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THE COPYRIGHT MISUSE DOCTRINE ON COMPUTER SOFTWARE:
A REDUNDANT DOCTRINE OF U.S. COPYRIGHT LAW OR A NECESSARY ADDITION TO E.U. COPYRIGHT LAW?

HARIS APOSTOLOPOULOS

I. INTRODUCTION

The misuse doctrine, although rarely applied in practice, has a very broad theoretical application. It has evolved from three related areas of public policy: the prevention of anticompetitive effects, protection of licensees from overreaching by IP owners, and ensuring compliance with the purposes of the IP laws. The doctrine cannot be understood by analyzing it from any one of these perspectives alone. Under the public policy approach, copyright misuse exists when a plaintiff expands the statutory copyright monopoly in order to gain control over areas outside the scope of the monopoly.\(^1\) The antitrust approach on the other hand judges all misuse defenses by the criteria of antitrust law and competition values.\(^2\)

On the other hand, an American synthesis of intellectual property and competition law through the misuse doctrine is more difficult in Europe, because, while the European Union currently possesses an Union-wide competition law, such laws are mostly national intellectual property laws. As a result, it is more difficult to incorporate the the varying national intellectual property policies into the construction of an Union-wide competition law. Furthermore, whereas substantive competition law in Europe is Union-wide, antitrust enforcement is more governmental and administrative through the national authorities and the European Commission than the private litigation system in the U.S., so that the application of a flexible misuse doctrine would be impractical and inefficient for European Union law.

\(^1\) In re Napster, Inc. Copyright Litigation, 191 F. Supp. 2d 1087, 1103 (N.D. Cal. 2002).

Software's particular nature makes it susceptible to aggregations of market power because of network and de facto standard considerations, and as such, antitrust law can play a correspondingly greater role in promoting the distributional policies of copyright law. This ascertainment makes a different approach to the application of the misuse and fair use doctrines on computer software imperative. Moreover, although copyrighted works tend to be more substitutable and thus confer less market power than patents, this is not true with regard to software, which itself encloses functional elements. In other words, market power is much more likely to exist and should be presumed more easily in cases involving copyrighted software than other copyrighted works.

The present thesis will focus on the market power in Part IV that stems from the copyright and the application of the copyright misuse doctrine. The different approaches of the U.S., in Part II, and the E.U., in Part III, towards the copyright misuse doctrine will be examined, in Part VI and the different policies of the two approaches will be stressed. In Part V, an emphasis will be placed on the particular nature of computer software.

II. U.S. LAW

A. LEGAL HISTORY AND NATURE OF THE COPYRIGHT MISUSE DOCTRINE

Under the equitable doctrine of unclean hands, courts deny an otherwise meritorious claim where the claimant has acted so improperly that the need to punish the claimant's wrongful behavior outweighs the need to punish the defendant's allegedly unlawful conduct. The principle underlying the doctrine is that equity presumes harm when an unclean plaintiff obtains relief. Consequently, one who desires justice must come into court with a clean slate. The theory of intellectual property misuse, which stems from the unclean hands doctrine, prevents a plaintiff from enforcing an intellectual property right if that plaintiff is guilty of misconduct with respect to that right. The misuse doctrine represents the maxim that whenever a copyright or patent holder uses his monopoly grant in a way that undermines the grant's underlying public policy, the court may and should deny the copyright holder relief when his exclusive rights are infringed.

The judicially created misuse doctrine originated in the field of pat-
ent law as an affirmative defense to patent infringement suits. The misuse doctrine, long established in patent law, was extended to copyright law. Like patent misuse, copyright misuse is an affirmative and equitable defense to a suit for infringement. A copyright holder, like a patentee, should not be permitted to enforce his copyright if he intentionally extends the copyright grant beyond its lawful scope. Both copyright and patent law share the same underlying theory: because of the public benefits from new creations, society should encourage such efforts by granting authors and inventors exclusive rights in their works. Thus, the concurrent development of patent and copyright law in terms of both underlying theory and the substantive law demonstrates that copyright misuse can be applicable as a defense to copyright infringement, just as patent misuse has received full recognition as a defense to patent infringement. Although some authority states that patents pose a much greater monopolistic threat than do copyrights, the extension of copyright protection to software and technology has greatly increased the monopolistic opportunities inherent in the granting of a copyright. Recognition of a copyright misuse defense serves purposes similar to the patent misuse defense, namely, preventing copyright owners from deliberately overextending copyright grants.

The first court to employ the misuse defense and actually render a copyright unenforceable was the Court of Appeals for the Fourth Circuit in 1990. The Supreme Court of the United States, however, has not yet ruled on the viability of the misuse defense in copyright infringement actions. Many courts have held that the defense is viable in copyright infringement actions, but only to the extent that the misuse rises to the level of an antitrust violation. Conversely, other courts have held that

11. See Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191 (7th Cir. 1987) (Judge Posner states that “[t]he danger of monopoly is more acutely posed by patents than by copyrights.”); Hartzog, supra n. 8, at 377.
12. Scher, supra n. 6, at 95.
the misuse defense is available in copyright infringement actions, and
that the misuse need not rise to the same level as a violation of antitrust
law. These courts have found misuse where the copyright owner had
attempted to enforce his copyright in a way that exceeded the scope of his
copyright grant.

B. Groups of Cases

1. Introductory Remarks

The bulk of court opinions addressing copyright misuse have in-
volved three categories of issues: (1) "blanket licensing of copyrighted
musical compositions or bundled sales of motion picture exhibition
rights, as price-fixing practices; (2) licensing agreements with anti-com-
petitive clauses," because they restrict consumer choice, which is detri-
mental to public welfare, thereby contravening the public policy goals of
the Copyright Act and (3) "tying practices, in which a sale of copyrighted
material, typically computer software, is conditioned upon the purchase
of other commodities, such as computer hardware or maintenance ser-
vices," because such practices exemplify methods used by the copyright
owner to exceed the rights covered by the grant and restrict consumer
choice, thereby harming public welfare.

The first type of misuse occurs in situations where the copyright
owner either indirectly limits or unduly restricts the volume or range of
products, usually software, created by licensees. One example includes
situations where the copyright owner tries to gain a limited monopoly
over uncopyrighted and unpatented products by indirect means through
licensing restrictions, as in Alcatel. Another example may include situ-

15. See e.g. Lasercomb, 911 F.2d at 978-79 (copyright misuse found where plaintiff for-
bid any company from participating in any way in the future development of its copy-
righted computer program); Atari Games Corp. v. Nintendo of Am., Inc., 975 F.2d 832 (Fed.
Cir. 1992); Supermarket of Homes, Inc. v. San Fernando Valley Bd. of Realtors, 786 F.2d
1400, 1408 (9th Cir. 1986); Sega Enters. v. Accolade, Inc., 977 F.2d 1510, 1524 (9th Cir.
1992) (misuse exists upon a finding of fraud, or a clear violation of a legal duty); Natl. Cable
where a copyright owner violates the public policy underlying the copyright law); Coleman
right owner violates the public policy underlying the copyright law); Coleman
v. ESPN, Inc., 764 F. Supp. 290, 295 (S.D.N.Y. 1991) (copyright misuse may be found
"based on blanket licensing practices if there are no alternatives . . . realistically availa-
bale"); QAD, Inc. v. ALN Assoc., 770 F. Supp. 1261, 1287-70 (N.D. Ill. 1991) (copyright mis-
use found where plaintiff failed to disclose that its copyright computer program contained
material copied from work in the public domain).

16. Roger Arar, Redefining Copyright Misuse, 81 Colum. L. Rev. 1291, 1293 (1981); Scher, supra n. 6, at 97.

17. Ramsey Hanna, Misusing Antitrust: The Search For Functional Copyright Misuse

18. Id.; Charnelle, supra n. 10, at 177.

19. Infra n. 39 and accompanying text (discussing Fifth Circuit ruling).
ations where the copyright owner uses the licensing of its copyrighted product to gain control over the public distribution and adaptation rights embodied in the copyright owned by its licensees, as in Atari. The second type of misuse occurs when the copyright owner requires that the licensee exclusively use the owner’s copyrighted product. The third type of misuse occurs when the copyright owner ties the sale of copyrighted products with either copyrighted or uncoprighted products. Finally, misuse occurs where the copyright owner’s licensing scheme directly prohibits the development and marketing of new products, usually hardware and software programs. For example, in Practice Management Information Corp. v. American Medical Assn., the American Medical Association, an Illinois non-profit corporation, misused its copyright for a medical procedure code by licensing it to Health Care Financing Administration (“HCFA”) in order to establish a uniform code for identifying physician’s services. In exchange for the license, HCFA agreed not to use a competing coding system. Moreover, in Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc., the Third Circuit Court of Appeals confirmed the existence of copyright misuse where the copyright is used contrary to the public interest, but found no misuse in licensing agreements with Disney for licensees to show trailers of Disney movies on their web pages only through specific hyperlinks. According to the court, copyright misuse could occur when the agreement between the parties has significant effects on third parties that are normally beneficiaries of the copyright regime.

As the preceding overview of case law indicates, the misuse defense has been raised most frequently in software infringement cases. Unlike other types of copyrightable subject matter, software serves a functional purpose. It is used to direct the operation of a particular type of machinery: computer hardware. Unlike other forms of literary works, a given software program can be functionally superior to competing products in a

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22. Hanna, supra n. 17, at 421.
23. 121 F.3d 516 (9th Cir. 1997).
24. The product was Physician’s Current Procedural Terminology (“CPT”), which consisted of 6000 medical procedures and provided a five-digit code and brief description for each.
26. Id.
27. 342 F.3d 191 (3d Cir. 2003); See Hartzog, supra n. 8, at 386 (discussing recent case developments).
28. Video Pipeline, Inc., 342 F.3d at 204-205.
reasonably objective sense, granting its producer a competitive edge over rival producers.

2. **Tying Arrangements**

Tying occurs when an exclusive right holder uses the exclusive rights for one of its products to also cover another product. The reasoning behind disallowing tying arrangements in general—and tying arrangements and restrictive licensing agreements involving copyrighted products in particular—is that producers should not be able to extend market power legitimately acquired in a given market to other markets in which, absent the tying arrangement, the producer would lack a competitive advantage, or leverage. The economics of leverage prescribes antitrust authorities to follow a three-step assessment and show: (1) the monopolist has incentives to expand its market power to the adjacent market; (2) the monopolist’s conduct (i.e., refusal to license, tying) will eliminate competitors; (3) the elimination of competitors is harmful to consumers.

Tying arrangements may contravene section one of the Sherman Antitrust Act, which prohibits business combinations, contracts, and conspiracies that unreasonably restrain competition, or section two of the Sherman Antitrust Act, which prohibits unilateral attempts to monopolize trade. Claims brought pursuant to the Sherman Antitrust Act and the Clayton Antitrust Act are typically analyzed under the “rule of reason,” which requires courts to examine whether the contested practice “unreasonably” restrains competition, giving due consideration to all circumstances of the case and especially to the pro-competitive effects of ties. Because the effect of a tie on competition and innovation depends on market share, it is critical that courts do not presume that all tying agreements are anticompetitive and in contravention of antitrust and copyright policy. Only when the tie undermines innovation and after an efficiency-test should courts find that the copyright holder has misused

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33. Id.
his copyright.\textsuperscript{36} Such anticompetitive effects could be the foreclosure of other competitors, that means to injure rivals in the tied product market by cutting off their access to adequate markets, the increase of entry barriers into the tied product market, and reduction of the output of rivals of the tied product.\textsuperscript{37}

On the other hand, copyright infringement defendants may also be able to take advantage of an alternative \textit{per se} standard of illegality, which substantially reduces a claimant's evidentiary burden.\textsuperscript{38} The \textit{per se} rule creates a presumption of illegality if the following four factors can be shown: (1) two separate products determined by two different consumer demand curves exist; (2) the defendant forces its customers to take the tied product in order to obtain the tying product; (3) the arrangement affects a substantial volume of interstate commerce; and (4) the defendant has "market power" in the tying product market.\textsuperscript{39} However, the U.S. Department of Justice guidelines for licensing IP rights, without focusing on the \textit{per se} past of the prohibition of tying, indicate that tying would only be challenged in the context of IP licensing if (1) the seller has market power, (2) the arrangement will have an adverse effect on competition in a relevant market, and (3) efficiency justifications do not outweigh the anticompetitive effects.\textsuperscript{40}

That copyright tie-ins are prevalent in the computer industry, coupled with the fact that recent copyright misuse cases have disproportionately challenged computer software licensing and sales arrangements, suggests that more software tying arrangements will be challenged as misuse. Since 1990, courts have heard at least eleven software copyright infringement cases in which the alleged infringer argued the misuse defense.\textsuperscript{41} These cases have spanned the federal judiciary, and have been heard in the Second, Fourth, Fifth, Seventh, Eighth, Ninth, and D.C. Circuits. In six of these eleven cases, the defense to the alleged infringe-

\textsuperscript{36} See U.S. v. Microsoft Corp., 253 F. 3d 34 (D.C. Cir. 2001).

\textsuperscript{37} Id.

\textsuperscript{38} This qualified \textit{per se} rule against tie-ins evolved at a time when U.S. antitrust law embraced open market values as well as consumer welfare goals.

\textsuperscript{39} Jefferson, 466 U.S. at 12-18 (1984) (finding that a market power presumption through an IP right would practically eliminate this fourth critical limitation on the application of the \textit{per se} rule).

\textsuperscript{40} U.S. Dept. of Just., supra n. 29, at 5.3.

ment was a claim of misuse in the form of a tie-in.42 In five of these six cases, the court explicitly or implicitly recognized the misuse doctrine, although not necessarily ruling for the alleged infringer.43

3. Use of Non-competition Agreements

In Lasercomb America, Inc. v. Reynold,44 the Fourth Circuit Court of Appeals considered a copyright infringement suit brought by a software developer against a steel rule die manufacturer. The die manufacturer purchased copyrighted computer software manufactured by the plaintiff.45 The manufacturer then copied the program and sold it as its own.46 In response to the developer's copyright infringement claim, the die manufacturer asserted the defense of copyright misuse, and noted that the software contained a license agreement prohibiting the purchaser from writing, developing, producing, or selling competing software for a period of 99 years.47 The penalty for a breach of the license agreement was nullification of the developer's obligations under the agreement.48 The Lasercomb court determined that the copyright misuse defense barred the developer's copyright infringement claim.49 The court noted that the copyright law seeks "to increase the store of human knowledge and arts by rewarding inventors and authors with the exclusive rights to their works for a limited time."50 Attempts to extend this legal monopoly beyond the limited scope afforded by copyright law would violate the public policy embodied in the grant of a copyright, because such actions suppress attempts to independently implement the same idea in new inventions. The court held that the licensing agreement attempted to extend the scope of the software copyright.51 The agreement sought to employ the copyright in a particular expression, the software, to control competition in an area outside the copyright, "the

44. 911 F.2d 970 (4th Cir. 1990); see Hartzog, supra n. 8, at 382; Christina Ambrosio & Roni Schneider, Copyright Misuse. . Getting Defensive: Laercomb v. Reynolds, 6 St. John's Journal of Legal Commentary 181, 185 - 186 (1990); Abromats, supra n. 8, at 643.
45. Lasercomb Am., 911 F.2d at 971.
46. Id.
47. Id.
48. Id.
49. Lasercomb Am., Inc., 911 F.2d at 976-977.
50. Id. at 976.
51. Id.
idea of computer-assisted die manufacture.”

In *Alcatel USA v. DGI Technologies*, the Fifth Circuit Court of Appeals ruled that because Alcatel’s (“DSC”) software is licensed to customers to be used only in conjunction with DSC-manufactured hardware, DSC indirectly seeks to obtain patent-like protection of its hardware, its microprocessor card, through the enforcement of its software copyright. There was also evidence that it was not technically feasible to use a non-DSC operating system because the switch has a “common control” scheme in which each microprocessor card in a network of such cards runs the same operating system. Alcatel’s licensing restrictions constituted copyright misuse because without the freedom to test its cards in conjunction with Alcatel’s software, DGI became effectively inhibited from developing its own new product, the microprocessor cards. This, in effect, secured for DSC a limited monopoly over its uncopyrighted microprocessor cards. Additionally, it was not technically feasible for DGI Technologies to use a non-Alcatel operating system to test its cards.

C. RELATION OF COPYRIGHT MISUSE DOCTRINE TO ANTITRUST LAW

Antitrust law is partly consistent with copyright law in that antitrust law also prevents unreasonably anticompetitive conduct, which would impair markets. Copyright law depends significantly upon markets to distribute an innovation efficiently. By promoting competitive markets, antitrust law indirectly promotes broader distributions of innovation in general. Software's particular nature makes it susceptible to aggregations of market power because of network and *de facto*, standard considerations. Therefore, antitrust law can play a correspondingly greater role in promoting the distributional policies of copyright law. Yet antitrust doctrine is not designed, nor is it sufficient, to promote intellectual property policy in a more directed sense. The courts that have adopted the copyright misuse doctrine recognized as much when they held that conduct may violate copyright policy without rising to the level of an antitrust violation.

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52. *Id.* at 978.


54. *Alcatel U.S.A., Inc.*, 166 F.3d at 794 (emphasis added).

55. Frischmann & Moylan, *supra* n. 21, at 888.

56. *Id.*

57. *See infra* pt. II. E.

58. Lasercomb Am., Inc., 911 F.2d at 970; Prac. Mgt. Info. Corp., 121 F.3d at 516; Alcatel U.S.A., 166 F.3d at 772.
Copyright misuse is distinguished from an affirmative antitrust violation even though some principles of the copyright misuse doctrine overlap antitrust law. Conduct underlying a copyright misuse defense in an infringement case may serve as a basis for antitrust liability. The misuse of copyright defense, however, does not require proof of the additional elements, such as market power, competitive injury, intent to monopolize, which are necessary to establish liability for an antitrust violation. On the other hand, proof of an antitrust violation can often serve to establish copyright misuse. For example, when a contract or conduct involves a restraint of trade and the economic function of such a restraint is to restrict, limit, or affect the economic freedom of other parties' actions, such a restriction can give rise to an antitrust violation. In contrast, a defendant in a copyright infringement action, however, is shielded from suit if the defendant can show misuse of a copyright by the plaintiff, even though the acts of misuse neither constitute competitive injury nor indicate that the plaintiff was individually harmed by the defendant's infringement. Moreover, an antitrust violation is a counterclaim giving rise to damages; whereas copyright misuse is an absolute defense against an allegation of copyright infringement. In order "[t]o demonstrate that [a] plaintiff has violated antitrust law, [a] defendant must meet the high standard of proving: 1) a pattern of conduct by plaintiff in restraint of trade, and 2) that this restraint is unreasonable." In contrast, to demonstrate that the plaintiff is guilty of patent misuse, the defendant must meet a much lower standard and prove only that plaintiff has extended his property right beyond the four corners of the patent.

Despite superficial differences in the professed policy goals of copyright and antitrust laws, the two doctrines in fact pursue compatible objectives. Both aim to enhance social welfare. Moreover, antitrust law advances public welfare by promoting competitive pricing and enhancing consumer access to copyrighted works when it combats anticompetitive practices and rent-seeking behavior. Adapting antitrust principles to define the scope of copyright privileges furthers the goals copyright law to promote innovation and maximize the public benefit derived from works of authorship.

For example, "[t]he Lasercomb court held that Lasercomb had committed copyright misuse by attempting to extend its copyright to an area outside of the copyright grant, 'regardless of whether such conduct

59. Lasercomb Am., Inc., 911 F.2d at 970.
60. Scher, supra n. 6 at 97.
61. Id.
62. The Harvard L. Rev. Assn., supra n. 2, at 1290; Arar, supra n. 16, at 1312; Abramats, supra n. 8, at 659 - 660; contra Charnelle, supra n. 10, at 197; Hanna, supra n. 17, at 420 (stressing the distinct nature of antitrust and copyright law).
amounted to an antitrust violation." Furthermore, "[t]he court specifically addressed the antitrust issue, stating: "a misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action." As such, "[t]he question is not whether the copyright is being used in a manner violative of antitrust law, . . . but whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright." “The purpose of the misuse defense is to prevent copyright holders from engaging in misconduct that does not necessarily violate . . . antitrust law, but is, nevertheless, an illegal extension of the copyright grant [and] violative of the public policies underlying copyright law.”

Finally, “patent owners, under the 1988 [a]mendments [to copyright law], can condition the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product without being deemed an unlawful tying arrangement thus running afoul of the patent misuse doctrine, as long as the patent owner does not have market power in the relevant market for the patented product.” One could argue that because copyright misuse is modeled after patent misuse, the tying of a copyrighted product to an uncopyrighted product is not an unlawful tying arrangement unless the copyright owner has market power in the relevant market for the copyrighted product. However, “the absence of any market power discussion from the Lasercomb opinion” indicates that “not even market power is a necessary condition to find copyright misuse in tying arrangements, thereby further demonstrating that the copyright misuse defense is broader in the area of tying arrangements than are traditional antitrust principles and law.” This opinion is strengthened by the inactivity of Congress in making an equivalent amendment to copyright law.

D. THE COPYRIGHT MISUSE DOCTRINE: AN EFFICIENCY OR FAIRNESS APPROACH?

The copyright misuse doctrine has evolved from three related areas of public policy: the prevention of anticompetitive effects; protection of licensees from overreaching by IP owners; and ensuring compliance with

63. Scher, supra n. 6, at 102 (quoting Lasercomb Am., Inc., 911 F.2d at 979).
64. Id.
65. Id.
66. See Scher, supra n. 6, at 102 -103; see also Natl. Cable TV Assn., 772 F.Supp. at 614.
the purposes of the IP laws. The copyright misuse doctrine cannot be understood by analyzing it from any one of these perspectives alone.

"Under the "public policy" approach, copyright misuse exists when [a] plaintiff expands the statutory copyright monopoly in order to gain control over areas outside the scope of the monopoly."\(^{70}\) According to the foundation of copyright law, "the primary purpose of copyright is not to reward the author, but is rather to secure 'the general benefits derived by the public from the labors of authors.'\(^{71}\) Refuge cannot be sought in the copyright monopoly, which was not granted to enable plaintiffs to set up another monopoly, nor to enable the copyright owners to tie a lawful monopoly with an unlawful monopoly and thus reap the benefits of both. Acts that place restrictions on previously unrestricted technology or expression, thereby inhibiting further innovation or creativity, also diminish the social value of a new innovation or creation. Copyright misuse arises when a copyright holder attempts to extend the scope of his copyright, and if in doing so he crosses certain lines identified as central to copyright policy. One policy goal of antitrust law, a competitive marketplace and corresponding guidelines, has already established a position in copyright misuse. There are at least two other guidelines of competition policy that copyright law should protect: the idea and expression distinction through the merger doctrine, which was central to both \textit{Lasercomb}\(^{72}\) and \textit{Alcatel}\(^{73}\) cases, and fair use through the freedom of interoperability.

Judging all copyright misuse defenses by the criteria of antitrust law alone, however, cannot fully protect the public interest. In addition to the public policy goal of preventing anticompetitive business practices, society also has a fundamental interest in the free flow of ideas and information. This public interest may be harmed even if the plaintiff's conduct does not threaten to undermine competitive conditions. License restrictions, such as the one at issue in \textit{Lasercomb},\(^{74}\) remove ideas from the public domain even if they do not enable licensors to restrict economic competition or secure monopoly power. The public injury results not from the departure of market price from competitive levels, but rather from the suppression of the free exchange of facts and ideas guaranteed by the first amendment and safeguarded by the limiting principles of copyright law.

The public policy behind antitrust seeks to ensure that economic power is adequately dispersed among all competitors. Copyright policy, therefore, suggests that temporary and limited restraints of trade that

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70. \textit{In re Napster, Inc.}, 191 F. Supp. 2d at 1103.
71. Melville B. Nimmer, \textit{Nimmer on Copyright} § 1.03(A) (Matthew Bender1999).
72. \textit{Lasercomb Am., Inc.}, 911 F.2d at 970.
73. \textit{Alcatel U.S.A.}, 166 F.3d at 772.
74. \textit{Lasercomb Am., Inc.}, 911 F.2d at 970.
spur dynamic efficiency are preferable to perfect competition and static efficiency, because without the incentive to innovate that is created by the potential for monopoly profits, long-run consumer welfare may be undermined. 75 There is a frequently discussed tension between dynamic efficiency and allocative efficiency. 76 Dynamic efficiency requires some incentive to innovate, hence intellectual property's existence. 77 On the other hand, intellectual property works by granting short-term potential monopoly power. The exercise of that power leads to allocative inefficiency, as the holder of the intellectual property right reduces output to below the competitive level. Intellectual property law strives to balance these two effects, albeit with a greater emphasis on dynamic efficiency than is typical in antitrust law.

The traditional "scope of the grant" view argues that a copyright holder's misconduct need not rise to the level of an antitrust violation to constitute misuse. 78 Adherents to this view 79 argue that a copyright holder's conduct may undermine copyright policy even though it does not violate the Sherman Antitrust Act 80 ("Sherman Act") or the Clayton Antitrust Act 81 ("Clayton Act"). 82 Under this test, copyright misuse would operate as an affirmative defense to a suit for copyright infringement. The court must define the scope of the copyright at issue and then determine whether the copyright owner has intentionally used his copyright in a way that exceeds the scope of the grant. The problem with this approach is that in copyright law and in contradiction to patent law, there is no registration or a specific claim of protection sought. Protection is being given to the expression of the work with all the included vagueness. Basing copyright misuse decisions on a public policy rationale will introduce uncertainty into enforcement and force copyright holders to analyze each potential use of their copyright privileges for susceptibility to misuse claims. Such uncertainty, it is argued, would reduce the predictability of investment returns, and consequently chill innovation. 83

Allowing courts to punish behavior for its anticompetitive nature without requiring the courts to also engage in an antitrust analysis cre-
ates at least two types of risks. First, there is the risk that courts will
deter behavior that is not anticompetitive, and may even benefit social
welfare. Second, lacking the guidance provided by antitrust, there is a
risk that courts will turn to other sources, such as a subjective impres-
sion of the rightness or wrongness of the copyright holder’s actions in
order to determine whether a particular action constitutes misuse. Others have suggested that:

The public policy behind the copyright system is premised upon an ex-
change between short-term “monopoly” costs and long-term efficiency
gains in investment, production, and dissemination of innovation. Thus
one might conclude that the proper inquiry is not what the behavior in
question violates, public policy or antitrust law, but rather whether the
social costs arising from copyright use exceed the expected short-term
social costs inherent in the intellectual property grant.\textsuperscript{84}

The copyright misuse doctrine should focus upon preventing copy-
right holders from diverting from copyright law’s underlying purpose of
fostering creative activity. The Fourth Circuit’s rejection of a rule-of-re-
ason and also an efficiency analysis in the \textit{Lasercomb} decision revealed a
tendency towards a fairness test of the copyright misuse doctrine.\textsuperscript{85}

\section*{E. The Two Views of the Copyright Misuse Defense in U.S. Law}

Conclusively, there are two dominant views of the copyright misuse
defense in intellectual property law:\textsuperscript{86} the traditional “scope of the
grant” view that does not require an antitrust violation,\textsuperscript{87} and the more
recent “antitrust view” which does.\textsuperscript{88} The traditional view contends that

\begin{itemize}
\item \textsuperscript{84} Frischmann & Moylan, \textit{supra} n. 21, at 901.
\item \textsuperscript{85} Gifford, \textit{supra} n. 35, at 399.
\item \textsuperscript{86} See Hovenkamp et al., \textit{supra} n. 35, at § 3-46.
\item \textsuperscript{87} \textit{Atari Games Corp.}, 975 F.2d at 846 (upholding the district court’s preliminary in-
junction where copyright holder’s license did not restrain licensee’s creativity); \textit{Lasercomb
Am., Inc.}, 911 F.2d at 978 (holding that a copyright holder’s incorporation of a “noncom-
pete” clause into a software license constituted misuse, regardless of whether it violated
antitrust laws); \textit{Adv. Computer Servs. of Mich., Inc.}, 845 F. Supp. at 366-367 (explaining
that an owner of a copyrighted software program did not misuse copyright where license
neither violated antitrust laws nor restricted licensees from developing competing
software); \textit{Microsoft Corp.}, 818 F. Supp. at 1316 (holding that a software license prohibiting
a licensee from selling licensed software unaccompanied by licensee’s computers did not
offend copyright policy because license did not prohibit licensee from independently imple-
menting programming similar to copyrighted software or selling computers without accom-
panying software); \textit{Natl. Cable TV Assn., Inc.}, 772 F. Supp. at 652 (explaining that blanket
licenses did not constitute misuse because licenses did not violate antitrust laws or other-
wise undermine copyright policy); \textit{Broadcast Music, Inc. v. Moor-Law, Inc.}, 527 F. Supp.
758, 772-73 (D. Del. 1981), aff’d per curiam, 691 F.2d 390 (3rd Cir. 1982) (showing that a
performing rights organization’s practice of basing license fee for small establishments pro-
viding live music on percentage of entertainment expenses did not constitute misuse).
\item \textsuperscript{88} See Bellsouth Advert. & Publig. Corp., 933 F.2d 952 at 960-961 (holding that a copy-
right holder’s enforcement of its compilation copyright in original format of “Yellow Pages”
licensing arrangements, even without violating antitrust laws, may undermine copyright policy and constitute misuse.\textsuperscript{89} The premise of this position is that the copyright grant is limited in scope to explicit exclusive rights. Thus, any attempt to secure market power beyond these limits is misuse—even if the attempt to accrue monopoly power does not violate the Clayton Act or the Sherman Act—because it creates monopolies broader than those sanctioned by copyright policy. Construed in this way, the rationale for this type of misuse is not concerned so much with competition as with integrity, and of both the judicial process and copyright policy.\textsuperscript{90} As such, antitrust law and its values are not affected by the application of the traditional view.

As a result, "[e]ffectively, the traditional view imposes a lower threshold of monopoly extension for conduct to undermine copyright policy than that which is required to violate the Clayton or Sherman Acts."\textsuperscript{91} A tie-in may be misuse under the traditional view whereas scrutiny under the antitrust laws would indicate only an anticompetitive tie.\textsuperscript{92} This approach is based on the fact that the relationship between restraints on competition and access to intellectual creation by third parties is inherent in the system of intellectual property protection. Intellectual property owners do not need additional restraints introduced in order to safeguard competition; it suffices to reinforce the restrictions inherent in the different types of intellectual property rights.

Conversely, under the antitrust view, only conduct that undermines

\begin{flushleft}
\textsuperscript{89} See Hovenkamp et al., supra n. 35. \\
\textsuperscript{90} Id. at § 3-46. \\
\textsuperscript{91} Paredes, supra n. 4, at 287. This is particularly important in practice because of the different remedies between the misuse doctrine and violations of the Sherman Act. Misuse can be invoked as a defense by one accused of patent infringement. If successful, a misuse defense renders the IP right unenforceable against anyone until the misuse has been eliminated and the effects on the marketplace have been purged. On the other hand, a violation of the Sherman Act calls for civil remedies, such as injunctions and treble damages as well as penal remedies in the form of fines. \\
\textsuperscript{92} Id. at 298.
\end{flushleft}
Thus, only anticompetitive conduct violating antitrust law constitutes copyright misuse. Proponents of the antitrust view of copyright misuse have three primary criticisms of the traditional view: 

(1) courts have historically relied on antitrust policy to define misuse; (2) by not requiring an antitrust violation, the traditional view risks condemning pro-competitive licensing practices that do not undermine copyright policy; (3) the traditional view causes uncertainty for innovators and business.\(^9\)

The efficiency criterion employed in antitrust law should apply to copyright misuse law so that the leveraging of a consensual or de facto standard, now protected by copyright, into control over additional functionalities, will be evaluated similarly under both misuse and copyright law.\(^9\) Moreover, when the IP owner leverages his IP rights with the goal of extracting value, he simply exercises his rights to exclude and to use his property, as the basics of IP law anticipates. Put simply, the question of a defendant's infringement should not turn on whether or not the patentee was trying to get as much out of the patent as possible through some restrictive licensing arrangement, tie-in, or otherwise. If the IP owner behaves in a way that antitrust law or contract law properly prohibit, that is a matter of antitrust law or contract law.\(^9\) Furthermore, the presumptions, upon which the rule-of-reason analysis of misuse is based, are: 1) that intellectual property generally is pro-competitive and does not confer market power in the antitrust context; 2) that any market power given via an IP right is valid; and 3) that IP owners are entitled to exploit their intellectual property through the most efficient means available.

F. REDUNDANCY OF THE COPYRIGHT MISUSE DOCTRINE?

Copyrighted works are normally more substitutable, and therefore confer less market power, than patents.\(^9\) However, this is not true for software, which itself encloses functional elements. In other words, market power is much more likely to exist and should be presumed more easily by copyrighted software than other copyrighted works. Copyright law requires many thresholds and conditions to be met in order to provide copyright protection to a work and to ensure that there is no restraint of free trade in ideas. If a copyright holder cannot enforce his

\(^9\) See 35 U.S.C. § 271(d)(5) (1988) (The 1988 Patent Misuse Reform Act (PMRA) adopted the antitrust view of misuse when the alleged misconduct is a patent tie-in. No congressional action has been taken with regard to copyright misuse.).

\(^9\) Paredes, supra n. 4, at 292.


\(^9\) Paredes, supra n. 4, at 308.
exclusive rights against infringers because of the misuse defense, he loses his ability to earn monopoly profits or to recapture as damages profits lost to infringers.\textsuperscript{98} With an attenuated opportunity to capture all monopoly profits attributable to a copyright, there is less of an incentive to create copyrightable works. No matter how carefully the copyright holder drafts his licensing arrangement, he is never certain that a court will find him free of misuse. While less of a concern exists under the antitrust view of copyright misuse than the vague public policy approach of the traditional view, the risk of misuse nonetheless threatens the copyright holder, who can never be altogether sure that he is not violating some provision of the antitrust laws. For example, competitors may opt to divert resources from research and development and other creative efforts, and instead search for licensing practices that may constitute misuse. Having found such a practice, the competitor may risk infringement and copy the good to market as his own in an effort to capture the copyright holder's market share and profits. This is an especially real threat for computer software companies.

Despite the extremely broad coverage of copyright protection, courts rely on other limiting doctrines to ensure that the copyright grant does not choke off the free flow of ideas and information.\textsuperscript{99} First, courts limit copyright protection to the expressive aspects of an author's work, thereby excluding the author's ideas from the legal monopoly created by the copyright. Second, defendants may copy another author's copyrighted expression whenever a court determines, after applying the 'fair use' balancing test, that the public interest would be served. As such, copyright misuse doctrine's existence consists of its necessity to serve the public policy favoring economic competition and the public policy favoring dissemination of ideas.\textsuperscript{100} These policies, however, can be satisfactorily served by antitrust law as well as copyrightability and fair use doctrine presumptions.\textsuperscript{101}

Consider, for example, that copyright misuse is unlikely to be a complete answer to the problem of long-term proprietary rights in computer gateways. Because of network effects, the problems of long-term monopoly profits and reduced innovation in operating software remain even if the IP owner does not attempt to extend its monopoly beyond the scope of the copyright. The policy of the copyright misuse doctrine to favor economic competition attempts to prevent the market leader in a network sector from developing into an entrenched dominant company.

\textsuperscript{98} Id. at 290.


\textsuperscript{100} Arar, supra n. 16, at 1304-1305.

Conversely, there are many critical points against the misuse defense; it reflects outdated thinking about the market power that results from the exercise of copyright protection. Moreover, the copyright misuse doctrine, as applied on a per se basis, fails to take into account the pro-competitive benefits of many licensing practices. Furthermore, to the extent that the copyright misuse doctrine embodies policies other than those inherent in antitrust laws, there are no consistent standards for determining what is or is not copyright misuse, which contributes to legal uncertainty. Copyright misuse doctrine also tends to be poorly accepted, primarily because the doctrine is often applied without sufficient attention to the underlying economic realities; that is to say, without utilizing the tools that modern economics have brought to bear in cases involving competition law claims. Moreover, a conduct is punished by the copyright misuse doctrine, because of the threat to competition. As a result, applying a lesser standard of anitcompetitive effect to the copyright misuse doctrine than antitrust law will "open a back door to putative antitrust plaintiffs who could not prove their causes of action." For example, given that tie-ins are often efficient and in the interest of consumers, a copyright misuse doctrine which condemns tying arrangements that law governing tie-ins would not ordinarily condemn, would be counterproductive. In addition, rationale that concludes the copyright holder is acting beyond the scope of the copyright grant often appears to rest upon the premise that the scope of the grant is clear; however, this is often not the case, especially in cases involving the distinction between idea and expression in copyright law.

In this sense, the copyright misuse doctrine can be considered superfluous because it regulates a problem that can be solved by antitrust law or internally by copyright law through the doctrines of merger and scenes-a-faire. The copyright misuse doctrine expresses an older point of view, that IP rights constitute monopolies. The institution began as an objection of the 'unclean hands at equity' and evolved later to a general objection against the IP owner. The copyright misuse doctrine asks as a prerequisite whether there is an impermissible extension of IP protection by the IP owner through conditions that restrain competition in the licensing contracts. For example, with patents, every agreement is considered to be a restraint of competition and extends the statutory protec-

102. Ambrosio & Schneider, supra n. 44, at 195.
104. Hovenkamp et al., supra n. 35, at § 3-50.1.
105. See also Id. at § 21-29.
tion of the IP right, where the scope of the IP right serves as a criterion. The difference between the copyright misuse doctrine and antitrust law is that trade practices are allowed by antitrust law. This discrepancy cannot be followed anymore, because IP rights are not considered to be per se monopolies and a double examination, once according to the scope of the IP right and once based on antitrust law, seems to be obsolete.

Moreover, as previously mentioned, the copyright misuse doctrine is unpredictable. It includes "various limitations on restrictive licensing arrangements beyond what antitrust law or contract law would prohibit." The copyright misuse doctrine does not even impose such additional limitations in a predictable fashion because the decisional frameworks for misuse are themselves unpredictable. Furthermore, from a purely economic perspective, the copyright misuse doctrine is useless. For example, certain classes of conduct typically analyzed under the copyright misuse doctrine are, at worst, likely to be economically neutral, and at best may be economically desirable and therefore should be permitted. Absent some market power, any attempted abuse of the IP system is likely to harm only the IP holder prior to entering into licensing agreement. That is why current application of the misuse doctrine, even though very broad as dicta, has been substantially narrowed.

III. EUROPEAN UNION LAWS

A. INTRODUCTION

The European Treaty ("E.C.") does not include explicit statutory regulation of IP rights. However, due to the fact that this allocation of competence on the regulation of IP rights could be used to circumvent and violate other European Union ("E.U.") law provisions, like the free circulation of goods or free competition, the European Court of Justice ("ECJ") distinguished between the existence and the exercise of IP rights. The existence of an IP right is out of the reach of the E.U. competence, but its exercise should not violate E.U. law. The violation of E.U. law is only permissible, when it concerns the "specific subject matter" of the IP right. This distinction between the existence and the exercise together with the "specific subject matter" of an IP right allowed the ECJ

107. See Kieff & Paredes, supra n. 96, at 179 (criticizing the misuse doctrines).
111. Id.
to draw some vague limits on the exploitation of IP rights.\textsuperscript{112} Another limitation consists of the IP right exhaustion, which is based on the integration goal of the internal market rather than on antitrust law considerations. Every restraint of the licensee that extends over the “specific subject matter” of the IP right should be examined by the E.U. competition.\textsuperscript{113} In the meantime, the distinction between the existence and exercise of the IP right, which is difficult to apply in practice, was not used for a long time by the ECJ.

B. THE FORMER GERMAN ANTITRUST APPROACH OF THE U.S. COPYRIGHT MISUSE DOCTRINE

The German law, before its reform in the summer of 2005, foresaw some antitrust limitations of the IP rights in sections 17 and 18 of the Gesetz gegen Wettbewerbsbeschränkungen Act (“GWB”).\textsuperscript{114} Although these provisions belonged systematically to antitrust law, they were associated with the subject matter of IP rights. Sections 17 and 18 referred only to the licensing of patents, utility designs and topographies; whereas the licensing of copyright and trademarks was encompassed in the general provisions for antitrust vertical agreements.\textsuperscript{115} Crucial for the legal judgment of a restraint of a licensee is whether this restraint is covered by the subject matter of the IP right, which is defined by the infringement test. The licensor may impose to the licensee only such limitations that he may impose to a third person, with whom there is no contractual relationship. As such, the IP owner is not allowed to extend contractually the protection of the IP right outside the statutory scope of the IP right. Behind this consideration, one finds the same concept in the copyright misuse doctrine. As such, the GWB provides the copyright holder a legal monopoly, which dangerous for competition and should be limited. This limitation should be set where the IP owner tries to extend the monopoly. The subject matter and the scope of the copyright constitute the protected right, through which the copyright owner may restrain the other contracting party. However, the restraint judgment based on the subject matter of an IP right is not easily applied, because such a rule is not concrete.

After the reform of the German GWB in the summer of 2005, sections 17 and 18 of the GWB were nullified and the preamble of the reformed Act cites instead to the European provisions on IP licensing.

\hspace{1cm} \textsuperscript{112} Anderman, \textit{supra} n. 109, at 14.

\hspace{1cm} \textsuperscript{113} Andreas Heinemann, \textit{Immaterialgüterschutz in der Wettbewerbsordnung} 303 (Mohr Siebeck 2002).

\hspace{1cm} \textsuperscript{114} v. 27.7.1957 (BGB.I 1081) (W. Ger.). Gesetz gegen Wettbewerbsbeschränkungen Act is translated into English as the law against restraints on competition.

\hspace{1cm} \textsuperscript{115} Heinemann, \textit{supra} n. 113, at 139.
agreements. This was dictated by regulation 01/2003 for the procedural decentralization of competition law in Europe. Sections 17 and 18 of the GWB did not have any practical significance, as European law already applied to licensing agreements. Because sections 17 and 18 of the GWB were not stricter than article 81 of the E.C., these provisions were practically insignificant.

C. THE E.C. BLOCK EXEMPTION REGULATION 772/2004 FOR TECHNOLOGY TRANSFER AGREEMENTS

In 2004, the E.U. adopted the Technology Transfer Block Exemption Regulation ("TTBER") as Regulation No. 772/2004 along with a set of technology guidelines. The TTBER generally expands prior exemptions and draws new 'bright line' standards for the exemption of licensing agreements from article 81 of the E.C. Moreover, the scope of the TTBER explicitly includes software licensing agreements. Under the TTBER, when the parties to a license are direct competitors who combine for 20% or less of the market share, the license is automatically acceptable. Similarly, if the parties are not direct competitors, they may combine for up to 30% market share and the license will still be acceptable. The TTBER spells out the standards to be considered when determining whether parties to a license are direct competitors or not and when determining market share. In addition, the TTBER creates a strict 'black list' of provisions that are not acceptable in licensing agreements under article 81 of the E.C. Generally, when a license is between direct competitors, it may not restrict pricing when selling products to third parties, limit the licensee's output of the product, allocate market segments or consumers to a licensee, or restrict the licensee's ability to exploit their own technology. If a license contains any of these provisions, it is wholly invalid under article 81. In addition, ar-

116. v. 27.7.1957 (BGB1.I 1081) (W. Ger.).
118. E.C. Treaty Art. 81.
120. Art. 1 b, TTBER.
121. Art. 4, TTBER.
122. Id.
123. Id.
124. Id.
125. Id.
Article 5 of the TTBER lists four types of 'excluded' restrictions. An excluded restriction is one that is not block-exempted, requiring an individualized assessment of the effect on competition. In the event such a clause is included in a license, it does not invalidate the license, as a 'black list' provision would, but merely invalidates that clause. These clauses include certain grant-backs.

D. Similarities and Conflicts between U.S. Guidelines and E.U. Regulations Regarding Licensing Agreements

The U.S. approach for analyzing IP licensing restraints is called the "rule of reason" analysis, which calls for a flexible application of economic analysis to licensing practices and is reflected in the 1995 Department of Justice and Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property ("Guidelines"). In some cases, however, courts conclude that a licensing restraint is unlawful per se, without the need for an elaborate inquiry into the restraint's likely competitive effect. Examples include naked price fixing, output restraints and market division among horizontal competitors, as well as certain group boycotts and resale price maintenance. Currently, the E.U. approach more closely resembles the U.S. approach as seen in the new revisions to the TTBER and the U.S. and E.C. Guidelines. The U.S. Guidelines and the E.C. TTBER with the accompanying E.C. Guidelines are similar in that they: (1) describe the approach that the respective agencies use to evaluate licensing arrangements; (2) for the purpose of antitrust analysis, regard intellectual property as being essentially comparable to any other form of property; (3) do not presume that intellectual property creates market power in the antitrust context; (4) affirm that technology licensing is generally pro-competitive; (5) distinguish licensing transactions that occur between competitors and non-competitors; (6) observe that applicable law would balance efficiencies against any negative effects on competition from licensing arrangements that do not clearly fix prices or reduce output; (7) recognize that exclusive licenses promote the adoption of new technologies in many circumstances; (8) weigh the pro-competitive benefits and the anti-competitive effects when evaluating most licensing restrictions; (9) include "safety

127. Art. 5, TTBER
128. Id. at (1) a, b.
129. Id. at (1) a-c.
131. Anderman, supra n. 109, at 137.
zones;"133 (10) initially place responsibility for assessing the legality of contractual agreements with the licensing parties themselves.134

Conflicts in philosophy are partially due to the need to promote economic integration. The E.U. approach is very detailed, which likely reflects the traditions of a code-based system of law.135 The E.U. also seems more concerned than the U.S. about characterizing parties as either competitors or non-competitors, and apply different substantive rules depending upon how the parties are classified. The U.S. Guidelines focus more on the nature of the license terms and whether the relationship between the parties is vertical or horizontal. When the relationship is horizontal, the U.S. enforcement agencies tend to focus on assessing the competitive harm that may arise. Not wanting to deter efficient innovation efforts, U.S. enforcement agencies focus less on vertical restrictions that enable the ability of licensors to maximize profits by fully exploiting their intellectual property. For all licensing restraints, the U.S. Guidelines' approach uses a "but for" analysis that asks whether competition under the licensing agreement would be less than that which would occur in the absence of any licensing agreement at all.136

Despite some differences in approach and philosophy between the U.S. and the E.U., some of which may be unavoidable because of market integration pressures in the E.U., the economic policy embodied in the revised TTBER and E.C. Guidelines represent a significant step towards convergence with the U.S. Guidelines. They both approach pro-competitive licensing restrictions as restrictions that facilitate the combination of intellectual property with complementary factors of production, promote the development of technologies in blocking relationships, and provide incentives to create, innovate, develop, and exploit the licensed intellectual property rights. On the other hand, anti-competitive licensing restraints are those that adversely affect the prices and quantities of

133. Guidelines, supra n. 29 at 5.3. The U.S. Guidelines state that "absent extraordinary circumstances, the Agencies will not challenge a restraint in an intellectual property licensing arrangement if (1) the restraint is not facially anticompetitive and (2) the licensor and its licensees collectively account for no more than twenty percent of each relevant market significantly affected by the restraint." The E.C. regulation exempts licenses that do not contain certain "hardcore" restrictions between non-competitors with market shares below 30% and between competitors with market shares below 20%.


135. The U.S. approach continues to be one setting forth broader policy statements with fewer details, reflecting the tradition of developing specific precedent through a common law, case-based system.

goods and services produced by the parties to the intellectual property license, or worse, diminish the incentives for firms to invest in research and development of new and improved technologies or creative works for the benefit of consumers.

E. OTHER EQUIVALENT APPLICATIONS OF THE U.S. COPYRIGHT MISUSE DOCTRINE IN E.U. LAWS

The activities where the copyright misuse doctrine applies can theoretically fall into 4 categories.\textsuperscript{137} The first category includes conduct that would also constitute an antitrust violation if practiced by firms with monopoly power. This kind of conduct, like tying or refusal to deal or license, is regulated by E.C. articles 81 and 82. The second category consists of conduct that does not rise to the level of monopoly power, but nevertheless violates competition values. A good example for such a situation would be \textit{U.S. v. Microsoft Corp.},\textsuperscript{138} if Microsoft did not have monopoly power. Such cases can also be resolved through the TTBER, when a case introduces a market power presumption of 30\%, if the licensing parties are not competitors and of 20\% if they are.\textsuperscript{139} The third category is conduct that violates policies inherent in intellectual property law generally. Examples are the idea versus expression distinction, as well as issues of interoperability and functionality. The fourth category is conduct that is unfair and objectively baseless against a competitor. An example of this conduct is when the suit to enforce a patent is "sham" as defined by the Supreme Court.\textsuperscript{140} Consequently, practices that do not necessarily have anticompetitive effects may also be undesirable and deserve to be deterred.\textsuperscript{141} Limiting misuse only to conduct constituting an antitrust violation fails to address certain restrictive conduct that has a tendency to injure the competitive process.

Next let us see how the two law systems approach these four categories. The first category is regulated in the U.S. parallel to how the copyright misuse doctrine regulates, through sections 1 and 2 of the Sherman Act. Under the E.U. law, article 81 and 82 apply. The second category is one where the copyright misuse doctrine is often applicable. With regard to licensing agreements, the U.S. Guidelines define a safe harbor of 20\%, but leave a lot of free space for the flexible application of the copyright misuse doctrine in situations with anticompetitive effects.\textsuperscript{142} The flexibility of the copyright misuse doctrine could be very helpful especially

\begin{itemize}
  \item \textsuperscript{137} I say theoretically because even though the doctrine is broad as dicta, its application is narrowed down in practice.
  \item \textsuperscript{138} 87 F. Supp. 2d 30 (D. D.C. 2000).
  \item \textsuperscript{139} Art. 4, TTBER.
  \item \textsuperscript{140} \textit{Prof. Real Estate Investors, Inc. v. Columbia Pictures Indus.}, 508 U.S. 49 (1993).
  \item \textsuperscript{141} Hanna, supra n. 17.
  \item \textsuperscript{142} Guidelines, \textit{supra} n. 29.
\end{itemize}
when applied to software, where the network effects and \textit{de facto} standards play a very important role and facilitate the aggregation of market power. The E.U. law does not employ any misuse doctrine, and consequently, a gap could be recognized at this point, especially with regard to the copyright protection of software. The third category is regulated in the U.S. through the doctrines of merger, faire-a-scenes, and fair use. The E.U. law, in articles 5 and 6 of the software directive 91/250/EEC, dictates explicit exemptions from copyright protection for the idea versus expression distinction and interoperability issues. The fourth category, which consists of sham litigation issues, is handled in Europe through national unfair competition laws and the national remedy for "unjustified threats," which can be brought by those who are affected by an unjustified threat of being sued for patent infringement. It is obvious from these situations that the only category where the copyright misuse doctrine has a practical and independent effect in U.S. and E.U. law is the second category – conduct that does not arise to the level of monopoly power, but nevertheless violates competition values.

IV. THE PRESUMPTION OF MARKET POWER WITH REGARD TO IP RIGHTS

A. General Rule

The next inquiry is whether such an IP right confers market power to its owner and how the legal systems of the U.S. and the E.U. approach this issue. Market power is the ability of a single seller to raise price and restrict output. Market power typically is associated with a departure from the conditions necessary for the optional functioning of a market: a sufficient number of buyers or sellers, and either relatively easy conditions of entry and exit or readily accessible information on market conditions. Intellectual property law potentially confers market power because it creates barriers to competitors' entry into a relevant market with the same goods, and to a certain extent, with substitute goods. The degree of market power is a function not only of how unique or socially desirable the new product is, but also of how effective the property right is in erecting entry barriers that keep substitutes out of the market. Antitrust law is not opposed to market power, and as such, it allows for the market power immediately necessary to achieve efficiencies and respects the need for incentives for investment in research and development. For example, it would be perfectly legal for a firm to build market power

\begin{itemize}
\item 143. \textit{Infra} pt. III. E.
\item 145. Copyright, Designs and Patents Act 1988, s 253.
\end{itemize}
through innovation, investment, and marketing activities. If a presumption of market power was in place through the existence of such an IP right, there would be a shift on the burden of proof for an antitrust violation to the defendant because there would be no need for a thorough market analysis. It would be presumed that the IP owner has the ability to raise prices and restrain output and the IP owner should then prove that there was no such intention. Market power is less durable in markets characterized by a high level of innovation, and thus, by dependence on IP rights.

Intellectual property cannot be presumed to establish market power. While patent and copyright law grant exclusive rights, these rights are not monopolies in the economic sense, because they do not necessarily provide a large share of any commercial market and they do not necessarily lead to the ability to raise prices in a market. When products are differentiated, a company can have constrained market power without being a monopolist. This is particularly likely in markets in which IP rights are important. An IP right may actually prove so successful that it gives rise to a market dominant position. However, such a position is not the result of IP protection, but of the market situation. Market power can only be determined by an actual economic analysis of the anti- and pro-competitive aspects of the actual use and ownership of the specific piece of intellectual property. For example, a single patent or copyright may have dozens of close substitutes. The mere presence of an IP right does not permit an antitrust enforcer to skip the crucial steps of market definition and determining market effects.

In the view of the U.S. Department of Justice and the Federal Trade Commission, it is settled that IP rights cannot be presumed to create market power. In the E.U. as well, the existence and the normal exercise of IP rights is not necessarily tantamount to conferring a dominant position. In its Deutsche Grammophon v. Metro-Grossmarkte decision, the ECJ observed that the exercise of exclusive distribution rights under a sound recording copyright does not automatically translate to dominance; there must be some further showing of effective competition over

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147. See Hovenkamp et al., supra n. 35, at § 10-9.
149. Ralph Jonas et al., Copyright and Trademark Misuse, Intellectual Property Misuse: Licensing and Litigation 165, 184 (ABA 1999).
a considerable part of the relevant market.\footnote{151} Similarly in Radio Telefís Eireann v. Commission ("Magill"), the ECJ held that mere ownership of IP rights, without more, does not establish dominance.\footnote{152} Rather, the ECJ has clarified that one has to look at whether the intellectual property owner can impede the maintenance of effective competition in a substantial part of the relevant market.\footnote{153} This means that consideration should be given to the existence or possible entry of competing products into the market that could be substituted for the protected products.\footnote{154}

The effect of copyright protection on market entry may be particularly marginal in the software industry. Copyright protection for computer software does not extend to its functional attributes. Therefore, software producers may not invoke copyright laws to enjoin rivals from introducing competing products which incorporate the same program ideas and structures and contain similar operational parameters and user interfaces. Copyright law only proscribes the direct copying of a copyrighted work's expression. For example, if only one feasible set of line-by-line instructions can accomplish a particular purpose, such as achieving compatibility with a computer's operating system or hardware components, the doctrine of merger applies; hence, the program code merges with its function and is not protectable.\footnote{155} Since consumers are wholly indifferent to the exact code sequences employed to achieve a particular program function, and since more than one efficient way to design a component of a program usually exists, copyright protection alone may not grant the developer of an innovative program a substantial competitive edge. Thus, the fact that certain software producers enjoy dominant market positions stems not from copyright protection, but from various market factors, including the size and skill of the engineering staff, command over channels of distribution, the scope of marketing campaigns, the use of bundling arrangements, and the general reputation of the producers. Copyright protection alone is clearly insufficient to guarantee commercial success, and may only marginally contribute to any market power its holder enjoys.

\footnotetext{152}{1995 E.C.R. I-743, at para. 46.}
\footnotetext{153}{Id.}
\footnotetext{155}{See e.g. Sega Enters., 977 F.2d at 1519-20; Computer Assocs. Int'l v. Altai, Inc., 982 F.2d 693, 703-05 (2d Cir. 1992).}
B. THE RECENT U.S. SUPREME COURT DECISION IN

ILLINOIS TOOL WORK v. INDEPENDENT INK, INC.

In Independent Ink, Inc. v. Illinois Tool Works, the Federal Circuit, which handles all direct patent appeals in the U.S., held that Supreme Court precedent compelled it to conclude that a patent does raise a presumption of market power in an IP tying case, despite disagreeing with the presumption. In fact, the Federal Circuit Court's opinion invited the Supreme Court to reverse its decision, which is exactly what the Supreme Court did in Illinois Tool Works v. Independent Ink, Inc.

Illinois Toolwork ("ITW") manufactured printing systems made up of piezoelectric impulse jet printheads and inks for use in packaging assembly lines. Patents covered the printhead, the ink bottle, and the connection between them. ITW's license did not bind end users, but required original equipment manufacturer ("OEM") customers to purchase ink from ITW. The plaintiff claimed this requirement constituted a tying arrangement in violation of section 1 of the Sherman Act. The Supreme Court held that "nothing in our opinion [in Jefferson Parish] suggested a rebuttable presumption of market power applicable to tying arrangements involving a patent on the tying good...it described the rule that a contract to sell a patented product on condition that the purchaser buy unpatented goods exclusively from the patentee is a per se violation of § 1 of the Sherman Act." The 1988 amendments to patent law requires "proof of market power in the relevant market" for patent misuse defense encoded at 35 U.S.C. § 271(d)(5), and invites a reappraisal of the per se rule announced in International Salt Co. v. U.S. The Court concluded that "tying arrangements involving patented products should be evaluated under the standards applied in cases like Fortner II and Jefferson Parish rather than under the per se rule applied in Morton Salt and Loew's...[and] that conclusion must be supported by proof of power in the relevant market rather than by a mere presumption thereof."
Another question the Court examined was whether the presumption of market power in a patented product should survive as a matter of antitrust law. The court answered that:

Congress, the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee. Today, we reach the same conclusion, and therefore hold that, in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.¹⁶⁵

The Supreme Court made clear with this decision that there is no market power presumption through the existence of patents as such. The courts should demand real proof of such market power. One could argue that the decision is limited to patent tying and that copyright market power presumption remains arguably intact. But the decision's logic - due to legal certainty and similarity of the cases - should extend to copyrights as well.

C. Legal versus Economic Monopoly

The fear of extending a monopoly shows that the definition of monopoly is sometimes understood in the economic sense.¹⁶⁶ However, the presumption of market power whenever there is an IP right is a wrong conclusion, because an IP right does not necessarily create market power.¹⁶⁷ If there is no difference between the legal and the economic definition of monopoly, there is also a simultaneous disregard of the possible substitution of these IP rights, because the existence of any alternatives from the point of view of the opposite party in the market cannot be excluded from the beginning.¹⁶⁸ The existence of an economic monopoly requires an examination of the relevant market, and only then it is possible to consider an extension of a monopoly. But for the moment, examine the definition of the relevant market, which is necessary when considering antitrust law, but not copyright law.

A copyright, arguably, confers even less economic power than a patent. To qualify for copyright protection, a work need not meet the novelty or non-obviousness requirements of the patent system. Copyright law requires only ‘originality,’ which has been interpreted to mean merely that the work originated with the author and was not copied. Allowing a software developer to have a legal monopoly over a new program does not necessarily mean that there will be a market for that

¹⁶⁵. Id. at 45-46.
¹⁶⁶. Loew's, 371 U.S. at 47.
program or that the program is so unique that no substitutes will exist to keep prices at competitive levels.

Congress also recognized the distinction between an economic and a legal monopoly when it passed the 1988 Patent Misuse Reform Act.\(^{169}\) This act amended section 271(d) of the Patent and Trademark Office Authorizations to require proof of market power before a tying arrangement may be condemned as patent misuse.\(^{170}\) The legislative history indicates an intent that the substantive principles of antitrust with respect to market power and market definition guide the misuse analysis of tying arrangements. One clear purpose of the statute was to bring the substantive requirements for misuse and antitrust closer together. By instructing courts to rely on antitrust principles when deciding paradigm cases involving patent misuse, the Patent Misuse Reform Act promises to narrow significantly the scope of the patent misuse defense. This statutory market power requirement, however, does not apply to copyright misuse.\(^{171}\) The cases which have followed Lasercomb have elaborated on the misuse doctrine, finding it applicable whenever a copyright holder imposes a restraint beyond a mere license to use, without any market power requirement.\(^{172}\)

V. THE SUI GENERIS NATURE OF SOFTWARE PROTECTION

A. INTRODUCTION

Copyright protection is available to any "original works of authorship," however trivial or meritless. As already seen, copyright protection is not a testament to the quality, uniqueness, or desirability of a work, so it alone cannot create demand for a product. The presumption that it should invariably give rise to market power thus seems misplaced. Moreover, conditioning a finding of copyright misuse exclusively on antitrust doctrine presupposes that distinct markets for individual copyrighted works can be delineated, even though such delineation is often impossible. Computer applications and operating systems, while considered "literary works" for purposes of copyright, resemble patented inventions in that consumers value such computer programs for their functional utility, not their artistic expression.\(^{173}\) Copyright, however, was not designed for the protection of functional works of technology.\(^{174}\)

\(^{172}\) Lasercomb Am., Inc., 911 F.2d at 978-79.
\(^{173}\) Hanna, supra n. 17; Son, supra n. 101, at 74.
\(^{174}\) Frischmann & Moylan, supra n. 21, at 911.
Computer software is a technological product that is protected by the more lenient copyright regime, with a much longer term and more vague scope of protection. Software, however, is used repeatedly as a tool to accomplish useful results, and technologies invariably raise questions of efficiency and compatibility. Thus, the intellectual property landscape was fundamentally changed when computer programs were placed under the copyright umbrella.\textsuperscript{175} The problems of interoperability,\textsuperscript{176} intermediate copying of programs,\textsuperscript{177} and the functional aspects of interface\textsuperscript{178} were resolved internally through copyright law as unprotected methods of copyright software. The patent-copyright interface is based on a distinction between functional and expressive innovations. Even though software is protectable under copyright law, its value lies in its functionality, which muddles the distinction between patents and copyrights. With regard to software, which itself encloses functional elements, this distinction is difficult to draw in practice because copyright and patent protection are similar when applied to software. In other words, market power is much more likely to exist and should be presumed more easily by copyrighted software than other copyrighted works. Allowing software to reside in copyright alters the public-private balance that each regime has struck. In contrast to patent law, copyright law development has indicated in manifold ways that the copyright owner owns the copyrighted work, but that the copyright does not confer on the copyright holder control over access to that work.\textsuperscript{179} This issue arises primarily when the copyrighted work is a computer program. Access to the program through its interfaces is not protected. It is not protected because the interfaces are systems of operation which are specifically denied protection by copyright law and because creating interoperability is a fair use.\textsuperscript{180}

The extension of copyright protection to a functional work is a factor that grants greater power to a software copyright owner than to other copyright owners, and necessitates an adjustment of the scope of the rights granted to these copyright owners so that an appropriate balance

\textsuperscript{175} Art. 10 (1) of The TRIPS Agreement has solidified the treatment of computer programs internationally as literary works under copyright law at the insistence of developed countries. This provision put an end to the debate in Europe, whether software has to enjoy a \textit{sui generis} protection, and led to the adoption of the software directive 91/250/EEC and the protection of software through copyright law.

\textsuperscript{176} See Computer Assocs., 982 F.2d at 707.

\textsuperscript{177} See Sega Enters., 977 F.2d at 1527-28.


\textsuperscript{179} See e.g. 17 U.S.C. § 1201 (2006) (providing that the Librarian of Congress may exempt certain classes of works from the prohibition against circumvention of technological measures that control access to copyrighted works).

\textsuperscript{180} 17 U.S.C. § 102(b) (2006).
between the owner and the public is maintained. Copyright protection for software can be used to withhold access to the ideas underlying the expression, and can also prevent others from building compatible products thereby leveraging existing technology. The lack of any tool in copyright law to compel the first author to authorize second-comers poses serious risks for the innovative process in software markets. The copyright paradigm, when applied to technical subject matter, exhibits a much higher anti-competitive potential than the patent regime. In this sense, even the provision on decompilation in article 6 of the Software Directive 91/250/EEC does not provide a helpful tool for a dynamic, pro-innovation and pro-competition treatment of derivative software creations.

On the side of patent law, however, several European countries' approach the problem of derivative innovation in coherence with the provisions set out in article 31(1) of the Trade Related Aspects of Intellectual Property Rights Agreement ("TRIPS"), by establishing a compulsory (cross-) licensing regime for specific, high profile, both technically and economically, derivative inventions.

B. NETWORK EFFECTS AND DE FACTO STANDARD CONSIDERATIONS

The term "network effects" describes the phenomenon whereby the utility obtained by a consumer from a given article grows when, and to the extent that, others use the same product. The entanglement of direct and indirect network effects leads straight to the de facto dominance of a single standard:

The exclusionary rights granted by intellectual property protection, coupled with trends towards standardization due to network effects, threaten to diminish market competition. Where this results in a monopoly or near-monopoly, there can be negative effects not only on

181. The ECJ has acted to restrain IP rights which involved functional works in the *Magill* and *IMS Health* cases.


183. *Id.* at 170.

184. Indeed, the reverse engineering of a computer program only for interoperability purposes, while favoring innovation in complementary products, does not soften the blocking effect copyright can exert on dependent innovation and therefore does not challenge first authors' ability to maintain a monopolistic position.

185. See e.g. W.R. Cornish, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* 7-44, (4th ed., Sweet & Maxwell 1999) (providing British law approach); Derivative inventions are defined as those which cannot be exploited without using a previous invention.

price and output, but also on innovation.\textsuperscript{187} The E.C. stated that, where a de facto industry standard emerges, [t]he main concern will then be to ensure that these standards are as open as possible and applied in a clear non-discriminatory manner. To avoid elimination of competition in the relevant market(s), access to the standard must be possible for third parties on fair, reasonable and non-discriminatory terms.\textsuperscript{188}

Network effects arise when the value of a network increases with the number of its users. A single firm, perhaps because it is the first mover, becomes, or threatens to become, the only supplier of certain products or services because of the value of compatibility or interoperability. Consumers are more likely to remain with the established network because of their sunk costs, sometimes referred to as 'lock-in,' and suppliers of complementary products will tailor those products to the established network and resist preparing products for would-be challengers.\textsuperscript{189} In that event, network dominance itself becomes a formidable barrier to entry.

Especially in industries with direct or indirect network effects,\textsuperscript{190} there is a high possibility of a specific net turning into a de facto standard.\textsuperscript{191} For example, computer programs are in essence utilitarian articles, which accomplish tasks. As such, they contain many elements that are dictated by the function to be performed or by external factors such as compatibility requirements and industry demands.\textsuperscript{192} In a network industry such as software, market conditions often dictate the need for a single standard, thus effectively destroying competition.\textsuperscript{193} The lowering of compatibility decreases the value of their product and changes customers' and developers' expectations on the future development of the market. Even a small difference in initial market power can tip the balance of power between competing products in a new market segment.\textsuperscript{194} To the extent that software copyright is used to enhance and maintain this type of monopoly, it can confer significant market power and make software copyright protection more akin to that provided by patent

\textsuperscript{189} Pitofsky, supra n. 187, at 545.
\textsuperscript{190} M.L. Katz & C. Shapiro, Systems Competition and Network Effects, 8 J. Econ. Persp. 93 (1994); Nicholas Economides & Lawrence J. White, Networks and Compatibility, Implications for Antitrust, 38 European Econ. Rev. 651 (1994).
\textsuperscript{192} See Sega Enters., 785 F. Supp. at 1399.
\textsuperscript{193} James White, Misuse of Fair Use: That is the Software Copyright Question, 14 Berkeley Tech. L.J. 793, 810 (1999).
\textsuperscript{194} Id.
C. THE POTENTIAL GAP FILLING FUNCTION OF THE COPYRIGHT MISUSE DOCTRINE IN E.U. LAWS

The subsequent question is whether competition law is the most adequate instrument to repair failures of the IP system. Especially in a market with network effects, it is the failures of the IP system that cause market dominance. Because the focus is on the dominant position of the IP right holder, rather than on the unique quality of the product, there may be some slippage between the access that competition law assures and the access that the public needs. The key concern is that the right holder's refusal to deal prevents a market from emerging. Just as IP right holders are prohibited from leveraging into product markets that they have not invented, they should be prevented from leveraging into innovation markets to which they have not contributed. Right holders that occupy a prospect by blocking entry to those who would otherwise mine it for the benefit of consumers, should be seen as engaged in a form of competition and should be stopped, although they do not yet have a dominant position in the new market. Due to the lack of any internal elasticity within the copyright paradigm, this issue inevitably leads to the interference of antitrust law. It is important, however, to keep in mind that the preliminary finding of a dominant position, pursuant to stringent competition law standards, already imposes a high hurdle which is not present, for example, in the American copyright misuse doctrine. This is because the American copyright misuse doctrine is specifically framed, with enough internal elasticity within the copyright paradigm, to thwart IP owners' attempts to unduly expand the scope of their rights.

The copyright misuse doctrine can consequently be seen as a gap filler, able to resolve issues that are outside of the reach of, or clumsily treated by, antitrust and the fair use doctrine. For example, copyright holders who use their copyrights to gain leverage through licensing provisions that broaden the scope of their copyright may be misusing their copyright even if the leveraging is insufficient to raise antitrust concerns. The real concern of foreclosure is not leverage itself but rather a longer period of stagnation and the lack of competitive vitality. Because the copyright misuse doctrine is one of judicial creation, it is easily adaptable to resolve novel conflicts that will appear with increasing regularity due to the rapid advance in technological innovation.

195. Hanna, supra n. 17, at 409-10, 415-16; Frischmann & Moylan, supra n. 21, at 914.
196. Frischmann & Moylan, supra n. 21, at 872.
197. See Hovenkamp et al., supra n. 35, at § 21-23.
198. Hartzog, supra n. 8.
legal scholars have previously noted:

The copyright misuse doctrine may be a vehicle for correcting various ambiguities or gaps in the copyright law, particularly as it is applied to software. For example, the inclusion of software within copyrightable subject matter exposes the absence of a disclosure requirement in the copyright law. While the traditional expression gaining statutory protection is naturally disclosed when encountered by the public — consider, for example, books, songs, and paintings, among others — the expression in the source and object code of software is not, jeopardizing the societal trade-off established by the copyright statute. The copyright misuse doctrine may fill the gap and protect public access to copyrighted expression.¹⁹⁹

The hidden nature of software exploits a gap in copyright law, namely the absence of an explicit requirement that expressive works be perceptible. A core premise of copyright law is that authors will distribute expressions and ideas to the public, primarily through the market. Yet software copyrights challenge this premise by rendering expression imperceptible.²⁰⁰ As a result, the public looses an essential benefit of copyright law — greater knowledge — and instead gains a functional innovation. Correspondingly, producers gain the opportunity to fence information. By forbidding overreaching restrictions, the courts can thereby help to fill this gap.

"In a period of rapid technological advancement which has spurred the growth of large businesses with a significant degree of leveraging power due to their copyrights," E.U. jurisprudence "should include a mechanism that is easier to employ than antitrust, adaptable to quickly evolving technological scenarios, more expansive than traditional statutory copyright remedies, but still allows copyright owners to enjoy all of the rights granted to them."²⁰¹ "The most likely candidate is the doctrine of copyright misuse," although its application would be very difficult in practice.²⁰² An antitrust analysis can also be particularly difficult to apply to the area of software. In particular, it can be extremely problematic or impossible to define the relevant market for software goods.²⁰³

More importantly, the argument in real terms that copyrights do not convey sufficient market power to necessitate a misuse doctrine does not apply to software. Computer software is such a class of copyrighted works, that owners of computer software copyrights possess an excess of rights relative to what is appropriate based on public policy. The misuse

¹⁹⁹. Frischmann & Moylan, supra n. 21.
²⁰⁰. Id.
²⁰¹. Hartzog, supra n. 8, at 405.
²⁰². Id.; see supra pt. VI.
doctrine is the appropriate vehicle to realign the rights granted because it focuses on the scope of the rights granted and upholds the public policies underlying the intellectual property laws. Because software is a class of copyrighted works that can provide greater power to the owner than is true of other classes of copyrighted works, the copyright misuse doctrine is a useful vehicle to correct the imbalance of power between owners of copyrighted software works and the general public.

Two fairly recent U.S. cases have shed light on the danger to eliminate competitive products from a secondary market through the imposition of IP rights. The case Lexmark International, Inc. v. Static Control Components, Inc. refers to ink for printers. The case Chamberlain Group, Inc. v. Skylink Technologies, Inc. involves market-control of remote-controllers of automatic garage doors. What the competitors of the copyright owner at the secondary market needed in both cases was first access to the protected computer program – that was only possible after circumvention of the technical precautionary measures – and then the reproduction of the program as such, in order to be able to offer competitive ink for printers or remote-controllers. The Court of Appeal for the Sixth Circuit doubted the copyrightability of the relevant computer programs in Lexmark, ruling that in a situation where external factors such as technical specifications, hardware or software standards, programming practices, or just efficiency considerations limit the choice of possible alternatives on the specific computer program, there is a merger, known as the "merger doctrine" of the non-copyrightable idea and the expression and, as a result, there is no copyrightability of the computer program. Unlike U.S. law, the European copyright regime does not have any merger or misuse doctrine that could possibly facilitate flexibility by the legal judgment of a case. This seems to be problematic in light of the relatively shallow threshold for the protection of computer programs.

VI. THE DIFFICULTY OF THE APPLICATION OF THE COPYRIGHT MISUSE DOCTRINE IN E.U. LAWS

A. POLICY CONSIDERATIONS

The United States seems to approach the balance between IPR and competition law in the sense that the grant of statutory monopoly rights in the form of patent or copyright does not reflect intellectual property rights. Rather it reflects a judgment that a primary goal of competitive

204. Id.
205. 387 F. 3d 522 (6th Cir. 2004).
206. 381 F. 3d 1178 (Fed. Cir. 2004).
208. Lexmark Intl., Inc., 387 F.3d at 530.
policy—namely an efficient innovative economy—will best be served by protecting, for a period of time, innovations meeting specified standards from the competition of those who have not incurred the expenses of innovation, thus encouraging innovative competition. The E.U. on the other hand, though pursuing the same goal, protects the IPR more as property rights rewarding the labor of inventors and authors and approaches the IPR-abuse issue only through the antitrust law without recognizing an IPR-misuse defense. Because of the legal uncertainty of such a fact-specific misuse approach and the unforeseeable weakening of IP rights in favor of the competition process, especially in a fiction as the Internal Market of the E.U., such a misuse defense could not be practically applied in E.U. law.

To prove misuse, a defendant should have to show either that the plaintiff unduly restricted the volume or range of third-party software they license or, alternatively, that the plaintiff’s marketing scheme constrained the development of new hardware/software systems. The guiding principles outlined above should assure that authors receive reasonable risk-weighted returns on their investments when their works are successful, and simultaneously prevent the permanent exclusion of rivals in technology-driven markets such as the software industry.

B. The Issue of the Economic Integration of the E.U.

It should be emphasized that intellectual property rights are inherently anti-competitive, at least in the short-run, whereas the reference to the “exceptional circumstances” of the case does not offer much legal certainty for intellectual property owners that their exclusive rights will not be unduly impinged upon. It should be pointed out in this respect that the exceptionally anti-competitive circumstances referred to by the ECJ in the case clearly result from granting copyright on facts, rather than from an abusive exercise of his exclusive right by the intellectual property owner. It could thus have sufficed to simply point out that copyright exceeds its essential function, and cannot be upheld as a justification for anti-competitive behavior under the competition rules, if having regard to the specific circumstances of the case, and in particular considering the fact that no alternative ways of expression are possible without infringing the copyright, it confers a de facto monopoly on mere facts or ideas. This approach, which resembles the U.S. copyright misuse doctrine, would avoid the rather delicate appraisal of the creative effort or originality of a work in competition cases, as well as the need to refer to the derivative market.

However, an American-type synthesis of intellectual property and competition law is more difficult in Europe, because the E.U. currently

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209. Paredes, supra n. 4.
possesses a Union-wide competition law, but mostly national intellectual property laws. As a result, it is more difficult for the varying national intellectual property policies to be incorporated into the construction of Union-wide competition law. It is also difficult, albeit not impossible, for the national courts to incorporate European competition policy concerns into their national intellectual property laws. These impediments to harmonization within Europe, of intellectual property law with competition law, mean that the interactions of these two sets of laws are likely to produce a less than efficient result.\textsuperscript{210}

The policy driving of the ECJ cannot be so much the economic balance between pro- and anticompetitive effects as the integration benefits against the integration costs of the transfer of IP rights in the new technology. The ECJ is not only concerned to draw a line between IP rights and competition policy as such, but rather between the need for adequate incentives for the integration of manufacturing processes and the need to protect interstate economic integration. E.U. competition law must be understood in the context of the need to break down the national boundaries between member states and to complete the unification of the common market.

\section*{VII. CONCLUSION}

The E.C. competition law becomes more and more economic orientated with regard to the application of Articles 81 and 82 E.C. approaching the U.S. law, where an element of anticompetitive conduct must be present. The idea of an economics-based antitrust regime is no longer greatly controversial in concept. This approach makes possible objectivity, predictability and transparency, although even economic theory does not have all the answers and probably never will.\textsuperscript{211} Competition law and IP law are converging in their aims of ensuring an optimum balance between access to markets and protection of invention. A model with narrower IP protection and strong competition policy that intervenes only exceptionally, suggests an alternative model for innovation, which provides more intensified diffusion during the protected period of the IP right.

The copyright of software as such does not create a dominant position for the software manufacturing company. The problem is that the lock-in and network effects exclude any competition from the relevant market. In such a situation wherein a company holds \textit{de facto} market power, this company, by definition, will not feel pressure to innovate or it will be incited to create barriers to entry for potential competitors and neglect to improve its own products by continued introduction of superior


\textsuperscript{211} Heyer, \textit{supra} n. 132, at 378.
technology in the market. Still, competition may be restored by allowing imitation. Although the exclusive right is not the cause of market power, the competition problem may be cured by restricting the exercise of the exclusive right.\footnote{212}

The IP rights are thus not protected in abstracto, but as a substantial medium of competition. It is a matter of systematic approach, if the resolution to the problem of the absence of any competition is offered internally through IP, like in the U.S. through the doctrines of merger and misuse or externally through competition law, as in E.U. law. In both law systems as applied to software, a flexible\textit{ in concreto} approach, that takes into account the specific aggregation of market power through lock-in and network effects as well as\textit{ de facto} standards, would be really helpful. The ultimate aim is to keep the relevant markets as open as possible.\footnote{213} And that result would best advance the principal goal of the antitrust laws – and one which is hardly inconsistent with patent or copyright law – of increasing competition and maximizing consumer welfare.

