

ANTITRUST AND INTELLECTUAL PROPERTY: FINALISTIC CONVERGENCE OR LIAISON DANGEREUSES?

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I.- We are constantly told –the last in the row being Jonathan Baker- that antitrust and intellectual property pursue the same goal, innovation, which means that two sets of rules and the relative policies converge and coalesce. This statement is obviously true, whenever there is no tension: as it usually happens when the exclusive right conveys no significant market power. But it is no less obvious that intellectual property protection and antitrust policy are at odds when the former does matter. Actually, law journals and newspapers are filled with cases of antitrust litigations where IP holders are charged with abusing their rights and restricting competition.

The use of antitrust to redress abuses perpetrated by means of intellectual property unravels a contradiction. IP grants a privilege, an exclusionary right to do something for a given period of time, in a given geographic market, with respect to a specific intangible object. There can be several ways to reframe the issue, but this is it —only ex post exclusivity can reward investments in R&D and work as a stimulus for further innovation. Although recent developments in the open source software world advance alternative patterns of information production and new forms of incentives, the tragedy of the commons does not know many other effective tools to foster innovation. But we must discount that IP can turn into an economic monopoly: this risk is built into the very idea of awarding the innovator with an exclusionary right. When such a risk materializes, the policies underling antitrust and IP protection cannot but clash, since antitrust is supposed to fight monopolistic positions and their abuses, whereas IP aims at promoting innovation through the right to exclude others from valuable information. As we shall see, this *locus classicus* conceals a trap. But later on that.

As of now, let me stress the paradox implied in the schizophrenic stance according to which the law provides means and procedures to amend the market from abuses of market power and to free access, while the law itself gives someone (the IP holder) the right to exclude rivals from a market and, eventually, to dominate it. Giving with the right hand, while taking back with the left, is an inconsistency that cannot be solved using rhetorical arguments.

2.- One of the fields where the above aporia becomes most evident is the abuse of dominant position of IP holders. To be sure, there are many cases where IP owners are charged with abusing dominant position, where dominance and abuse are missing, at least in antitrust terms. Even so, courts and authorities incline to use the essential facilities doctrine to curb the market from misbehaviors; but here is a situation where the remedy is even worse than the evil it is supposed to cure.

In Europe, the scene is dominated by a controversial case, the *IMS* litigation. But if we have a closer look, *IMS* turns out to be a hard case, one of those which make bad law. The alleged abuse of the IP owner had its roots in an exclusive right on information that did not deserve being granted at all. If a conflict existed, it was due to the unjustified expansion of the IP protection. The efforts of *IMS* in creating the brick structure 1860 may have been remarkable but did not belong to the sort of investments that are required to come up with protectable innovations.

Then, I suggest dropping *IMS* and coming to the crucial question: what if the IP in a given case refers to a blockbuster, say a vital medicine?

IP systems reward innovators; nowadays, investments required for a new drug are huge and time to market is desperately long. Once a new drug makes its way to the market, already millions of dollars or euros are gone. No other incentives uphold the investments of companies, but the perspective of an exclusive position in the commercialization process. Demanding a firm to share the sandbox, whatever the reason, is a straightforward denial of the logic underlying the IP system. That a given technology has become an essential facility does not add anything to what we already knew.

3. - In a sense, the paradox reaches its peak when the essential facility becomes a defense to the counterfeiter. There has been at least one case, decided by an Italian court, where one company sought an interim measure against another company that was producing system-goods, without licenses on the standard technology incorporated [Trib. Genova, 8 maggio 2004, Koninklijke Philips Electronics N V c. Soc. Computer Support Italcad]. The rationale behind an official standard comes down to the right to get a license on the standard from the IP owner or from the standard setting organization

if the latter sets a patent pool to reduce transaction costs and ease the access of firms into the market. Provided that, in both situations, whether RAND terms exist or not, a consideration must be paid to the IP owner, for the rewarding function operates in either context. Actually, one could argue that in the standardization process the rewarding function of the IP is even more important, since the whole standardization process is long-lasting and expensive. Technologies and patents not included in the standards remain useless; costs borne to produce goods and to protect them are sunk and the revenues from standardized technologies are supposed to pay back the entire effort in R&D carried out by the IP owner. Different industries (pharmaceuticals and information technologies), but same incentive structure, same purpose of IP protection.

The owner of the IP on (a part of) the standard simply deploys his rights when he decides to block someone for producing or distributing a product without paying royalties. The paradox lies in that the infringer dares to defend himself invoking the essential facility doctrine. The outcome is amazing and boils down to an economic nonsense. The newcomer decides to enter a market that he knows is well populated by IP rights. The presence of IP does not mean that there are many small monopolists out there; rather, it witnesses the fact that many have been investing in research and development, in protection, in commercialization and in all possible steps necessary to bring an innovative product on to the market and to defend it against competitors. The newcomer is stubborn and proud; without spending one cent in R&D, he is nevertheless willing to enter the market. Detection of infringement is a costly activity, not always fruitful; chances to be found infringing rights of someone else are comparatively small with respect to perspectives to make good money. The newcomer enters and is successful; he erodes part of IP owners' market.

Suppose now that the IP owner actually discovers the infringement and brings an action against the newcomer. Can the defendant invoke the essential facility doctrine as a counterclaim? Can he avoid liability for infringement claiming that the IP covers an essential facility, that is, a resource which is vital to stay on that market? In economic terms, the infringer is a free-rider. Can we jump on a public bus and refuse to pay the ticket because that one is the only means of public transportation on a given route?

4.- Despite possible inconsistency with the policy inspiring the IP system, there are courts, on both sides of Atlantic, willing to apply the essential facility doctrine. All this comes at a cost, of course: the cost of a wrong application of antitrust laws.

Not only has the doctrine a dubious citizenship in the US. More than that, the challenge comes implausibly from the very status of monopolist. Being sole in the market is, according to the approach of *Trinko*, the prize for the smart winner of the competitive battle; and being sole means that the monopolist will behave the way he is expected to do, so that imposing monopoly price can do no wrong (whereas, in Europe, unfair price might constitute a violation of antitrust prohibitions). In the same vein, one would assume that the innovator, who has been awarded a strong patent, will strive in order to impede illicit entry by free-riders. This is the archetypical content of his right, with no shadowy overstepping of the limits of the canonical protection. How can it become illegal?

From this theoretical standpoint, the doctrine fares no better in Europe. Take the *Microsoft* saga. Its last chapter, on March 1st, 2007, is a novel SO for failing to comply with certain of the obligations under the March 2004 decision. The preliminary view expressed by the Commission, in the wake of its previous conclusion that API should be exposed and the price for that should be fair (without penalizing incentives), is that there is no significant innovation in the Microsoft interoperability protocols, which leads to the implication that, for anything not covered by a patent, the price-tag should be “gratis” and no serious protection is left for non-innovative trade secrets (already a highly debatable proposition). But even for technologies covered by patents, no fee, other than a nominal one, should be permitted, since most of those technologies, rather than being of any more universal use, relate only to solving problems specific to the Windows environment. When they do go any further, it has been stressed that comparable technologies are being provided royalty-free. Question is, then: how does this conclusion comport with the tenet that, in exchange for describing and disclosing, in an enabling way, an invention, an inventor can use the claims on an issued patent to exclude others from such activity as making, using and/or selling in a way that infringes the patent's claims? Is the Commission competent to second-guess the European and US patent authorities, and to arbitrarily elaborate which parts of the overall scope of the protection they have granted deserve respect and which not? Is there any overstepping

of the exclusionary right when the holder simply enforces it?

5. - Let us consider another facet of the problem.

In the realm of IP rights, the essential facilities doctrine may lead to compulsory licensing. Now, compulsory licensing can be a regulatory measure (when the law imposes licensing for some reason) or an antitrust remedy, depending on two different grounds upon which such remedy is awarded, namely: (1) IP owner's position and (2) IP owner's special liability.

In the first case, the IP holder is subject to regulation because of its very position; health, safety, or public policy reasons recommend he shares his technology. The duty stems from his position, not from his behavior whatsoever. Italian laws, as well as legislations of many other western countries, provide for such a remedy when an IP holder is unable to either exploit or commercialize its proprietary technology so to adequately meet the requirements of the market. Another example can be the license a generic drug manufacturer can get from patent holders in the pharmaceutical market to initiate clinical trials before patent protection expires. This latter case can be helpful as it shows how the ultimate purpose of the law is to ease the access to the market of generic drug manufacturers as soon as drugs go off patents. At any rate, this type of compulsory licensing does not derive from IP owners' liability. Quite the contrary, it implies a lawful situation which is set to expire shortly. The legislator decides *ex ante* if third parties can access the technology, for some reason, in some way. If the patent owner maneuvers or otherwise acts as to delay entry into the market by generic drugs manufacturers, then (only then) he becomes liable for trying to restrict competition.

Compulsory licensing as an antitrust remedy shows remarkable differences with respect to regulatory licensing. It is not positively contemplated in any antitrust rule; it is not an automatic effect of a proprietary position, being rather the produce of a judicial or administrative order following an inquiry into a possible violation of antitrust laws. In other words, there must be a refusal to share (license) a technology; and such refusal must amount to abusing dominant position, so that compulsory licensing becomes necessary to curb anticompetitive behaviors. Since EU-like systems do not recognize the abuse of IP rights as a tort, liability can only derive from abusing a dominant

position. Incidentally, even if a specific tort existed, it would be difficult to adopt licensing as an ex post, compensatory solution.

6- Inevitable ground to impose compulsory licensing in EU law is Article 82. The fundamental idea is that when “exceptional circumstances” occur, the refusal to share a facility (in our case, an intangible asset, equated to a structural facility) which is essential to compete on a market qualifies as an abuse.

The doctrine lies on a test, which in Europe has been framed differently from the U.S. equivalent. In fact, the US features a four-party test. The doctrine applies when the following requisites obtain: (1) control of an essential facility by a monopolist; (2) inability to practicably or reasonably duplicate the essential facility; (3) refusal to grant access; (4) feasibility of providing the facility. After *Trinko*, there remains little room for the essential facility doctrine; indeed, last year, the district court of New Jersey dismissed an antitrust claim based on patent holders’ alleged refusal to license cell phone technology adopted by a standard-setting organization on free, reasonable, and non-discriminatory terms (*Broadcom Corp. v. Qualcomm Inc.*, D.N.J. Aug. 31, 2006). While the decision casts remarkable doubts on the role of SSOs with respect to individual behaviors of its participants, it certainly confirms that there is not such a thing as an express and solid recognition of a duty to share a technology in U.S. antitrust law.

Since *Magill*, in Europe the doctrine applies whether three conditions hold: (1) a refusal to grant access to a facility will likely prevent competition in a secondary/downstream market; (2) access must be indispensable to compete; (3) the refusal is not objectively justified. The first element of the test (*sub 1*) makes the difference. In Europe there must be a second market, where the competition is being threatened by the use (or abuse) of IP rights (a sort of leverage theory that entails what sometimes is called a “new product rule”).

Importantly, European cases decided so far (*Magill* and *IMS*) were not concerned with proprietary technology; they dealt with intellectual property rights on technologically poor facilities, such as a TV guide and a database. Thus, a very general doctrine has

been stated, which was not actually confronted with complexities and costs related to more costly pieces of technology.

At any rate, judicial application of the essential facility doctrine to intellectual property rights is by no means clear. For instance, in *Oscar Bronner* the EC Court of Justice declared that the refusal to grant access to an intellectual property is the very core of the *jus excludendi alios* which qualifies intellectual property protection. In *Magill* and *IMS*, antitrust authorities reached different conclusions.

Major doubts on compulsory licensing as a remedy, imposed through the essential facility doctrine, hinge on the lack of a sound standard to determine when exceptional circumstances occur under which the clash between IP protection and competition should be solved in favor of the latter. Absent a convincing explanation of what exceptional circumstances are, the IP holder is subject to a measure which hits his proprietary position, more than the effects caused by his refusal.

If this holds true, then the imposition of compulsory licensing comes closer to a regulatory measure than to an antitrust remedy. Liability remains in the rear and what really prompts the license is the very position of the IP holder. At the end of the day, we deal with what can be defined a quasi-regulatory compulsory licensing: a remedy adopted by an antitrust authority exercising improper regulatory powers.

In so doing, something gets lost: the warning that “licensing is only a remedy, not a liability theory” (H.R. PATE, *Competition and Intellectual Property Rights in the US.: Licensing Freedom and the Limits of Antitrust*, June 3, 2005, available at <<http://www.usdoj.gov/atr/public/speeches/speeches.htm>>). Moving a step further, we should recognize that this is no IP/antitrust intersection, no ex post solution of a conflict, but an outright, almost ex-ante demise of IP protection to regulatory evaluations, issued by a subject with no legitimation for such an expropriating task.

Back to the *Microsoft* saga. After finding, in its 2004 decision, that Microsoft’s refusal to supply interoperability information risked eliminating competition in the work group operating system market, the Commission called for the access to the relevant information on reasonable and non-discriminatory conditions, and endeavored to impose so called Pricing Principles, according to which, inter alia, non-nominal prices are permitted only for innovative technology, provided that such prices reflect the market valuation of comparable technologies. On this basis, Microsoft’s proposals have

been found unreasonable. Whatever label one employs, the substance is strict regulation: in a scenario where its underpinnings are missing or, at least, have not been scrutinized adequately.

7.- Beyond the different views on whether it is appropriate at all to mandate licensing for a firm which prevented entry from a competitor by refusing to share its technology; beyond the perplexities expressed by Phil Areeda about the essential facility doctrine, stating a principle but saying nothing about the ways this principle should shape the dynamic of conflicts and eventually solve them, the ultimate frontier seems to be precisely this one: the essential facility doctrine does not belong to the antitrust armory and cannot be confidently applied by antitrust courts or authorities.