 Stat. 4674 (1988) (codified at 35 U.S.C. § 271(d)(4)(1994)). It is also well established that copyright holders may lawfully refuse to exploit their copyright grant. *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (holding that copyright owner “may refrain from vending or licensing and content himself with simply exercising the right to exclude others from using his property”).

49. *Supra* notes 2–3 and accompanying text.

50. For convenience this Note uses the generic term “idea” to refer to material that is capable of being patented or copyrighted. Strictly speaking, it is not the idea that intellectual property law protects, but the utilization of the idea (in the case of patent) or the expression of the idea (in the case of copyright).

51. Paul Goldstein, *Copyright* § 1.14.1, at 1:44–45 (2d ed. 1996).

cost, will not waste the effort producing intellectual property for want of a means of reaping profit for their labors. This is the problem of “inappropriability” or “free riding.”⁵² Its central assumption is that without some artificial protection, too few resources will be devoted to innovation and creative activity.

Meanwhile, the ease and low cost of replicating ideas offers the public a unique asset: widespread access. Given the low cost of replication, access to ideas, unlike tangible property, has no natural limits imposed by scarcity.⁵³ Consequently, the public benefits by enjoying the easily reproduced and widely distributed information. A benefit to one person need not deprive another of the same benefit.

The Patent and Copyright Acts are an attempt to alleviate the tension between these competing concerns by granting short-term exclusive rights to the producers of intellectual property in exchange for disclosure to the public. This ideally “promote[s] the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”⁵⁴ The goal of copyright is to encourage the widest possible production and dissemination of literary and artistic works.⁵⁵ Similarly, the goal of patent is to encourage disclosure of inventions that promote the progress of science and useful arts. The Copyright and Patent Acts reflect a legislative balancing that targets the dilemma “that without a legal monopoly not enough information will be produced but with the legal monopoly too little of the information will be used.”⁵⁶ The exclusive rights granted ameliorate the problem of inappropriability by securing to the property holder a means of profiting. Meanwhile, the limited nature and duration of the exclusive rights mitigate the threat of underproduction of ideas.⁵⁷

52. Ward S. Bowman, Jr., *Patent and Antitrust Law* 2 (1976); Robert Cooter & Thomas Ulen, *Law and Economics* 134–35 (1988).

53. For example, while the paper in books is a finite and exhaustible resource, the words and paragraphs that fill the pages have no analogous natural limit.

54. U.S. Const. art. I, § 8, cl. 8.

55. Goldstein, *supra* note 51, § 1.14, at 1:40; *see also* Feist Pubs., Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 349 (1991) (discussing policies of copyright); Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975) (same).

56. Cooter & Ulen, *supra* note 52, at 135.

57. The decision to grant exclusive rights implies suboptimal production during the term of the patent or copyright grant. Exclusive control of production encourages restricted output at higher prices. *See* Bowman, *supra* note 52, at 17.

Although scholars have debated the merits of these theoretical justifications for the intellectual property laws, it is important for policy purposes to recognize that the incentives the Patent and Copyright Acts offer take the form of discretionary powers of exclusion. From a broad economic perspective, the exact form of the inducement may not matter. But, from the perspective of individuals seeking protection, these powers to exclude are the sole incentives offered for public disclosure of innovation and creativity aside from the marketplace, which offers no natural solution to the problems of inappropriability and indivisibility. When weighing the competing demands incident to intellectual property and formulating this system as a solution, Congress found that the short-term costs of issuing exclusionary rights are justified by the long-range benefits that society reaps from the induced disclosure. While the requirements for protection differ, neither the Patent Act nor the Copyright Act weighs or considers the intentions of the author or inventor in assessing worthiness for protection.⁵⁸

C. *Section 2 Claims and Intellectual Property Laws: The Need for Unique Treatment of Conduct Involving Intellectual Property*

The *Kodak* case was not the first to address what the Ninth Circuit has deemed an “obvious tension” between the antitrust and intellectual property laws.⁵⁹ The cases that construe federal antitrust and intellectual property law fall into two broad groups. One line of cases deals with firms that have been subject to antitrust liability under the Sherman Act for misusing a patent,⁶⁰ using a fraudulently procured patent,⁶¹ or extending the reach of the patent “beyond the patent grant.”⁶² The second line of cases involves firms whose conduct survived antitrust challenge because it was expressly authorized by the patent or copyright statute and consequently shielded from antitrust scrutiny.⁶³ In the former, antitrust

58. Indeed, patent and copyright holders can legally sit on their respective exclusive rights, irrespective of motive. *See* *Hartford-Empire Co. v. United States*, 323 U.S. 386, 432–33, *modified by* 324 U.S. 570 (1945) (patent); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (copyright). Theoretically, everyone who meets the statutory requirements for issuance could secure a patent or copyright.

59. *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 646 (9th Cir. 1981).

60. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969).

61. *See* *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1208–09 (2d Cir. 1981).

62. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 665 (1943).

63. *SCM Corp.*, 645 F.2d at 1206 (“[W]here a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws.”).

liability is imposed for conduct that is illegal under established doctrines of intellectual property law: misuse, fraud, and illegal extension beyond the scope of the patent grant. In the latter, practices authorized by intellectual property law survive antitrust challenge based, at least partly, on allegations that practicing the patent or copyright constitutes actionable conduct under section 2.

1. *Patent Misuse, Fraudulent Procurement, and Illegal Extension of the Patent Grant*

The equitable doctrine of patent misuse is an affirmative defense to a claim for patent infringement.⁶⁴ There can be no independent cause of action for misuse; it can only be asserted as a defense to an infringement claim. The relationship between this doctrine and the antitrust laws is complex.⁶⁵ If a practice constitutes an antitrust violation, it will also constitute misuse.⁶⁶ However, misuse will only sometimes constitute an antitrust violation.⁶⁷

The case law on misuse is not entirely coherent regarding what constitutes misuse. Courts sometimes adhere to a vague concept of "extension" when analyzing whether a particular practice is misuse.⁶⁸ In dealing with misuse claims, courts ask if the conduct illegally "extends" the patent beyond the terms of its grant. Many of these cases involve infringement claims with antitrust counterclaims.⁶⁹

In 1988, Congress passed the Patent Misuse Reform Act.⁷⁰ The amendments specified that no firm shall be deemed guilty of misuse or

64. *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465 (1957); *see also* William C. Holmes, *Intellectual Property and Antitrust Law* § 1.07, at 1-43 (1998).

65. Donald Chisum, *Patents* § 19.04[2], at 19-298 (1992).

66. *Id.* at 19-300.

67. *Id.*

68. *See, e.g.*, *National Lockwasher Co. v. George K. Garret Co.*, 137 F.2d 255, 256 (3d Cir. 1943). The concept of extension, usually found in tying cases, arises when the patentee attempts to extend the patent's exclusionary powers beyond the scope of the patent grant. *See Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576-77 (Fed. Cir. 1990) (distinguishing proper use of patent, which is permissible under antitrust analysis, and improper extension, which may trigger antitrust liability if sufficient market power is present).

69. *See, e.g.*, *Atari Games Corp.*, 897 F.2d 1572. *See generally* Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 Drake L. Rev. 175, 201-02 (1989).

70. Pub. L. No. 100-703, 102 Stat. 4674 (1988) (codified as amended at 35 U.S.C. § 271(d)(4)-(5) (1994)).

illegal extension of the patent right by refusing to license or use rights in a patent.⁷¹ The legislative history indicates that the amendment was passed to codify the then-existing rule that a refusal to use or license a patent did not constitute misuse.⁷² More importantly, the Act indicated Congress's affirmative judgment that antitrust principles should be used to determine the legality of alleged misuse.⁷³ In particular, the Act allows patent holders to refuse to license or use their patents and to condition licensing on acquisition of rights in another patent unless the patent owner has market power in the relevant market.⁷⁴ While the amendment only speaks to whether certain patent practices constitute misuse (and remains silent on which acts of misuse rise to the level of Sherman Act violations), it nevertheless indicates that Congress at least seeks some consistency in evaluating misuse defenses and antitrust counterclaims.⁷⁵ The amendment also implicitly acknowledges, and attempts to address, that intellectual property holders pose unique problems for antitrust analysis, problems that antitrust principles alone cannot readily handle.

2. *Antitrust Claims Based on Conduct Expressly Authorized by the Intellectual Property Laws*

The leading case on the antitrust treatment of patent holders who only engage in anticompetitive conduct expressly authorized by the intellectual property laws is *SCM Corp. v. Xerox Corp.*⁷⁶ This court held that when patents are lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger antitrust liability.⁷⁷ *SCM Corp.* involved a unilateral refusal to license patents, a situation similar to the fact pattern in *Kodak II*.⁷⁸ The Second Circuit adopted a blanket

71. 35 U.S.C. § 271(d)(4).

72. 134 Cong. Rec. H32,295 (1988).

73. For example, the Act added 35 U.S.C. § 271(d)(5), which specifically exempts certain licensing practices from the misuse doctrine unless the patent owner possesses market power in the market for the patent or patented product. § 201, 102 Stat. at 4676.

74. 35 U.S.C. § 271(d)(4)–(5).

75. 134 Cong. Rec. H32,295.

76. 645 F.2d 1195 (2d Cir. 1981).

77. *Id.* at 1206.

78. See *Image Tech. Servs., Inc., v. Eastman Kodak Co.*, 125 F.3d 1195, 1201 (9th Cir. 1997), *cert. denied*, 118 S. Ct. 1560 (1998) (describing Kodak's refusal to sell parts to ISOs). An important distinction should be noted between a unilateral refusal to deal in patents or copyrights (a refusal to license or sell the patent or copyright itself) and a unilateral refusal to deal in the products covered by the patent or copyright. The former refusal is more justifiably subjected to antitrust scrutiny, as

exception for section 2 analysis of patent holders: if the conduct is expressly authorized by the patent laws, then it cannot form the basis for section 2 antitrust liability.⁷⁹

The Ninth Circuit followed *SCM Corp.*'s reasoning in a line of cases reconciling antitrust with patent and copyright law. In *United States v. Westinghouse Electric Corp.*, the Ninth Circuit agreed with the Second Circuit that an antitrust violation may not be found where a patent holder acts in accordance with what the patent laws authorize.⁸⁰ The Court favorably cited *SCM Corp.*⁸¹ and refused to impose antitrust liability on a patent licensing arrangement that was expressly authorized by patent law. In *Triad Systems Corp. v. Southeastern Express Co.*, the Ninth Circuit again dealt with a similar tension between antitrust and copyright laws.⁸² The court affirmed the grant of a preliminary injunction in a copyright infringement action with antitrust counterclaims that involved a defendant ISO using a plaintiff's copyrighted software to service machines.⁸³ This case is very similar to *MAI Systems Corp. v. Peak Computer, Inc.*, where the Ninth Circuit first held that the act of loading a protected software program into RAM for the purpose of servicing the computer constitutes infringement.⁸⁴ It is notable that none of these cases found conduct expressly authorized by intellectual property laws to violate the antitrust laws in the absence of further anticompetitive conduct not sanctioned by intellectual property law. Yet, these cases did not squarely address the particular issue, which the Ninth Circuit confronted in *Kodak II*, of antitrust liability for a unilateral refusal to deal

refusals to deal in other forms of property have constituted sufficient anticompetitive conduct to state a claim in the so-called "essential facilities" cases. *See, e.g.*, *Otter Tail Power Co. v. United States*, 410 U.S. 366, 381-82 (1973) (refusal to sell access to power); *Lorain Journal Co. v. United States*, 342 U.S. 143, 153 (1951) (refusal to sell advertising). A refusal to deal in the product protected by the patent or copyright, however, constitutes exclusionary activity expressly authorized by the intellectual property statutes, and may more directly conflict with antitrust prohibitions on monopolization.

79. *SCM Corp.*, 645 F.2d at 1209.

80. 648 F.2d 642, 647 (9th Cir. 1981). "In advancing its theory . . . the government argues that an antitrust violation may be found where a patent holder does precisely that which the patent laws authorize. The right to license that patent, exclusively or otherwise, or to refuse to license at all, is 'the untrammelled right' of the patentee." *Id.*

81. *Id.* at 648 ("[N]o court has ever held that the antitrust laws require a patent holder to forfeit the exclusionary power inherent in his patent the instant his patent monopoly affords him monopoly power.") (citations omitted).

82. 64 F.3d 1330 (9th Cir. 1995).

83. *Id.* at 1337.

84. 991 F.2d 511 (9th Cir. 1993).

in products protected by intellectual property. This was partly because the Supreme Court did not issue its opinion in *Kodak I* until 1992.

II. *IMAGE TECHNICAL SERVICES, INC. v. EASTMAN KODAK CO.*

Kodak I is best known, of course, for its analysis of firm-specific antitrust aftermarkets, which altered the landscape of section 2 monopolization and attempted monopolization claims.⁸⁵ The closely-watched dispute between several independent service organizations (ISOs) and Eastman Kodak Company recently ended when the Supreme Court denied certiorari to the Ninth Circuit in *Image Technical Services, Inc. v. Eastman Kodak Co.*⁸⁶ The case lasted eleven years and required a trip to the Supreme Court to resolve a summary judgment appeal regarding market definition in aftermarket monopolization cases.⁸⁷ In the end, the Ninth Circuit largely affirmed a \$71.8 million judgment against Kodak for monopolizing the service markets for its high volume photocopier and micrographics equipment.⁸⁸

A. *Facts and Procedural History*

Kodak manufactured and sold high-volume photocopiers and micrographic equipment. In the markets for these durable goods, competition was robust.⁸⁹ Kodak also sold parts for these machines and serviced them.⁹⁰ In the early 1980s, ISOs began servicing Kodak machines, directly competing with Kodak.⁹¹ According to at least some customers, the ISOs provided better and cheaper service.⁹² As the ISOs grew more competitive, Kodak instituted a new parts policy whereby it refused to sell to ISOs replacement parts it manufactured for its machines.⁹³ Additionally, Kodak negotiated contracts with its parts

85. See Jennifer E. Gully, Note, *Image Technical Services, Inc. v. Eastman Kodak Co.*, 13 Berkeley Tech. L.J. 339 (1998).

86. 125 F.3d 1195 (9th Cir. 1997) [*Kodak II*], cert. denied, 118 S. Ct. 1560 (1998).

87. See *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451 (1992).

88. *Kodak II*, 125 F.3d 1195.

89. *Id.* at 1200–01.

90. *Id.*

91. *Id.*

92. *Id.*

93. *Id.*

suppliers, requiring them not to deal with ISOs.⁹⁴ As a result of an inability to obtain replacement parts for Kodak machines, many ISOs went out of business or lost service contracts.⁹⁵ The ISOs claimed that the market for service of these machines called for annual or multi-year contracts, which they could not negotiate and execute without a reliable parts supply.⁹⁶

In 1987, several ISOs filed suit in the Northern District of California, seeking damages and injunctive relief for violations of the Sherman Act.⁹⁷ The initial complaint raised both section 1 and section 2 claims.⁹⁸ Kodak moved for summary judgment, and the trial court granted the motion after some initial discovery.⁹⁹ The Ninth Circuit reversed,¹⁰⁰ and the Supreme Court granted certiorari.¹⁰¹ The Court, per Justice Blackmun, affirmed the Ninth Circuit's denial of summary judgment.¹⁰² While much of the Supreme Court's decision dealt with the ISOs' section 1 claim (which was later dropped on remand), the Court nevertheless refused to adopt Kodak's proposed rule that a single aftermarket brand of product or service can never constitute a relevant market under the Sherman Act when competition in the primary market is robust.¹⁰³ The Court noted that the proper market definition in this case could be determined only after a factual inquiry into the "commercial realities" faced by consumers. Furthermore, the Court pointed out that in this case the service and parts for Kodak's equipment were not interchangeable with other manufacturers' service and parts. Therefore, the relevant market from the Kodak equipment owners' perspective was composed of only companies that serviced Kodak machines.¹⁰⁴

94. *Id.*

95. *Id.*

96. *Id.*

97. *Id.* at 1201.

98. *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 456 (1992) [*Kodak I*]. A copy of the complaint can be found attached to the petitioner's brief to the Supreme Court. *See* Brief for Petitioner, *Kodak I*, 504 U.S. 451 (No. 90-1029). Generally, section 1 of the Sherman Act prohibits combinations and conspiracies in restraint of trade, while section 2 forbids monopolization and attempted monopolization. *See* 15 U.S.C. §§ 1-2 (1994).

99. *See* *Image Tech. Servs., Inc. v. Eastman Kodak Co.*, No. C-87-1686-WWS, 1988 WL 156332 (N.D. Cal. Apr. 18, 1988), *rev'd*, 903 F.2d 612 (9th Cir. 1990), *aff'd*, 504 U.S. 451.

100. *Image Tech. Servs.*, 903 F.2d 612.

101. 501 U.S. 1216 (1991).

102. *See Kodak I*, 504 U.S. at 479.

103. *Id.* at 481-82.

104. *Id.* at 482.

On remand, the district court entered judgment on a jury verdict, awarding \$71.8 million in damages (after trebling) to the ISOs and enjoining Kodak from refusing to sell parts to ISOs at “reasonable and nondiscriminatory terms and prices.”¹⁰⁵ Kodak appealed this judgment to the Ninth Circuit, where for the first time it challenged the jury instructions on its intellectual property rights.¹⁰⁶ The Ninth Circuit largely affirmed the judgment of the district court.¹⁰⁷ In the process, however, the court recognized the novelty of the issues Kodak raised regarding the interplay of antitrust and intellectual property laws.¹⁰⁸

B. *Kodak II: The Ninth Circuit Solves an Intellectual Property Problem with an Antitrust Rule*

Having recognized the novelty of the issue and its importance to intellectual property holders with significant power in markets for parts of their own durable machines, the Ninth Circuit cautiously attempted to harmonize facially conflicting antitrust, patent, and copyright laws in responding to Kodak’s challenge.¹⁰⁹ The court restated the broad policies underlying the three federal statutory schemes¹¹⁰ and observed that two principles emerged from the interplay between these laws: (1) patent and copyright holders are not immune from antitrust liability,¹¹¹ and (2) patent and copyright holders may refuse to sell or license protected

105. See *Image Tech. Servs., Inc., v. Eastman Kodak Co.*, 125 F.3d 1195, 1201–02, 1227 (9th Cir. 1997) [*Kodak II*], cert. denied, 118 S. Ct. 1560 (1998) (upholding slightly-modified injunction).

106. Apparently, Kodak did not assert its intellectual property rights as a defense to the section 2 claim until the trial. *Kodak I* addresses Kodak’s three proffered business justifications for its conduct, none of which involve intellectual property in the parts or service of its machines. See *Kodak I*, 504 U.S. at 484 (dismissing Kodak’s proffered valid business reasons for its refusal to deal, none of which implicated intellectual property).

107. The court affirmed the damages award for all but one plaintiff ISO, and remanded for a new trial on used equipment damages. It also modified the injunction. *Kodak II*, 125 F.3d at 1228.

108. *Id.* at 1214 (recognizing that significance of monopolist’s unilateral refusal to sell or license patented or copyrighted product in context of section 2 claim is “a question of first impression”).

109. *Id.*

110. Antitrust law seeks to promote and protect a competitive marketplace for the benefit of the public . . . Patent law seeks to protect inventions, while inducing their introduction into the market for public benefit . . . Federal copyright law “secures a fair return for an author’s creative labor” in the short run, while ultimately seeking “to stimulate artistic creativity for the general public good.”

Id. at 1214–15 (citations omitted).

111. *Id.* at 1215.

work.¹¹² To support these conclusions, the court cited two lines of cases regarding the general relationship between antitrust and intellectual property law. One holds that concerted or contractual action by patent or copyright holders violates the antitrust laws,¹¹³ while the other suggests that patent and copyright holders may lawfully refuse to sell or license their protected work.¹¹⁴

To justify its decision, the Court relied on the now famous footnote twenty-nine of the Supreme Court's opinion in *Kodak I*, which suggested that copyright and patent holders may be subject to antitrust liability under a monopoly leveraging approach when a seller exploits a "dominant position in one market to expand [the] empire into the next."¹¹⁵ This language closely mirrors the language courts use to analyze patent misuse;¹¹⁶ indeed, patent misuse appears to be a concern the Supreme Court had in mind.¹¹⁷ The Ninth Circuit interpreted this language as an endorsement of the broad concept of antitrust liability for intellectual property holders, and concluded that the mere possession of valid intellectual property rights does not confer an absolute immunity from antitrust claims.¹¹⁸

The court forthrightly confessed, however, that the U.S. Supreme Court had not addressed the specific question it faced, and furthermore, no court had ever addressed the question.¹¹⁹ Before resolving the question, the court noted that the exclusionary rights granted to patent

112. *Id.*

113. *Id.* (citing *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1185 n.63 (1st Cir. 1994) (discussing *Kodak I* and prior cases holding that patent and copyright holders may be liable for concerted action that violates Sherman Act)).

114. *Id.* (citing *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336 (9th Cir. 1984); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981)).

115. *Id.* at 1216 (quoting *Eastman Kodak Co. v. Image Tech Servs., Inc.*, 504 U.S. 451, 479 n.29 (1992) [*Kodak I*]).

116. *See supra* Part I.C.1.

117. *See Kodak I*, 504 U.S. at 479 n.29 (discussing how power gained "through some natural advantage such as patent, copyright or business acumen" can sometimes give rise to antitrust liability).

118. *Id.*

119. The *Kodak* Court, however, did not specifically address the question of antitrust liability based upon a unilateral refusal to deal in a patented or copyrighted product. *Kodak* and its amicus correctly indicate that the right of exclusive dealing is reserved from antitrust liability. We find *no reported case* in which a court has imposed antitrust liability for an unilateral refusal to sell or license a patent or copyright.

Kodak II, 125 F.3d at 1216 (emphasis added).

and copyright holders have limits, and that these limits are historically determined under patent or copyright law rather than antitrust law.¹²⁰

Finally, the court recognized that while parts and service markets are separate from the primary equipment market for purposes of antitrust analysis;¹²¹ it is a different question altogether whether the exclusionary rights conferred by the intellectual property laws apply in both the primary equipment market and the derivative service aftermarkets.¹²² After expressing its concern for the future of claims based on unilateral action after this decision,¹²³ the court proceeded to resolve the question in a manner that subjected the exclusionary powers of patent and copyright to scrutiny, and ultimately liability, under section 2 of the Sherman Act.¹²⁴

The court applied a modified version of the rebuttable presumption test adopted by the First Circuit in *Data General Corp. v. Grumman Systems Support Corp.*¹²⁵ Under the test, lawful possession of patents or copyrights constitutes a presumptively valid business justification for refusing to deal in those products, but this presumption can be overcome by a showing of pretext.¹²⁶ The test applies the default section 2 monopolization analysis to conduct involving intellectual property rights—property rights that directly authorize what the antitrust analysis forbids. The court concluded that, while exclusionary conduct can include a monopolist's unilateral refusal to license a patent or copyright or sell its patented or copyrighted work, a monopolist's desire to exclude others from its protected work is a presumptively valid business justification for any immediate harm to consumers.¹²⁷ Applying this new test, the court then found that the district court's failure to instruct the jury on the significance of Kodak's intellectual property rights constituted an abuse of discretion.¹²⁸

120. *Id.* at 1216–17.

121. For discussion of the Supreme Court's holding in *Kodak I*, see *supra* text accompanying note 103.

122. *Kodak II*, 125 F.3d at 1217.

123. *Id.* at 1217–18 (citations omitted).

124. *Id.* at 1218 (adopting presumption of validity for intellectual property-authorized exclusionary conduct that is rebuttable by showing of pretext).

125. 36 F.3d 1147 (1st Cir. 1994).

126. *Kodak II*, 125 F.3d at 1218.

127. *Id.*

128. *Id.*

Significantly, however, the court concluded that the trial court's failure to instruct the jury on Kodak's intellectual property rights was harmless error.¹²⁹ The court reasoned that, more probably than not, the jury would have found Kodak's presumptively valid business justification pretextual.¹³⁰ According to the court, the decision to call this harmless error was based not on formalistic distinctions that are generally disfavored in antitrust law, but on actual market realities.¹³¹ The reality on which the Ninth Circuit Court of Appeals relied in determining an issue of fact—that the proffered business justification was pretextual—was the strong evidence that the intellectual property justification was, in fact, a post-hoc pretextual cover for patently illegal exclusionary conduct.¹³²

III. THE SHORTCOMINGS OF THE *KODAK II* ANALYSIS

A. *The Ninth Circuit Fails to Confront the Extent of Intellectual Property Exclusionary Rights in Multiple Antitrust Markets*

Neither the Patent Act nor the Copyright Act limits the right to exercise exclusionary power to a fixed number of antitrust markets.¹³³ While the statutes' silence on this question leaves open the possibility that there is no limit to the number of antitrust markets in which holders of intellectual property rights may exclude others, the Ninth Circuit in *Kodak II* appeared to proceed on the opposite assumption.¹³⁴ Without explicitly stating so, the court operated as if the exclusionary rights conferred by the patent and copyright laws only authorize their owner to implement their exclusionary powers in one antitrust market. To its credit, the court acknowledged the presence of this issue when it framed the problem with background caselaw.¹³⁵ The court noted that “[p]arts

129. *Id.*

130. *Id.* at 1219–20.

131. *Id.* at 1218.

132. A Kodak employee testified that when deciding to change the parts policy, intellectual property did not cross his mind. *Id.* at 1219. Furthermore, only a small fraction of the parts Kodak refused to sell were patented. *Id.*

133. *See supra* I.B.1.

134. This assumption was pointed out and criticized by the one district court that considered and rejected *Kodak II*'s analysis. *See In re Independent Servs. Antitrust Litig.*, 989 F. Supp. 1131, 1134–35 (D. Kan. 1997).

135. “We recently noted the distinction between copyright market definition and antitrust market definition in *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995). There,

and service here have been proven separate markets [from the primary equipment markets] in the antitrust context, but this does not resolve the question whether the service market falls reasonably within the patent [or copyright] grant for the purpose of determining the extent of the exclusive rights conveyed.”¹³⁶ This quotation betrays the court’s unspoken assumption that there is a limit to the number of antitrust markets that can be implicated with a single patent or copyright; the assumption became evident when the court questioned the “extent” of the exclusive rights conveyed by patent and copyright law.¹³⁷

Not only does this assumption fail to address the Patent and Copyright Acts’ silence on the issue of antitrust markets, it also ignores the reluctance of other federal courts to impose any restrictions on the patent or copyright grant beyond what the marketplace dictates.¹³⁸ In a similar case pending against Xerox in federal district court in Kansas, the only court to address this issue since the Ninth Circuit in *Kodak II* found the Ninth Circuit’s assumption incompatible with prior federal decisions holding that a patent holder’s reward is “unlimited by the law.”¹³⁹ Given the Ninth Circuit’s earlier acknowledgment of this issue in the opinion, its failure to address it, let alone propose a resolution, is disappointing. The true dispute here, distilled to its core, is whether Kodak could lawfully exercise its intellectual property exclusionary powers for parts and software in downstream aftermarkets. In adopting its rebuttable presumption test, the court disposes of the case without reaching this issue, leaving only the rebuttable presumption test and its pretextualness rebuttal to resolve similar conflicts in the future.

This leaves future litigants without much practical guidance, as shown by the rebuttable presumption test’s novel reliance on intent to analyze proffered business justifications in the intellectual property context. As

plaintiff... argued that the copyright of the defendant... did not extend to the service market. . . . We disagreed.” *Kodak II*, 125 F.3d at 1217.

136. *Id.* (citations omitted).

137. *Id.*

138. *See, e.g., Independent Servs.*, 989 F. Supp. at 1138 (“The rationale of the patent system mandates that a patent holder’s right to exclude cannot be limited by the definition of the relevant antitrust markets.”). While this discussion dealt only with patent rights, the court later applied it by incorporation to copyrights as well. *Id.* at 1143–44.

139. *Id.* at 1138. The court cited several cases to demonstrate this trend: *King Instruments Corp. v. Perego*, 65 F.3d 941 (Fed. Cir. 1995), *cert. denied*, 116 S. Ct. 1675 (1996); *United States v. Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122 (D.C. Cir. 1981); *WL Gore & Assocs., Inc. v. Carlisle Corp.*, 529 F.2d 614 (3d Cir. 1976); *Chisolm-Ryder Co., Inc. v. Mecca Bros., Inc.*, 217 U.S.P.Q. 1322 (W.D.N.Y. Dec. 31, 1982), *aff’d*, 746 F.2d 1489 (Fed. Cir. 1984).

discussed above, holders of intellectual property may exercise, or choose not to exercise, their exclusionary rights irrespective of intent.¹⁴⁰ In other words, the validity of a patent or copyright does not depend on any beneficent intent, but instead on meeting the statutory criteria for protection.¹⁴¹ Yet, under the *Kodak II* test, intellectual property is useful and exclusive only to the extent of one's ability to prove that a refusal to share it is motivated by "legitimate" or procompetitive, rather than monopolistic and anticompetitive, goals.

This raises the question whether, after *Kodak II*, the law treats a defendant who refuses to deal in intellectual property differently from a defendant who refuses to deal in anything else.¹⁴² A necessary element of a prima facie case of monopolization or attempted monopolization is a showing of an intent to monopolize.¹⁴³ In the case of a defendant who refuses to deal in intellectual property protected by the patent or copyright laws, a plaintiff who has met this element of the initial prima facie case has likely already rebutted the defendant's "presumptively valid" business justifications in the process. Even if proof of the conduct element in the prima facie case does not align with proof that the proffered business justification is pretextual, the means of deciphering true intent are unclear. The resulting elusive distinction between legitimate and pretextual business justifications was one of the primary reasons the court in *In re Independent Service Organizations Antitrust Litigation*¹⁴⁴ chose not to adopt the Ninth Circuit's rule:

The standard articulated by the Ninth Circuit in *Kodak* makes it very difficult for a jury, a judge, or even the patent holder, to distinguish between a permissible refusal to deal (based on a desire to profit from and protect patent rights) and an impermissible refusal to deal (apparently based on a desire to obtain a competitive advantage by excluding competitors). A patent holder does not

140. *Supra* note 48 and accompanying text.

141. Of course, validly-issued patents and copyrights can be misused, a scenario that will often coincide with less than noble intentions. But, misuse is tolerated or sanctioned not because of perceived subjective motivations, but rather because, by the standard criteria of misuse analysis, the conduct is deemed unacceptable. *See supra* Part I.C.1.

142. If not, then the Ninth Circuit has certainly come a long way from *Westinghouse* and its rejection of the notion that "an antitrust violation may be found where a patent holder does precisely that which the patent laws authorize." *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981); *see supra* note 80 and accompanying text.

143. *Supra* note 16 and accompanying text.

144. 989 F. Supp. 1130, 1141 (1997).

refuse to share its invention because the property is patented, rather, the refusal is based on a desire to obtain a competitive advantage The patent is merely the means by which its holder may obtain this competitive advantage. To classify the desire to obtain a competitive advantage over competitors as pretext is to read the right to exclude out of the patent statute.¹⁴⁵

In addition to raising concerns about the practicability of applying a test based on subjective intent to evaluate the legality of exercising statutorily-authorized property rights, the test the Ninth Circuit creates presumes a false dichotomy. The “pretextualness” rebuttal assumes that a firm that withholds its intellectual property has but one true reason for doing so, and that the true reason is decipherable. For example, Kodak claimed at trial that it withheld its parts in an effort to protect its copyrights and patents; yet, the court found that these proffered business justifications were pretextual because the restrictive parts policy was not instituted to protect copyrights or patents.¹⁴⁶

The pretextualness rebuttal, however, is ill-equipped to assess the exclusionary conduct of a firm that wants to protect its intellectual property rights *and* simultaneously wishes to monopolize the market for the products protected by those rights. The sentiments are not mutually exclusive, and are likely to be commonly concurrent in firms that invest in developing intellectual property as a means of increasing market share and profits. It is unclear whether a firm that refuses to deal for both of those reasons is cleverly exploiting its intellectual property rights or foolishly subjecting itself to treble damages liability. The pretextualness rebuttal cannot appreciate such dual motivations because it causally ascribes to one intention—however subjectively divined—conduct that may be inconsistent with and indeed motivated by other potentially legitimate intentions.

Of course, such guesswork in ascribing one true intention to the conduct of a firm underlies all analysis of proffered business justifications insofar as the factfinder must consider the reasonableness of the proffered justification for the exclusionary conduct and weigh that against the probability that the justification is pretextual. In disposing of the facts before it to reach the correct result, however, the Ninth Circuit

145. *Id.*

146. *Image Tech. Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1219 [*Kodak II*] (“Kodak’s parts manager testified that patents ‘did not cross [his] mind’ at the time Kodak began the [exclusionary] parts policy.”).

lowers lawful possession and exercise of intellectual property rights to the level of a mere consideration to be weighed by the jury as a possible, albeit presumptively valid, justification for otherwise actionable conduct. That is to say, whether conduct is protected under the intellectual property grant is now potentially a question of fact and not law.

Failing to address squarely the nature and extent of Kodak's exclusionary rights in its intellectual property, the Ninth Circuit instead implemented a broad rebuttable presumption test to dispose of the case before it. Unfortunately, the ensuing resort to pretext to limit the presumptive legality of refusing to deal in products protected by intellectual property law shifts the inquiry from objective manifestations of reasonableness to subjective speculation on intent.

B. The Illusory Rights of Vertically-Integrated Intellectual Property Holders Under the Kodak II Test

Finally, the court's analysis of Kodak's refusals to deal in its patented parts ignores a fundamental question: If Kodak cannot exclude the aftermarket competitors from making, using, or selling the covered invention, then who *can* it exclude? The parts in Kodak's machines were not interchangeable with the parts of the machines of any of its competitors in the primary market for the photocopier and micrographic equipment.¹⁴⁷ Hence, the universe of potential markets for these parts is comprised of people who either manufacture, own, or service Kodak machines.¹⁴⁸ As no primary market competitor of Kodak has any use for its patented parts, the only competitors Kodak can conceivably exclude from using or selling the protected parts are, by necessity, aftermarket service competitors.¹⁴⁹ One presumes that a statutory power to exclude entails a power to exclude somebody. Under the facts of this case, the only parties Kodak could realistically exclude are the ISOs. With the

147. *Id.* at 1200.

148. Of course, there remains the possibility that a competitor will reverse-engineer a Kodak machine and incorporate the protected product into its own machines. In this case, Kodak would invoke the right to exclude others from making the part, as opposed to the right to exclude others from using or selling it. 35 U.S.C. § 154 (1994). This is, of course, a legitimate use of the patent's exclusionary power, but it was hardly a concern for the *Kodak II* court, which faced the question of section 2 monopolization liability for refusing to deal with aftermarket, not primary market, competitors. *Kodak II*, 125 F.3d at 1200-02.

149. Clearly, Kodak need not fear selling its patented parts to itself for initial manufacture of the machines for the primary equipment market. The parts are only useful in Kodak machines, which only Kodak manufactures.

exception of the owners of the machines, who Kodak obviously does not wish to alienate, there is no other demand for these parts.

C. *Policy Implications for Intellectual Property Holders in a Post-Kodak II World*

The difficulty of applying the new *Kodak II* test to litigants is not the only problem the opinion presents. Coupled with *Kodak I*, the Ninth Circuit's decision in *Kodak II* presents unique problems for firms that sell durable goods with replaceable, or even upgradeable, parts that may be protected by patent or copyright laws.¹⁵⁰ The holding of *Kodak I* makes it more likely that firms will attain monopoly power (perhaps unwittingly) in the aftermarket for anything designed and sold specific to their primary market product, as long as it is not interchangeable or compatible with competing parts or upgrades for primary market goods. Because these aftermarkets can be firm-specific, as they were in *Kodak I*, the first prong of a section 2 monopolization claim (monopoly power) is met fairly easily when the same vertically-integrated firm controls output of both the primary and aftermarket products.¹⁵¹ A firm is more likely to possess high market share in these aftermarkets if it holds intellectual property rights in the affected products, enabling it to exclude others from making, using, or selling the protected work.

Finally, *Kodak II*'s weakening of the exclusionary powers of the intellectual property laws with an intent-based test makes one wonder whether possession of intellectual property in aftermarket products is an asset or a liability. The *Kodak II* court claims that the goals of the antitrust and intellectual property laws are the same,¹⁵² and even attempts to characterize its rebuttable presumption test as one that balances the

150. Indeed, the property need not be tangible hardware. *Kodak II* was one of the first courts to require a firm to make its copyrighted software available to its competitors. See *Kodak II*, 125 F.3d at 1226 (requiring Kodak to make available to ISOs all "tools or devices essential to servicing Kodak equipment").

151. In *Kodak I*, because Kodak controlled distribution of all aftermarket parts (either by manufacturing them itself or by executing exclusive contracts with its suppliers), a finding of monopoly power was inevitable once the market was defined in a firm-specific manner. It is conceivable, however, that a firm may not have such high market share in its own aftermarket goods, in which case the court would be required to engage in the standard monopoly power analysis to determine if the firm has the power "to control prices or exclude competition." See *United States v. E.I. DuPont De Nemours & Co.*, 351 U.S. 377 (1956).

152. *Kodak II*, 125 F.3d at 1218 (noting primary interest of both intellectual property and antitrust law is public interest).

policies behind the conflicting statutory schemes.¹⁵³ However, the intent-based “test” for recognizing the legitimacy of intellectual property rights sufficiently weakens the right by allowing the legitimacy of the exclusionary power to turn on the evidence of “legitimate” intent—whatever that might be.

This weakening of the power conferred by the intellectual property laws diminishes their incentive power. One of the main policies underlying both patent and copyright law is to induce public disclosure of innovation and creativity.¹⁵⁴ The catalyst for inducing such disclosure has (at least arguably) been the dangled “carrot” of a temporary period of exclusive rights to make, use, and sell the protected work, or refrain from doing so. If this model is accurate, then it is certainly plausible that patents and copyrights that no longer truly afford their holders exclusive rights, but instead only bestow “rebuttable presumptions” that exclusionary conduct is “reasonable,” will not constitute quite the incentives they once did.

The presence and flaws of this test are exacerbated by the realization that it was unnecessary. Rather than fashion the broad test to dispose of this case, the Ninth Circuit could have skipped the formulation of the presumption and its rebuttal and instead imposed section 2 liability on Kodak for refusing to deal in the unprotected parts alone. Because there was evidence that access to all parts was necessary for effective competition, refusing to deal in any parts—protected or otherwise—has the same effect on the ISOs’ practical ability to compete in the service market. The court could have either refrained from reaching the issue of the weight to be given intellectual property rights, or held incidentally that possession of such rights constitutes a defense for refusing to deal in the products protected thereby, a defense mooted by Kodak’s simultaneous illegal refusal to deal in the majority of unprotected parts. In either case, the court could have avoided constructing a novel test that would survive the unique facts of the *Kodak* dispute and return in future section 2 cases involving intellectual property. Whether the test will strike a proper balance between intellectual property rights and antitrust remains to be seen.

153. “This presumption harmonizes the goals of the relevant statutes and takes into account the long term effects of regulation on these purposes.” *Id.*

154. *Supra* notes 55–56 and accompanying text.

IV. CONCLUSION

Because ideas can be so easy to copy and so difficult to produce, the federal Patent and Copyright Acts grant exclusionary rights of limited nature and duration in exchange for development and disclosure of intellectual property. These statutory property rights provide an incentive for disclosure of new ideas, both useful and artistic. When people obtain copyrights and patents, they contribute to the public welfare by engaging in the exchange of ideas. While it is impossible to guess what effect the absence of these statutes would have on inventive and creative activity, their purpose in encouraging development and disclosure of ideas is undermined when the benefits they confer—limited rights to exclude—are weakened in a manner that renders the extent and nature of the rights uncertain. The exact nature of the benefits that society may reap are unknown, but the intellectual property laws stand for the proposition that short-term restrictions on free appropriability justify the long-term benefits of disclosure.

The Sherman Act, meanwhile, forbids monopolization and attempted monopolization, reflecting the economic judgment that one firm that can control prices or reduce output constitutes a threat to the economy sufficient to warrant blanket prohibition. Among the activities that can constitute exclusionary conduct sufficient to state a monopolization claim are unilateral refusals to deal. A *prima facie* section 2 case requires a showing that intent to monopolize motivates the refusal to deal; this showing can be rebutted by proffering legitimate business justifications for the refusal. Determining this question necessarily requires an evaluation of an alleged monopolist's subjective intent. Liability therefore turns on intent.

Courts construing unilateral refusal to deal claims have generally deferred to analysis under intellectual property precedent when construing an intellectual property right to exclude with an antitrust duty to deal. This deferral is consistent with the recognition that the short-term burdens of protection are justified by the long-term benefits of disclosure and widespread access to ideas. The Ninth Circuit's deviation from this pattern of deferral is both unnecessary and unwise. It is unnecessary because legitimate alternative grounds exist for imposing the duty to deal. It is unwise because it strips the property rights bestowed by the intellectual property statutes of their luster, jeopardizing the incentives for disclosure and rendering uncertain the public's continued access to novel ideas and their derivative benefits. Short-term certainty in exclusion cannot be obtained by an intellectual property holder whose

rights to exclude are only as valid as his ability to demonstrate a noble intention in excluding. This unprecedented emergence of intent as a condition for the validity of intellectual property rights upsets the balance struck between the need for new ideas and the need for a competitive marketplace.