BEYOND “ESSENTIAL FACILITIES”: INNOVATION, INTELLECTUAL PROPERTY AND COMPETITION POLICY ACROSS THE ATLANTIC

Ariel Katz* & Paul-Erik Veel†

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Abstract

This paper argues that the conventional wisdom that European Union has opted to subordinate intellectual property rights in the pursuit of competitive markets to a much greater extent than has the United States is, at least in the context of copyright protection, false. While European antitrust regulation of IPRs does presently seem much more robust and activist than American antitrust regulation of IPRs, focusing solely on one antitrust doctrine—the essential facilities doctrine—only tells half the story. Once various doctrines of copyright law are taken into account, the substantive difference between the European and American approaches is much less extreme than is generally viewed to be the case. While European jurisdictions have relatively expansive copyright protection which may require antitrust intervention to check anti-competitive uses of copyright works, American copyright law provides stronger internal limits on copyright protection in a number of circumstances which thereby lessen the need for resort to antitrust law to serve as an external check on anti-competitive uses of copyrighted works. When the broader impact that antitrust law might have on the exercise of IPRs in the US is considered, and when the wider limiting effect that copyright law’s internal doctrine create, it becomes apparent that in key respects, when innovative-competition is at stake, US law grants overall weaker copyright protection than that available in Europe.

* Associate Professor, Innovation Chair Electronic Commerce, Faculty of Law, University of Toronto. Director, Centre for Innovation Law and Policy.
† Law Clerk, Chambers of Madam Justice Louise Charron, Supreme Court of Canada.
Table of Contents

I – Introduction .................................................................................................................................................. 1

II – Antitrust Regulation of IPRs in the United States and Europe......................................................... 6
  1. The American Approach to Refusals to License IPRs........................................................................ 7
  2. The European Approach to Refusals to License IPRs...................................................................... 11
  3. Comparing the Approaches: A Doctrinal Divergence..................................................................... 16

III – The Strength of Copyright Protection: A Transatlantic Comparison ................................. 19
  1. Factual Compilations ......................................................................................................................... 23
  2. The Doctrine of Copyright Misuse ................................................................................................... 31
  3. The Merger Doctrine ........................................................................................................................ 34
  4. Fair Use ............................................................................................................................................. 40
  5. Concluding Remarks: The Doctrinal Substitutability between Weaker Copyright and Stronger Antitrust..................................................................................................................... 43

IV – Antitrust-Based vs. Copyright-Based Mechanisms for Fostering Competitive Markets: Two Sides of a Biased Coin? ..................................................................................................................... 45

V – Comparing the Processes of Antitrust Enforcement ........................................................................ 47

VI – Evaluating the approaches .......................................................................................................................... 51

VII – Conclusion ............................................................................................................................................. 54
I – Introduction

It is trite to say that antitrust law and intellectual property law have long been viewed as being in a somewhat tense relationship. Even if we view, as do most commentators, the two areas of law as jointly pursuing the same goals such as innovation and consumer choice, the proximate aims and methods of these two sets of laws might, at times, still appear to be in some type of conflict. Intellectual property law aims to create limited legally-sanctioned zones of exclusivity to provide innovators with supra-competitive returns for their innovations *ex post* in order to encourage them to research and develop those innovations *ex ante*. By contrast, antitrust law aims to facilitate the operation of competitive markets by putting checks on those firms possessing market power and ensuring that they do not use their market power to exclude rivals to stifle competition in the market. Thus, while both legal regimes may be directed towards a common end, the attainment of that common end requires a careful calibration of those regimes’ legal doctrines to ensure that neither regime’s proximate purpose overwhelms that common end.

Different jurisdictions can and do reach different conclusions about the appropriate calibration of the two regimes both generally and with regard to specific issues. This paper focuses on one such issue—an issue that appears to be one of the thorniest in the area: the question when, if ever, antitrust law should compel the holder of an IP right to license it to others. Indeed, many would view the United States and the European Union as having adopted very different approaches to this question. Conventional wisdom holds that EU competition law is far more willing than US antitrust law to override or place limits on firms’ unilateral

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1 See, e.g., Marina Lao, *Unilateral Refusals to Sell or License Intellectual Property and the Antitrust Duty to Deal*, 9 CORNELL J.L. & PUB. POL’Y 193 (1999) (“Much has changed in the last twenty years in the antitrust approach to intellectual property. Prior to the 1980s, the predominant view of the antitrust and intellectual property laws was that they conflict because the former protects competition while the latter permits monopoly. Courts and academics alike considered intellectual property rights as exceptions to the antitrust law that must be narrowly construed. The notion that the two bodies of law are diametrically opposed has since given way to the perspective that they are complementary, not conflicting, because they share the common goal of promoting innovation and maximizing consumer welfare.”).
decisions whether to license their intellectual property rights (IPRs) for the purpose of achieving a higher level of competition. This conventional wisdom has originated from a line of decisions over the last two decades which held that owners of IPRs who possessed a dominant position in a market and refused to license it to others abused their dominant position, thus violating EU competition law. A duty to license their IPRs was regarded as the appropriate remedy. Although controversial in the EU itself, these decisions seem to be even more controversial in the eyes of many American antitrust scholars and other commentators. Generally, these decisions have been seen as undercutting the very basic principle underlying IP rights: the right to exclude others. Thus, in response to the decision in the Microsoft case, the US Assistant Attorney General for Antitrust has taken the unusual step of issuing a same-day press release criticizing the decision of the CFI, expressing the concern that “the standard applied ... by the CFI, rather than helping consumers, may have the unfortunate consequence of harming consumers by chilling innovation and discouraging competition.”

For some critics, the decisions signal an unhealthy European appetite for interventionist regulation and disrespect for the fundamental principles of a free economy. For others, the decisions reflect a short-sighted approach that favours short-term

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2 See, e.g., Rita Coco, Antitrust Liability for Refusals to License Intellectual Property: A Comparative Analysis and the International Setting, 12 MARQ. INTELL. PROP. L. REV. 1, 3 (2008) (“A comparative analysis of the current European and American systems—the two most mature for both antitrust and IP—shows that the former tends to downplay IP rights in favor of competition, whereas the latter tends to curtail the imperative of competition to preserve the exclusivity based upon IP rights. Yet these are only trends, and on the whole the two systems are still largely unsettled on the matter.”); Katarzyna Czapracka, Where Antitrust Ends and IP Begins – On the Roots of the Transatlantic Clashes, 9 YALE J.L. & TECH. 44, 46 (2007) (“There have been virtually no decisions condemning a unilateral refusal to license of a valid intellectual property right (IPR) in the United States. By contrast, in the European Union (EU), IP may be treated as an essential facility and courts and competition authorities may request that a dominant company shares its IP with competitors.”); Melanie J. Reichenberger, The Role of Compulsory Licensing in Unilateral Refusals to Deal: Have the United States and European Approaches Grown Further Apart After IMS?, 31 J. CORP. L. 549, 550 (2006) (“The interface between intellectual property and antitrust laws has always been an interesting one, especially when comparing the differing approaches within the international community. Most recently, it seems that the United States and the European Community approaches to dealing with unilateral refusals to deal have grown further apart.”); Eleanor M. Fox, A Tale of Two Jurisdictions and an Orphan Case: Antitrust, Intellectual Property, and Refusals to Deal 28 FORDHAM INT’L L.J. 952 (2005).

3 See e.g., Herbert Hovenkamp et al., Unilateral Refusals to License, 2 J. Competition L. & Econ. 1, 12 (2006).

benefits of competition over the long-term benefits of innovation. Under all of these accounts, serious divergence, perhaps a chasm, appears to exist between the EU and the US. According to this view, the US supposedly protects IP rights more vigorously, does not exhibit the same regulatory appetite as the EU, and embraces a better long-term pro-IP and pro-innovation approach. Even commentators who approve of applying the essential facilities doctrine to intellectual property in appropriate cases share the view that on this point the EU and the US clearly diverge.5

This paper argues that, at least in the context of copyright law, this analysis is at best incomplete and at worst incorrect. Specifically, this paper challenges this conventional wisdom by arguing that it neglects an important dimension to this issue by focusing only on antitrust doctrine. Any comparison of the relative strengths of intellectual property protections in different jurisdictions requires consideration not only of those jurisdictions’ antitrust doctrine but also of doctrines internal to intellectual property law which limit IPRs for pro-competitive reasons and for facilitating innovative competition. Focusing principally on copyright protection, this paper argues that American copyright law contains doctrines internal to that regime which limit the scope of copyright protection, often for the purpose of preventing anti-competitive uses of those works, in ways that European copyright laws generally do not. Thus, this paper posits that, even accepting that European competition law places greater constraints on copyright owners’ unilateral licensing decisions than does American antitrust law, it can hardly be argued that overall protection for copyrighted works is stronger in the United States than it is in Europe. To the contrary, as will be detailed below, copyright protection may in some key

respects be weaker in the United States than it is in Europe, particularly in those circumstances when stronger copyright protection could negatively affect innovative-competition.\(^6\) Moreover, just as determining how pro-innovation each of the jurisdictions is by focusing on how the essential facilities doctrine may be partial or even misleading if it ignores how copyright’s internal rules address similar issues, holistic determination of a jurisdiction’s overall innovation-friendliness may justify looking beyond copyright. In particular, it justifies looking at how antitrust law, not only in substance but also in its process, constrains the exercise of IP rights. Adding this dimension provides another reason to treat the claims about American strong pro-IP bias with a grain of salt. Even if in substance modern US antitrust law tends to be more self-restrained in its application to IP related conduct, some unique features of US antitrust legal process tend to \textit{de facto} constrain IP holders in ways that are largely unavailable in Europe. In particular, we will argue, the predominance of private antitrust litigation in the US, coupled with the availability of class actions, wide discovery, treble damages and a well established antitrust bar, must be imposing checks on IP owners that do not exist in Europe, and may justify a conclusion that contrary to common wisdom, in some key respects the protection of IP rights in the US is actually weaker than in Europe.

Overall, this paper will make several points, with increasing degrees of complexity, and, which, as we can expect, will encounter decreasing degrees of consensus. The first, and simplest, point is that any evaluation of a jurisdiction’s pro-innovation stance based on a single doctrine (such as the essential facilities doctrine) is partial and potentially misleading. As the antitrust treatment of IP owners’ unilateral licensing decisions represents only one aspect of multi-faceted

\(^6\) We use the term “innovative competition” to distinguish it from perfectly substitutive competition (i.e. identical or near-identical works) and from innovations which may not compete at all with the copyrighted work, in order to highlight the point that US copyright law tolerates (or even encourages) not only innovation that has no effect on the market for the copyrighted work, but also innovation that may compete with it, if it adds something else that the work is lacking.
innovation policy, it is essential to adopt a broader view. While we criticize much of the existing debate for engaging in such partial analysis, we do not expect that this point would be highly controversial.

Our second point, which we have already alluded to, is that at least in the copyright area, once the analysis moves beyond essential facilities and considers the role that doctrines internal to copyright play in circumscribing those rights, and the role that antitrust law and antitrust process play more broadly, a different picture emerges. We will argue that such broader look seriously undermines the conventional wisdom that US protects copyright more strongly than the EU. Such broader look reveals that overall, where innovative-competition is at stake, US law has tended to circumscribe copyrights more closely than EU Law, both internally—by calibrating the scope of the copyright—and externally—by making antitrust scrutiny widely available. Effectively, we would submit, in key respects the US has adopted a “less is more” approach to copyright. We expect that this argument will be more controversial, for three main reasons: it is contrary to conventional wisdom and may raise objection as such. Second, it involves some subjective evaluation of the significance of various rules, which reasonable people may disagree about, especially given the paucity of empirical work about these issues. Thirdly, because our analysis is necessarily selective we might be guilty of very similar shortcomings to the ones that we criticize. We recognize that we might be ignoring or underestimating how various other rules and institutions in each jurisdiction may shape the overall net level of the innovation policies in the jurisdiction, and that considering the latter might change our conclusions. As such, our first point contains the falsification seeds for our second. This doesn’t trouble us much, because such falsification will actually prove the importance of the more nuanced debate that we are advocating.

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7 We tentatively discuss some examples in Part __ below.
While our first and second arguments are positive, in the sense of describing the state of the law across the Atlantic, and without opining which system is preferable, we will hypothesize, while acknowledging some of the limitations of the argument, that the US approach is preferable. It is preferable not only for some institutional reasons but also because we believe that it may be responsible, in part, to the comparative higher degrees of innovation and cultural dynamism of the US as compared to Europe.

This paper proceeds as follows. Part II outlines the antitrust treatment of IPRs in the context of refusals to deal in both the United States and Europe. It notes that, although the contrast between the two may not be as stark as is often assumed, European antitrust law is nonetheless more likely than contemporary American antitrust law to find that a refusal to license a copyrighted work can constitute an antitrust violation. Part III then outlines a number of doctrines within American copyright law which serve to limit the scope of IPRs, particularly in cases where the use of those IPRs may be anti-competitive. It argues that these doctrines fulfill much of the same role in preventing abuses of IPRs as do more aggressive antitrust doctrines in European law. Part IV discusses the implications for copyright protection of regulating anti-competitive conduct through doctrines internal to copyright law rather than through antitrust law. Part V discusses some procedural aspects of US antitrust law may effectively have greater restraining effect on the exercise of IP rights than that available in Europe. Part VI provides some explanations for the different approaches taken by the US and the EU and discusses some of the advantages and disadvantages of each approach. Part VII concludes.

II – Antitrust Regulation of IPRs in the United States and Europe

This section examines the antitrust treatment of IPRs in the United States and Europe. Although there are a number of ways in which antitrust law can affect IPRs, this section focuses
specifically on the law of refusals to license IPRs. There are two reasons for this. The first is that antitrust scrutiny of refusals to license IPRs constitutes in some sense the most significant impact that antitrust law can have on IPRs. While other antitrust doctrines—such as those relating to price discrimination or product tying—can also impact the use of IPRs, antitrust treatment of refusals to license has the greatest potential impact on IPRs, as the finding that a refusal to license an IPR violates antitrust laws can result in injunctive relief which is, in effect, compulsory licensing of those IPRs. Second, as a practical matter, most of the contentious European antitrust decisions dealing with IPRs have dealt with refusals to license copyrighted works, so any comparative discussion of the interface between antitrust and intellectual property must of necessity focus to a large extent on refusals to deal.

This section first examines American law on refusals to deal, noting both the general reluctance of courts to impose obligations on firms to deal with their competitors as well as the specific unwillingness of courts to use antitrust law to police the use of IPRs. It then examines European treatment of refusals to license IPRs, noting how European courts have been willing to order the compulsory licensing of copyrighted works in certain circumstances.

1. The American Approach to Refusals to License IPRs

American courts have been very reluctant to impose positive obligations on parties to deal with their competitors. The high watermark of this reluctance is the Supreme Court’s decision in Verizon Communications Inc. v. Law Offices of Curtis V. Trinko. Although this case did not deal with intellectual property rights, it will be discussed prior to a discussion of cases dealing specifically with the refusal to license IPRs for two reasons. First, Trinko is now the

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leading case on refusals to deal under § 2 of the Sherman Act, and it provides some guidance on the contours of American law on this point. Second, Trinko is demonstrative of American courts’ general reluctance to impose positive obligations on parties to deal with their competitors, and, a fortiori, it may suggest a general reluctance to impose an obligation to license IPRs, where the policy rationales against compulsory licensing might seem even stronger.

Trinko concerned the failure of Verizon Communications to provide non-discriminatory access to its telephone network to competing local exchange carriers. The Telecommunications Act imposed on Verizon, the incumbent phone service, an obligation to provide non-discriminatory access to its network to competing phone services. Competing service providers alleged that Verizon was violating its obligations under the Act, and, following investigations by the New York Public Service Commission and the Federal Communications Commission, remedial measures were imposed which obligated Verizon to modify its behavior and provide non-discriminatory network access. A class action was subsequently brought by customers of those competing local phone service providers, alleging that Verizon’s refusal to provide adequate network access to its competitors constituted a violation of § 2 of the Sherman Act. The Supreme Court ultimately rejected the plaintiff’s claim and refused to find Verizon liable for its refusal to deal.

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9 15 U.S.C. § 2. (“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 $100,000,000 if a corporation, or, if any other person, $1,000,000, or by imprisonment not exceeding 10 years, or by both said punishments, in the discretion of the court.”).

10 See e.g., Richard A. Epstein, The Property Rights Movement and Intellectual Property, Regulation: The Cato Review of Business & Government, 2008 No. 4, at 58, 62 (arguing that weakening a patent holder right to exclude creates a risk of “systematic under-compensation during the limited life of a patent [which] is likely to reduce the level of innovation while increasing the administrative costs of running the entire system”).
In doing so, the Supreme Court first noted that there was no general duty to deal with one’s competitors. However, it then addressed two potential exceptions to this general rule which might justify the imposition of a positive duty on a party to deal with its competitors. The first exception is the so-called “Aspen Skiing exception.” This is, as the court characterized it, a “limited exception” under which a defendant may be held liable for a refusal to deal if it terminates a previously existing profitable and voluntary course of dealing with another party in order to achieve an anti-competitive end. The hallmark of this exception is a departure from a previous course of dealings, and where there are no pre-existing dealings, there can be no liability. This exception thus does not preclude a party from adopting a general policy of refusing to deal with competitors, but rather only changes of policy to refuse to deal.

The second potential theory of liability for a refusal to deal addressed by the Supreme Court relates to the essential facilities doctrine. The essential facilities doctrine, while formulated in different manners by different courts, has been held by some lower courts to impose an obligation on a monopolist to deal with competitors if the monopolist controls a facility without which the competitor cannot meaningfully compete in the market. However, the Supreme Court in *Trinko* noted that it had never either accepted or rejected the essential facilities doctrine, and it declined to express an opinion either way, holding simply that if it did exist, it

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11 *Trinko*, 540 U.S. at 407-408.
13 *Trinko*, 540 U.S. at 409. In addition to calling the *Aspen Skiing* doctrine a “limited exception,” the Court also noted that “*Aspen Skiing* is at or near the outer boundary of § 2 liability.”
14 The most frequently cited formulation of the essential facilities in Federal antitrust law is found in MCI Communications Corp. v. American Tel. and Tel. Co., 708 F.2d 1081, 1132-1133 (7th Cir. 1983), where court outlined four elements to an essential facilities claim: “(1) control of the essential facility by a monopolist; (2) a competitor's inability practically or reasonably to duplicate the essential facility; (3) the denial of the use of the facility to a competitor; and (4) the feasibility of providing the facility.”
did not apply in the instant case.\textsuperscript{15} Thus, the Court in \textit{Trinko} clearly signaled an intention to strictly limit the circumstances under which a refusal to deal could give rise to antitrust liability.

While the Supreme Court has not recently handed down any decisions on the application of this body of law in the context of IPRs, circuit court decisions in this area appear to confirm the notion that a refusal to deal will very seldom give rise to liability. This is perhaps best evidenced by the decision of the First Circuit in \textit{Data General Corp. v. Grumman Systems Support Corporation}.\textsuperscript{16} Data General was a computer manufacturer that also serviced its own computers. While it had a minor share of the market for the sale of its computers, it held 90\% of the market for servicing Data General Computers. Data General developed a software program for manufacturing its software, ADEX, and it refused to sell licenses to use the program beyond a small number of service providers. Grumman ultimately acquired copies of ADEX and made use of the program. Data General brought an action for copyright infringement, and Grumman counter-claimed, alleging that Data General’s refusal to license ADEX violated the antitrust laws.

The First Circuit’s reasoning with respect to the antitrust counterclaim appears to tightly constrain the possibility of finding antitrust liability for refusal to license a copyrighted work. The court noted that while a refusal to deal by a monopolist could count as prima facie evidence of exclusionary conduct that could give rise to liability under § 2 of the Sherman Act, this refusal to deal could be justified by establishing a valid business justification for the refusal to deal. Most importantly for our purposes, the First Circuit held that “an author’s desire to exclude

\textsuperscript{15} \textit{Trinko}, 540 U.S. at 411. The Court did note that, if the essential facilities doctrine does exist, an “indispensable requirement for invoking the doctrine is the unavailability of access to the ‘essential facilities’; where access exists, the doctrine serves no purpose.” The Court also limited the scope of the essential facilities doctrine by holding that where a state or federal agency has the power to compel sharing, the essential facilities doctrine has no application. \textit{Trinko}, 540 U.S. at 411-416.

\textsuperscript{16} \textit{Data General Corp. v. Grumman Systems Support Corporation}, 36 F. 3d 1147 (1\textsuperscript{st} Cir. 1994).
others from use of its copyrighted work is a presumptively valid business justification for any immediate harm to consumers.”17 By holding that the desire to exclude is in itself a presumptively valid justification for the refusal to deal, the First Circuit placed a significant burden on those wishing to challenge refusals to license copyrighted works. This approach has since been adopted by subsequent decisions, thereby evincing a tendency of American courts to restrict antitrust scrutiny of refusals to license IPRs.18

2. The European Approach to Refusals to License IPRs

In contrast to the American experience, European authorities have in certain cases expressed a willingness to use antitrust law to force firms to license their IPRs. While European authorities have given primacy to intellectual property rights in a number of cases, there have to date been three cases in which the European Commission and European courts have found that a refusal to deal constitutes an abuse of dominance under what is now Article 82 of the Treaty of Rome.19

The first case in which it was found that the refusal to license copyright materials constituted an abuse of dominance was Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v Commission of the European Communities, more commonly referred to

17 Id. at 1187.
18 See, e.g., In re Independent Service Organizations Antitrust Litigation CSU, L.L.C., v. Xerox Corporation, 203 F. 3d 1322 (Fed. Cir. 2000). In that case, Xerox refused to sell patented parts and copyrighted manuals to independent service organizations (ISOs). The ISOs brought an antitrust lawsuit against Xerox for its refusal to deal, and Xerox counterclaimed for patent and copyright infringement. The Federal Circuit Followed the Data General approach, and refused to find that the refusal to deal gave rise to antitrust liability. A modified formulation of the Data General approach was also accepted in by the 9th Circuit in Image Technical Services, Inc. v. Eastman Kodak Co., 125 F.3d 1195, 1218 (9th Cir. 1997), one of the few cases in which a Circuit Court has found that a refusal to license intellectual property rights violated § 2 of the Sherman Act. In that case, the court held that the presumption that the protection of IPRs was a valid justification had been rebutted, as the evidence suggested that Kodak’s motivation for refusing to license its IPRs was not based on a desire to protect its IPRs but rather on a desire to exclude competition from the market. For enlightening commentary on these decisions, see R. Hewitt Pate, Refusals to Deal and Intellectual Property Rights, 10 GEO. MASON L. REV. 429 (2002).
as the *Magill* case. In that case, RTE, ITV and BBC were three television stations operating within the Community that published their guide, each covering exclusively its own programs, protected under UK and Irish copyright law. *Magill* attempted to publish a comprehensive weekly television guide, in competition with separate guides published by each station, but was restrained from doing so by the three copyright owners. *Magill* lodged a complaint with the Commission, which found the refusal to be an abuse of dominant position and ordered a compulsory license of copyright on TV listings. Both the European Court of First Instance\(^{20}\) and the European Court of Justice\(^{21}\) upheld the decision.

In its decision, the European Court of Justice outlined a number of pertinent principles as to when a refusal to license copyrighted works will constitute an abuse of dominance. It first noted that the mere refusal to license a copyrighted work, even if done by a firm with a dominant position in the market, will not constitute an abuse of dominance.\(^{22}\) However, it then noted that such a refusal could in “exceptional circumstances” constitute an abuse of dominance.\(^{23}\) It then concluded that the television stations had abused their dominant position in this case based on three factors. First, the refusal to license the copyrighted works prevented the emergence of a new product, a comprehensive listing of television programs, thereby bringing the firms’ actions into the ambit of what is now subheading (b) of the second paragraph of Article 82.\(^{24}\) Second, there was no objective justification for the refusal to license.\(^{25}\) Third, this refusal, by denying to


\(^{22}\) Id. ¶ 49.

\(^{23}\) Id. ¶ 50.

\(^{24}\) Id. ¶ 54.

\(^{25}\) Id. ¶ 55.
competitors the information necessary to compete in the television listings market, had the effect of foreclosing competition in that market.\footnote{Id. \S 56.}

The second case in which European courts were willing to find that a refusal to license copyright works could constitute an abuse of dominance was the \textit{IMS Health} case. IMS Health tracked sales of pharmaceutical products in Germany. In order to present this data effectively, it created, in cooperation with the pharmaceutical industry, a structure consisting of 1,860 “bricks” which represented particular geographical areas of Germany. This structure rapidly became the standard mechanism by which pharmaceutical information was marketed and sold, and clients were resistant to alternative brick structures developed by NDC Health, a competitor. NDC Health ultimately used a brick structure which was very similar to that developed by IMS Health, and IMS brought an action for copyright infringement in the German courts.

The procedural development of the case thereafter became quite complex. IMS Health was initially successful in German courts in obtaining interlocutory injunctions preventing NDC Health from using its brick structure. NDC Health then lodged a complaint with the European Commission that IMS Health’s conduct was abusive within the meaning of Article 82. The European Commission initially ordered IMS Health, as an interim measure, to license the use of its brick structure to NDC Health.\footnote{Commission Decision 2002/165, NDC Health/IMS Health: Interim measures, 2002 O.J. (L59).} This order was eventually overturned by higher courts pending a determination of the case on its merits.\footnote{Case T-184/01R, IMS Health v. Comm’n, 2001 E.C.R. II-3193, \textit{aff’d}, Case C-481/01, P(R) NDC Health Corp. v. IMS Health Inc. and Comm’n, 2002 E.C.R. I-3401.} However, while the European Commission’s case against IMS was proceeding, the Landgericht Frankfurt am Main, the German court adjudicating the merits of IMS’s copyright infringement claim, decided that IMS could not obtain injunctive relief to protect its rights if it was exercising those rights in an abusive manner.
It thus decided to stay those proceedings and refer questions to the European Court of Justice relating to the proper interpretation of Article 82 as it applied to this case.

In reaching its decision, the European Court of Justice reviewed existing case law on when the refusal to license an IPR could constitute an abuse of dominance.\textsuperscript{29} It concluded that the case law stood for the proposition that

\begin{quote}
\begin{itemize}
\item in order for the refusal by an undertaking which owns a copyright to give access to a product or service indispensable for carrying on a particular business to be treated as abusive, it is sufficient that three cumulative conditions be satisfied, namely, that that refusal is preventing the emergence of a new product for which there is a potential consumer demand, that it is unjustified and such as to exclude any competition on a secondary market.\textsuperscript{30}
\end{itemize}
\end{quote}

The Court thus restated the general structure of the test from \textit{Magill}, emphasizing in particular that a refusal to license an IPR could only be abusive where it prevented the emergence of a new product. The Court viewed this requirement as manifesting and ensuring a fair balance between the protection of intellectual property rights and the public interest in competitive markets.\textsuperscript{31}

Having outlined the applicable legal principles, the European Court of Justice left the role of fact-finding and the application of the principles to the facts of this case to the German court.\textsuperscript{32}

While the European Court of Justice thus did not itself compel IMS to license its brick structure, it provided the German court with a significant scope to find that IMS’s conduct did indeed constitute an abuse of dominance.

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\textsuperscript{29} Case C-418/01, IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG. [2004] ECR I-5039

\textsuperscript{30} Id. ¶ 38.

\textsuperscript{31} Id. ¶ 48 (“in the balancing of the interest in protection of the intellectual property right and the economic freedom of its owner against the interest in protection of free competition, the latter can prevail only where refusal to grant a licence prevents the development of the secondary market to the detriment of consumers.”). Commentators have generally applauded the “new product” requirement as a necessary condition for the application of the essential facilities doctrine on similar grounds, often proposing relatively minor modifications to the condition in order to better attain an appropriate balance between antitrust and IP. \textit{See}, e.g., Daryl Lim, \textit{Copyright Under Siege: An Economic Analysis of the Essential Facilities Doctrine and the Compulsory Licensing of Copyrighted Works}, 17 ALB. L.J. SCI. & TECH. 481, 532-534 (2007); Christian Ahlborn, David S. Evans, A. Jorge Padilla, \textit{The Logic & Limits of the “Exceptional Circumstances Test” in Magill and IMS Health}, 28 FORDHAM INT’L L.J. 1109 (2005).

\textsuperscript{32} The German court ultimately resolved the case on copyright grounds, and the European Commission, satisfied with the result, halted its own inquiry into the matter. \textit{See} Czapracka, \textit{supra} note 2.
The most recent, and undoubtedly the most contentious, decision by European authorities to order the compulsory licensing of copyrighted works was in the *Microsoft* case. That case dealt with, among other things, an alleged failure by Microsoft to provide to competitors sufficient interoperability information relating to its workgroup server operating system. The European Commission found that Microsoft’s failure to disclose such information to competing software developers violated Article 82 of the Treaty of Rome, and the Court of First Instance upheld that finding.

In upholding the Commission’s decision, the Court of First Instance purported to largely restate principles from earlier European jurisprudence, but in some respects it expanded the ambit of Article 82 as a means of regulating the use of IPRs. First, the Court substantially relaxed the requirement in earlier case law that the refusal to license an IPR prevent the emergence of a new product for which there is consumer demand. Rather, it suggested that the underlying analysis is predicated on the refusal to deal causing “prejudice to consumers,” and it indicated that the limitation of “technical development” would also cause such prejudice which could ground liability under Article 82. The lowering of the requirement from preventing the emergence of a new product to preventing the emergence of a new technical development appears to largely eviscerate this requirement, as, arguably, it can be satisfied in any


36 Id.

37 Id. ¶ 647 ("The circumstance relating to the appearance of a new product, as envisaged in Magill and IMS Health, paragraph 107 above, cannot be the only parameter which determines whether a refusal to license an intellectual property right is capable of causing prejudice to consumers within the meaning of Article 82(b) EC.").

38 Id. ¶ 647.
circumstance where the licensing of the IPR will not simply result in a competitor creating a mere copy of that IPR.

Second, the Court of First Instance spelled out much more clearly than had been done in previous case law that, in contrast to the American approach under *Data General*, the mere protection of intellectual property rights cannot constitute an objective justification for a refusal to license.\(^{39}\) While this position was implicit in earlier case law, it seems to indicate—at least when viewed in conjunction with the evisceration of the new product requirement that was seen to be central in earlier case law to the balance between intellectual property rights and antitrust—a general preference for competitive market structures over the protection of IPRs where the two conflict.

### 3. Comparing the Approaches: A Doctrinal Divergence

The above exposition of American and European treatments of when a refusal to license an IPR can constitute an antitrust violation demonstrates that Europeans courts are much more willing than are American courts to find that a refusal to license an IPR can constitute an antitrust violation and to thereby compel licensing of that IPR. While the essential facilities doctrine still stands on somewhat tenuous ground in the United States, it is firmly accepted in European jurisprudence and has been used to compel the licensing of IPRs on a number of occasions. Additionally, even to extent that the essential facilities doctrine is accepted in the United States, American courts have held that merely controlling an IPR is a presumptively legitimate business justification for not licensing that IPR, while European courts have firmly rejected this.

\(^{39}\) *Id.*, ¶ 690.
Notwithstanding these important differences, it is important to not overstate the divergence between European and American approaches to the regulation of IPRs using antitrust law. Both jurisdictions accept that the refusal to license an IPR, even by a dominant firm, does not by itself constitute an abuse of dominance, and despite the European examples discussed in this paper which exemplify a more activist approach to antitrust enforcement, European authorities have in a number of cases declined to find that a refusal to license an IPR constitutes an abuse of dominance. Additionally, while the Microsoft case seemingly represents a high point in the application of Article 82 to IPRs, a plausible argument could be made that it would have been treated similarly under American law. One argument advanced by the Commission at length for imposing liability on Microsoft was that it had disrupted previous levels of supply of interoperability information; the Commission alleged that Microsoft had earlier disclosed such information and had only stopped disclosing such information when its own product had achieved a reasonably strong position in the marketplace. If this is true, then it could be argued that liability could have been found in the United States under the \textit{Aspen Skiing} exception.

Moreover, given that the European Microsoft antitrust litigation followed on the heels of related American litigation which ultimately resulted in a settlement with the Federal government under which Microsoft agreed to a number of structural remedies, including the disclosure of

\footnote{See, e.g., Case 238/87, AB Volvo v. Erik Veng (UK) Ltd., [1988] ECR 6211 ("It must also be emphasized that the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right. It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a licence cannot in itself constitute an abuse of a dominant position."); Case T-504/93, Tierce Ladbroke SA v Commission of the European Communities, [1997] ECR II-923; Case C-7/97 Oscar Bronner GmbH & Co. KG v Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG, Mediaprint Zeitungsvertriebsgesellschaft mbH & Co. KG and Mediaprint Anzeigengesellschaft mbH & Co. KG., [1998] ECR I-7791.}
copyrighted information to competitors,\footnote{For the approval of the settlement, see United States v. Microsoft, 231 F.Supp.2d 144 (D.D.C. 2002). For background on the litigation, see United States v. Microsoft Corp., 253 F.3d 34 (D.C. Cir. 2001).} it is important to not overstate the aberrance of the decisions by the Commission and the Court of First Instance. Indeed, mandatory disclosure of interoperability information is not an uncommon remedy in US antitrust law.\footnote{Perzanowski, at 149.}

Similarly, there may be reasons to think that, because of the particular facts of that decision, \textit{Trinko} may represent an exceptionally low watermark for antitrust scrutiny of unilateral refusals to deal by monopolists rather than a perfectly clear statement of the law as it currently stands in United States.\footnote{Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, 540 U.S. 398, 416-417 (2004).} Indeed, there were a number of potential grounds for resolving the case in \textit{Trinko} rather articulating an exceptionally hands-off approach to refusals to deal. Three of the nine judges on the court declined to address the merits of the refusal to deal claim, holding instead that the plaintiff did not have the particular type of standing required by American antitrust law in order to advance his claim.\footnote{Id. at 411-416.} Additionally, the majority decision focused heavily on the fact that there was already mechanism a statutory mechanism in place for regulating Verizon’s conduct which could have been and was in fact utilized and which thereby lessened the need for antitrust regulation of the refusal to deal.\footnote{For commentary on \textit{Trinko}, as well as differing views on its legal implications, see, e.g., Frank X. Schoen, \textit{Exclusionary Conduct After Trinko}, 80 N.Y.U. L. Rev. 1625 (2005) (arguing for a relatively narrow application of the holding in \textit{Trinko}); Edward D. Cavanagh, \textit{Trinko: A Kinder, Gentler Approach to Dominant Firms Under the Antitrust Laws?}, 59 Me. L. Rev. 111 (2007) (noting that lower courts have been somewhat reluctant to fully embrace the restrictive approach outlined in \textit{Trinko} to refusals to deal under § 2 of the Sherman Act); Michael A.} Thus, because the facts of \textit{Trinko} provided multiple grounds for refusing to find liability under § 2 of the Sherman Act, it may be that the legal doctrines outlined by the majority judgment reflected in part the overall weakness of the plaintiff’s case rather than the law as it would apply in a more difficult case. Thus, the implications of \textit{Trinko} are not yet fully clear.\footnote{Cite}
Lastly, it could be suggested that the fact that the size of the sample of decided cases involving refusals to license IPRs is just too small to draw any meaningful conclusions from, and that consequently, it is difficult to know whether the European decision finding liability reflect a core and effective principle of EU law, or would eventually be regarded as highly contextualized outliers, similar to US cases such as *Kodak*. Nevertheless, these considerations are mentioned here simply to highlight that while we accept the view that at this point in time American and European antitrust regulation of IPRs seem to diverge, the extent of this divergence should not be exaggerated. Moreover, since our paper seeks to look beyond this commonly accepted divergence, conceding that it exists is a convenient starting point for the discussion that follows.

**III – The Strength of Copyright Protection: A Transatlantic Comparison**

The previous section canvassed the American and European antitrust treatment of refusals to license IPRs, and that section seemed to confirm in some sense the conventional wisdom that European courts are far more willing than are American courts to use antitrust doctrines to limit IPRs. In particular, it seems that American courts are extremely reluctant to compel a dominant firm to license its IPRs to competitors (or at least using antitrust law for that purpose, as opposed to direct regulatory institutions), while European authorities will in some circumstances be willing to use antitrust to force firms to share their IPRs with their competitors. Nevertheless, a dominant view in the relevant literature infers from this doctrinal difference divergence that runs much deeper, into the basic approaches to competition, innovation and regulation. According to some, a case like *Magill* represents a fundamental hostility towards

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IPRs by the institutions of the EU,[^48] which can be traced back to the influence of the Freiburg ordoliberal school of economics.[^49] Several commentators argue that the EC position favors the short-term benefits to allocative efficiency from increased competition at the expense of long-term innovation (dynamic efficiency),[^50] and that it understates the importance of Schumpeterian competition “for” and overstates competition “within” the market.[^51] [complete this part]

Even if the European jurisprudence does manifest a significantly different approach than that of the US, this proposition cannot by itself be used to reach the conclusion that, in the balance between the pro-competitive interest manifested in antitrust law and the provision of incentives for innovation through the strong protection of intellectual property rights, European authorities have opted for a balance which more strongly favours the former than have American authorities.


[^50]: See Alan Devlin & Michael Jacobs, *Microsoft's Five Fatal Flaws*, 2009 Colum. Bus. L. Rev. 67, 71 (2009) (“Microsoft marks an ominous shift in Europe's jurisprudential thinking, revealing in particular an unequivocal embrace of short-run consumer wealth at the possible expense of long-run innovation”); James Turney, *Defining the Limits of the EU Essential Facilities Doctrine on Intellectual Property Rights: The Primacy of Securing Optimal Innovation*, 3 Nw. J. Tech. & Intell. Prop. 179, para.77-80 (2005) (arguing that the evils of a monopoly must be considered in the context of innovation; the EFD, in attributing too much weight to short-term interests, is likely to penalize the most important innovation); Melanie J. Reichenberger, *The Role of Compulsory Licensing in Unilateral Refusals to Deal: Have the United States and European Approaches Grown Further Apart after IMS?*, 31 J. Corp. L. 549, 563 (2006) (the EC in Microsoft and IMS favoured EC competition goals over IPRs without sufficiently strong consideration of the possible effects on national IP regimes; argues that incentives to invest in economically beneficial facilities should be paramount).

[^51]: See Josef Drexl, *Abuse of Dominance in Licensing and Refusal to License: A 'More Economic Approach' to Competition by Imitation and to Competition by Substitution*, in European Competition Law Annual 2005: The Interaction between Competition Law and Intellectual Property Law (Claus-Dieter Ehlermann and Isabela Atanasiu ed. 2005) at 14 (arguing that where IPRs make ‘competition by substitution’ impossible, any obligations imposed on IPR holders should not distort competition for the market); James Turney, *Defining the Limits of the EU Essential Facilities Doctrine on Intellectual Property Rights: The Primacy of Securing Optimal Innovation*, 3 Nw. J. Tech. & Intell. Prop. 179, para.16 (2005) (arguing that there will naturally be market concentration in high tech markets, and promoting competitors making similar products ignores various benefits to Schumpeterian competition, as well as consumer benefits from network effects); David Howarth & Kathryn McMahon, "Windows has Performed an Illegal Operation": The Court of First Instance's Judgment in Microsoft v Commission, 29 E. C. L. R. 117, 120-122 (2008) (arguing that Microsoft’s market share could be explained by a variety of reasons unrelated to anticompetitive behaviour, and that the Court should avoid possible Type I errors by not intervening in such cases; arguing that competition law is a blunt instrument to deal with the complex issues of Schumpeterian markets).
In analyzing the balance between antitrust law and the protection of IPRs adopted by a jurisdiction, it is necessary to analyze both bodies of law in order to conclude that a particular balance has been reached. The application of antitrust laws to compel the licensing of a particular IPR presumes that that information is protected under intellectual property laws. If the information in question is not protected by intellectual property laws, then there is no need to resort to antitrust laws to compel a dominant firm to license that information, as competitors can already make use of that information (at least if not kept secret). In other words, there is an economic equivalence between a) not recognizing an IPR, and b) recognizing an IPR but compelling it to be licensed through antitrust law. Note, however, that the two policy alternatives are equivalent, but not perfectly so. One substantive difference immediately comes to mind: the first entails no license fees, whereas the second contemplates the payment of a reasonable fee. But there are additional procedural differences that are quite important and will be discussed below in Part __. Thus, in order to reach any conclusion about a jurisdiction’s overall attitude to IPRs, it is necessary to consider not only the application of antitrust principles to IPRs, but also to examine the extent to which the intellectual property regimes of the respective jurisdictions contain doctrines which limit the scope or exercise of IPRs for advancing competitive ends. While a few other commentators have already observed that the European decisions may be seen as a reaction by the institutions of the European Community to some overprotective IP rules of individual member states, we suggest that the difference in the underlying IP regimes represents a more systemic pro-competitive bent of US IP law, which is currently absent in Europe. In the following parts, this paper posits that, at least in the area of copyright, although European antitrust law may provide more intensive scrutiny over the permissible use of

[52 See e.g., Aaron K. Perzanowski, Rethinking Anticircumvention’s Interoperability Policy, 42 UC Davis L. Rev. 101, 160 (2009); Mark A. Lemley, A New Balance Between IP and Antitrust, 13 SW J. L. & TRADE AM. 1, 20 (2007).]
copyrighted information than does American antitrust law, American copyright law contains doctrines internal to that regime, which are absent from, or not present to the same extent in European copyright regimes. To use Thomas Cotter’s language, it may be that American copyright law contains a stronger pro-competitive interest, the presence of which lessens the need for strong antitrust scrutiny of copyright holders’ behavior. We focus on copyright and not on IP generally for three main reasons: first, to keep this project at a chewable size; second, while the ECJ’s holdings apply to IP generally, the two cases which actually found that a refusal to license IP constituted an abuse concerned copyright (Magill and IMS) and the third (Microsoft) concerned interoperability information that was tangential to a copyrighted work, even though what IPRs, if any, exactly protected that information has never been determined.

Thirdly, it seems to us that the differences between the copyright laws of the US and those prevailing in Europe are more fundamental than differences in other IP regimes, and one of the major fault lines is how pro-competitive considerations are factored into copyright.

While this comparison is complicated somewhat by the fact that the contours of copyright law in Europe are set, largely though not exclusively, by the individual member states rather than at the European Community level, some meaningful comparison of the type identified above is still possible because the following analysis focuses on how American copyright law

54 The CFI ruled that the Commission had lawfully ordered the disclosure of the information even if it were protected by IPRs. Therefore, it wasn’t necessary to determine exactly what IP Rs those were.
55 We note that US trademark law may also represent the same pro-competitive interests that is largely missing from EU trademark law, and that, as both Shubha Ghosh and Hill Wellford observed, the recent US Supreme Court decisions in patent law may be reflecting a similar pro-competitive move in patent law. See Shubha Ghosh, _____; Hill B. Wellford, *Is the Supreme Court Importing Antitrust Economics into Patent Law? A Different Look at eBay, MedImmune, KSR, and Quanta Computer*, Global Competition Policy (March 2009).
systematically resolves issues that European law sometimes seeks to resolve through competition law. We assume that the demand for competition law solutions corresponds to insufficient supply of copyright law solutions, and we believe quite strongly that European countries’ copyright laws do not incorporate innovative-competition concern to the same degree that American copyright law does.

In developing this argument, this paper looks at four distinct areas of European and American copyright law. It first considers the treatment of factual compilations under European and American copyright law. It argues that had the *Magill* decision been litigated in the United States, a similar result would have been reached, but the result would have been reached on copyright grounds rather than antitrust grounds. It then considers three copyright doctrines—the merger doctrine, copyright misuse, and fair use—and it argues that these doctrines have been applied within American copyright law in such a way as to promote innovative-competition and to limit or preclude the anti-competitive uses of copyrighted works, thereby obviating the need for robust antitrust doctrines to prevent such anti-competitive uses.

1. **Factual Compilations**

   The first area of law which this paper will examine is the treatment of factual compilations under American and European copyright laws. While facts alone are not protected in either jurisdiction, and while compilations of facts may be protected by copyright in both, there exist differences with respect to both the standard under which copyright in a compilation shall subsist, as well as the extent to which third parties can freely copy the facts from a protected compilation. This differential treatment clearly demonstrates how a very similar pro-competitive outcome can be achieved either solely through intellectual property law or through antitrust law trumping intellectual property law. Indeed, the following discussion shows how the
substantive outcome in the Magill case, in which television broadcasters were forced to license their copyrighted information to a competing television guide producer, would have also been reached under American copyright law. But it also reveals an important difference: whereas in Europe, the remedy would only be granted in “exceptional circumstances” and would require the licensee to pay a reasonable royalty, under US copyright law would be free for all to take.

Turning first to American jurisprudence on compilations, it is clear that United States gives much more limited protection under copyright law to factual compilations than do European jurisdictions. The leading decision by the US Supreme Court on the scope of copyright protections for factual compilations is Feist Publications v. Rural Telephone Service, which concerned the scope of copyright protection in the listings in a phone directory.\(^{58}\) Rural Telephone Service was the local phone service provider in part of Kansas. It was subject to a state regulation that required all telephone companies operating in Kansas to issue annually an updated telephone directory. Accordingly, as a condition of its monopoly franchise, it published a typical telephone directory, consisting of white pages and yellow pages containing the listings within its geographic area.\(^{59}\) Feist wanted to publish a comprehensive area-wide phone directory, covering a much larger geographical range, reducing the need to call directory assistance or consult multiple directories. Feist’s directory contained the listings of 11 different telephone service areas in 15 counties. Feist approached each of the 11 telephone services and offered to pay for the right to use its white pages listings. Of the 11 telephone companies, only Rural refused to license its listings to Feist.\(^{60}\) Feist then copied Rural’s directory. Rural brought a claim against Feist for copyright infringement, and Feist, in addition to defending on copyright grounds, counterclaimed, alleging that Rural’s refusal to license the information violated § 2 of

\(^{59}\) Id. at 342.
\(^{60}\) Id.
the Sherman Act. The history of the copyright claim is well-known. The District Court found that the white pages of a telephone directory constitute original work of authorship and are, therefore, copyrightable, and that as a result Feist could not copy the listings.\(^61\) It rejected Feist’s fair use defense\(^62\) and held that Rural alleged antitrust violations could not in law constitute copyright misuse.\(^63\) The Court of Appeals affirmed,\(^64\) but the Supreme Court, in a unanimous decision, reversed. The Supreme Court ultimately held that Rural had no copyright in its phone directory. It held that for copyright to be granted in a work, there had to be some degree of originality, in the sense of there had to be a “minimal degree of creativity.”\(^65\) Because Rural had simply listed all the phone listings in alphabetical order, there was no creativity in the creation of the directory, and there was thus no copyright. Because there was no copyright in the alphabetically ordered factual listing, Feist was thus able to use the information with impunity.

But not only Feist, and not only for that particular purpose. The data was free for all: free as in free speech as well as in free beer.\(^66\) Furthermore, even if there were copyright in the compilation, that copyright would be “thin”, meaning that anybody would be free to copy the non-protected data.\(^67\)

The antitrust history of the case is less known. Interestingly, the District Court was more sympathetic to Feist when it turned to decide its antitrust counterclaim. Relying on the essential facilities doctrine, the District Court held that Rural’s refusal to license its white pages listings was an illegal refusal to deal under the Sherman Act. It awarded Feist treble damages of $99,000


\(^{62}\) Id., at 219.

\(^{63}\) Id., at 220 (while recognizing that an antitrust violation might constitute a patent misuse, the court refused to extend the doctrine to the area of copyright).

\(^{64}\) Rural Telephone Service Co., Inc. v. Feist Publications, Inc. 916 F.2d 718 (10 Cir. 1990).


\(^{66}\) The distinction is often attributed to Richard Stallman, see Sam Williams, Free as in Freedom: Richard Stallman’s Crusade for Free Software (1st ed. 2002), at 131.

\(^{67}\) Feist, at 349.
and reasonable attorney fee as well as an injunction prohibiting Rural from refusing to license its white pages listings at a reasonable rate.\textsuperscript{68} The Circuit Court reversed on the basis that Feist had not demonstrated any anti-competitive effects of the refusal to license.\textsuperscript{70}

The similarity between the facts in the \textit{Feist} and \textit{Magill} cases demonstrates two very different approaches to a very similar particular legal problem. Both cases involved statutorily franchised companies that refused to license to competitors purely factual information which they produced as a secondary product of those firms’ primary businesses in order to stifle the production and marketing of competing products. In both cases an independent publisher who sought to publish a comprehensive guide, whose request for a license had been denied, copied the information without permission and was sued for copyright infringement. In both cases the defendant-publisher not only defended on copyright grounds but also counter-moved (filing an antitrust counterclaim in the US, and lodging a competition law complaint with the Commission in Europe). In both cases lower courts ruled in favor of the copyright plaintiff and in both cases the highest court ultimately granted the defendant access to the data. In Europe, this result was reached through robust antitrust laws and in American through weaker copyright laws.

Interestingly, some commentators have suggested that at least part of the reason for the ECJ’s willingness in the \textit{Magill} case to compel the licensing of the televisions stemmed from the fact that the Court viewed the protection of the listing under British and Irish copyright laws as idiosyncratic national legislation protecting a type of intellectual property which was less worthy

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\begin{footnote}{\textsuperscript{70} Rural Telephone Service Company, Inc. v. Feist Publications, Inc., 957 F.2d 765 (10\textsuperscript{th} Cir. 1992). The court held that Feist failed to demonstrate that it suffered any harm in its yellow pages advertising business or that anyone complained about the incompleteness of its directory as a consequence of Rural’s refusal to license, or that competition in the yellow pages advertising market was reduced as a result of Rural’s actions. Strangely, the court didn’t consider the possibility that no harm was suffered because Feist actually did copy the listings (which by the time the appeal was decided it was legally permitted to do).}
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of protection.\textsuperscript{72} To the extent that this is true, this may simply support the position that copyright and antitrust law are two alternative means of achieving the very similar competitive outcome and that American and European legal structures choose different methods of achieving that outcome rather achieving substantially different outcomes. While the United States refused to recognize copyright in a garden-variety compilation of data, the European Commission and courts, faced with the existence of a particular copyright under national copyright laws which it viewed as less meritorious but over which they had no jurisdiction, achieved the same result through antitrust law. We believe, however, that the differences between the two cases and the approaches espoused therein merit closer consideration, which reveals how remarkable the US Supreme Court decision in \textit{Feist} is, and how, contrary to common wisdom, radical it seems.

It is true that the European institutions, confronted with a situation that they deemed as requiring intervention, had only one tool at their disposal, namely, competition law, the same cannot be said about the US Supreme Court. Since US federal courts have jurisdiction over both copyright and antitrust, and since an antitrust counterclaim had been filed and already decided in Feist’s favor when the case was argued before the Supreme Court, it must have been clear for the


Even if the protection of compilations of the type at issue in \textit{Magill} may have been an idiosyncrasy of particular national copyright regimes, the European Union’s Database Directive has subsequently resulted in the creation of additional rights for compilations in the form of the \textit{sui generis} database right. Council Directive 96/9, On the Legal Protection of Databases, 1996 O.J. (L 77) 20 (EC). Indeed, this Directive, which creates certain rights who have no analogue under American law, gave rise to the controversy in IMS Health, as the German statutory provisions under which IMS claimed protection for its brick structure were enacted in response to the EU Database Directive. Czapracka, supra note 2. Admittedly, \textit{IMS Health} is a slightly different factual scenario than either \textit{Feist} or \textit{Magill}, as the IPR that IMS was seeking to protect was the particular structure of its database rather than the factual information within that database. No direct analogy between IMS and either \textit{Feist} or \textit{Magill} is posited in this section, and a more detailed discussion of the resolution of \textit{Feist} under American copyright law will be deferred until later in this paper. Rather, this discussion is simply intended to highlight that, with respect to compilations and databases, European copyright regimes provided stronger protections to creators of such works than does American copyright law.
Court that an alternative antitrust route to resolve the conflict might be available. Moreover, even though in a narrow sense the antitrust question was not before the Court so that technically it was not open for the Court to consider, the petition for certiorari invited the Court to incorporate a narrower antitrust-like analysis into its copyright ruling.

Feist’s petition contained the three following questions:

1. Can a telephone company copyright its directory of the phone numbers it has assigned to subscribers under its granted monopoly status, refuse to grant a license to those directory listings to a competing independent directory publisher, then use a copyright infringement action to enforce its refusal and prevent self-help access by the competitor to the telephone company’s directory?

2. If such a refusal to deal is found to be an anti-trust violation, would the copyright infringement action amount to "copyright misuse," thereby preventing enforcement of the copyright under a theory similar to that of "patent misuse"?

3. Does the copyright in a telephone directory by the telephone company prevent access to that directory as a source of names and numbers to compile a competing directory, or does copyright protection extend only to the selection, coordination, or arrangement of those names and numbers?\(^\text{73}\)

The first and second questions ostensibly invited the Court to consider antitrust or antitrust-like considerations, to uphold Rural’s copyright in the listings but create a relatively narrow exception that would permit Feist’s competition. The first invoked Rural’s statutory monopoly status, and thus invited the Court to issue a narrow ruling limiting the scope of copyright to the particular circumstances of the case. Indeed, regulatory intervention in such circumstances—a statutory monopoly in one market attempting to forestall competition in an adjacent market—is

is not uncommon. The second question specifically invoked antitrust, and invited the Court to conclude that to the extent that Rural’s refusal to license its copyrighted listings violated the antitrust laws, it could not enforce its copyright. Only the third question had a broad and general application to copyright.

The Court, thus, faced three options. It could decline to hear the case, leave the scope of Rural’s copyright intact, and let the parallel antitrust proceedings run their course; it could decide to hear the case and decide whether the doctrine of copyright misuse or an antitrust-like “exceptional circumstances” exception would limit Rural’s copyright; or it could, under the petition’s third question, tackle the copyrightability of the listings head-on.

Therefore, the Court decision to hear only the third question must be seen as a deliberate decision to resolve the case from within copyright, as a matter of copyright first principles, rather than as a consequence of special circumstances, external to copyright law’s core policies.

Furthermore, when actually resolving the case, a unanimous court adopted a solution that critics of the European approach must regard as radical in the extreme. Not only it denied Rural any copyright in its listings, it raised the bar to the copyrightability of compilations, declared that the compiler’s labor, i.e., its investment is an irrelevant consideration, and decreed that data is always free for others to take.

The Court was quite clear that it was strongly motivated by pro-competitive considerations: not to let copyright stand in the way of competition and innovation. In the Court’s own words: it was motivated by the desire to encourage “others to build freely upon the ideas and information conveyed by a work.” Moreover, and quite remarkably, as Justin Hughes noted, the Court chose
to cast this decision in terms of a constitutional predicament, where it could easily have reached the same conclusion through standard statutory interpretation.\textsuperscript{74}

To conclude this point, the courts in \textit{Magill} and \textit{Feist} faced a very similar problem: refusal to license factual listings which prevented competition and innovation in an adjacent market. The European courts addressed this problem by upholding the copyright while imposing on it antitrust limitations as an “exceptional circumstance” while maintaining the copyright owner’s entitlement to a reasonable fee; the US Supreme Court declined to adopt an antitrust or antitrust-like solution, but instead addressed the issue by denying copyright altogether. If one needs to determine on the basis of these decisions which jurisdiction affords greater protection to IP rights, the EU would score much higher.

As one could easily predict, developments in the aftermath of \textit{Feist} make it slightly more difficult to make strong pronouncements about the legal protection of factual compilations in the US. For example, the Court’s suggestion that facts cannot be protected because they do not originate from the author has led some courts to conclude that “created facts”, such as various ratings, evaluations or classifications are not fact but rather protected expressions.\textsuperscript{75} In addition, even when not protected by copyright, access to various compilations of data is only available subject to contractual terms purporting to control the subsequent use of the data, which courts generally uphold, despite the legal quandary that they represent.\textsuperscript{76} Nevertheless, we do not believe that these developments, which may run against the pro-competitive interest that we discuss our fatal to our argument that compared to Europe, US law provides weaker protection to factual compilations. As far as we can tell, shrinkwrap licenses are generally as valid as they are

\textsuperscript{75} Id.
\textsuperscript{76}
in the US, and even when regulated by EU law (e.g., the 1993 EU Directive on Unfair Contract Terms), these regulation focus on the in personam contractual aspects as between sellers and consumers (assent, reasonableness, etc.) rather than on the public interest in preserving access to public domain information. In fact, in this regard, the EU has quite knowingly moved in an opposite direction to Feist, by enacting in 1996 Directive 96/9/EC on the legal protection of databases, Article 7(1) of which grants “a right for the maker of a database which shows that there has been qualitatively and/or quantitatively a substantial investment in either the obtaining, verification or presenting of the contents to prevent extraction and/or reutilization of the whole or of a substantial part, evaluated qualitatively and/or quantitatively, of the contents of that database.” Unlike Feist, which, by casting its ruling in Constitutional terms created a serious stumbling block for many legislative initiatives to grant IP rights in databases, Magill did not have (and never intended to have) a similar effect. While preamble 47 reaffirms the holding in Magill by clarifying that competition law may be applied to prevent anticompetitive abuses of the newly created right, it remains a tiny island of pro-competitive interest in an IP sea. Moreover, as will be discussed below, Feist is not a singular case, and its pro-competitive impetus reflects a well-entrenched American way of thinking about copyright and competitive innovation.

2. The Doctrine of Copyright Misuse

While the previous section discussed copyright protection for a particular type of works, this section and the following two sections turn to a discussion of more general doctrines within American copyright law which serve a to promote innovative-competition. This section

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79 Cite
discusses the doctrine of copyright misuse. It argues that the doctrine of copyright misuse in some sense substitutes for more strict antitrust scrutiny of the exercise of intellectual property rights. In other words, the doctrine of copyright misuse, which has no analogue within European copyright regimes, precludes certain anti-competitive uses of IPRs which might in Europe require the application of antitrust doctrines. Thus, while European regimes regulate anti-competitive uses of intellectual property primarily through antitrust law, the doctrine of copyright misuse provides this competitive check within copyright law, thereby obviating the need for antitrust regulation of such rights.

The doctrine of copyright misuse “prevents copyright holders from leveraging their limited monopoly to allow them control of areas outside the monopoly.” It has been applied in a variety of circumstances to deny copyright holders relief from infringement of that copyright where the copyright holder has acted in some way improperly. The seminal case on copyright misuse is *Lasercomb America Inc. v. Reynolds*. Lasercomb was a manufacturer of steel rule dies used to cut paper, and it developed a software program, Interact, which was used in the creation of those steel rule dies. Lasercomb licensed four pre-release copies to Holiday Steel, a competitor in the manufacture of steel rule dies; in the licensing agreement with Holiday Steel, Lasercomb included a clause with expressly prohibited “the licensee from developing or assisting in developing any kind of computer-assisted die-making software.” Holiday Steel then created its own version of Interact, called PDS-1000, which in large part copied Interact. Lasercomb brought a copyright infringement action against Holiday Steel and various former

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82 Lasercomb America Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990).
83 *Id.* at 972.
employees. While the court found that there was an infringement, it held that the doctrine of copyright misuse precluded Lasercomb from any relief from the defendants’ infringement. The misuse in this case was Lasercomb’s attempt to use its copyright in a particular expression, the Interact software, to control competition in an area outside the scope of the copyright, i.e. in the idea of software program for computer-assisted die manufacturing.

Importantly, courts have repeatedly held that a defendant does not need to demonstrate an antitrust violation by the plaintiff in order to be able to make use of the defense of copyright misuse.\(^84\) This means that defendants will be able to make use of the defense even where antitrust law would leave them without remedy. The disjunction between antitrust violations and copyright misuse is clearly seen in *Alcatel USA Inc., v. DGI Technologies, Inc.*\(^85\) DSC was a manufacturer of telephone switching systems, and it had developed an operating system for those switching systems, which was protected by copyright. While it sold the hardware to its clients, it only licensed the operating system. Those licenses included terms which prohibited consumers from copying the software or disclosing it to third-parties and also from using DSC’s hardware with software other than DSC’s proprietary operating system.\(^86\) DGI, a rival hardware manufacturer, reverse-engineered DSC’s products in order to develop its own products, which were compatible with but superior to DSC’s products. DSC initially brought a claim against DGI for misappropriation of its trade secrets, and DSC responded with a number of counter-claims, including a counter-claim for monopolization in violation of § 2 of the Sherman Act. DSC subsequently filed a supplemental complaint, alleging copyright infringement.

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\(^{84}\) *Id.* at 978 (“[A] misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action. The question is not whether the copyright is being used in a manner violative of antitrust law (such as whether the licensing agreement is “reasonable”), but whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright.”).

\(^{85}\) *Alcatel USA Inc., v. DGI Technologies, Inc.*, 166 F.3d 772 (5th Cir. 1999).

\(^{86}\) *Id.* at 777.
While both the District Court and the Circuit Court dismissed DGI’s antitrust counter-claim, the Circuit Court allowed DGI’s defense of copyright misuse to DSC’s infringement claim. The Circuit Court held that DSC’s misused its copyright by licensing its software to only be used in conjunction with DSC-manufactured hardware. It held that this was an impermissible attempt to expand its monopoly over the copyrighted software to the hardware itself. Thus, while rejecting DGI’s counter-claim of that DSC monopolized the market in violation of § 2 of the Sherman Act, the Court nonetheless held that DSC’s attempt to use its copyright to affect competition in a secondary market precluded it from being able to enforce its copyright. This provides a clear example of where American courts rather than using antitrust law to limit the scope of IPRs are policing the use of copyrighted works through doctrines internal to copyright law in order to promote innovative-competition.

By contrast, European copyright regimes generally do not have a doctrine equivalent to the American doctrine of copyright misuse. Rather, anti-competitive uses of copyright of the type prohibited by the doctrine of copyright misuse in the United States are generally regulated in European jurisdictions through antitrust law rather than through copyright law.

3. The Merger Doctrine

The merger doctrine is another doctrine in American copyright law which has been applied in certain cases in such a manner as to limit particularly anti-competitive uses of copyright. The merger doctrine is closely related to the idea-expression dichotomy. Under the idea-expression dichotomy, copyright will only be granted over the particular expression of an

87 For a critique of the Fifth Circuit’s decision on the basis that it extended the doctrine of copyright misuse too far into the realm of pro-competitive considerations, see Theodore Dorenkamp, *Copyright Misuse of a Right to Compete?: A Critique of Alcatel USA v. DGI Technologies*, 9 TEX. INTELL. PROP. L.J. 269 (2001).
88 See generally Haris Apostolopoulos, *The Copyright Misuse Doctrine on Computer Software: A Redundant Doctrine of U.S. Copyright Law or a Necessary Addition to E.U. Copyright Law?*, 24 J. MARSHALL J. COMPUTER & INFO. L. 571 (2006) (arguing that a more flexible doctrine would less appropriate in the context of European Union law than it is in American law). See also Coco.
idea and not over the idea itself. The merger doctrine represents in some sense a further manifestation of the idea-expression dichotomy; under that doctrine, “even expression is not protected in those instances where there is only one or so few ways of expressing an idea that protection of the expression would effectively accord protection to the idea itself.” Thus, the merger doctrine denies the creator a work a monopoly over his expression where such protection would inevitably give him a monopoly over the idea itself rather than merely the expression. In other words, the merger doctrine gives American courts a tool with which to ensure that the monopolistic ambit of copyright protection given to a work does not grow unacceptably large and result in the stifling of competition.

This paper is not suggesting that the idea-expression dichotomy is unique to American copyright law or that European copyright regimes contain no analogous principle. To the contrary, virtually all copyright regimes have some type of a delimiting principle for distinguishing protectable expression from unprotectable ideas. Therefore, to the extent that the merger doctrine directly flows from the idea-expression dichotomy, it may be available universally. Nevertheless, to date, very few jurisdictions have explicitly embraced the doctrine. Although this might change, what makes American copyright law somewhat unique is not only the existence of a relatively robust merger doctrine, but also the fact that the merger doctrine has often been explicitly applied with competitiveness considerations in mind. This may demonstrate a distinction not only in the formulation of doctrines in European and American copyright law, but also a distinction in the purposive application of those doctrines.

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89 This principle, which is a long-standing principle throughout the common law world, has also been codified in the current U.S. Copyright Act. § 102(b) of the Copyright Act specifies that “[i]n no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.” 17 U.S.C. § 102(b).

An example of this is seen perhaps mostly clearly in the litigation between the New York Mercantile Exchange (NYMEX) and the Intercontinental Exchange (ICE). NYMEX and ICE were rival commodity exchanges. At the end of each business day, NYMEX determined the settlement prices for its futures contracts. NYMEX disseminated those settlements prices to the public, as it was required to under applicable securities legislation. ICE began using NYMEX’s settlement prices in its own clearing operations, and NYMEX subsequently sought to prevent ICE from using those prices, ultimately by bringing a copyright infringement action against ICE. ICE counterclaimed, alleging that NYMEX’s unwillingness to license its prices to ICE constituted an impermissible refusal to deal under § 2 of the Sherman Act.

ICE’s antitrust counterclaim was dismissed by the District Court of the Southern District of New York. While the Court accepted the existence and potential applicability of the essential facilities doctrine, it held that it was precluded by *Trinko* from applying the essential facilities doctrine because of the principle established in that case that the essential facilities doctrine will be inapplicable where a regulatory body has the authority to compel access. Because in this case the Commodity Futures Trading Commission (CFTC) had the statutory power to order NYMEX to disclose its prices, the Court declined to apply the essential facilities doctrine. It then also rejected the applicability of the *Apsen Skiing* doctrine on the facts of the case, and it thus ultimately rejected NYMEX’s counterclaim.

However, despite losing its antitrust counterclaim, ICE was nonetheless able to continue using the settlement prices, as on the primary claim it successfully argued that NYMEX had no copyright in the settlement prices. Both the District Court and the Second Circuit held that the settlement prices created by NYMEX were so closely linked to and reflective of the conduct of

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market participants that to give copyright to those settlement prices would effectively protect the idea of the taking prices from the dynamics of the market.92

A particularly noteworthy aspect of the Second Circuit’s decision is the degree to which its reasoning in applying the merger doctrine is laden with competitiveness concerns. In concluding that the merger doctrine was applicable, it held that “To grant NYMEX copyright protection here ‘would effectively accord protection to the idea itself,’ ... and bar ICE or other competitors from valuing NYMEX's contracts.”93 This suggests that the Court was concerned with the anti-competitive outcome that would emerge from giving NYMEX an enforceable copyright in the settlement prices. Additionally, the Court immediately thereafter noted that “policy considerations weigh heavily in determining the appropriate application of the merger doctrine.”94 It noted that an overly liberal application of the merger doctrine would significantly reduce the scope of copyright protection and thereby diminish incentives to innovate. In this case, however, because NYMEX was statutorily obligated to disseminate the settlement prices, there were no concerns about a lack of incentives to produce that information.95 This case thus demonstrates a situation where the appropriate balance between the incentives to innovate and competitive markets was reached entirely within the domain of copyright law.

The NYMEX case is an interesting example of the methodological, but not necessarily substantive, divergence of American and European courts’ approaches to such cases. Shortly
after the District Court’s rejection of ICE’s antitrust counterclaim, Eleanor Fox published a paper arguing that if ICE’s antitrust counterclaim had been addressed by a European court applying IMS Health, the Court would have likely found that NYMEX’s conduct constituted an impermissible refusal to deal.\(^{96}\) Fox then uses this analysis to support the proposition that European antitrust authorities are more activist and more willing to impose positive obligations on parties than are American antitrust authorities. On this point she is undoubtedly correct. However, as the development of this case demonstrates, this does not necessarily mean there is a divergence, from a competitiveness perspective, in the substantive outcomes of the cases. While European authorities might have found an impermissible refusal to deal in this case, American courts simply applied the merger doctrine in order to limit NYMEX’s copyright in the information, thereby allowing ICE to use that information to compete with NYMEX.

The result in the NYMEX case is even closer to the hypothetical resolution on a similar case in Europe in that—using antitrust terminology—it applies the merger doctrine following a soft of rule of reason analysis. Unlike Feist, which ruled that the listings were not copyrightable *per se*, the settlement prices in NYMEX were found to have constituted a merger of ideas and expression in light of the particular circumstances of the market, and after concluding, based on the characteristics of the market, that applying the doctrine would not seriously undermine the incentive to create the work in the first place.\(^{97}\)

American courts have also applied the merger doctrine with competitiveness concerns in mind in the context of computer software. For example, in *Lexmark International v. Static*

\(^{96}\)Fox, *supra* note 2.

\(^{97}\)In the Second Circuit, “consideration of the merger doctrine takes place in light of the alleged copying to determine if infringement has occurred, rather than in analyzing the copyrightability of the original work *(citing CCC, 44 F.3d at 72 n. 26, (holding that “[a]ssessing merger in the context of alleged infringement will normally provide a more detailed and realistic basis for evaluating the claim that protection of expression would inevitably accord protection to an idea."))*
Control Components the Sixth Circuit held that the merger doctrine precluded copyright protection for technological lock-out codes which prevented the use of unauthorized components.\(^98\) This represents an application of the merger doctrine to preclude copyright protection where such protection would extend the scope of the monopoly beyond the copyrighted work itself.

Also significant for the doctrine of merger in this respect was the holding by the Second Circuit in Computer Assocs. Int’l, Inc. v. Altai, Inc. that, at least in the context of computer software, elements of software which are dictated by efficiency considerations or by external factors are not protected by copyright.\(^99\) In reaching this conclusion, the Court paid particular heed to technical requirements and industry-wide standards which often played a significant role in dictating the particular form of the software. Thus, the Second Circuit was careful to avoid giving a exclusive control over an entire genre of software program to any particular software manufacturer simply on the basis of their having made use of a particular standard.

The merger doctrine might have provided a potential basis for resolving the IMS Health case, had it been litigated under American law. As noted above, IMS was seeking to enforce a copyright over its 1,860 brick structure for categorizing pharmaceutical sales information on a geographic basis. Because of IMS’ collaboration with the pharmaceutical industry in devising the structure, its structure quickly became an industry standard, and pharmaceutical companies

\(^{98}\) Lexmark International v. Static Control Components, 387 F. 3d 522, 536 (6th Cir. 2004) (“Generally speaking, “lock-out” codes fall on the functional-idea rather than the original-expression side of the copyright line. Manufacturers of interoperable devices such as computers and software, game consoles and video games, printers and toner cartridges, or automobiles and replacement parts may employ a security system to bar the use of unauthorized components. To “unlock” and permit operation of the primary device (i.e., the computer, the game console, the printer, the car), the component must contain either a certain code sequence or be able to respond appropriately to an authentication process. To the extent compatibility requires that a particular code sequence be included in the component device to permit its use, the merger and scenes a faire doctrines generally preclude the code sequence from obtaining copyright protection.”).

refused to purchase pharmaceutical marketing data which was not formatted in this particular structure. An American court considering this case might have reasoned that granting copyright protection to the brick structure would have effectively granted IMS with a monopoly not only over that particular brick structure but also over the whole market for pharmaceutical sales information. Possibly, IMS could also be regarded as a noncopyrightable “system”. Additionally, the policy considerations alluded to by the Second Circuit in the NYMEX case would not militate against the application of the merger doctrine in the IMS Health case.

Because the product which IMS was selling was the pharmaceutical data and not the particular brick structure, and because some type of structure was necessary to categorize the information, there was no worry that not granting copyright would reduce the incentives to innovate. While this reasoning is by no means conclusive, it does provide a potential example of how an American court might have resolved the IMS Health case and achieved the same pro-competitive outcomes through doctrines internal to copyright law rather than through antitrust law.

4. Fair Use

The final doctrine of American copyright law which may serve a pro-competitive interest is the doctrine of fair use. The fair use defense permits, under some conditions, the copying of copyrighted material for legitimate purposes. Most importantly for the purpose of this paper, fair use has been invoked on certain occasions to allow copying, even for the purpose of competing with the owner of the copyrighted work. For example, in Atari Games Corp. v. Baker v. Selden.

100 Baker v. Selden.
101 17 U.S.C. § 107 (“Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and实质性 of the portion used in relation to the copy-righted work as a whole; and (4) the effect of the use upon the potential market for or value of the copy-righted work.”).
Nintendo of America, Inc., the Federal Circuit held that “reverse engineering object code to
discern the unprotectable ideas in a computer program is a fair use.”\(^{102}\) Similarly, in Sega
Enterprises Ltd. v. Accolade Inc., the Ninth Circuit held that the copying by Accolade of header-
code inserted by Sega into its video game system and games to prevent competing manufacturers
games from functioning on Sega’s console was a fair use.\(^{103}\) Thus, in these cases, courts have
applied the fair use doctrine in such a manner as to allow competitors to develop products which
compete with the copyright holder’s products.

Admittedly, similar doctrines relating to reverse engineering exist within European
copyright regimes, and in particular the rule that it is permissible to copy software as a part of the
process of reverse engineering that software has been codified in several European
jurisdictions.\(^{104}\) To the extent that European copyright regimes contain rules equivalent to those
developed under the American fair use doctrine, then the American copyright law demonstrates
no stronger pro-competitive interest in this respect than do European copyright regimes.

However, putting these specific examples to the side, once it is accepted that the
American doctrine of fair use can be employed to foster competition with existing copyrighted
works, it has at least the potential for greater flexibility in fostering pro-competitive outcomes
than do continental European copyright regimes. While American fair use relies on an open-
ended system in which courts determine on the facts of each particular case whether the use of
copyrighted materials constitutes a fair use, continental systems instead provide a list of specific

\(^{103}\) Sega Enterprises Ltd. v. Accolade Inc., 977 F.2d 1510, 1520 (9th Cir. 1993) (“Accolade contends, finally, that its
disassembly of copyrighted object code as a necessary step in its examination of the unprotected ideas and
functional concepts embodied in the code is a fair use that is privileged by section 107 of the Act. Because, in the
case before us, disassembly is the only means of gaining access to those unprotected aspects of the program, and
because Accolade has a legitimate interest in gaining such access (in order to determine how to make its cartridges
compatible with the Genesis console), we agree with Accolade. Where there is good reason for studying or
examining the unprotected aspects of a copyrighted computer program, disassembly for purposes of such study or
examination constitutes a fair use.”).
\(^{104}\) See, e.g., CODE CIVIL art. L122-6-1-IV (Fr.).
uses of copyrighted materials which do not constitute infringement.\textsuperscript{105} Moreover, as exceptions to rights, European courts tend to interpret these statutory exceptions narrowly and restrictively.\textsuperscript{106} Thus, continental copyright regimes are in this respect necessarily reactive, while American fair use doctrine can bend to the facts of particular cases to foster competitive outcomes prospectively.

Discussing fair use is instructive for another reason as there are considerable similarities between the conditions set out in \textit{Magill} and the factors that US law considers in fair use analysis, alongside two glaring differences. First, let us consider the similarities:

1. \textit{Magill}'s “New Product” requirement is similar to what US copyright law consider “transformative use.” The more transformative the use is, the more likely it would be found fair.\textsuperscript{107}

2. While the \textit{Magill} formulation does not discriminate between different types of works, and applies to all forms of intellectual property, so far the application of the EFD was limited to works that even if protected are at the margin, rather than at the core of copyright protection. In the US, while rarely determinative, the nature of the work, that is, whether it is at the core or margin of copyright protection affects the likelihood of a finding of fairness.\textsuperscript{108}

3. While not codified as one of the four factors in s. 107, US courts sometimes consider what non-infringing alternatives might be available to the defendant. This consideration is similar to the “indispensability” requirement in \textit{Magill}.

\begin{footnotesize}
\begin{itemize}
\item[105] See generally J.A.L. STERLING, WORLD COPYRIGHT LAW 537-540 (3d ed. 2008).
\item[106] \item[107] \item[108]
\end{itemize}
\end{footnotesize}
4. Lastly, “the effect of the use market” test in fair use resembles both the “new product” requirement from *Magill* and the balancing test in *Microsoft*.

Despite the similarities, there are two glaring differences. First, as a remedy for abuse of dominance, compulsory license may available in Europe only after it has been established that the IP holder holds a dominant position in the market and only after establishing that is has abused that position. In contrast, fair use is potentially available in all works and the analysis focuses on the defendant’s conduct, not on that of the copyright owner and her market power. Second, in Europe, the copyright owner is still entitled to charge a reasonable fee for the use of her work whereas under fair use the fee is zero. While the similarities reflect the substitutability of the different measures, the differences highlight the relative weakness of US copyright protection when compared to Europe.

**5. The Doctrinal Substitutability between Weaker Copyright and Stronger Antitrust**

This section has argued that American copyright law fails to protect copyright owners’ rights in certain cases when their rights would be protected under European copyright regimes. Most apparently, American law fails to give copyright protection to purely factual compilations which exhibit no creativity, and makes it clear that even when the compilation is original, protection does not extend to the compiled facts. In Europe, purely factual compilations are protected in certain circumstances protected under European copyright laws, and this protection may prevent the copying of the compiled data. More importantly, however, the previous section argued that American copyright contains doctrinal tools which allow courts to limit anti-competitive uses of copyrighted works. By contrast, European copyright laws generally lack such doctrines, and the regulation of anti-competitive uses of copyrighted works thus falls to be regulated through antitrust laws. Thus, while the European Community may engage in relatively
robust regulation of IPRs through its antitrust laws, American courts seem to reach relatively similar outcomes by more tightly constraining the ability of producers of intellectual products to protect their works under copyright laws.

Indeed, as has been discussed above, in all three antitrust cases in which European authorities either ordered or left the door open for the antitrust-based compulsory licensing of copyright works to competitors, a plausible case can be made that the same substantive outcomes would have been reached under American law. This is most perhaps clear in the Magill case, but a reasonable case can also be made that an American court addressing the validity of IMS’ copyright in its brick structure would have declined to grant it copyright. Similarly, as argued in the previous section, a plausible case can be made that an American court considering the Microsoft case might have ordered the disclosure of the interoperability information on the basis of the Apsen Skiing doctrine. As the nature of Microsoft’s alleged IPRs in the information has never been determined, it is difficult to analyze the breadth of protection that would be available under American IP laws.

Nothing in the above sections is to meant to posit that future decisions will not demonstrate or create a greater substantive divergence between American and European treatment of anti-competitive uses of copyrighted works. Rather, it is merely to suggest that, once both copyright and antitrust laws are considered, the claim that Europe has opted for more robust protection of competitive markets at the expense of the protection of IPRs relative to the United States seems less credible.
IV – Antitrust-Based vs. Copyright-Based Mechanisms for Fostering Competitive Markets: Two Sides of a Biased Coin?

The foregoing sections have argued that, contrary to popular wisdom, the divergence between European and American treatment of anti-competitive uses of intellectual products may not be so vast. This section extends the analysis one step further and posits that there may even be ways in which the American model of copyright-based regulation of anti-competitive uses of intellectual property actually provides less protection to intellectual property rights than does the European model of antitrust-based regulation. Specifically, this section posit that there are two respects in which the American approach may provide less protection to IPRs than the European approach.

First, antitrust-based regulation of copyrighted works is more context-specific than those forms of copyright-based regulation which ultimately deny the owner a valid copyright. Although the copyright owner may be compelled under antitrust law to license their work, their work is still protected by copyrighted, and they can enforce that copyright against others in non-competitive settings. By contrast, if a work is found to not be entitled to copyright protection because of the merger doctrine or because it is an uncopyrightable compilation of facts, the producer of that work loses their exclusive rights to that work and is thereby unable to appropriate any return from it in other circumstances.109

Second, it may simply be easier for parties to convince courts that competitive considerations merit the application of pro-competitive copyright doctrines, such as the merger doctrine or the doctrine of copyright misuse, than it would be for them to seek relief under antitrust laws. Although the party holding burden of proof is the same under either antitrust law

109 Additionally, where the compulsory licensing of copyright works under antitrust law entails licensing the work to competitors at a reasonable rate, antitrust-based regulation provides some return even a between those parties, while the copyright-based modes of regulation which eviscerate the copyright do not.
or copyright law, those elements of antitrust law which generally play a major role in limiting the application of antitrust doctrines are simply not present in copyright-based analysis. For example, for both monopolization claims under § 2 of the Sherman Act and abuse of dominance claims under Article 82 EC, the plaintiff must prove that the defendant had a high degree of market power. This is often a bar to many antitrust cases, but this analysis is absent—at the very least explicitly—from the regulation of anti-competitive uses of IPRs through copyright law. Similarly, where a particular practice is not per se illegal, a plaintiff in an antitrust suit will have to prove that the defendant’s conduct resulted or will likely result in anti-competitive outcomes in the market. This too is absent from copyright-based regulation of anti-competitive uses of IPRs. Thus, these considerations provide a reason for supposing that the American approach may in some cases actually provide less protection to IPRs than the European approach.

Thirdly, the very context specific nature of a finding of abuse of dominance in a particular case renders such a finding not easily applicable to other similar cases. In contrast, resolving the anti-competitive concerns through tweaking the underlying copyright can easily spillover to other similar cases that involve other copyright holders, thus weakening the right of IP holders more broadly. For example, parties can reasonably safely rely on the holding in Feist and copy alphabetically-ordered data in a wide array on contexts, whereas they are less likely to assume that the holding in Magill would shield them from copyright infringement liability unless the

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110 Copyright misuse and fair use are both affirmative defenses, meaning that the burden of proof is on the defendant. The legal nature of the merger doctrine is less clear, and courts have been split on whether it affects the copyrightability of a work or merely serves as a defense in an infringement action. See Mason v. Montgomery Data, Inc., 967 F.2d 135, 138 at n. 5 (5th Cir. 1992).

111 This bar is substantially higher in American law since the Supreme Court’s decision in Illinois Tool Works, where it decided that a patent does not by itself confer market power upon the patentee. Illinois Tool Works, Inc. v. Independent Ink, Inc., 547 U.S. 28, 46 (2006). Although this decision occurred in the context of patents, it can reasonably be inferred that the decision destroys any legal presumption in American law that market power arises from the mere possession of an intellectual property rights.
market conditions are highly similar. In other words, an antitrust resolution tends to have an *inter partes* effect, in contrast with a more *in rem* effect of an IP solution.

**V – Comparing the Processes of Antitrust Enforcement**

To this point, we have questioned the conventional wisdom on the relative strength of copyright protection in the United States and Europe primarily by focusing on substantive differences in copyright law regimes on either side of the Atlantic. Even accepting the claim that European antitrust law is more willing to compel the licensing of IPRs than is American antitrust law, we have suggested that doctrines internal to American copyright law might result in the same, or potentially even weaker, effective protection for copyright in the US as compared to Europe. In this section, we introduce an additional consideration which bears on the relative degrees of protection for IPRs in the United States and Europe: the process of antitrust enforcement. Specifically, we posit that the model of antitrust enforcement in the United States, under which private antitrust litigation is far more prevalent than it is under the European model, may provide another reason for thinking that IPRs are, in effect, less secure in the United States than in Europe.

The starting point for this discussion is the fact that, as alluded to above, private antitrust suits are significantly more widespread in the United States than it is in Europe. In the United States, between 1990 and 2005, plaintiffs filed an average of about 750 federal antitrust cases per year. From 2006 to 2008, this number was even higher, with plaintiffs filing over 1,000 federal antitrust cases per year.\(^\text{112}\) The private enforcement of European antitrust law is by comparison exceptionally limited. A 2004 Report by the law firm Ashurst, commissioned by the Directorate

General for Competition, found only 60 decided claims in total for damages from the (then) 25 member states of the European Union, either under national law, EC law, or both. These figures, even if not perfectly comparable, demonstrate that private antitrust suits are vastly more commonplace in the United States than in Europe. The reasons for the relatively limited use of private antitrust actions in Europe are myriad, and they have been discussed elsewhere at great length. However, several key reasons for this divergence are worth mentioning here.

One factor undoubtedly contributing to the widespread use of private antitrust suits in the United States is the magnitude of damages available. Under § 4 of the Clayton Act, successful plaintiffs in antitrust suits can recover treble damages as well as, in contrast to normal practice in American litigation, reasonable attorney’s fees. By contrast, supra-compensatory damages are generally unavailable in most European states. Indeed, in contrast to the long American experience with private federal antitrust litigation, the very conclusion that damages are available at all for breaches of European competition law is itself relatively recent. Thus, the financial reward for successful antitrust plaintiffs is much greater in the United States than it is in Europe.

115 See the discussion in Ashurst Report, 129-130.
116 Articles 81 and 82 of the Treaty of Rome are silent as to the possibility of private antitrust suits, and it was not until 2001 that the European Court of Justice explicitly held that those articles allowed for the recovery of damages in private suits. See Case C-453/99, Courage v. Crehan, [2001] ECR I-6314. Subsequently, Council Regulation No. 1/2003 provided national courts with the ability to directly apply Articles 81 and 82 of the Treaty Rome, and it also contemplated the availability of damages for infringements of those articles. Council Regulation (EC) No. 1/2003 of 16 December 2002, on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, [2003] OJ L1/1. That the awarding of damages by national courts is contemplated by this provision is confirmed by recital 7, which provides that “National courts have an essential part to play in applying the Community competition rules. When deciding disputes between private individuals, they protect the subjective rights under Community law, for example by awarding damages to the victims of infringements. The role of the national courts here complements that of the competition authorities of the Member States. They should therefore be allowed to apply Articles 81 and 82 of the Treaty in full.” For a more detailed discussion, see Wouter P.J. Wils, Should Private Antitrust Enforcement Be Encouraged in Europe?, 26(3) WORLD COMPETITION 473 (2003).
Important procedural differences also inform why private actions are utilized relatively less in Europe than the United States. One key difference is the widespread availability of class actions in the United States. By their nature, class actions make possible certain types of litigation which could not be feasibly brought by individual plaintiffs. The significance of the availability of class actions for American antitrust litigation is great; of the 1,238 federal antitrust cases filed in 2008, 765 of these were class actions.\textsuperscript{118} By contrast, most European states do not have a type of procedure which is directly analogous to a class action.\textsuperscript{119} While many European states are increasingly introducing or exploring the possibility of introducing some type of collective action, they seldom go as far as the American model of opt-out class actions. For example, while the European Commission discussed the desirability of some form of collective redress for antitrust violations in its 2008 White Paper on Damages Actions for breach of the EC antitrust rules, its proposed the use of representative actions and opt-out collective actions rather than American-style opt-out class actions.\textsuperscript{120}

The broader scope for discovery available in American litigation may also facilitate the bringing of antitrust claims. Under the Federal Rules of Civil Procedure, parties have a right to discovery of any relevant, non-privileged document.\textsuperscript{121} By contrast, there is not nearly such an expansive obligation in most European states on parties to litigation to disclose this type of information to other parties.\textsuperscript{122} While the 2008 EC White Paper recognized the need for

\textsuperscript{119}Ashurst Report, 45.
\textsuperscript{120}Commission of the European Communities White Paper on Damages Actions for Breach of the EC Antitrust Rules, April 2, 2008. 4.
\textsuperscript{121}FRCP, Rule 26.
\textsuperscript{122}Ashurst Report, 61-64.
increased disclosure in such cases, the model of disclosure it advocated still fell well short of the expansive model of discovery found in the United States.\textsuperscript{123}

These factors, among others, help explain the much larger role of private antitrust litigation in the United States as compared to Europe, and this in turn provides, in effect, a check on the exercise of IP rights that is not present to nearly the same degree in Europe. Even accepting that in substance American antitrust law is less of a check on the exercise of IP rights than is European antitrust law, the higher likelihood of being subjected to an antitrust claim in the United States may result a greater effective check on the exercise of IP rights. As is manifested by cases such as \textit{Feist} and \textit{NYMEX}, it is now quite commonplace in the United States for defendants to copyright infringement claims to bring counterclaims alleging antitrust violations. While such counterclaims often fail, the costs of defending such counterclaims can still be significant, and they can expose the claimant to much more wide-ranging discovery obligations than would have been the case with the initial infringement claim. Moreover, given the underdevelopment and uncertainty of this area of the law, there is still a risk that the counterclaim could be successful, thereby exposing the plaintiff to a claim for treble damages.

Given these costs and potential risks, in the United States owners of IP rights could be expected to try to avoid taking actions which could expose them to antitrust claims or counterclaims. This might mean that, where a plausible antitrust claim exists, owners of IP

\textsuperscript{123} Under the model put forward by the Commission in its White Paper, disclosure of documents would be by court order rather than party-initiated as in the United States, and disclosure would only be ordered where the claimant has:

“– presented all the facts and means of evidence that are reasonably available to him, provided that these show plausible grounds to suspect that he suffered harm as a result of an infringement of competition rules by the defendant;
– shown to the satisfaction of the court that he is unable, applying all efforts that can reasonably be expected, otherwise to produce the requested evidence;
– specified sufficiently precise categories of evidence to be disclosed; and
– satisfied the court that the envisaged disclosure measure is both relevant to the case and necessary and proportionate;”
rights might be less willing to pursue infringement actions and more willing to license their IP rights, or at least, might be willing to settle their IP claims on terms more favorable to the alleged infringers. By contrast, the factors leading to a virtual absence of private antitrust litigation in Europe means that IP owners seeking to exercise or enforce their rights face both a lesser risk of exposure to an antitrust claim and lower costs and risks if such a claim is brought against them.

Thus, this too suggests that any conclusion about the relative degree of protection for intellectual property rights in the United States and Europe based solely on a consideration of substantive antitrust law is certainly incomplete and potentially false. Not only does such a conclusion require taking into account, as discussed in previous sections, differences between American and European copyright regimes, this section has also suggested that such a conclusion depends on a comparison of the processes of antitrust enforcement in those two jurisdictions. When differences in the processes of antitrust enforcement are taken into account, it appears that, in certain important respects, the effective degree of protection for IP rights might actually be less in the United States than it is in Europe.

VI – Evaluating the Approaches

[This part will first explain why the US has tended to resort to IP based, rather than antitrust based solutions, and then analyze some of the pros and cons of each approach. Here’s the basic outline]:

- Three main reasons why the EU tends to adopt antitrust solutions:
  - Lack of harmonization of IP law creates a bifurcated system: the EU institutions have no (or much less) power to adjust the member states’ IP laws to promote innovative-competition. Often, they can only use competition law for this purpose.
o This bifurcation, combined with the general paucity of private antitrust enforcement, limits the ability of courts hearing IP cases to hear detailed accounts of anticompetitive effects of IP-related conduct and consider an IP-based solution.

o Deontological conceptions of IP dominate European thinking, making it more difficult to adjust IP from within to accommodate innovative-competition concerns, even when those are raised.

- In contrast, in the US, Federal courts have jurisdiction over both areas of law, and therefore have greater freedom to choose the appropriate avenue to promote innovative-competition.
  
o The availability (and longer history) of private antitrust enforcement enables defendants in IP cases to set forth the competitive implications of enforcing the IP in greater detail and as an outcome that should be seriously considered (rather than an afterthought in an IP case).

o Partly as a result of the above, and partly as a result of the consequentialist mandate of the Constitution’s IP Clause, US IP jurisprudence is more amenable to considering innovative-competition concerns from within.

- These explanations only explain why US courts can choose IP solutions if they want to, but they do not explain why they seem to prefer them over antitrust solutions that are equally available to them.
  
o Antitrust in the US has become much more ideologically polarized than IP, making it less likely that an antitrust-based pro-defendant outcome would be reached by consensus or even majority.
However, as Daniel Crane recently suggested, the Chicago/Harvard Schools divide does allow both schools to converge on rejecting the antitrust claim, each school for its own reasons.

This divide (as well as the Liberal/Conservative divide) seems to be less determinative in IP cases, especially when at issue is balancing incentives for first generation innovators vs. subsequent innovators.

Therefore, when the anti-competitive consequences of enforcing the IP are presented to judges, an IP solution may appear less controversial and easier to build a consensus over.

Which approach is preferable?

- First of all, promoting innovative-competition through tweaking IP law or through antitrust aren’t mutually exclusive approaches. Even if IP law can often solve the problem antitrust may still be resorted to when IP law fails.

- Type I and Type II errors: Type I: enforcing IPRs that ought not to be enforced; Type II, restricting IP rights excessively. Each approach can lead to both types of errors.

  - In theory, however, antitrust approach can minimize both errors because it requires full-blown rule of reason analysis. However, the problem with greater reliance on antitrust is that antitrust does a poor job when harm to innovation is concerned.

    - Often, there won’t be claimants that can satisfy standing requirements because the harm is suffered by all the consumers and producers of products that had not been developed as a result of the over-broad IP right;

    - Serious collective action and information problem;
• Even if a plaintiff shows up, the harm is highly speculative.
  o Therefore, relying on antitrust solutions increases the danger of Type I errors.

• Relying on IP solutions, in contrast, tends to augment Type II errors.

• Ultimately, it is very difficult to answer which type of error is more problematic, and hence which approach is preferable. This simply reflects the fact that we still don’t really know how much IP we should grant.

• But perhaps, if the US has been more technologically innovative and more culturally dynamic than Europe (has it?), and to the extent that this outcome can be causally linked to its underlying weaker copyright regime, then this can be evidence that the US approach is preferable.

VII – Conclusion

This paper has argued that the conventional wisdom that European jurisdictions have opted to subordinate intellectual property rights in the pursuit of competitive markets to a much greater extent than has the United States is, at least in the context of copyright protection, false. While European antitrust regulation of IPRs does presently seem much more robust and activist than American antitrust regulation of IPRs, focusing solely on one antitrust doctrine, the essential facilities doctrine, only tells half the story. Once various doctrines of copyright law are taken into account, the substantive difference between the European and American approaches is much less extreme than is generally viewed to be the case. While European jurisdictions have relatively expansive copyright protection which then needs antitrust law in order to check anti-competitive uses of copyright works, American copyright law provides stronger internal limits on copyright protection in a number of circumstances which thereby lessen the need for resort to antitrust law to serve as an external check on anti-competitive uses of copyrighted works. When
the broader impact that antitrust law, beyond the essential facilities doctrine, might have on the exercise of IPRs in the US is considered, and when the wider limiting effect that copyright law’s internal doctrine create, it becomes apparent that in key respects, when innovative-competition is at stake, US law grants overall weaker copyright protection than that available in Europe.

This paper did not seek to provide a normative justification for any particular balance between the protection of intellectual property rights and the promotion of competitive markets. Rather, this paper has merely explored the duality between stronger antitrust law and weaker copyright law in achieving any particular balance by comparison of American and European experiences in reaching an appropriate balance. Determining how different legal tools can achieve a particular balance is a distinct question from the question of what that appropriate balance is. This paper has attempted to provide some type of partial overview in response to the first of those problems, leaving aside for future work the question of what the appropriate balance is.

Of course, answering this question is in an incredibly complicated question, which basically reflects the unfortunate reality that despite the enormous advance in the understanding of the processes of innovation over the last several decades, the fundamental answer to the question of how important IPRs and what their optimal scope is, remains elusive. We hope, however, that this paper adds another perspective to this discussion. We believe that if our observations are correct, and if it is also correct that the US has emerged as a jurisdiction with higher levels of innovation compared to most of Europe, then, to the extent that that the legal rules actually matter, the “less is more” approach to copyright taken by the US, might in fact superior. At this stage, of course, this conclusion is merely a hypothesis, to be confirmed or refuted another day.