CHAPTER – V

A Comparative Study of EU and US Intellectual Property Law and Competition Law through Judicial Pronouncements

“The aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition.”¹

5.0 Introduction

This chapter focuses on the comparative study of the United States and European Union approaches of Intellectual Property Law and Competition Law through judicial pronouncements. The US adopted the Antitrust Guidelines for the Licensing of Intellectual Property in 1995, taking a systematic economic effects-based approach to evaluating intellectual property licensing agreements.² A year later, the European Commission adopted its current Technology Transfer Block Exemption (“TTBE”)³, which focuses more heavily on a structural approach to examining technology licensing agreements. In its recent work revising the TTBE and in drafting a

¹ Atari Games Corp. v Nintendo of America, Inc 897 F2d 1572 (1990)
new document, the Technology Licensing Guidelines\(^4\), the Commission has moved away from that structural approach, embracing an economic effects-based model.

**5.1. Similarities and differences between Article 102 of the EC Treaty and Section 2 of the Sherman Act**

Article 102 of the EC Treaty and Section 2 of the Sherman Act are often regarded as similar provisions since they are both meant to prohibit unilateral conduct which influences a certain market, and have the effect of impairing trade between member states. In both the cases the conduct becomes relevant when a certain degree of economic power is involved and in both cases the conduct, although generally adopted by a single undertaking, can also be pursued by more than one firm. Nonetheless, despite these apparent commonalities, several differences can be traced among the two provisions.\(^5\)

A first relevant difference can be found where the European competition laws do not punish conduct aimed at obtaining a dominant position. A finding of dominance is the fundamental point for assessing unilateral abuses; therefore, whatever the means and the strategies implied to achieve it, the mere attainment of a position of dominance in itself will not punished. Only the abuse of such position can trigger liability under article 82: hence, no attempt claims can be pursued in Europe; not even in the case that clear evidence is provided that the company has engaged in the practice with the specific intent to damage a competitor or competition in general.


Indeed, a second substantive difference between the two doctrines is given by the fact that European assessment of unilateral conduct does not take intent into account.  

The European Union is more responsible in dealing with the abuses since the firms take up the plea that the abusive nature was undertaken in order for to protect its own interests and thereby make minimal any form of disadvantage coming to it. On the other the researcher found that the United States while dealing with these cases takes up the plea that this abuse was not deliberately done but to pass on the advantageous effects onto the consumers and their ultimate intention was never to harm the consumers.

The researcher through a brief analysis of the cases found that Article 102 of the EC treaty has a reformist attitude. In the sense, that if the abusive conduct has a scope of showing that the abuse was done in order for the welfare of the consumers at large, the abuse may be forgiven. The European Competition authorities seek to balance the abuse of competition and consumer welfare. So there is an approach of concern for both the markets and the consumers. On the other the American case laws directly point to consumer welfare approach rather than having an equal concern for the markets.

5.1.1. EU Takes Cautious Approach on Refusal to License

The approach of the European Commission and European Court of Justice towards refusal to license is very vigilant approach. The IMS health judgment was concerned about refusal of licensing data collection on

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6 Ibid.  
pharmaceutical sales and prescriptions, copyrighted ‘1860-brick structure’. The Court said that mere refusal to license cannot in itself constitute an abuse of dominant position. First of all, access to IP protected product or service must be indispensable to carry on a business provided three conditions are satisfied:

(1) The refusal must prevent emergence of new product for which there is potential consumer demand;
(2) It must be unjustified; and
(3) It must exclude a competition on a secondary market\(^8\)

The European Microsoft decision indicates that the Commission is making it more difficult for dominant companies to refuse to license their IP rights. In September 2007, the European Court of First Instance (CFI) affirmed the Commission’s findings that Microsoft had abused its dominant position. Microsoft has since announced that it will not challenge this decision and will comply with the remedies and pay the fine of more than EUR 497 million ($728 million).

The Commission found that Microsoft abused its dominant position by refusing to license “interoperability information” to competitors in the work group server operating system market. This interoperability information would enable competing work group server operating systems to function compatibly with Microsoft Windows dominant domain architecture. The Commission found this “interoperability information” was indispensable to enabling non-Microsoft group servers to compete on an equal footing with Microsoft. Without this information, there was a danger that competition would be eliminated in the group server market where Microsoft already had 60 percent market share. Most controversially, the Commission concluded

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8 Ibid, Para 38
that the refusal to provide this information limited technical development to the prejudice of consumers. The Commission thus emphasized that lack of access to Microsoft’s IP rights would restrict innovation and competition in the work group server market. The Commission added that Microsoft failed to show that disclosing its IP rights would have a significant effect on Microsoft’s incentives to innovate. 9 Citing European case law, the Commission set out three conditions that must be met for a refusal to license to be an abuse of dominant position which are as follows:

1. the refusal must relate to a product or service indispensable to the exercise of an activity on a neighboring market;
2. the refusal must be of such a kind as to exclude any effective competition on that market.; And
3. the refusal must prevent the appearance of a new product for which there is a potential consumer demand.

The Commission concluded that Microsoft’s refusal to license its interoperability information met each of these three conditions by restricting competition in the group server operating systems market. According to the Commission, the limiting of technical development in the group server operating systems market was sufficient to meet the “prevention of the appearance of a new product” standard. In Microsoft, the Commission and the CFI arguably increased the liability for companies that refuse to license IP rights in the EU by allowing the limiting of technical development in the group server market to meet the standard for “preventing a new product” in this market. In some previous refusal-to-license cases a narrower “preventing a new product” standard had been applied.10

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10 Ibid.
Finally, in IMS Health, the European Court of Justice (ECJ) denied the Commission’s refusal to deal claim because the company that was not granted a license was attempting to use that license to create services that were the same as services already being provided. However, in Microsoft, the CFI rejected Microsoft’s argument that competing software providers were not creating new products, but merely wanted to use Microsoft’s IP to duplicate Microsoft’s work group server operating system software that was already on the market.

In Bronner\textsuperscript{11} case, the refusal to deal involved the dominant firm’s own method of reaching consumers, a clearly complementary market for daily newspapers. Finally in the Volvo\textsuperscript{12} case where the design right prevented all substitution because the design of the front wing coincided with its function, to provide a wing with the correct shape to fit in the design of the car, the European Court of Justice clearly said that refusal to license as such does not constitute a dominant position.

5.1.2 United States takes a more lenient approach on Refusal to License and Microsoft’s Licensing Practices

The United States seems to have adopted a more lenient approach to the refusal to license issue in general, and specifically in relation to Microsoft. In the United States even where a patent owner has a monopoly in a relevant market, its refusal to license a patent to others will not generally provide the basis for holding that the patentee has been abusive.\textsuperscript{13} In other words, the authorities take the view that IP rights create a rebuttable

\textsuperscript{11} Bronner case C-7/97, [1998] ECR I-7791
\textsuperscript{12} [1998] ECR 6211
\textsuperscript{13} SCM Corp. v. Xerox Corp., 645 F.2d 1195 (2nd Cir. 1981)
presumption that a refusal to license is permissible (absent illegal tying, fraud on the Patent and Trademark Office). In Trinko\(^\text{14}\), the Court recognized that “firms may acquire monopoly power by establishing an infrastructure that renders them uniquely suited to serve their customers” and “compelling such firms to share the source of their advantage may lessen the incentive for the monopolist, the rival or both to invest in those economically beneficial facilities”.

Generally speaking, the U.S. courts have held that a monopolist's unilateral refusal to license technology, which has been legitimately protected by patent or copyright, is not a violation of antitrust law. Accordingly, in the U.S. case against Microsoft, the DOJ did not directly challenge Microsoft’s refusal to license its IP rights. It is true that, in the area of licensing, the DOJ did successfully challenge Microsoft for putting restrictions on its Windows licenses, which prevented computer manufacturers from installing competing internet browsers. As a result of this ruling, Microsoft agreed to a conduct remedy that included a requirement for it to share its operating system code with competitors for five years, from November 2002 until 2007. Portions of this remedy have been extended and may be extended further, potentially until 2012.\(^\text{15}\) Despite this, the U.S. remedy in Microsoft has been widely criticized for being too weak and poorly enforced— it included no fine and no structural remedies.\(^\text{16}\) In Aspen Skiing Co v Aspen Highlands Skiing Corporation\(^\text{17}\), the Court observed that “Although even a firm with monopoly power has no general duty to engage in a joint marketing programme with a competitor, the absence of an unqualified duty to cooperate does not mean that every time a firm declines to participate in a particular cooperative

\(^{15}\) Parts of the remedy, including the requirement for Microsoft to share its Windows protocols with competitors have been extended until 2009; and states are currently petitioning to extend this remedy until 2012.
\(^{16}\) Supra note 9
\(^{17}\) 472 US 585, 601 (1985)
venture, that decision may not have evidentiary significance or that it may not give rise to liability in certain circumstances.”

The Court held that a jury could not hold the firm liable under Section 2 of the Sherman Antitrust Act because its refusal to deal with its rival “suggested a willingness to forsake short term profits to achieve anti-competitive end” and that the jury concluded that there were no “valid business reasons” for petitioner’s refusal to deal with respondent. The conclusion was strongly supported by the petitioner’s failure to offer any efficient justification for its pattern of conduct.

In Data General Corporation v Grummen Support Corporation, the computer manufacturers refusal to license copyrighted diagnostic software to its competitor’s and consequent monopolization of a service market for its own product. The Court has held that copyright holder’s right to exclude others is a presumptively valid business justification. The court said that while the exclusionary conduct can include a monopolist’s unilateral refusal to license a copyright, an author’s desire to exclude others from use of its copyrighted work is presumptively valid business justification for any immediate harm to consumers.

In Image Technical Services, Inc v Eastman Kodak Co., the Court said that if there is an evidence of anti-competitive intent on the part of the IP holder in refusal to license there may be a rebuttal. Finally in CSU v Xerox, the Court observed that in an exceptional circumstance, a patent may confer the right to exclude competition altogether in more than one antitrust market.

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18 36 F 3d 1195 (9th Cir 1997)
19 125 F 3d 1195 (9th Cir 1997)
20 0062, October 11, 2000
5.1.3 Tying practices in European Union and United States

Tying practices in European Union and United States differ in their legal framework. Under Art 102 of the EC Treaty a behaviour that conditions the conclusion of contracts to the acceptance by the other parties of supplementary obligations, which, by the nature or according to commercial usage, have no connection with the subject of such contracts, can be punished as an agreement in restraint of trade pursuant to Article 81.1(e) or as an abusive conduct under article 82(d) of the EC Treaty.

In tying cases it may happen that the buyer is required to purchase a distinct product in condition to purchasing another distinct product. In European Union the bulk of tying cases has developed under the category of abuse of dominant position. Tie-ins and bundling have been an important consideration in various cases relating to practices of the Microsoft Corporation. In a case initiated in the early 1990s (the so-called "Licensing Case"), the U.S. Department of Justice and Microsoft entered into a consent agreement to settle the Department's allegations that Microsoft had violated antitrust laws by engaging in certain contractual practices with computer manufacturers. A central allegation made by the Department was that Microsoft: "used monopoly power to induce personal computer (PC) manufactures into anticompetitive, long-term licenses under which they must pay Microsoft not only when they sell PCs containing Microsoft's operating systems but also when they sell PCs containing non-Microsoft operating systems. These anti-competitive long-term licenses have helped Microsoft maintain its monopoly. By inhibiting competing operating systems' access to PC manufacturers, Microsoft's exclusionary licenses slow innovation, raise

prices, and deprive consumers of an effective choice among competing PC operating systems” 22

The researcher found in a latter case initiated in 1998, the Department of Justice alleged that Microsoft, by bundling Windows with Internet Explorer, was excluding Netscape and other potential entrants from the browser market and was extending its monopoly in personal computer operating systems into internet browsing software. The case ended in 2001 with a settlement between the Department and Microsoft which, among other obligations, imposed on Microsoft a requirement to provide software developers with the interfaces needed to inter-operate with the operating system, allowing them to effectively compete with Microsoft.

A number of aspects of the case are of interest. First, as Professor and former Judge Robert Bork had candidly pointed out Microsoft's bundling of its browser to the Windows operating system appeared to be intended directly at excluding Netscape - which otherwise could have developed a competing operating system – from the market. For this reason, Professor Bork, who is not normally considered an advocate of activist antitrust policy except perhaps with respect to horizontal cartels, concluded that the case was much different from a pure bundling one and that Microsoft's bundling strategy was indeed dangerous to competition. Although Bork’s arguments were not fully reflected in the 2002 Final Judgment, they were instrumental in suggesting that the Microsoft's practices in this case were anticompetitive23. Therefore, the case also shows that pure bundling, even by a quasi-monopolist, may nonetheless also provide consumer benefits (i.e. the convenience of purchasing complementary products as a package). In practice, it can be

difficult to calculate these benefits and, more importantly, to assess how large they are in relation to the exclusionary effects. On the other hand, in the United States tying cases has emerged under Section 1 of the Sherman Act, as arrangement in restraint of trade and/or under Section 3 of the Clayton Act which expressly regulates exclusive dealing and tying arrangements.

The above distinction explains why conducts that in Europe are shaped as abuses of dominant position as for example Microsoft's tying of the Media player middleware to Windows operating system – have been framed in the United States as violation of section 1 of the Sherman Act. Most of the American cases regarding intellectual property rights have been framed as violations of both sections 1 and 2 of the Sherman Act, as tying cases and attempting to monopolize. In some circumstances, courts have even framed the conduct as tying plus both monopolizing and attempting to monopolize claims. The US proceedings relating to bundling of the Windows operating system and the Internet Explorer browser triggered wide discussion on the exclusionary effects of bundling. In the following years, possibly as a consequence of that discussion, antitrust authorities in a number of other jurisdictions initiated cases against Microsoft. For example, pure bundling between the Windows operating systems and the "Media Player" function was deemed abusive in the 2004 European case. In that case, the European Commission determined that Microsoft was dominant in the tying market of operating systems and that there were no economies flowing from integration

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24 Ibid
26 The most relevant American cases dealing with the interplay between antitrust and intellectual property rights have been framed as tying cases, under either section 1 of the Sherman Act or section 3 of the Clayton Act, and attempt to monopolize under section 2 of the Sherman Act. See Ill. Tool Works Inc. v. Indep. Ink Inc., 126 S.Ct. 1281 (2006); U.S. v. Microsoft, 87 F. Supp. 2d at 30 (D.D.C. 2000); Eastman Kodak Co. v. Image Technical Services, 112 S.Ct. 2072 (1992); Intergraph Corp. v. Intel Corp., 195 F.3d 1346 (Fed. Cir. 1999).
27 Supra note no 5
28 European Commission Case No COMP/37.792 Microsoft, March 24, 2004
with the tied media player market because “distribution costs in software licensing are insignificant [and] a copy of a software programme can be duplicated and distributed at no substantial effort”. On the other hand, the Commission argued, “the importance of consumer choice and innovation regarding applications such as media players is high”\(^29\). On this basis, the elimination of competition in media players was considered to produce negative effects on consumers on the media player market.

The important aspect of the European case considering abusive the bundling of the windows operating system and media player is that the Commission did not prohibit it. It is not the integration of media player and the operating system that was the problem. The problem was the refusal to offer a version of Windows without media player\(^30\). There is no question that under the EC case law Microsoft or any other dominant firm will be able in the future to bundle new products into existing ones. What they will be obliged to do under the Community case law is to offer a disintegrated version of that new bundle, leaving the choice on what to buy to consumers. Furthermore such mandatory disintegration promotes innovation in the market for these new features; since consumers will always prefer a cheaper and higher quality bundle should competitors develop one.

The researcher points out that fact that nobody is buying the version of Windows without Media Player is not convincing enough. It merely implies that competition has not yet delivered anything more appealing than Microsoft’s media player. Keeping the prices low for the consumers to buy the bundled product is not the solution. It is the duty of the agencies to watch out for the unlawful activities engaged in by the enterprises.

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\(^{29}\) Supra note 5

\(^{30}\) Paragraphs 1149-50 of the CFI judgment
5.2 Concluding remark

Thus to conclude, while in general terms the EU and the U.S. competition authorities are following innovation-oriented competition policies and have historically taken the same approach to IP licensing, recent cases indicate there is some divergence in how these jurisdictions apply and enforce the law. The Commission and the European courts have tended to be stricter in enforcing competition law in the face of IP rights than their U.S. counterparts. In so doing, European authorities have emphasized the increased competition and ensuing innovation that can result from sharing IP rights while U.S. authorities have focused on the increased innovation that may result from granting and protecting IP rights. The basic difference between US and EU law is in methodological approach to legislative examination. The law of the EU is the unique legal system which operates alongside the laws of the member states of the EU. The law of member states comes from civil law approach, where legislation is seen as the primary source of law. On the contrary, the US common law refers to law and the corresponding legal system developed through decisions of courts and similar tribunals. These two different approaches can be also seen in judging practices about refusal to deal/supply with rivals according to U.S. Anti-trust law and EU Competition law in interface between IP and competition law.

31 Tu Thanh Nguyen, *Competition Law, Technology Transfer and the TRIPs Agreement*, (1st edn, Edward Elgar Publishing Ltd 2010) 160