

INTELLECTUAL PROPERTY AND THE ALLEGED COLLAPSING OF AFTERMARKETS

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I. INTRODUCTION

Sometimes complex concepts combine to reveal an underlying elegant simplicity. This Article's topics—my contribution to a special issue of the *Rutgers Law Journal* devoted to presentations at the American Antitrust Institute's ("AAI") 2006 annual conference—do not seem to be among those happy circumstances. When the AAI asked me to address the role of intellectual property ("IP") rights in the antitrust analysis of aftermarkets, I accepted immediately. After all, I had spent a good deal of time thinking about and writing about each of these topics. All that remained was to pull the pieces together and to bring them up to date. When I sat down to pull the pieces together, however, I realized that there was a good deal more to the task than mere synthesis. I found myself drawn into the challenge of "meta-analysis," or an analysis of analysis. This challenge framed three questions for my inquiry, the first normative, the second descriptive, and the third reflective:

- What norm should courts apply when considering allegations that a defendant has leveraged IP rights in one market to anticompetitive effect in an adjacent aftermarket?

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- Which past judicial rulings appear consistent with this norm, which appear to deviate from it, and which leave the underlying policy norm ambiguous?
- Why do many people seem to believe that the recent jurisprudential trend in this area is leading to public policies inconsistent with the recommended norm?

The origins of this Article are important to understanding my approach. In an unusual step, for example, I did not choose my own title—or at the very least, I did not choose most of it. It was only when I saw the AAI conference announcement that I discovered that my assignment was to discuss “Intellectual Property and the Collapsing of Aftermarkets” at a conference called “The IP Grab—The Struggle Between Intellectual Property Rights & Antitrust.” Because I found myself uncomfortable simply assuming that aftermarkets had collapsed under an assault from grabby IP regimes, I inserted the single word “alleged.” What good lawyer could object? Nevertheless, even these seemingly judgmental titles proved useful. They helped me recast my three questions in more concrete terms, though in an inverted order: Why does the AAI think that IP is winning its struggle with antitrust? Is IP really winning this struggle? Should IP win this struggle?

The answers are complex; they require (at least) a full article. The source of the perceived grabs and collapses, however, is not hard to discern. The genesis of the legally defined “antitrust aftermarket” occurred in 1992, when the Supreme Court ruled that Kodak was not entitled to summary judgment in the antitrust suit against it merely because the market in which it had allegedly reduced competition was a service aftermarket for its own copiers.¹ Though that ruling proved controversial, supporters and opponents alike agreed that it expanded the range of product markets subject to antitrust scrutiny.² From *Kodak* onward, plaintiffs alleging that defendants were monopolizing or attempting to monopolize “aftermarkets” *that would not exist but for the defendant’s own sales* in an adjacent “foremarket” could proceed to trial (assuming that they met the other requirements for

1. See *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 486 (1992).

2. Compare Benjamin Klein, *Market Power in Antitrust: Economic Analysis after Kodak*, 3 SUP. CT. ECON. REV. 43 (1995) (providing a cautionary note against reading *Kodak* too broadly), with Steven C. Salop, *The First Principles Approach to Antitrust, Kodak, and Antitrust at the Millennium*, 68 ANTITRUST L.J. 187 (2000) (providing a favorable review of *Kodak’s* contributions).

withstanding summary judgment).³ What *Kodak* did not address, however, were the ways (if any) in which antitrust analyses of aftermarkets might differ from analogous antitrust analyses of more traditionally defined markets (often called “original,” “original equipment manufacturer,” or “OEM” markets).⁴

This lack of discussion might reasonably have led observers to conclude that no differences exist. There were also, however, good reasons to assume otherwise. After all, the relationships among sellers, their distributors, and their locked-in aftermarket customer base differ from the relationships among sellers, potential distributors, and targeted customers in an OEM market. The last time that antitrust law had ignored the effects that differing relationships among the players in a market can have on market structure, competition, and the competitive effects of various business practices, the results were disastrous. A 1967 Supreme Court ruling implying that antitrust analyses of vertical market relationships were identical to analogous antitrust analyses of horizontal market relationships led to a retreat but a decade later,⁵ but left a legacy of negative consequences that have yet to unwind fully.⁶

One critical issue that *Kodak* left unanswered, for example, was market definition. Are *all* aftermarkets necessarily subject to antitrust scrutiny? Or must plaintiffs alleging anticompetitive aftermarket behavior engage in the lengthy and costly market definition exercises typically required in antitrust cases? Given the state of modern technology, a shortcut for aftermarket cases could have sweeping consequences. Increasing numbers of contemporary products interact with other products. Many such “base” products and more than a fair number of “add-on” products are subject to patents, to copyrights, or to both. The rise of such interoperable “systems” makes almost all vendors potential monopolists in some market, and could give almost all frustrated entrants an antitrust lever with which to force their (often only slightly) more established competitors to change their business models. Was that what the Supreme Court intended when it ruled against *Kodak*? Some observers might have thought so, but subsequent developments in case law suggest

3. See Bruce D. Abramson, *Analyzing Antitrust Analysis: The Roles of Fact and Economic Theory in Summary Judgment Adjudication*, 69 ANTITRUST L.J. 303, 329 (2001).

4. See *id.* at 330-42 (discussing subsequent developments along these lines).

5. See *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), *overruled by Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 58-59 (1977) (“[D]eparture from the rule-of-reason standard must be based upon demonstrable economic effect rather than . . . upon formalistic line drawing.”).

6. See, e.g., *State Oil Co. v. Khan*, 522 U.S. 3, 7 (1997) (announcing that maximum price fixing in vertical relationships is subject to rule of reason analysis).

otherwise.⁷ It seems that there are no shortcuts. Antitrust plaintiffs alleging monopolization or attempted monopolization must expend the same efforts on market definition as do all other antitrust plaintiffs. Some will undoubtedly lose, and discover that the aftermarkets in which they sought to compete—and that their competitors may well monopolize in the colloquial sense—are simply not relevant antitrust markets prone to monopolization in the technical legal sense.⁸ From that perspective then, it is certainly accurate to claim that aftermarket analysis is “collapsing.” The normative question, however, remains: Is this collapse a deflation of unrealistic and inappropriate frothiness or are we plummeting beneath what had once been a solid foundation for public policy?

So much for the collapsing of aftermarkets. What of the IP grab? That too is a concern rooted in reality. The twentieth century provided a constant stream of cases pitting the rights of patent holders against the public interest in competitive markets.⁹ In recent years, however, this stream has become increasingly torrential, and it has spread from the patent world to implicate other IP rights as well—notably, but not exclusively, the newly functional copyrights protecting software and other digital products.¹⁰ Though courts addressing such disputes typically swear fealty to the principles of both IP law and antitrust law,¹¹ any objective observer would notice that the IP

7. See, e.g., *PSI Repair Servs., Inc. v. Honeywell, Inc.*, 104 F.3d 811, 821 (6th Cir. 1997) (affirming summary judgment due to the defendant’s lack of market power in the primary equipment market); *Digital Equip. Corp. v. Uniq Digital Techs., Inc.*, 73 F.3d 756, 762-63 (7th Cir. 1996) (disagreeing with contention that there is a market in a firm’s own products even if there is vigorous competition in the primary market); *Lee v. Life Ins. Co. of N. Am.*, 23 F.3d 14, 16-17 (1st Cir. 1994) (requiring market power in the relevant tying markets).

8. See, e.g., *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281 (2006).

9. Discussions of the tension between antitrust and IP laws, as well as of their recent directions and extension from the patent world into the realm of functional copyrights, have become standard topics in casebooks and scholarly analyses alike. See, e.g., WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 372-419 (2003); ROBERT P. MERGES, PETER S. MENELL & MARK A. LEMLEY, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 1101-98 (2d ed. 2000).

10. See generally LANDES & POSNER, *supra* note 9, at 372-419.

11. Consider, for example, the statement of law in a case that earned nearly unanimous condemnation from those concerned that IP law is trumping antitrust law inappropriately:

Intellectual property rights do not confer a privilege to violate the antitrust laws. But it is also correct that the antitrust laws do not negate the patentee’s right to exclude others from patent property. The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist. The patent right must be coupled with violations of § 2, and the elements of violation of 15 U.S.C. § 2 must be met.

holders seem to be winning an increasing numbers of these cases—as the descriptive and reflective parts of our analysis will demonstrate. Furthermore, the doctrine of patent misuse, long known as a close relative to antitrust tying, has fared poorly in recent years.¹² The courts—particularly, though not exclusively, the United States Court of Appeals for the Federal Circuit—have narrowed the concept of IP misuse considerably, and appear to have recognized product markets in which *adjacent* IP rights indemnify otherwise anticompetitive behavior.¹³ From that perspective, there is little doubt that IP law is “grabbing” resolutions from antitrust. The normative question, however, remains: Is IP law grabbing resolutions that properly fall within its ambit, or is it wresting judgments from antitrust laws that would have reached a resolution more consistent with sound public policy?

In short, there is little doubt that the titular “IP grab” and the “collapsing of aftermarkets” describe real phenomena. To make matters even more fun for those of us who attended the AAI conference in June 2006, the Supreme Court had wrapped them both into a neat little package but a few short months earlier.¹⁴ Inside that package, defendant Trident manufactured and sold a “system” that combined its patented equipment with unpatented ink.¹⁵ Plaintiff Independent Ink claimed that Trident’s patented equipment defined an OEM market in which Trident possessed market power by dint of its patents, that replacement ink defined a relevant antitrust aftermarket, and that Trident’s insistence that its OEM customers buy only its own replacement ink constituted an anticompetitive tying arrangement in violation of the antitrust laws.¹⁶ Trident, predictably, rejected those characterizations.¹⁷

In re Indep. Serv. Orgs. Antitrust Litig., 203 F.3d 1322, 1325 (Fed. Cir. 2000) (citations and internal quotation marks omitted).

12. See, e.g., *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 512 (7th Cir. 1982) (“If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty.”).

13. For a detailed discussion of the current state of the patent misuse doctrine, see BRUCE ABRAMSON, *THE SECRET CIRCUIT: THE LITTLE-KNOWN COURT WHERE THE RULES OF THE INFORMATION ECONOMY UNFOLD* (forthcoming 2007) [hereinafter ABRAMSON, *THE SECRET CIRCUIT*], and Robert J. Hoerner, *The Decline (and Fall?) of the Patent Misuse Doctrine in the Federal Circuit*, 69 ANTITRUST L.J. 669 (2001).

14. See *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281 (2006).

15. *Id.* at 1284-85.

16. See *id.* at 1285.

17. See *id.* (noting that Trident attempted to bring an infringement action against Independent Ink prior to the commencement of the suit then before the Court).

Neither party submitted any evidence.¹⁸ Independent Ink rested its argument on a long-accepted antitrust rule, namely that every patent defines a relevant antitrust market.¹⁹ Trident countered with an explicit patent rule, namely that *only some* patents define the sorts of product markets prone to misuse.²⁰ Trident then moved for summary judgment, asserting that in the absence of any evidence that it monopolized a relevant antitrust market, its exertion of leverage into an adjacent market could not violate the antitrust laws—essentially combining an accepted antitrust rule with standard civil procedure to make its case.²¹ The district court agreed with Trident, and granted summary judgment.²²

On appeal, the Federal Circuit agreed with Independent Ink—to a point.²³ The Federal Circuit explained that under binding Supreme Court precedent—precedent with which it did not necessarily agree—possession of a patent does, in fact, define a relevant antitrust market *as a matter of antitrust law*, even though Congress had decreed that a patent does not necessarily define a relevant market prone to monopolization *as a matter of statutory patent law*.²⁴ Given this precedent, its only room for flexibility lay in deciding whether this market definition was conclusive or only presumptive. The Federal Circuit chose the second route, announced that as a matter of antitrust law, possession of a patent *presumptively* defines a relevant antitrust market, and sent the matter back down to the trial court to allow Trident to rebut the presumption.²⁵ On the parties' way back to trial, however, the Supreme Court granted certiorari and announced a change in antitrust law: from this point forward, antitrust law would adopt the patent law rule that only some patents define relevant antitrust markets.²⁶ Now Independent Ink and Trident will each have the opportunity to prove their cases, with no presumption favoring either side.²⁷

18. *Id.*

19. *Id.*

20. See *Indep. Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1160 (C.D. Cal. 2002), *aff'd in part, rev'd in part sub nom. Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1281 (2006).

21. *Id.* at 1160-61.

22. *Ill. Tool Works*, 126 S. Ct. at 1285.

23. See *Indep. Ink*, 396 F.3d at 1344 (reversing a grant of summary judgment on Independent Ink's § 1 claim, but remanding to give Trident a chance to present rebuttal evidence).

24. *Id.* at 1351.

25. *Id.* at 1351-52.

26. See *Ill. Tool Works*, 126 S. Ct. at 1284, 1293.

27. *Id.*

All told, as of mid-2006, the Supreme Court's most recent utterance about aftermarkets had antitrust law meekly adopt an IP rule that will make it harder for plaintiffs to press aftermarket cases and easier for defendants to defend their behavior in aftermarkets. The recency bias alone reinforces the tendency to overestimate the significance of this ruling rather than view it as merely one more data point in an integrated body of law that has been evolving since *Kodak*. Only time will tell whether *Illinois Tool Works* represents a natural adaptation or a radical mutation. What we can know today is that the IP grab and the collapsing of aftermarkets are both real. The most useful question that we can ask is thus: To what extent are they normatively correct?

II. THE ANTITRUST/IP INTERFACE

A. History

It is hard to have a normative discussion without first defining a few norms. Setting aside the aftermarkets angle for a moment, the first normative challenge lies in resolving conflicts between antitrust law and IP law. The idea that conflict is possible when a dispute pits antitrust claims against IP rights is hardly novel. In the more than two decades since Louis Kaplow wrote, "The intersection of antitrust law and patent policy has proved to be a source of perpetual confusion and controversy since the passage of the Sherman Act nearly a century ago,"²⁸ neither the confusion nor the controversy have abated. Many observers have approached this interface, perhaps reaching a crescendo over the past few years in a sophisticated attempt to reconcile two bodies of law once considered to operate at cross purposes.²⁹

Not long ago, conventional wisdom held that antitrust and IP were in hopeless, eternal conflict. Patents (and to a lesser extent, copyrights) confer monopolies, while antitrust laws seek to oppose and to terminate monopolies. The former are pro-producer, the latter pro-consumer. The

28. Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1813, 1815 (1984).

29. See, e.g., FTC, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003), available at <http://ftc.gov/os/2003/10/innovationrpt.pdf>; COMM. ON INTELLECTUAL PROP. RIGHTS IN THE KNOWLEDGE-BASED ECON., NAT'L RESEARCH COUNCIL OF THE NAT'L ACADEMIES, A PATENT SYSTEM FOR THE 21ST CENTURY (Stephen A. Merrill et al. eds., 2004).

former restrict competition, the latter promote it. Conflict is thus inevitable and irreconcilable.³⁰

Such conventional wisdom dominated eras when antitrust regulators applied intense scrutiny to anyone who attempted to use their property—intellectual or real—to gain competitive leverage. The extremes to which the antitrust authorities can take such scrutiny can play a significant role in defining the shape of the American economy. According to the prominent historian Richard Hofstadter, writing in the 1960s, “the managers of the large corporations do their business with one eye constantly cast over their shoulders at the Antitrust Division.”³¹

Economists and lawyers differ profoundly on how effective the antitrust laws have been . . . but there is hardly a major industry that has not seen a significant lawsuit or two, and in most industries in which intervention might be thought desirable, government action has had more than negligible effects. . . . The existing state of enforcement conforms to the state of the public mind, which accepts bigness but continues to distrust business morals. . . . Visitations by the Department of Justice are a nuisance, lawsuits are expensive, and prosecution carries an odious stigma, but the antitrust procedures can be considered an alternative to more obtrusive regulation such as outright controls on prices.³²

Roughly two decades later, Professors William J. Baumol and Janusz A. Ordover saw

a specter that haunts our antitrust institutions. Its threat is that, far from serving as the bulwark of competition, these institutions will become the most powerful instrument in the hands of those who wish to subvert it. More than that, it threatens to draw great quantities of resources into the struggle to prevent effective competition, thereby more than offsetting the contributions to economic efficiency promised by antitrust activities. This is a specter that

30. *See, e.g.*, *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981) (“When . . . the patented product is so successful that it evolves into its own economic market, as was the case here, or succeeds in engulfing a large section of a preexisting product market, the patent and antitrust laws necessarily clash.”).

31. RICHARD HOFSTADTER, *What Happened to the Antitrust Movement?*, in *THE PARANOID STYLE IN AMERICAN POLITICS AND OTHER ESSAYS* 188, 192-93 (1965).

32. *Id.* at 234-35.

may well dwarf any other source of concern about the antitrust processes. We ignore it at our peril and would do well to take steps to exorcise it.³³

Both of these assessments described a period that was, by general consensus, the most oppressive era of American antitrust enforcement—an era running from the latter days of the New Deal until the time that Ronald Reagan arrived in Washington intent upon unshackling America’s markets.³⁴ In the space of a few short years, American policymakers, regulators, and courts inverted their attitudes toward patents and antitrust. “Chicago School” economics directed a significant change in antitrust policy.³⁵ Members of the Chicago School believe that virtually all anticompetitive behavior is inherently self-defeating, and that antitrust enforcement is appropriate only in exceptional circumstances. As Robert Bork, one of the leading Chicago School voices on antitrust, explained:

Antitrust is . . . a set of continually evolving theories about the economics of industrial organization. . . . The capture of the field by anti-free-market theories will have impact far beyond the confines of antitrust itself.

The struggle between economic freedom and regulation also reflects and reacts upon the tension in our society between the ideals of liberty and equality. . . .

Within the limited frame for observation provided by antitrust . . . it is worth noting that the general movement has been . . . away from the ideal of competition and toward the older idea of protected status for each producer, away from concern for general welfare and toward concern for interest groups, and away from the ideal of liberty toward the ideal of enforced equality. . . . [I]f, as I believe, [these trends] have already gone much too far in antitrust as elsewhere in our polity, they should be recognized and

33. William J. Baumol & Janusz A. Ordover, *Use of Antitrust to Subvert Competition*, 28 J.L. & ECON. 247, 247 (1985).

34. This was also the era in which Alan Greenspan famously remarked: “The entire structure of antitrust statutes in this country is a jumble of economic irrationality and ignorance. It is the product: (a) of a gross misinterpretation of history, and (b) of rather naive, and certainly unrealistic, economic theories.” Alan Greenspan, *Antitrust*, in AYN RAND, CAPITALISM: THE UNKNOWN IDEAL 56, 63 (6th prt. 1966).

35. See generally Wikipedia, Chicago School (economics), http://en.wikipedia.org/wiki/Chicago_school_%28economics%29 (last visited Apr. 18, 2007).

reversed, for they are ultimately incompatible with the preservation of a liberal capitalist social order.³⁶

In the early 1980s, the Federal Trade Commission (“FTC”) and the Antitrust Division of the Department of Justice (“DoJ”), the two government antitrust enforcement agencies, developed guidelines consistent with the economic theories of the Chicago School; reduced the scrutiny that they applied to various activities that their predecessors had considered anticompetitive, explicitly including activities related to IP;³⁷ and consequently allowed American businesses to grow in ways that previous enforcement efforts had stymied (both for good and for ill).

The Supreme Court, whose retreat from the worst of its oppressive antitrust jurisprudence started with a 1977 declaration that “departure from the rule-of-reason standard must be based upon demonstrable economic effect rather than . . . upon formalistic line drawing,”³⁸ soon followed the agencies’ lead toward realigning antitrust law with economic rationality.³⁹

The changes in patent policy were even more profound. The Federal Courts Improvement Act creating the Federal Circuit,⁴⁰ the Bayh-Dole Act promoting academic/industrial technology transfer programs,⁴¹ the Hatch-Waxman Act improving the efficiency of pharmaceutical markets,⁴² and the Supreme Court’s announcements that software and microorganisms were patentable subject matter,⁴³ revolutionized American patent policy in the space of less than five years (1980-84). Taken as a whole, the first half of the

36. ROBERT H. BORK, *THE ANTITRUST PARADOX: A POLICY AT WAR WITH ITSELF* 10-11 (1978).

37. *See, e.g.*, DOJ & FTC, *ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY* § 2.2, at 4 (1995), available at <http://www.usdoj.gov/atr/public/guidelines/0558.pdf>.

38. *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 58-59 (1977).

39. Perhaps the best indication of this realignment was the release of the agencies’ first ever merger guidelines. *See generally* DOJ & FTC, *1992 HORIZONTAL MERGER GUIDELINES* (1992) [hereinafter *MERGER ENFORCEMENT GUIDELINES*], available at <http://www.ftc.gov/bc/docs/horizmer.htm>.

40. *See* Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, tit. I, § 101, 96 Stat. 25 (codified at 28 U.S.C. § 41 (1982)).

41. *See* Pub. L. No. 96-517, § 6(a), 94 Stat. 3015, 3018-27 (codified at 35 U.S.C. §§ 200-211 (Supp. IV 1980)).

42. *See* Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, tit. I, § 101, 98 Stat. 1585 (codified at 21 U.S.C. § 355 (Supp. II 1984)).

43. *See* *Diamond v. Diehr*, 450 U.S. 175, 192-93 (1981) (industrial process for the molding of rubber products); *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) (human-made microorganism).

1980s ushered out an era of weak patents and oppressive antitrust enforcement and ushered in an era of strong patents and laissez-faire antitrust.

Perhaps the most obvious sign of this shift came in some of the nomenclature that the antitrust authorities used to discuss the antitrust implications of various patent licensing practices. In 1970, Bruce Wilson, Special Assistant to the Assistant Attorney General for Antitrust in the Nixon Administration, presented the Administration's thoughts about patent licensing at an antitrust conference. After assuring the audience, "We are not anti-patent," he proceeded to outline nine verboten licensing practices—soon dubbed the "Nine No-Nos."⁴⁴ In 1981, Tad Lipsky, Deputy Assistant Attorney General of the Antitrust Division in the Reagan Administration revisited the question:

For the better part of the last decade, Division enforcement policy toward patent licensing has been advertised using a list of forbidden practices commonly known as the "Nine No-Nos." Each of these practices is thought to be especially deserving of antitrust condemnation by virtue of some inherently anticompetitive feature. . . .

. . . .

. . . [M]y predecessor identified "[t]he most important single concern of the Antitrust Division in this area, namely, whether one or more licenses are being used as part of a broader conspiracy to restrain significant actual or potential competition among affected firms. . . ." I would enthusiastically endorse this last conclusion in particular.

Where I depart from my predecessor, however, is in his assertion that the "Nine No-Nos" have much independent validity as economically rational antitrust rules When one makes the analysis, one finds that the "Nine No-Nos," as statements of rational economic policy, contain more error than accuracy.⁴⁵

From that day forward, the patent and antitrust communities were both on notice. Not only were the "Nine No-Nos" history, but so was the thinking that had led to them. Economic rationality was the order of the day. Antitrust

44. See Bruce B. Wilson, *Patent and Know-How License Agreements: Field of Use, Territorial, Price and Quantity Restrictions*, in ANTITRUST PRIMER: PATENTS, FRANCHISING, TREBLE DAMAGE SUITS 11, 12-15 (Sara-Ann Sanders ed., 1970).

45. Abbott B. Lipsky, Jr., *Current Antitrust Division Views on Patent Licensing Practices*, 50 ANTITRUST L.J. 515, 515-17 (1981-1982) (second alteration in original) (footnote omitted).

law and patent law would be subject to economic scrutiny—both individually and when they came into conflict. Public policy would flow in directions believed most likely to promote economic growth—or, at least, in the direction that the consumer welfare norm suggested that maximum growth would lie.

This newfound civility between the antitrust and IP communities arrived none too soon. The technological sophistication driving many of our most important industries has led to a significant growth in patent rights over the past two-and-a-half decades.⁴⁶ Patents are proliferating as never before,⁴⁷ and the software industry has elevated copyrights to realms of practical utility in which they never before dwelt.⁴⁸ Over the same two-and-a-half decades, the injection of economic rationality into antitrust analysis has allowed various industries to become significantly more concentrated than the authorities would have allowed in the past.⁴⁹ Though such allowable concentration was a critically needed reform that, had it not been effected, would have crippled the emergence of modern network industries, it likely also combined with the very structure of those industries to increase the incidence of truly anticompetitive behavior.⁵⁰

These trends in industrial organization, IP policy, and antitrust policy, have led to more than a few actual conflicts between the interests of IP holders and the needs of competitive markets, as the descriptive discussions below will illustrate. Such conflicts typically pit an aggrieved competitor, consumer, or governmental authority against an IP holder exercising what would otherwise be a valid IP right in a manner that would otherwise violate the antitrust laws. The prevalence of such conflicts is only likely to grow in the future.

46. ADAM B. JAFFE & JOSH LERNER, *INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT* 11-12 (2004).

47. *Id.*

48. For general discussions of this phenomenon and a consideration of reform proposals, see BRUCE ABRAMSON, *DIGITAL PHOENIX: WHY THE INFORMATION ECONOMY COLLAPSED AND HOW IT WILL RISE AGAIN* (2005) [hereinafter ABRAMSON, *DIGITAL PHOENIX*], and Bruce Abramson, *Promoting Innovation in the Software Industry: A First Principles Approach to Intellectual Property Reform*, 8 B.U. J. SCI. & TECH. L. 75 (2002).

49. See, e.g., Robert Pitofsky, *Antitrust in the Next 100 Years*, 75 CAL. L. REV. 817, 822 (1987) (“[T]he mythology on which some 1960’s-style antitrust depended—the notions that big is bad and that small is somehow beautiful—steadily eroded.”).

50. See *id.* at 818-22.

B. The Need for Balance

Unfortunately for those mired in these conflicts, neither the scholarly literature nor case law provides a concrete analytical framework to guide them toward resolution. Scholars tend to get sidetracked into interesting metaphysical questions, such as whether or not intellectual property is “just like” all other forms of property.⁵¹ Judges tend to focus on the case in front of them, and try to rule in a manner appropriate to the very specific facts of that case. It is hard to quibble with either approach. Metaphysics and legal theory are both interesting and important aspects of scholarship, and the primary job of our judiciary is to resolve the specific case or controversy at bar. Furthermore, those few scholars bold enough to proffer analytic frameworks⁵² have found few judicial takers—or at the very least, few explicit judicial takers. As a result, scholars and judges have left a screaming gap in the middle: we lack a general framework for assessing new IP/antitrust conflicts as they arise.

In the absence of such a framework, normative discussions are impossible. How can we determine how well we are doing until we know what it is that we are supposed to be doing? Though everyone today agrees that we should resolve conflicts between antitrust concerns and IP rights in a manner that preserves both competitive markets and the motivation to innovate, few have told us how to evaluate specific conflicts. Therefore, the first step toward understanding how the courts should assess defendants who leverage their IP rights into aftermarkets is an understanding of how courts should assess conflicts between antitrust law and IP law.

Let us start by dispensing with metaphysics. IP differs from all other forms of property in a very real and very practical sense: a unique legal regime governs it. Most property law is common law; IP law is primarily statutory. Thus, for the purposes of a normative analytic framework, the

51. See, e.g., Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1033 (2005) (“Talking about patents, copyrights, and trademarks as just another species of property is very much in vogue. The rhetoric and economic theory of *real* property are increasingly dominating the discourse and conclusions of the very different world of *intellectual* property. The shift begins with simple rhetoric—talking about intellectual property rights as aspects of a broader system of property. But its implications go far beyond that. The temptation to move from rhetoric to rationale seems almost irresistible.”).

52. For a notable example, see Kaplow, *supra* note 28 (designing a “ratio test” to address the patent-antitrust puzzle, and applying the test to particular anticompetitive practices).

Patent Act⁵³ and the Copyright Act⁵⁴—not to mention the constitutional provision authorizing them⁵⁵—make IP rights different enough from other forms of property to warrant a distinct legal treatment. In other words, there is nothing objectionable—from the perspective of either philosophy or public policy—with asking whether IP rights should insulate antitrust defendants from liability for behavior prohibited to those possessing only tangible or real property.

Furthermore, if there is actually a conflict between the two bodies of law, *Illinois Tool Works* does not come into play—its recency notwithstanding. *Illinois Tool Works* relates to the burden of proof in defining relevant antitrust markets and in demonstrating market power.⁵⁶ In a true conflict situation, such evidence is already available: the defendant must have presented a valid IP right, and the plaintiff must have shown that that IP right defines a relevant antitrust market. With that said, however, two caveats are necessary. First, a patent portfolio may define a relevant antitrust market even if no individual patent in that portfolio defines such a market on its own. In that case, everything that this Article says about patents coextensive with antitrust markets applies to the portfolio. Second, though much of the antitrust literature—and all of antitrust economics—hinges upon the existence of a relevant antitrust market, a relevant antitrust market is not strictly necessary for antitrust liability. An ill-guided conspiracy to fix prices, for example, violates the antitrust laws even if it is doomed to fail.⁵⁷ Several conspirators, none of whom control a relevant antitrust market either individually or collectively, who nevertheless conspire to fix prices, are civilly and criminally liable under the antitrust laws. Because this case is of little economic or analytic interest, we can safely ignore it.

That leaves us with a single critical scenario. An IP holder possesses an IP right that confers a monopoly in a relevant antitrust market. The IP holder exerts a legitimate IP right in a way that reduces competition in an adjacent market in violation of the antitrust laws. An antitrust victim of this reduced competition complains. In all likelihood, the IP holder will countersue for

53. Patent Act of 1952, Pub. L. No. 593, 66 Stat. 792 (codified as amended at 35 U.S.C. §§ 1-376 (2000)).

54. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C. §§ 101-810 (2000)).

55. See U.S. CONST. art. I, § 8, cl. 8.

56. See *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1284, 1293 (2006).

57. See, e.g., *Elkem Metals Co. v. United States*, 276 F. Supp. 2d 1296, 1310-11 (Ct. Int'l Trade 2003) (permitting the use of an adverse inference to show that a price-fixing conspiracy had an effect on prices during the conspiracy period).

infringement. Because we are, by construction, in the most interesting of all possible cases, both parties are right: the plaintiff as a matter of antitrust law and the defendant as a matter of IP law. The key to appreciating this scenario is that an IP analysis unconcerned with antitrust counterclaims would unequivocally rule that the IP holder's behavior was proper, while an antitrust analysis unconcerned with an IP defense would unequivocally find a violation of the antitrust laws. IP and antitrust law therefore seem to point toward irreconcilable results. Our task is to devise a framework that reconciles them.

Such conflicts are hardly unusual in the law, and their resolution is hardly beyond the competence of the judiciary. At times, the resolution is easy; we simply ignore one body of law (or perhaps more precisely, we let one body of law trump the other).⁵⁸ In most interesting situations, we apply balancing tests. Yet the literature describing the IP/antitrust interface proposes surprisingly few balancing tests.⁵⁹ For the most part, the debate seems to pit those who think that antitrust law should dominate against those who think that IP law should dominate. According to the former group, an IP right is no different from any other property right. Thus, we should hold liable any antitrust defendant who exerts any property right in any way that violates the antitrust laws; whether the property in question is real, tangible, or intellectual is simply irrelevant. According to the latter group, we grant IP holders certain rights. Any exertion of rights that the applicable IP laws grant is inherently legitimate; potential negative consequences of such exertions are simply irrelevant.

While both arguments are plausible, neither one is compelling. Antitrust supremacists ignore the constitutional and statutory rules that differentiate IP from other forms of property. IP supremacists ignore the limitations on all

58. Even within the IP realm, no court would accept a defendant's copyright as a defense to libel, or a defendant's patent as a defense to product liability. When faced with such a claim, some courts even resort to sarcasm:

The company claims an absolute and unfettered right to use its intellectual property as it wishes: "[I]f intellectual property rights have been lawfully acquired," it says, then "their subsequent exercise cannot give rise to antitrust liability." That is no more correct than the proposition that use of one's personal property, such as a baseball bat, cannot give rise to tort liability. As the Federal Circuit succinctly stated: "Intellectual property rights do not confer a privilege to violate the antitrust laws."

United States v. Microsoft Corp., 253 F.3d 34, 63 (D.C. Cir. 2001) (per curiam) (alteration in original) (citations omitted).

59. For a notable example, see Kaplow, *supra* note 28 (designing a "ratio test" to address the patent-antitrust puzzle, and applying the test to particular anticompetitive practices).

forms of property that arise whenever property rights conflict with other bodies of law. Intellectual coherence—not to mention sound public policy—mandates a balancing test.

C. Economic Theory

The key to a proper balancing test lies in understanding the uneasy nature of the truce between the antitrust and the IP laws. The key to that truce, in turn, lies in understanding the role that IP rights play in a free-market economy generally wedded to competition. Joseph Schumpeter presented the classic explanation in 1942, as part of his theory of “creative destruction”:

Capitalism . . . is by nature a form or method of economic change and not only never is but never can be stationary. . . . The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates.

. . . The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate [a] process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. . .

. . . Economists are at long last emerging from the stage in which price competition was all they saw. As soon as quality competition and sales effort are admitted into the sacred precincts of theory, the price variable is ousted from its dominant position. However, it is still competition within a rigid pattern of invariant conditions, methods of production and forms of industrial organization in particular, that practically monopolizes attention. But in capitalist reality as distinguished from its textbook picture, it is not that kind of competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance)—competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives. This kind of competition is as much more

effective than the other as a bombardment is in comparison with forcing a door, and so much more important that it becomes a matter of comparative indifference whether competition in the ordinary sense functions more or less promptly; the powerful lever that in the long run expands output and brings down prices is in any case made of other stuff.

It is hardly necessary to point out that competition of the kind we now have in mind acts not only when in being but also when it is merely an ever-present threat. It disciplines before it attacks. . . . In many cases, though not in all, this will in the long run enforce behavior very similar to the perfectly competitive pattern.

. . . .
. . . [A] theoretical construction which neglects this essential element of the case neglects all that is most typically capitalist about it; even if correct in logic as well as in fact, it is like *Hamlet* without the Danish prince.⁶⁰

In short, the evolutionary concepts that Bork attributed to antitrust⁶¹ are an essential component of capitalism. Patent rights promote “savings” by driving competitors to think about long-term revolutionary change. As painful as some of these investments might seem in the short run—say in the form of markets less competitive than we might otherwise like—they will pay off in the long run, where they promise both to preserve our liberal system and to impel it toward further growth. At least, that was Schumpeter’s view.

The notion that antitrust and IP are both consumer-focused bodies of law is an important step toward reconciliation. Among other things, it clarifies the relationship between antitrust law and IP law in the service of a common goal. As a general rule, competition promotes a race toward both quality products and reduced prices. Antitrust law is our basic vehicle for removing obstacles to competition and for keeping markets competitive. But we have long recognized that even perfect competition will not always maximize consumer welfare. Economists have identified numerous situations in which negative externalities, public goods, free ridership, or various other market failures will prevent a viable market from even developing, much less flourishing, in an environment of harsh competition.⁶² Economists have also

60. JOSEPH A. SCHUMPETER, *CAPITALISM, SOCIALISM AND DEMOCRACY* 82-86 (Harper & Row 1976) (1942) (footnote omitted).

61. See BORK, *supra* note 36, at 10.

62. See generally W. KIP VISCUSI, JOHN M. VERNON & JOSEPH E. HARRINGTON, JR., *ECONOMICS OF REGULATION AND ANTITRUST* 313-15 (3d ed. 2000).

identified situations in which efficiency concerns and minimum viable scales of production are necessary for adequate performance in selected industries.⁶³ Modern merger enforcement explicitly recognizes the importance of such synergistic efficiencies, and thus allows many mergers that would have been challenged under earlier, now discredited (e.g., structural), economic theories.⁶⁴ Nevertheless, and despite the debate among economists as to whether such situations are rare or extremely rare, there is little dispute that competition generally serves consumers, and that antitrust is the body of law best suited to promote competition.

IP rights emerged to address an important class of market failures. Basic microeconomic price theory derives a model known as “marginal cost pricing.” Under this theory—whose strong form assumes a perfectly competitive market—producers sell their wares at a price equal to the marginal cost of production (i.e., the cost of producing the last unit produced).⁶⁵ Most people, upon hearing the marginal cost theory of pricing for the first time, arrive at a variant of the same question: *What about startup costs?* This intuitive question embodies a simple empirical truth. Most business ventures require up-front investments before production can even begin. If, for example, an entrepreneurial company considering entry into a new line of business has to build a plant before it can produce *any* units, but it must sell its production at marginal cost, how can it recoup the investment in the plant? In more technical economic terms, if there’s no way to recover *total costs* and still earn a profit, entrepreneurs will have no incentive to build plants and to begin operations. This sort of problem is most prevalent in industries with high fixed costs and low variable costs. An airline, for example, must make a large capital investment to purchase an airplane. It must invest even further to run a commercial flight. Once it has decided to use the airplane though, the marginal costs associated with an additional passenger (assuming available seats) are negligible. A straight marginal cost pricing model would thus suggest that airline tickets should be quite inexpensive—on par with the cost of a little extra baggage handling and an airline meal. Under those circumstances, of course, we would have no airlines. The need to recoup total costs thus explains why air travel is more expensive than a porter and a Coke. The theoretical pull of marginal cost

63. See, e.g., *id.* at 81-83.

64. See generally MERGER ENFORCEMENT GUIDELINES, *supra* note 39.

65. I presented a readable, and somewhat more detailed, discussion of this derivation in ABRAMSON, DIGITAL PHOENIX, *supra* note 48.

pricing also explains why airlines face such grave financial difficulties during periods of low demand.

IP rights arose, at least in part, to resolve a similar quandary. Innovation is challenging, expensive, and risky. We want people—and corporations—to invest time, effort, and money in research and development (“R&D”) to promote innovative products. Almost without exception though, it is easier and cheaper to replicate an existing product than it was to develop that product in the first place. Marginal cost pricing thus suggests that innovation costs are fixed costs sunk early in the product development process, rather than variable costs relevant to the marginal cost pricing model. Producers should sell their products at the cost of producing the marginal copy, not at the cost of innovating to develop the first unit. This practice, taken to its logical extreme, would often render R&D expenses unrecoverable. As a result, no rational corporation would invest in R&D, and no one would innovate to develop important new products. While this result is far from universally true, it is true more than often enough to raise serious concerns. At a bare minimum, it affects both our contemporary software industry and our contemporary pharmaceutical industry—though in very different ways. Neither one could have assumed its current configuration, or developed its prevalent business models, in such an environment. And though there are alternative theories about ways to promote software development in the absence of copyright,⁶⁶ it is hard to see how we could discover important new drugs in the absence of large, dedicated, R&D investments in products whose success was uncertain and whose payback was unlikely to come for many years after the investment. Anglo-American law developed IP rights to address this problem. IP rights give innovators a window of time in which to earn profits high enough to recoup their fixed investments. IP rights compensate successful innovators for both the risks they undertake and their less successful ventures, and motivate them to continue investing in innovative product development.⁶⁷

IP rights significant enough to raise antitrust issues—in other words, those that confer rights over a relevant antitrust market—are of particular importance in this calculus. They are among the most valuable of all IP rights, because they alone will allow IP holders to extract monopoly rents from their customers. As a result, the promise to potential innovators that

66. See, e.g., *id.* at 241-71; Pamela Samuelson, Randall Davis, Mitchell D. Kapur & J.H. Reichman, *A Manifesto Concerning the Legal Protection of Computer Programs*, 94 COLUM. L. REV. 2308, 2405-20 (1994).

67. See generally SUZANNE SCOTCHMER, INNOVATION AND INCENTIVES 31-58 (2004).

they may someday acquire such rights is among the greatest of all motivators driving investment in innovation.

D. The Balancing Test

This detour through economic theory thus defines the relationship between antitrust and IP. In an economic policy designed to promote consumer welfare, antitrust law serves the general purpose of promoting competition, while IP law serves the special purpose of allowing selected participants to avoid competition long enough to overcome the barrier to entering innovative ventures. When the two goals come into conflict in a concrete setting, such as the scenario outlined above in which an IP holder's otherwise appropriate exertion of his IP rights leverages his patent monopoly into an adjacent market, the contours of a balancing test come into focus:

- A ruling that favors antitrust law would prohibit an IP holder from exercising an otherwise valid IP right. This prohibition would reduce the value not only of the specific right in question, but also of all similarly situated rights. These less valuable rights may motivate less innovation. At the same time, they will introduce competition into the adjacent market. The difference between the consumer benefits inherent in increased competition *in the class of similarly situated markets* and the reduced innovation *in the class of similarly situated products* determines whether this solution represents a net consumer cost or benefit—and in either case, by how much.
- A ruling that favors IP law would maintain the quantum of innovation promoted, but eliminate competition in an entire category of markets. The difference between the consumer benefits inherent in competition eliminated *in the class of similarly situated markets* and the innovation motivated *in the class of similarly situated products* indicates whether this solution represents a net consumer cost or benefit—and in either case, by how much.

An appropriate analysis should thus consider both possibilities and choose the one promising the greater net benefit (or the smaller net loss) to consumers. Of course, courts will need substantial expert input to appreciate any of the four legs of this calculation, since all four are likely to implicate complex applications of economic theory—not to mention complex technologies, business realities, and on occasion psychology.

This sort of analysis, though fairly common in antitrust law, is much less common in IP law. It is, in fact, a rule of reason analysis—though not *the*

same rule of reason analysis used to determine whether or not an activity that can be either competitively benign or detrimental to competition violates the antitrust laws.⁶⁸ The adoption of an analytic framework more common to antitrust does not mean that the analysis will necessarily give IP law short shrift—in fact, as we will see in the descriptive part of our discussion, it will not. It is to say, however, that the courts should resolve any situation in which two important bodies of law come into conflict with a fact intensive, case-by-case analysis. An answer that simply asserts a property right as an absolute is facile, and unlikely to serve the public interest. An answer that simply ignores property rights is unlikely to be much better.

The normatively appropriate analysis for these complex cases is thus correspondingly complex. First, the court needs to establish whether the alleged infringer is violating some right that lies within the IP holder's IP grant. Second, the court needs to determine whether the IP holder's behavior violates the antitrust laws, ignoring any potential IP defense. If the court answers both questions in the negative, the analysis is over: no one has violated any laws. If the court answers one question in the affirmative and the other in the negative, the resolution is straightforward: attribute liability to the violator, and move on to remedies. If, however, the court finds affirmative answers to both questions, it must then conduct a further rule of reason analysis, balancing the net cost/benefit analyses of ruling either way against each other.

So much for resolving antitrust/IP conflicts in a manner consistent with the consumer welfare norm. Unfortunately, it is one thing to state a principle and another thing entirely to see how it would work in practice. Obviously, a newly stated approach can have no track record. As far as I know, no attorney has ever briefed these issues, no expert witness has ever testified

68. The origins of the antitrust rule of reason date back to 1918, when Justice Brandeis explained:

[T]he legality of an agreement or regulation cannot be determined by so simple a test, as whether it restrains competition. Every agreement concerning trade, every regulation of trade, restrains. To bind, to restrain, is of their very essence. The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable.

Bd. of Trade v. United States, 246 U.S. 231, 238 (1918). This reasoning is at least as applicable to settings in which IP rights and antitrust laws come into conflict as it is in settings where the costs and benefits of a single regulation or agreement point in different directions.

about them, and no court has ever ruled upon them—at least explicitly. Before considering what bearing, if any, they have on reality, however, we must return to the second part of my conference assignment, and consider the relationship between the balancing of all conflicts at the IP/antitrust interface and the narrower question concerning the normative approach to aftermarket analysis.

III. AFTERMARKET ANALYSIS

A. *The Kodak Watershed*

The 2006 AAI conference was not the first time I considered the normative treatment of aftermarket analysis. Several years ago, I conducted a detailed inquiry into *Kodak* and its early progeny.⁶⁹ That inquiry led me to develop an analytic paradigm for antitrust analysis, which I presented in algorithmic form.⁷⁰ Perhaps because I presented it in algorithmic form, or perhaps because I referred to it as an analytic paradigm, it has lain dormant since first published in 2001 (at least to the best of my knowledge). Nevertheless, I continue to believe that it represents the normatively correct way to think about antitrust analysis, with a particular importance to unsettled areas—such as the question about the ways that aftermarket analyses might differ from those applied to more standard antitrust markets. At the risk of additional decades of dormancy, I will resurrect that paradigm here, still in algorithmic form.

Before I do so, however, a bit of background might be in order. The Eastman Kodak Company was one of several OEMs that manufactured and sold copiers.⁷¹ Kodak also sold replacement parts and repair services for its copiers.⁷² Several independent service organizations (“ISOs”) offered competing repair services for Kodak copiers at prices generally below those that Kodak charged.⁷³ After several years of operating under this market structure, Kodak announced a new policy concerning the sale of replacement parts: henceforth, parts would only be made available to customers who repaired their own Kodak copiers or who employed Kodak’s repair services.⁷⁴ This new policy effectively drove the ISOs out of business, and

69. See generally Abramson, *supra* note 3.

70. See *id.* at 328-29.

71. Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 455 (1992).

72. *Id.*

73. *Id.*

74. *Id.* at 458.

thus raised the repair costs for all consumers who had already purchased Kodak copiers.⁷⁵ The ISOs claimed that Kodak's policy shift constituted an illegal arrangement tying the provision of repair service (which had been sold in a competitive market) to the purchase of spare parts (a market in which Kodak enjoyed a "natural" monopoly), and that it also violated various other provisions of the Sherman Act.⁷⁶ Kodak's counter to the ISOs' claim was straightforward: the ISOs conceded that Kodak was but one of several copier OEMs. Kodak contended that its undisputed lack of market power in the equipment market made it impossible for it to exert any market power in the parts and service aftermarkets. After all, a reputation for exploiting locked-in customers would cost Kodak future equipment sales—and thus be self-defeating.⁷⁷ The Supreme Court rejected Kodak's argument,⁷⁸ and returned the case to the trial court, where the ISOs ultimately prevailed⁷⁹—a victory that the Ninth Circuit largely upheld on appeal.⁸⁰

More to the point, *Kodak* completed a clarification of the standards for antitrust summary judgment that the Supreme Court had begun six years earlier, when contemplating Matsushita's allegedly predatory pricing of televisions.⁸¹ In *Matsushita*, the Supreme Court affirmed summary judgment against a group of antitrust plaintiffs who arrived in court unable to explain how the defendant could ever hope to recoup losses sustained over decades of alleged predation, even though some of the evidence appeared to be consistent with below-cost pricing.⁸² In *Kodak*, the Court refused to allow the summary dismissal of a claim that the defendant's behavior had caused a demonstrable anticompetitive effect, even though no antitrust theory that the Court had ever before entertained could explain the causality.⁸³ As a result, the Court allowed the *Kodak* plaintiffs to forward a new theory—namely that antitrust violations were possible in aftermarkets. "*Matsushita* established that plaintiffs armed with disputed facts but without a plausible theory should

75. *Id.*

76. *Id.* at 459.

77. *See id.* at 465-66.

78. *See id.* at 486.

79. *See Image Technical Servs., Inc. v. Eastman Kodak Co.*, No. C 87-1686, 1996 WL 101173 (N.D. Cal. Feb. 28, 1996) (post-judgment memorandum on motion for permanent injunction).

80. *See Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1224-28 (9th Cir. 1997) (remanding with instruction to modify a permanent injunction).

81. *See Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 585-98 (1986).

82. *See id.* at 595-98.

83. *See generally Eastman Kodak*, 504 U.S. 451.

not be allowed to proceed to trial. *Kodak* established that the Court is willing to hear novel but plausible theories when the facts do not appear to conform to accepted theories.”⁸⁴

One of my foci in that earlier inquiry was the way in which antitrust law adopts new economic theories. I followed the Supreme Court’s discussion from *Matsushita* to *Kodak* (which itself cited quite liberally to *Matsushita*), to extract a paradigmatic algorithm for antitrust analysis:

1. Begin with the consumer protection standard: prohibit activities detrimental to competition. Use this policy norm to guide the rest of the inquiry.
2. Dissect the plaintiff’s allegations:
 - a. Identify the defendant’s allegedly anticompetitive action(s) and/or any empirically observable effects that the plaintiff claims are anticompetitive. Use these facts to guide all further factual inquiries.
 - b. Identify the economic theory that establishes a causal chain from the defendant’s alleged behavior to the observed (or presumed) effects.

If either of these elements is missing, the plaintiff cannot prevail and summary judgment is appropriate. Otherwise, continue the investigation.

3. Look to economic theory to determine the appropriate level of scrutiny to apply to the defendant. If the theory suggests that the defendant is incapable of the anticompetitive behavior alleged, and if there is no empirical evidence of an anticompetitive effect, either dismiss the case or grant summary judgment favoring the defendant. Otherwise, continue the investigation:
 - a. If basic economic theory suggests that scrutiny is warranted (i.e., if the defendant is a monopolist in a relevant market), skip to step 4.
 - b. Otherwise, identify the submarket subject to the effects that the plaintiff identified. Use this identification to specify the appropriate market for antitrust scrutiny.
 - c. Look to economic theory to explain the existence of this submarket (as a distinct antitrust market) and to show a plausible causal link from the alleged behavior in this market to the observed effect.

84. Abramson, *supra* note 3, at 327.

- d. Continue the analysis at step 4 using the refined market definition as the basis for all further analysis.
4. Look to economic theory to determine whether or not the anticompetitive effect attributable to the alleged behavior is: (a) almost certain; (b) possible but not inevitable; or (c) almost impossible. Use this determination to guide the rest of the inquiry:
 - a. If an anticompetitive effect is almost certain, the activity should be per se illegal. With the economic and legal analyses complete, all that remains is a factual inquiry. If the facts sustain the allegations, rule for the plaintiff. Otherwise rule for the defendant.
 - b. If an anticompetitive effect is possible but not inevitable, both economic and factual inquiries are necessary under the rule of reason (or possibly some truncated variant thereof). The plaintiff must prove both aspects of his case to win. A failure on either front should lead to judgment for the defendant.
 - c. If an anticompetitive effect is almost impossible, the activity should be per se legal, and the investigation is over. Grant summary judgment in favor of the defendant.⁸⁵

That algorithm helped me make sense not only of the way that the Supreme Court had added aftermarkets to the pantheon of potentially relevant antitrust markets, but also of the broader manner in which the evolution of economic thinking can help the law to evolve.⁸⁶

My earlier analysis of *Kodak*, however, had combined two distinct goals. The first was to understand the interrelationship among legal precedent, evolving economic theory, and case-specific facts. The second was to assess the post-*Kodak* status of aftermarkets under the antitrust laws. The algorithm served the first of these goals. It laid out a formal framework for incorporating new economic theories into antitrust law. After all, economics is a constantly evolving field. Over time, empirical evidence and cutting edge research discredit old theories and supplant them with new ones. In the decade preceding *Kodak*, the Court had supplanted numerous economic theories rooted in the fragility of markets and the necessity of rigorous antitrust scrutiny with Chicago School arguments rooted in the robustness of markets and the rarity of necessary antitrust interventions.⁸⁷ To the

85. *Id.* at 328-29. I have cleaned up some of the language from the original text, and removed formatting that was necessary to emphasize points irrelevant here. The algorithm's functional steps are identical to those presented in my earlier article.

86. *Id.*

87. *Id.* at 303 n.1.

Chicagoans, competition in the OEM market would discipline all aftermarkets without antitrust intervention. In *Kodak*, the plaintiffs' evidence included a demonstrated restructuring of the competitive environment for servicing Kodak's copiers—an empirical demonstration inconsistent with the Chicago School's theoretical prediction of market self-correction. The Court thus had two choices: it could either wait until the theoretical predictions proved themselves correct (if ever), or it could turn to a new theory. The Court acted in the normatively correct manner—that is, the manner most consistent with its policy norm of protecting consumers and promoting competition—by adopting a “Post-Chicago” analysis rooted in the general robustness of markets but willing to recognize more markets in need of legal intervention than pure Chicagoan analyses would detect.⁸⁸

As to the second of my goals, I concluded that *Kodak* opened more questions about aftermarkets than it answered. In particular, I reached four summary conclusions that bear repeating in a 2007 article considering the collapse of aftermarkets:

- Although *Kodak* is frequently characterized as a tying case, the tying analysis was rather mundane. The key refinement in the Court's analysis lay in its use of a company-specific aftermarket as an appropriate market for antitrust scrutiny.
- *Kodak* does not stand for the principle that *every* aftermarket is an appropriate subject for antitrust scrutiny. It simply establishes that a one-company aftermarket need not be insulated from antitrust scrutiny.
- *Kodak* did not establish that any market subject to lock-in, switching costs, and/or information costs is an appropriate market for antitrust scrutiny. It used these costs as representative economic concepts that were helpful in explaining an empirically observable, yet otherwise seemingly anomalous, change in market structure.
- The apparent importance that *Kodak* places on market definition stresses the centrality of that task to antitrust analysis. Only some markets are susceptible to anticompetitive machinations. If the plaintiff is unable to demonstrate the existence of at least one such market, further expenditures of judicial resources appear to be unwarranted.⁸⁹

88. *Id.* at 327.

89. *Id.* at 329.

These earlier observations complete my toolkit for addressing the normative and descriptive questions with which I opened this paper—though I will need the results of those inquiries before I can address the reflective one. What norm should courts apply when considering allegations that a defendant has leveraged IP rights in one market to anticompetitive effect in an adjacent aftermarket? The algorithm above, filtered through the two-stage rule of reason for IP/antitrust conflicts, points the way. Which past judicial rulings appear consistent with this norm, which appear to deviate from it, and which leave the underlying policy norm ambiguous? The answer to this question is somewhat more elusive, but our development of a normative framework at least makes it possible to chase through case law. In particular, a brief review of four salient stories should provide meaningful insights: *Kodak's* immediate progeny; the *Xerox* controversy; a legal point in *Microsoft*; and the shift in *Illinois Tool Works*.

B. *Kodak's Immediate Progeny*

The first story began to unfold almost immediately. Between June 1992, when the Supreme Court issued its ruling in *Kodak*, and February 2000, when the Federal Circuit's *In re Independent Service Organizations Antitrust Litigation (Xerox)* ruling opened the next chapter of aftermarket analysis with an IP twist,⁹⁰ numerous plaintiffs filed suits under "Kodak-type theories."⁹¹ These suits, which I call "Kodak's immediate progeny," gave numerous trial courts and several appellate circuits the opportunity to add flesh to *Kodak's* bare bones conclusion that antitrust scrutiny might be appropriate in some aftermarkets. Their rulings, more than anything to emerge from the Supreme Court, provide meaning to the term "Kodak-type theory." Most of these courts rejected broad readings of *Kodak*, and instead applied narrow factual analyses to determine whether or not the case-specific facts and economic theories combined to form a plausible claim.⁹²

As part of my prior analysis of *Kodak*, I considered several of these immediate progeny cases in detail.⁹³ My general assessment was that most lower courts agreed that *Kodak* had increased the sophistication allowed in economic analyses of antitrust allegations, altered the balance between

90. *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000).

91. See Abramson, *supra* note 3, at 330-42 (describing the suits).

92. See *id.*

93. See, e.g., *id.* at 333-35 (discussing *PSI Repair Servs., Inc. v. Honeywell, Inc.*, 104 F.3d 811 (6th Cir. 1997); *Digital Equip. Corp. v. Uniq Digital Techs., Inc.*, 73 F.3d 756 (7th Cir. 1996); *Lee v. Life Ins. Co. of N. Am.*, 23 F.3d 14 (1st Cir. 1994)).

theoretical predictions and seemingly anomalous facts, and implicitly recognized my characterization of the analytic paradigm.⁹⁴ Nothing in these progeny opinions suggests that *Kodak* applied only to tying cases, though my review of case law published through the end of 1999 suggested that at least the overwhelming majority of aftermarket plaintiffs brought their cases under tying theories.⁹⁵ This observation led me to conclude:

Kodak's importance lies in the ways that it changed summary judgment adjudication in antitrust cases and increased the number of markets and firms subject to antitrust scrutiny.

The resulting increased scrutiny suggests that although *Kodak* has not been applied broadly in the past, it could be—as long as that breadth is taken to include claims that use contemporary economic theories to explain seemingly anomalous facts and not claims that use those theories as categorical complaints against efficient competitors. Plaintiffs capable of pleading [both the necessary facts and an accepted explanatory theory] should be heard—regardless of the nature of the antitrust violation alleged. Plaintiffs alleging that newly accepted economic theories necessarily invalidate large collections of business practices, without providing any evidence of either an illicit act or an anticompetitive effect, need not be heard.⁹⁶

In short, roughly seven-and-a-half years after the Supreme Court first announced that antitrust scrutiny was appropriate in at least some aftermarkets, few if any plaintiffs had asserted allegedly anticompetitive aftermarket behavior other than tying, with the interesting exception of the plaintiffs in *Kodak* itself. Upon returning from the Supreme Court for trial, the plaintiffs dropped their tying claim against Kodak and proceeded under several alternative unilateral action theories.⁹⁷ Nevertheless, many observers seemed to view this period as the height of antitrust scrutiny of aftermarkets from which the IP grab led to its subsequent collapse.

94. *See id.* at 341.

95. *See id.*

96. *Id.* at 340, 342.

97. *See Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1201 (9th Cir. 1997).

C. The Xerox Controversy

The first signs of a potentially serious IP grab in the world of aftermarkets arrived in February 2000, with the Federal Circuit's ruling in *Xerox*.⁹⁸ The facts in this dispute were quite familiar—in fact, they were almost identical to those in *Kodak*: Xerox, like Kodak, sold copiers in the competitive OEM market.⁹⁹ Xerox, like Kodak, also sold replacement parts, manuals, and repair services. In the repair market, many independent service organizations competed with both Kodak and Xerox. Xerox, again like Kodak, chose to change its policies concerning the availability of replacement parts to third-party service technicians.¹⁰⁰ Finally, the independent service organizations driven from the market for servicing Xerox copiers alleged that Xerox's policy shift had an anticompetitive effect in the service aftermarket—much as those driven from the Kodak copier service aftermarket had sued Kodak.¹⁰¹

At that point, though, things started to diverge. Xerox based its defense of its actions in IP law. According to Xerox, the plaintiffs were complaining because it had conditioned the sale of its patented replacement parts and its copyrighted manuals on the sale of its repair services.¹⁰² Xerox then went even further, and counterclaimed that the plaintiff's attempts to use its IP infringed Xerox's exclusive right to make, use, or sell its own patented products.¹⁰³ Kodak forwarded only an IP-based defense—never an infringement counterclaim—and even its IP defense appeared to be but a small part of the business justification for its actions that it presented to the jury.¹⁰⁴ The Ninth Circuit, which had handled Kodak's case on its way to the Supreme Court, also heard Kodak's appeal from the jury trial that followed the Supreme Court's reversal of the summary judgment in its favor. On this second appeal, the Ninth Circuit fully recognized the complexity of the underlying antitrust/IP conflict:

98. *See In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000).

99. *Id.* at 1324.

100. *Id.*

101. *Compare id.*, with *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 459 (1992).

102. *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d at 1324.

103. *Id.*

104. *See Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1218-19 (9th Cir. 1997).

The effect of claims based upon unilateral conduct on the value of intellectual property rights is a cause for serious concern. Unilateral conduct is the most common conduct in the economy. After [the Supreme Court's ruling in] *Kodak*, unilateral conduct by a manufacturer in its own aftermarket may give rise to liability and, in one-brand markets, monopoly power created by patents and copyrights will frequently be found. Under current law the defense of monopolization claims will rest largely on the legitimacy of the asserted business justifications

Without bounds, claims based on unilateral conduct will proliferate. The history of this case demonstrates that such claims rest on highly disputed factual questions regarding market definition. Particularly where treble damages are possible, such claims will detract from the advantages lawfully granted to the holders of patents or copyrights by subjecting them to the cost and risk of lawsuits based upon the effect, on an arguably separate market, of their refusal to sell or license. The cost of such suits will reduce a patent holder's "incentive . . . to risk the often enormous costs in terms of time, research, and development." Such an effect on patent and copyright holders is contrary to the fundamental and complementary purposes of both the intellectual property and antitrust laws, which aim to "encourag[e] innovation, industry and competition."¹⁰⁵

With this concern at the forefront of its appellate review, the Ninth Circuit then examined the facts of the case, the parties' presentations to the jury, and the judge's jury instructions. The court concluded that, given the specifics of the case, the judge had erred in underplaying Kodak's IP defense, but that the error was harmless; the jury understood the point, rejected it, and found Kodak liable for violating the antitrust laws.¹⁰⁶

Xerox fared better in its own journey through the courts. Because of Xerox's patent-law defense and counterclaim, the appeal in its case went to the Federal Circuit.¹⁰⁷ The court cut straight to the heart of Xerox's infringement counterclaim:

105. *Id.* at 1217-18 (second alteration in original) (citations omitted).

106. *See id.* at 1218-20.

107. Though no one challenged this appellate path at the time, the Supreme Court subsequently ruled that a trial's appellate path rests entirely upon the plaintiff's claim, not the defense. Appeals from antitrust claims raising no patent issues brought today would go to the regional circuits, even if the defendant subsequently implicated matters of patent law. *See Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829-34 (2002).

In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws. We therefore will not inquire into his subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect, so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant. It is the infringement defendant and not the patentee that bears the burden to show that one of these exceptional situations exists and, in the absence of such proof, we will not inquire into the patentee's motivations for asserting his statutory right to exclude. Even in cases where the infringement defendant has met this burden, which CSU has not, he must then also prove the elements of the Sherman Act violation.

We answer the threshold question of whether Xerox's refusal to sell its patented parts exceeds the scope of the patent grant in the negative. Therefore, our inquiry is at an end. Xerox was under no obligation to sell or license its patented parts and did not violate the antitrust laws by refusing to do so.¹⁰⁸

The Federal Circuit's protestations to the contrary notwithstanding, many observers saw this ruling as inconsistent with the Ninth Circuit's finding of Kodak's antitrust liability on facts that were hard to distinguish from those in *Xerox*.¹⁰⁹ That perception, however, is hardly the only one possible. In fact, a very different picture emerges from reading these two opinions at face value. Under an objectively neutral reading, both courts recognized the room for tension between an otherwise legitimate exertion of IP rights and anticompetitive effects in a single-supplier aftermarket, and both concluded that the resolution lies in fact-specific analyses.¹¹⁰ In *Kodak*,

108. *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d at 1327-28 (footnote and citation omitted).

109. *Compare id.* at 1324, with *Image Technical Servs.*, 125 F.3d at 1200-01.

110. *Compare In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d at 1325 ("Intellectual property rights do not confer a privilege to violate the antitrust laws. . . . The patent right must be coupled with violations of § 2, and the elements of violation of 15 U.S.C. § 2 must be met." (citations and internal quotation marks omitted)), with *Image Technical Servs.*, 125 F.3d at 1216 ("Courts do not generally view a monopolist's unilateral refusal to license a patent as 'exclusionary conduct.' This basic right of exclusion does have limits. . . . Section 2 of the Sherman Act condemns exclusionary conduct that extends natural monopolies into separate

a jury concluded that the plaintiffs presented strong evidence of an antitrust violation, while Kodak presented only weak evidence of a defense rooted in IP.¹¹¹ The appellate court affirmed.¹¹² In *Xerox*, the district court granted summary judgment because Xerox had presented strong evidence of infringement, while the plaintiffs presented only weak evidence of an anticompetitive effect.¹¹³ The appellate court affirmed.¹¹⁴ In other words, it is entirely possible that despite the similarity between the facts in these cases as they unfolded in the real world, the legal presentations of the parties differed greatly—and proved to be dispositive.

If we assume—for just a moment—that both appellate opinions meant what they said, then their conclusions appear to be not only consistent, but mutually reinforcing of the normatively correct approach. Both courts recognized that ruling in favor of the IP holder would risk reduced competition and higher prices in the aftermarket in question. Both courts also recognized that ruling in favor of the antitrust plaintiffs would reduce the value of the IP in question, and thus the incentives on offer to all similarly situated IP holders. Under a rule of reason balancing test—which we asserted above is normatively correct, but that neither court embraced explicitly—the courts *should have* reviewed the evidence and considered the strength of the two arguments. Had a single court applied such a test explicitly, it would likely have concluded that the best way to preserve *most* competition and *most* motivation would be to allow a convincing showing of anticompetitive effect to override weakly asserted IP claims, *and* to allow solid IP claims to override poorly substantiated antitrust allegations.

Of course, the downside of such a ruling is that it creates uncertainty. How should a third copier manufacturer—or any other OEM whose products beget aftermarkets—know whether it is closer to *Kodak* or to *Xerox*? The answer is straightforward, if intellectually unsatisfying: it cannot. The very nature of a rule of reason analysis creates uncertainty. As time progresses and lawsuits proliferate, market participants will gain data with which to gauge the propriety or impropriety of their behavior.

In the meantime, it appears that though *Xerox* grabbed authority for IP holders that *Kodak* did not, it was normatively correct to do so. Had the Federal Circuit followed a strong-form reading of the Ninth Circuit's *Kodak*

markets. Much depends, therefore, on the definition of the patent grant and the relevant market.” (citations omitted).

111. See *Image Technical Servs.*, 125 F.3d at 1218-20.

112. *Id.*

113. *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d at 1324.

114. *Id.*

opinion, the implicit emerging rule would have been that there is no difference between IP rights and other property rights in antitrust analysis *and* that there is no difference between an aftermarket emerging solely from an IP right and any other market. Such an antitrust supremacist view would likely have reverberated throughout the world of potential innovators to effect an undesirable reduction in the motivation to invest in innovation. The different fact-specific analyses that the Ninth and Federal Circuits followed to differing outcomes maintain the notion of a balancing test based upon a rule of reason.

D. A Legal Point in Microsoft

The third important aftermarket story, *Microsoft*, is the mother of all antitrust battles.

Almost any mention of the Microsoft trial to an audience of antitrust lawyers and economists induces temperatures to rise, passions to flare, and swords to be drawn. It also risks derailing any conversation because the case remains so rich in controversy that it is almost impossible to discuss simply and civilly. Nevertheless, a laser-like focus on the law, to the exclusion of either the facts or the application of the law to the facts, might allow me to comment quickly on *Microsoft* without becoming mired in controversy.

The single principle relevant to our present inquiry is the D.C. Circuit's announcement that "the rule of reason, rather than per se analysis, should govern the legality of tying arrangements involving platform software products."¹¹⁵ Though I found—and find—this announcement questionable as a statement of antitrust law, I also consider it unassailable as a matter of antitrust economics. Most if not all antitrust economists believe that applicable Supreme Court precedent is mistaken to have categorized tying as per se illegal; in fact, the debate splitting the community is whether the proper categorization is rule of reason or per se legality.¹¹⁶ Because I belong to the former camp, I also see the D.C. Circuit's announcement as a step in a

115. United States v. Microsoft Corp., 253 F.3d 34, 84 (D.C. Cir. 2001) (per curiam).

116. See, e.g., David S. Evans & A. Jorge Padilla, *Designing Antitrust Rules for Assessing Unilateral Practices: A Neo-Chicago Approach*, 72 U. CHI. L. REV. 73, 80 (2005) ("The Chicago and post-Chicago literatures have relied on economic theory to question the intuitions of the pre-Chicago approach. Both literatures emphasize efficiency as the ultimate objective of antitrust and reject most pre-Chicago per se illegality rules concerning unilateral practices. Yet where the Chicago School tended to advocate per se legality, post-Chicago thinking enthuses over rule of reason analyses." (citing William E. Kovacic & Carl Shapiro, *Antitrust Policy: A Century of Economic and Legal Thinking*, 14 J. ECON. PERSP. 43, 57-58 (2000))).

normatively correct direction. Tying claims, particularly those in single-company aftermarkets, should always be subject to rule of reason analyses. Though the strong-form Chicagoan claim that competitive OEM markets will always discipline all aftermarkets appears inconsistent with empirical evidence, it is likely overstated, rather than wrong. Empirical evidence also suggests that competitive OEM markets will discipline at least many aftermarkets. A rule of reason analysis merely recognizes that aftermarkets are subject to some autocorrective measures that do not exist in other markets—and then asks whether the case-specific facts demonstrate market discipline or a need for antitrust intervention. Though not explicitly an IP grab, *Microsoft* did add to the slow collapse of aftermarket liability—and once again, the change that it wrought appears to be normatively correct.

E. The Shift in Illinois Tool Works

The fourth, and most recent story, returns us foursquare to the IP/antitrust conflict in a fairly stark manner. The issue that the Supreme Court addressed in *Illinois Tool Works* arose from an anomaly in the development of the law, a setting in which antitrust and IP combined to produce a logical inconsistency. For nearly twenty years, the mere possession of a patent *has not* sufficed to define a relevant market in an allegation of patent misuse—a question of patent law.¹¹⁷ The mere possession of a patent *has* sufficed to establish a relevant market in an allegation of tying—a question of antitrust law.¹¹⁸ And every (or at least, almost every) court and commentator to consider allegations of patent misuse and tying simultaneously has concluded that they are subject to identical analyses.¹¹⁹ *Independent Ink* availed itself of this anomaly. It brought an aftermarket tying claim against Trident, asserting without

117. See 35 U.S.C. § 271(d)(5) (2000):

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . . (5) conditioned 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, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

118. See *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1350-52 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1281 (2006).

119. See, e.g., *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 511-12 (7th Cir. 1982).

proffering further evidence that Trident's patented products defined a relevant market.¹²⁰

Unfortunately for Independent Ink, the Supreme Court used its case as the vehicle for removing the legal anomaly. IP law "grabbed" the rule from antitrust law. The mere possession of a patent no longer suffices to establish a relevant market for the purposes of any claims, whether brought under patent law or antitrust law.¹²¹ Once again, an aspect of the analysis has gravitated from *per se* to rule of reason. Is this shift normatively correct? The answer hinges upon a standard calculus. Bright line *per se* rules are appropriate only when the activities in question are so likely to be objectionable, and so unlikely to be justifiable, that the expenditure of additional legal and judicial resources is unlikely to excuse the defendant's behavior—and is, in fact, more likely to lead to errors than to epiphanies.¹²² It seems unlikely that behavior related to conditioning sales in aftermarkets derived from patents meets such a rigorous test. Under the new set of rules, plaintiffs alleging anticompetitive effects in such markets will have the opportunity to prove their cases. Defendants will have the opportunity to counter, and to justify their behavior. Once again, this substitution of fact-specific analysis for bright line rules appears to preserve the balance between competition and innovation, albeit at the expense of a bit of uncertainty.

F. Case Law in a Nutshell

It thus appears that at least the major milestones in the post-*Kodak* evolution of antitrust law's treatment of single-firm aftermarkets born of IP lie in a normatively correct direction. The *Kodak* watershed established the principle that single-product aftermarkets were not immune from antitrust inquiries. Each of the major rulings since then, including the progeny cases spread across numerous courts—the Ninth Circuit's ruling in *Kodak*; the Federal Circuit's ruling in *Xerox*; the D.C. Circuit's ruling in *Microsoft*; and the Supreme Court's ruling in *Illinois Tool Works*—emphasized that

120. See *Indep. Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1159-60 (C.D. Cal. 2002) (denying Independent Ink's motion for summary judgment).

121. See *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1284, 1293 (2006).

122. See, e.g., *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150, 224 n.59 (1940) ("Whatever economic justification particular price-fixing agreements may be thought to have, the law does not permit an inquiry into their reasonableness. They are all banned because of their actual or potential threat to the central nervous system of the economy."). For discussions of the decision-theoretic nature of *per se* rules, see generally Abramson, *supra* note 3, and C. Frederick Beckner III & Steven C. Salop, *Decision Theory and Antitrust Rules*, 67 ANTITRUST L.J. 41 (1999).

inquiries into allegedly anticompetitive behavior in single-firm aftermarkets are subject to rule of reason analyses. In applying this rule of reason, however, three of these cases—*Xerox*, *Microsoft*, and *Illinois Tool Works*—made life a bit easier for IP holders accused of anticompetitive behavior, and a bit harder for competitors accused of infringement. These results alone seem sufficient to warrant an inquiry into collapsing aftermarkets and IP grabs.

At the same time, only one of these high-profile IP holders, namely Xerox, emerged absolved of antitrust liability and free to enjoin further infringement.¹²³ Kodak's weak IP claims proved unavailing, and it ended the day liable for violating the antitrust laws.¹²⁴ Microsoft and Trident both followed the path that the Supreme Court set in *Kodak*: they won a procedural point, and then returned to the trial court for a ruling on the merits. As most people know by now, Microsoft eventually settled its case with the government before the trial court reached a new ruling on the merits.¹²⁵ The resolution of the dispute between Trident and Independent Ink remains pending as of late 2006. From this perspective, the collapses and the grabs appear overblown: four major cases, one victory for the IP holder, one for the antitrust plaintiffs, two undecided. Big deal.

Yet concerns abound. Patrick Moran spoke for large parts of the antitrust community in 2003:

[T]he Federal Circuit and Ninth Circuit have reached diametrically opposed holdings in cases involving essentially identical fact patterns and legal issues. This graphically illustrates the potential for conflict between the patent laws and the Sherman Act. Although both bodies of law serve important social goals, these goals must be harmonized. The Federal Circuit's [*Xerox*] decision does not contribute to these goals in any meaningful way. The [*Xerox*] decision serves only to extend the already expansive patent holder rights beyond those intended by modern Congress while ignoring competitive concerns. . . . In addition, patent holders will be allowed to

123. See *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1324 (Fed. Cir. 2000) (affirming the district court's grant of summary judgment to Xerox).

124. See *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1200 (9th Cir. 1997).

125. See *New York v. Microsoft Corp.*, 231 F. Supp. 2d 203, 204-05 (D.D.C. 2002).

create and extend monopolies unimpeded, to the detriment of small businesses.¹²⁶

The AAI's conference title suggests that its leaders, at least, continue to share Moran's concerns.

That observation leads into my reflective question: Why do many people seem to believe that the recent jurisprudential trend in this area is leading to public policies inconsistent with the recommended norm? After all, the rules as stated appear consistent with a consumer welfare norm, and a straightforward reading of the highest profile developments in case law describe a body of law unfolding reasonably. To the best of my knowledge, the AAI has never articulated an antitrust supremacist view, and has never advocated a return to the era of the Nine No-Nos—in fact, it proudly proclaims itself part of the Post-Chicago school.¹²⁷ If, as most reasonable people would agree, IP rights do raise at least some concerns distinct from those attached to other forms of property, and if single-company aftermarkets differ from OEM markets in at least some respects, why should anyone object to an emerging rule of reason governing the use of IP rights to gain a competitive advantage in single-company aftermarkets?

As with most reflective exercises, the answers are complex combinations of the perceiver's psychology and of the broad environment within which those perceptions arise. Here, the "perceiver" is the AAI, standing as a proxy for all Post-Chicago School antitrust experts,¹²⁸ and the legal and institutional structures governing IP law define the environment. Within that environment, two broad questions arise: how are the courts treating the needs of competitive marketplaces when they conflict with the desires of copyright holders? and, how are the courts treating the needs of competitive marketplaces when they conflict with the desires of patentees? These environmental questions, in turn, feed the ultimate reflective query: how should a good Post-Chicagoan feel about these developments? The answers to these questions define the remainder of our inquiry.

126. Patrick H. Moran, Comment, *The Federal and Ninth Circuits Square Off: Refusals to Deal and the Precarious Intersection Between Antitrust and Patent Law*, 87 MARQ. L. REV. 387, 410-11 (2003).

127. See Albert A. Foer & Robert H. Lande, *New Antitrust Institute Envisions a Post-Chicago Future*, LEGAL TIMES WASH., Nov. 2, 1998, available at <http://www.antitrustinstitute.org/Archives/10.ashx>.

128. *Id.*

IV. THE COPYRIGHT GRAB?

A. *Grabbing by Statute*

One question that occurred to me when I started thinking through phrases like “IP grab” and “collapsing of aftermarket” was that a focus on the usual suspects might be a bit too narrow to capture the problem. After all, while the Federal Circuit’s role in the *Kodak/Xerox* controversy may loom large in the world of patents, patents themselves are but a single world within the IP universe. Other worlds—in particular, the world of copyright—can also offer significant insights into whether the allegations that IP is interfering with competition are reality or illusion.

The conflict—and even the potential for conflict—between copyrights and competition is of relatively recent vintage. Throughout most of the history of IP law, patents protected functional innovations while copyrights protected specific expressions. With few exceptions, the realm of expression is tough to monopolize, at least in the technical sense necessary to implicate antitrust law. Software changed all of that; it is both copyrighted and functional. Somewhere around 1990, some federal courts began to rule that software companies that attempted to leverage their copyrighted software into positions of unearned dominance were guilty of “copyright misuse.”¹²⁹ The first few cases treaded somewhat lightly. They looked at narrow, specialized software for computer assisted design and computer assisted manufacturing (“CAD/CAM”),¹³⁰ for medical practice management,¹³¹ and for technical equipment diagnosis and repair.¹³² The courts concluded that the companies that made the dominant software packages in each of these markets had tried to force its customers either to accept terms or to buy products that they did not want. The courts ruled that these actions

129. See Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865, 867 (2000) (arguing that copyright misuse is not a new judicial doctrine, but rather an application of the longstanding equitable doctrine of unclean hands in an area in which it had rarely if ever been necessary before the advent of software).

130. See *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 971 & n.2 (4th Cir. 1990).

131. See *Practice Mgmt. Info. Corp. v. Am. Med. Ass’n*, 121 F.3d 516, 517 (9th Cir. 1997).

132. See *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 777 (5th Cir. 1999).

constituted copyright misuse, and announced that they would not enforce the copyrights until the misusers fixed the broken markets.¹³³

The refusal to enforce an IP right due to misuse is a fairly standard remedy in patent law,¹³⁴ and many legal analysts have noted the similarities between misuse analyses and antitrust tying analyses.¹³⁵ The recent history of IP misuse doctrines is an interesting topic in its own right, and one that is certainly relevant to the AAI's perception that IP is grabbing verdicts away from antitrust victims, but it is beyond the scope of this Article. Sometimes, however, it is wisest to save some discussions for another article—and since IP misuse implicates only issues related to competitiveness rather than antitrust law itself, the topic seems a reasonable candidate for such a deferral. Suffice it to say, however, that unlike copyright misuse, which has recently sprung to life, patent misuse has fallen into disuse: in its twenty-four year history, the Federal Circuit has found only one instance of patent misuse, and that was in 1986.¹³⁶ For the purposes of our present inquiry, the primary import of the recent awakening of copyright misuse is that the concern for maintaining competitive markets seems to be grabbing at least some verdicts away from IP holders.

Such appearances, however, can be deceiving—or at the very least, misleading. Copyright misuse—a doctrine on which the Supreme Court has yet to comment—remains an interesting sideline in the looming conflict between functional copyrights and competitive markets. The real action lies in the statutory realm, and in particular the “anticircumvention provisions” that Congress first introduced as part of the Digital Millennium Copyright Act of 1998 (“DMCA”).¹³⁷ The DMCA introduced a lengthy and complex

133. See *id.* at 792-95 (diagnostic switching equipment); *Practice Mgmt.*, 121 F.3d at 520-21 (coding system for medical procedures); *Lasercomb*, 911 F.2d at 977-79 (CAD/CAM).

134. See ABRAMSON, DIGITAL PHOENIX, *supra* note 48, at 267-69.

135. See *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 511-12 (7th Cir. 1982).

136. For a discussion of the patent misuse doctrine, see *supra* note 13 and the sources cited therein.

137. The main provisions include:

§ 1201. Circumvention of copyright protection systems

(a) Violations regarding circumvention of technological measures.—(1)(A) No person shall circumvent a technological measure that effectively controls access to a work protected under this title. . . .

. . . .

(2) No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that—

set of provisions designed to punish those who “circumvent” a copyright holder’s attempts to protect his copyrighted works. At first glance, this radical addition to the world of copyright enforcement may appear to have little if anything to do with antitrust, much less with the treatment of antitrust allegations in aftermarkets defined by IP rights. Nevertheless, a second glance is warranted. The anticircumvention provisions have already birthed the most serious threat to aftermarket competitors since long before the Supreme Court first recognized their viability in *Kodak*.¹³⁸

B. Prelude to a Grabbing

A bit of history may help frame that second glance. Copyright law as we know it started in England in 1710, with the Statute of Anne.¹³⁹ It gained clarity through several high profile mid-eighteenth century lawsuits pitting guild publishers against their non-guild competitors.¹⁴⁰ The outcomes of these suits were very much in the minds of our own founding fathers when they penned the U.S. Constitution’s IP clause,¹⁴¹ and of the First Congress

(A) is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under this title;

(B) has only limited commercially significant purpose or use other than to circumvent a technological measure that effectively controls access to a work protected under this title; or

(C) is marketed by that person or another acting in concert with that person with that person’s knowledge for use in circumventing a technological measure that effectively controls access to a work protected under this title.

(3) As used in this subsection—

(A) to “circumvent a technological measure” means to descramble a scrambled work, to decrypt an encrypted work, or otherwise to avoid, bypass, remove, deactivate, or impair a technological measure, without the authority of the copyright owner; and

(B) a technological measure “effectively controls access to a work” if the measure, in the ordinary course of its operation, requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work.

17 U.S.C. § 1201 (Supp. IV 1998).

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

139. Statute of Anne, 1710, 8 Ann., c. 19 (Eng.) (“An Act for the Encouragement of Learning”).

140. See PAUL GOLDSTEIN, *COPYRIGHT’S HIGHWAY: FROM GUTENBERG TO THE CELESTIAL JUKEBOX* 43-51 (1994).

141. See U.S. CONST. art. I, § 8, cl. 8.

when it enacted the Copyright Act of 1790. Over the years, Congress occasionally codified (and much less frequently overruled) further judicial developments and expanded the Copyright Act's scope to accommodate new media and technologies. By the time that Congress passed the Copyright Act of 1976,¹⁴² the regime's contours were familiar. Creators or their assigns, including musicians, artists, and filmmakers in addition to authors, owned exclusive but incomplete rights to their works for a fixed period of time. The incompleteness allowed the public to make "fair use" of copyrighted works even without authorization, and the possibility of assignment meant that most commercially viable copyrights belonged not to creators, but rather to publishing houses, record companies, and movie studios.

In many ways, the 1976 revisions to the Copyright Act marked the culmination of nearly three centuries of deliberation, debate, scholarship, and legal development. By the 1970s, creators knew more or less which rights they retained; the public knew more or less which rights it retained. Traditional copyrights and traditional fair uses led to occasional marginal disputes, but nevertheless combined to form a relatively predictable system underpinning creative industries that also served many public interests.

While this deliberation and debate dominated selected legal circles, technologists were also keeping themselves busy. Between the late nineteenth and the late twentieth centuries, the cost of copying text, image, music, and video spiraled downward; the mass production of creative works no longer required significant capital outlays. With each cost reduction, members of the public discovered new capabilities. They learned to copy, distribute, reconfigure, and combine creative works—works that copyright protected—in new, efficient, and inexpensive ways. Each of these new uses led to a new clash pitting copyright holders asserting a lack of authorization against accused members of the public citing a higher purpose of public policy.¹⁴³ The courts continued to evaluate these claims on an ad hoc basis. Finally, roughly 185 years after first codifying the basics of copyright, Congress took it upon itself to codify the lessons of fair use that the courts had teased from these many cases; the Copyright Act of 1976 contained a new, statutory fair use provision.¹⁴⁴

The years following the 1976 congressional imprimatur on fair use proved tumultuous for copyright holders and the public alike. Copying

142. Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C. §§ 101-810 (2000)).

143. See generally JESSICA LITMAN, DIGITAL COPYRIGHT 35-63 (2001) (presenting an abbreviated history of United States copyright law in the twentieth century).

144. See 17 U.S.C. § 107 (1976).

technology continued to improve in quality, expand in scope, and decline in price. Mass production of text, pictures, music, and film became progressively easier, and the capital required to own and master the necessary technology plummeted. Copyright holders waged a massive attack on one such technology, the Betamax VCR.¹⁴⁵ They claimed—correctly—that Sony’s recorder rendered trivial the unauthorized reproduction of their copyrighted work.¹⁴⁶ Sony conceded that point, but asserted—equally correctly—that its VCRs also enabled numerous non-infringing and otherwise fair uses.¹⁴⁷ The copyright holders conceded *that* point, thereby reducing the entire dispute to a critical policy question: should it be legal for Sony to manufacture and sell a device that facilitates infringement? Would not such a machine lead to myriad infringements, and force the copyright holders to chase millions of small infringers in suits across the country? Or should the law terminate the development and commercialization of a potentially useful and popular technology simply to prevent its likely misuse? By a vote of 5-4, the Supreme Court ruled in favor of Sony,¹⁴⁸ setting the dominant contemporary test for new technologies: Any technology that enables “substantial noninfringing uses” is legal, even if it also paves the way for significant infringement.¹⁴⁹ The copyright holders stewed over this loss, but quickly accommodated themselves to the new technological terrain and learned how to profit despite this setback.

Sony put copyright law on notice: technology was attacking its very foundation. With each passing year, the mass production of high quality copies got easier and less expensive. In the mid-1990s, when Congress next reconsidered the Copyright Act, copyright holders arrived armed with a laundry list of measures that recognized the imminent technological threat.¹⁵⁰ Anticircumvention was among their leading desiderata for a preemptive attack.¹⁵¹

The anticircumvention provisions created a new claim for copyright holders; they allowed copyright holders to prohibit people from using otherwise legal technologies, and in some cases, to outlaw those technologies in their entirety. Subject to numerous qualifications and exceptions, these new provisions made it a violation for people to “circumvent a technological

145. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 420 (1984).

146. *Id.*

147. *Id.* at 423-24.

148. *Id.* at 420-21.

149. *Id.* at 456.

150. See LITMAN, *supra* note 143, at 128-35.

151. See, e.g., *id.* at 131-33.

measure that effectively controls access to a [copyrighted] work.”¹⁵² They also prohibited various activities related to helping others circumvent such access controls—and, in particular, to aiding circumvention by developing and circulating enabling technology.¹⁵³ Like most new statutes, the DMCA’s language included a certain amount of ambiguity; the sheer complexity of the task that it undertook injected even more uncertainty into its actual scope or meaning.

There could be little doubt that the DMCA’s anticircumvention provisions represented copyright law’s response to the challenge of technology. Numerous commentators noted that the effect of these provisions seemed inherently expansive, and that they would soon curtail many uses that would otherwise have qualified as fair. These comments began to foreshadow the DMCA’s imminent impact on aftermarket analysis.

Professor Jane Ginsburg, for example, conceded that the DMCA could in theory have unintended and undesirable effects, but shed few tears for those hurt only in theory:

As a general matter, one should recognize that, in granting copyright owners a right to prevent circumvention of technological controls on “access,” Congress may in effect have extended copyright to cover “use” of works of authorship In theory, copyright does not reach “use”; it prohibits unauthorized reproduction, adaptation, distribution, and public performance or display Not all “uses” correspond to these acts. But because “access” is a prerequisite to “use,” by controlling the former, the copyright owner may well end up preventing or conditioning the latter.

. . . .

. . . From a user’s point of view, the owner’s “bundle of rights” never extended to *all* uses of works; owners now are relying on legal protection of technological measures to secure the airtight coverage the substantive law never previously afforded. From a copyright owner’s point of view, if in the past low technology imposed a tolerance for widespread copying, that state of affairs should not be confused with a legal *right* to engage in widespread convenience copying. Newer technology undermines the factual premise for

152. 17 U.S.C. § 1201(a)(1)(A) (Supp. IV 1998).

153. *See id.* § 1201(a)(2)(C).

the tolerance; if the tolerance is to persist as a prerogative, it requires a legal basis.¹⁵⁴

David Nimmer, on the other hand, saw numerous grounds for potential concern:

Historically, copyright owners have always had the right to retain their works confidentially. . . . Once those same owners consented to initial publication of the work, however, they have historically lost control over its subsequent flow. . . . [Thus,] traditional copyright law accorded the public substantial leeway in browsing published works.

The digital revolution places unprecedented stress on those browsing activities. Potentially, it allows copyright owners to control the flow not merely of their unpublished manuscripts, but more importantly, of their published works as well. If copyright owners package their “published” goods in digital envelopes accessible only through passwords, then perhaps they can, indeed, levy a unilateral royalty upon such activities as resales and reviews. . . . 155

. . . .
These fundamental questions exert practical consequences. Under the first point of view, any danger to the public’s right to browse posed by the digital environment must be negated. . . . Under the second point of view, by contrast, the marketplace can be left to develop—if browsing rights are extinguished in the process, the only lesson to derive is that the economics evidently have changed. . . . 156

. . . .
. . . The user safeguards [that Congress] so proudly heralded as securing balance between owner and user interests, on inspection, largely fail to achieve their stated goals.¹⁵⁷

The first few courts to consider the new statute encountered it in settings quite close to those that Congress had anticipated when it incorporated

154. Jane C. Ginsburg, *Copyright Legislation for the “Digital Millennium”*, 23 COLUM.-VLA J.L. & ARTS 137, 143, 154 (1999).

155. David Nimmer, *A Riff on Fair Use in the Digital Millennium Copyright Act*, 148 U. PA. L. REV. 673, 710-12 (2000) (footnotes omitted).

156. *Id.* at 714-15 (footnote omitted).

157. *Id.* at 739.

anticircumvention into the Copyright Act.¹⁵⁸ These courts not only ruled in favor of the copyright holders, but also applied language and created a trail of dicta more sympathetic to anticircumvention than to fair use. Courts quickly ruled that the anticircumvention provisions prohibited Streambox's virtual VCR from capturing images streamed over the RealNetworks player,¹⁵⁹ and more significantly, they rendered illegal an open source program that enabled users to decrypt and copy DVDs without the explicit authorization of the movie studios.¹⁶⁰

The DVD case, though by far the better known and more significant of the two, was representative of the sorts of activities that the new laws had rendered illegal. The defendants had argued that they were simply providing a technology protected under the *Sony* standard, a technology that enabled significant noninfringing uses along with the infringements that had landed them in court.¹⁶¹ They also argued that many of their customers were simply making fair use of copyrighted works—by, for example, decrypting legally purchased copies of DVDs to view on unauthorized playback devices.¹⁶² Trial and appellate judges alike appeared unmoved by these arguments. The defendants had developed and circulated decryption devices that circumvented algorithms put in place specifically to “control access” to copyrighted works.¹⁶³ The prima facie case for circumvention was strong, the defenses inadequate, and the plaintiffs won.¹⁶⁴

Though the anticircumvention provisions might thus have made life more difficult for competitors in select areas of software and digital entertainment, neither antitrust law nor aftermarkets were really at issue: Congress had resolved any potential conflict in favor of the copyright holders. Even the next wave of DMCA discussions veered in directions other than antitrust aftermarkets; they involved third-party liability, and attacked the specific technology of Peer-to-Peer (“P2P”) file-sharing. Whereas more than a century of new technologies had reduced the ease of *copying* copyrighted materials, P2P was the first to eliminate the barriers to the massive *distribution* of copyrighted materials. From its inception in 1999, the

158. See, e.g., *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294, 319 (S.D.N.Y. 2000), *aff'd sub nom. Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001); *RealNetworks, Inc. v. Streambox, Inc.*, No. 2:99CV02070, 2000 WL 127311, at *7-8 (W.D. Wash. Jan. 18, 2000).

159. See *RealNetworks*, 2000 WL 127311, at *8-10.

160. See *Reimerdes*, 111 F. Supp. 2d at 345-46.

161. See *id.* at 322.

162. See *id.*

163. See *Corley*, 273 F.3d at 436-37, 441-42.

164. See *id.* at 458-60.

majority of digital products distributed through P2P systems have been music files, covered by copyright and distributed without authorization. The first such system, Napster, met its demise rather quickly, when a trial court in San Francisco and the Ninth Circuit both ruled that its implementation of P2P rendered it liable for its users' infringement.¹⁶⁵ New systems using different P2P implementations arose to take its place. In *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*,¹⁶⁶ the Supreme Court refused to rule on either P2P itself or the implementations at issue, but announced that business plans predicated upon encouraging infringement might subject their users to third-party liability.

Copyright holders started pressuring Congress to include an explicit indirect infringement provision into the Copyright Act.¹⁶⁷ Debate on such a provision continues—and in ways that are likely to prove relevant to both antitrust law and aftermarket.¹⁶⁸ For though third-party liability may have been the specific impetus for this push, its general thrust is toward increasingly draconian enforcement of copyrights in the face of new technological opportunities.¹⁶⁹ Anticircumvention remains one of the key areas in which copyright holders continue to clamor for increased enforcement rights—in large part because of the ways that these rights interact with aftermarket.

C. The Great Attempted Copyright Grab

The early developments in anticircumvention law thus occurred in the realms of software and entertainment that had occupied the forefront of congressional attention during the deliberations over the DMCA. Nevertheless, the results piqued the curiosity of a broader class of copyright holders. In early 2003, two consumer goods manufacturers filed suit under the anticircumvention provisions.¹⁷⁰ In both cases, the manufacturers had built weak encryption into base products in order to monopolize their aftermarket. When competitors broke the encryption algorithms and launched competing aftermarket products, the OEMs sued.

165. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019-28 (9th Cir. 2001).

166. 545 U.S. 913, 919 (2005).

167. See Declan McCullagh, *Copyright Office Pitches Anti-P2P Bill*, CNET NEWS.COM, Sept. 2, 2004, http://news.com.com/2100-1027_3-5345528.html.

168. See generally The Importance of . . . , The INDUCE Act (IICA) and the Anti-Circumvention Provisions of the DMCA, http://importance.corante.com/archives/2004/06/30/the_induce_act_iica_and_the_anticircumvention_provisions_of_the_dmca.php (June 30, 2004).

169. See McCullagh, *supra* note 167.

170. See *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Cir. 2004); *Chamberlain Group, Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178 (Fed. Cir. 2004).

In one case, Chamberlain, which manufactures automatic garage door openers, introduced a transmitter that it claimed could confound illicit entry.¹⁷¹ Skylink hacked its way around Chamberlain's algorithm and sold universal clickers capable of operating multiple types of garage door base units—including Chamberlain's.¹⁷² In the other case, the printer company Lexmark encrypted the handshake between its printers and replacement toner cartridges.¹⁷³ Static Control Components decrypted the handshake and sold replacement cartridges compatible with Lexmark's printers.¹⁷⁴ Both plaintiffs forwarded the same DMCA argument. Their products contained embedded software, which, like all software, was copyrighted. Their encryption algorithms controlled access to their copyrighted software. Anyone who decrypted these algorithms to interact with the software therefore circumvented their access controls. Anyone who sold devices that enabled such circumvention was a trafficker subject to DMCA liability.¹⁷⁵

These prima facie cases sounded strong, and the policy implications seemed obvious. The DMCA had destroyed the possibility for competitive aftermarkets. Increasing numbers of products contain embedded software (i.e., any product that contains a microchip), and much of that software must communicate with other products. According to Chamberlain and Lexmark, the DMCA provided manufacturers with an ironclad way to restrict the devices with which its own devices may communicate.¹⁷⁶

No one believed that Congress had anticipated this outcome—including Professor Ginsburg, who testified:

I do not believe that [the anticircumvention provision] covers the circumvention of a technological measure that controls access to a work not protected under [the Copyright Act]. And if we're talking about ball point pen cartridges, printer cartridges, garage doors and so forth, we're talking about works not protected under [the Act].

As has already been stated here and in many of the filings, there's nothing in the legislative history that would suggest that such a result was

171. *Chamberlain*, 381 F.3d at 1183-84.

172. *Id.* at 1183.

173. *Lexmark*, 387 F.3d at 530.

174. *Id.*

175. *Compare id.* at 529, with *Chamberlain*, 381 F.3d at 1185.

176. *See Lexmark*, 387 F.3d at 531; *Chamberlain*, 381 F.3d at 1185.

intended. The legislative history points to Congress' desire to protect copyrighted works against circumvention.¹⁷⁷

Ginsburg's beliefs and general incredulity notwithstanding, the question for the courts was whether the statute's words, not its intent, mandated the outcome that Chamberlain and Lexmark advocated. Meanwhile, Mr. Nimmer signed on as one of Skylink's lawyers.¹⁷⁸

Chamberlain lost on summary judgment in the trial court, and—because its original claim had also implicated patent law questions—appealed to the Federal Circuit.¹⁷⁹ Lexmark won a preliminary injunction at the trial level—in part because of its antircircumvention claims and in part because of its other, more standard, copyright infringement claims—and Static Control Systems appealed to the Sixth Circuit.¹⁸⁰ Both copyright holders lost on appeal.¹⁸¹

In the cleaner of the two opinions, a unanimous Federal Circuit panel explained:

According to Chamberlain, *all* such uses of products containing copyrighted software to which a technological measure controlled access are now per se illegal under the DMCA unless the manufacturer provided consumers with *explicit* authorization. Chamberlain's interpretation of the DMCA would therefore grant manufacturers broad exemptions from both the antitrust laws and the doctrine of copyright misuse.

Such an exemption, however, is only plausible if the antircircumvention provisions established a new property right capable of conflicting with the copyright owner's other legal responsibilities—which as we have already explained, they do not. The antircircumvention provisions convey no additional property rights in and of themselves; they simply provide property owners with new ways to secure their property. Like all property owners taking legitimate steps to protect their property, however, copyright owners relying on the antircircumvention provisions remain bound by all other relevant bodies of law. Contrary to Chamberlain's assertion, the DMCA

177. Anti-Circumvention Rulemaking Hearing Before the U.S. Copyright Office 46 (2003) (statement of Professor Jane Ginsburg), *available at* <http://www.copyright.gov/1201/2003/hearings/transcript-may9.pdf>.

178. *See Chamberlain*, 381 F.3d at 1181.

179. *See id.*

180. *See Lexmark*, 387 F.3d at 529.

181. *Compare id.* (vacating the preliminary injunction), *with Chamberlain*, 381 F.3d at 1182 (affirming the grant of summary judgment against Chamberlain).

emphatically *did not* “fundamentally alter” the legal landscape governing the reasonable expectations of consumers or competitors; *did not* “fundamentally alter” the ways that courts analyze industry practices; and *did not* render the pre-DMCA history of the [garage door opener] industry irrelevant.

What the DMCA did was introduce new grounds for liability in the context of the unauthorized access of copyrighted material.¹⁸²

The court continued: “Congress attempted to balance competing interests, and endeavored to specify, with as much clarity as possible, how the right against anti-circumvention would be qualified to maintain balance between the interests of content creators and information users.”¹⁸³ Congress crafted the new provisions

to help bring copyright law into the information age. Advances in digital technology over the past few decades have stripped copyright owners of much of the technological and economic protection to which they had grown accustomed. Whereas large-scale copying and distribution of copyrighted material used to be difficult and expensive, it is now easy and inexpensive. . . . Congress therefore crafted legislation restricting some, but not all, technological measures designed either to access a work protected by copyright or to infringe a right of a copyright owner.¹⁸⁴

. . . .

Were [the anticircumvention provisions] to allow copyright owners to use technological measures to block all access to their copyrighted works, it would effectively create two distinct copyright regimes. In the first regime, the owners of a typical work protected by copyright would possess only the rights enumerated in [the main body of the Copyright Act], subject to the additions, exceptions, and limitations outlined throughout the rest of the Copyright Act—notably but not solely the fair use provisions Owners who feel that technology has put those rights at risk, and who incorporate technological measures to protect those rights from technological encroachment, gain the additional ability to hold traffickers in circumvention devices liable . . . for putting their rights back at risk by enabling circumventors who use these devices to infringe.

Under th[is] second [implied] regime . . . the owners of a work protected by both copyright and a technological measure that effectively controls

182. *Chamberlain*, 381 F.3d at 1193-94.

183. *Id.* at 1196 (internal quotation marks omitted).

184. *Id.* at 1197 (citations omitted).

access to that work . . . would possess unlimited rights to hold circumventors liable . . . merely for accessing that work, even if that access enabled only rights that the Copyright Act grants to the public. [This second regime] implies that in enacting the DMCA, Congress attempted to give the public appropriate access to copyrighted works by allowing copyright owners to deny all access to the public. Even under the substantial deference due Congress, such a redefinition borders on the irrational.¹⁸⁵

. . . .

Copyright law itself authorizes the public to make certain uses of copyrighted materials. Consumers who purchase a product containing a copy of embedded software have the inherent legal right to use that copy of the software. What the law authorizes, Chamberlain cannot revoke.¹⁸⁶

In the simplest possible terms, the argument that Chamberlain (and Lexmark) forwarded would have rendered questions about *copyright* grabs and antitrust aftermarket analyses moot; manufacturers would enjoy “broad exemptions from . . . the antitrust laws,”¹⁸⁷ at least as they pertained to aftermarket devices communicating with encrypted software.

The Sixth Circuit added:

Nor can Lexmark tenably claim that this reading of the statute fails to respect Congress’s purpose in enacting it. . . .

Nowhere in its deliberations over the DMCA did Congress express an interest in creating liability for the circumvention of technological measures designed to prevent consumers from using consumer goods while leaving the copyrightable content of a work unprotected. In fact, Congress added [an] interoperability provision in part to ensure that the DMCA would not diminish the benefit to consumers of interoperable devices in the consumer electronics environment.¹⁸⁸

Both courts understood the stakes: rulings in favor of the copyright holders would have imperiled aftermarkets throughout the economy. For the most part, commentators agreed that these decisions had avoided a potentially disastrous restructuring of America’s competitive terrain, but nevertheless

185. *Id.* at 1199-1200 (footnote and internal quotation marks omitted).

186. *Id.* at 1202.

187. *Id.* at 1193.

188. *Lexmark Int’l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 549 (6th Cir. 2004) (internal quotation marks omitted).

remained skeptical about the overall state of the law; comments along these lines remain archived throughout the blogosphere. To pick just a few representative examples, University of Pittsburgh Law Professor Michael Madison noted “that this is precisely the kind of case that should engage everyone, showing how IP law can touch the day-to-day lives of everyone, not just alleged ‘pirates.’”¹⁸⁹ Jason Schulz of the Electronic Frontier Foundation (“EFF”)—a cyberlibertarian organization that has taken the lead in fighting attempts to counter technological advances with legal restrictions—described *Chamberlain* as “a lengthy and interesting unanimous opinion by Judge Gajarsa, with some real gems reining in some of the overbroad and much-abused language.”¹⁹⁰ Adam Thierer, the former Director of Telecommunication Studies at the libertarian Cato Institute, mused that he could “only imagine the can of worms this case would have opened if it went to [sic] opposite direction. If *Chamberlain* would have prevailed, then using similar logic, TV manufacturers could have prevented other companies from creating universal ‘integrated’ remote controls for our televisions and audio / video equipment.”¹⁹¹ Professor Ed Felten, a Princeton University computer scientist, lamented that “the DMCA is still a mess. It still bans or burdens far too much legitimate activity. This court’s ruling has gone some distance toward resolving the inherent contradictions in the statute; but we still have a long, long way to go.”¹⁹² In fact, a quick search of the blogosphere seems to imply the rarest of all imaginable outcomes: a blogospheric consensus. In late 2006, roughly two years after the Federal Circuit ruled in *Chamberlain* and the Sixth Circuit ruled in *Lexmark*, few if any bloggers have taken the time to explain how—or why—the world would be a better place if the DMCA did prohibit competitive aftermarkets. Once again, then, the state of copyright law does not seem to support the notion of an IP grab.

Nevertheless, anyone paying even a modicum of attention to the disputes currently roiling the copyright world should recognize that copyright is a body of law in flux. The DMCA is unlikely to be the final word in statutory anticircumvention, and *Chamberlain* and *Lexmark* are unlikely to be the final

189. Posting of Mike Madison to madisonian.net, <http://madisonian.net/archives/2004/09/01/copyright-in-everyday-things> (Sept. 1, 2004).

190. LawGeek: Skylink Wins! Fed. Cir. Shoots Down *Chamberlain*’s DMCA Claim, http://lawgeek.typepad.com/lawgeek/2004/08/skylink_wins_fe.html (Aug. 31, 2004).

191. Posting of Adam Thierer to The Technology Liberation Front, <http://www.techliberation.com/archives/014121.php> (Sept. 1, 2004).

192. Posting of Ed Felten to Freedom to Tinker, <http://www.freedom-to-tinker.com/?p=673> (Sept. 2, 2004, 9:46 EST).

words in judicial interpretation. In fact, blogospheric consensus notwithstanding, the next time that the Federal Circuit considered anticircumvention, a formidable array of copyright holders arrived as amici, urging the Court to reverse *Chamberlain*.

The case at issue pitted StorageTek, a manufacturer of automated tape cartridge libraries capable of storing massive amounts of computer data, against CHE, an independent business that repairs StorageTek-manufactured data libraries.¹⁹³ StorageTek alleged that CHE's repairs violated the DMCA's anticircumvention provisions.¹⁹⁴ CHE responded that its repairs fell squarely within a new safe harbor provision that Congress also first introduced as part of the DMCA, specifically to protect software maintenance and repair organizations.¹⁹⁵ The trial court agreed with StorageTek.¹⁹⁶ Because the original complaint included patent claims, the appeal came to the Federal Circuit, where the safe harbor provision proved to be the critical issue—and the one that invited a dissent.¹⁹⁷ Nevertheless, the majority opinion did explain that, following *Chamberlain*, anyone alleging an anticircumvention violation “must prove that the circumvention of the technological measure either ‘infringes or facilitates infringing a right protected by the Copyright Act.’”¹⁹⁸ Because the majority found that CHE's behavior fell within the contentious safe harbor, it was not found to infringe any of StorageTek's copyrights. Thus, “[t]o the extent that CHE's activities do not constitute copyright infringement or facilitate copyright infringement, StorageTek is foreclosed from maintaining an action under the DMCA.”¹⁹⁹

StorageTek's petition for a rehearing generated remarkable solidarity among copyright holders. In a joint amicus brief, the Software & Information Industry Association (“SIIA”), the Association of American Publishers (“AAP”), the Entertainment Software Association (“ESA”), the Motion Picture Association of America (“MPAA”), the National Music Publishers' Association (“NMPA”), and the Recording Industry Association of America (“RIAA”) all urged the Federal Circuit to rehear the case en banc—not

193. See *Storage Tech. Corp. v. Custom Hardware Eng'g & Consulting, Inc.*, 421 F.3d 1307, 1309-10 (Fed. Cir. 2005).

194. *Id.* at 1310.

195. *Id.* at 1311.

196. *Id.* (granting a preliminary injunction).

197. See, e.g., *id.* at 1321 (Rader, J., dissenting) (“The safe harbor . . . is not a carte blanche license to use any program loaded into a computer's RAM when a machine is turned on.”).

198. *Id.* at 1318 (majority opinion) (quoting *Chamberlain Group, Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1203 (Fed. Cir. 2004)).

199. *Id.*

because they agreed with StorageTek and the dissent about the safe harbor provision, but specifically to overrule *Chamberlain*. They described *Chamberlain* as “manifestly contrary to Congress’ purpose and intent”:

The *Chamberlain* analysis fundamentally misread the statute [It] imported into [the DMCA] a requirement that Congress deliberately chose not to put there. It ignored other provisions of the same statute, enacted at the same time, that make its interpolation of an additional requirement untenable. And, it misapplied [a] provision . . . which was enacted in part to prevent precisely the misreading to which the *Chamberlain* panel succumbed. By following this aspect of the *Chamberlain* opinion and applying it [here], the panel in this case compounded the earlier panel’s error.²⁰⁰

The Federal Circuit denied StorageTek’s petition, provided a brief expansion of its thoughts about the safe harbor provision (again with a dissent), and said nothing at all about the DMCA, anticircumvention, *Chamberlain*, or the amici.²⁰¹ Nevertheless, the solidarity of the amici and the strident tone of their brief makes it clear that they, at least, believe that the world *would* be a better place were *Chamberlain* and *Lexmark* allowed to protect their aftermarkets—and any observer of the Washington scene should recognize that these groups possess significant experience and clout as lobbyists.

Where does that leave those concerned about a potential copyright grab? Zohar Efroni provided a terse answer in his analysis of the *Chamberlain* and *Lexmark* opinions:

[B]oth decisions succeeded in reaching the more reasonably acceptable outcome. Indeed, these courts indeed achieved the *only* reasonable results considering the settings presented before them. So what does copyright law have to do with restrictions on competition in the aftermarket for peripheral devices? The correct answer is nothing, and this message was lucidly delivered by the courts.

The principal problem is not so much with *Chamberlain*’s and *Lexmark*’s understanding of the DMCA. The problem is with the formulation of the DMCA itself, which allows parties to bring valid claims of that sort under

200. Brief of Amici Curiae Software & Information Industry Ass’n et al. in Support of Petition for Rehearing or Rehearing *En Banc* at 3, *Storage Tech. Corp. v. Custom Hardware Eng’g & Consulting, Inc.*, 431 F.3d 1374 (Fed. Cir. 2005) (No. 04-1462).

201. See *Storage Tech. Corp.*, 431 F.3d at 1375-77 (denying petition for rehearing).

the copyright law. Remembering Justice Douglas, it may be useful to remember the old rule of thumb that a good law should make sense. And when courts are forced, in the course of their interpretational endeavors, to “strip” a statute from its letter (if not from its spirit) in order to achieve reasonable results, something is likely wrong with that statute.

In a technology-oriented environment, the application of the DMCA as an attempt to hinder competition demonstrated by companies like Lexmark and Chamberlain may be only the tip of the iceberg. Applied to our digitized society, in which more and more aspects of everyday life are dependent on and managed by data manipulation and computer programs, a literal reading of the DMCA could provide copyright owners with outrageously excessive control over too many things. . . . One step in the right direction would be to narrow the scope of either the former or the latter. The stakes involved cannot be underestimated, and as one commentator has phrased it, they can put no less than the integrity of copyright law into question. Our ability to appreciate the big picture of what the DMCA actually means, or rather, what it should mean, cannot be confined to its letter. The current juncture indicates that courts are ready and willing to prove themselves an essential and alert safety valve.²⁰²

Taken together then, it appears that those concerned about the possibility that a copyright grab could imperil aftermarkets have ample grounds for that concern. Such a grab, however, has not yet arisen outside the few high-profile industries that Congress considered explicitly when it passed the DMCA, namely software and digital entertainment. Our attempt to understand the AAI’s concern about an IP grab already underway will have to turn elsewhere.

V. THE PATENT GRAB?

A. *The Federal Circuit*

The leading candidate for that “elsewhere” is easily discerned. The most likely source of concern involving IP “grabbing” policy considerations from antitrust is almost certainly the Court of Appeals for the Federal Circuit. As the court charged directly with overseeing and rationalizing the patent laws, the Federal Circuit also plays an oversized role in contouring the boundaries

202. Zohar Efroni, *A Momentary Lapse of Reason: Digital Copyright, the DMCA and a Dose of Common Sense*, 28 COLUM. J.L. & ARTS 249, 312-13 (2005) (footnotes omitted).

between patent law and other bodies of law. This oversized role makes it worthwhile to review the history of the Federal Circuit's deliberations about the effects that patents can have on competitive markets.

The Federal Circuit held its inaugural session in late 1982,²⁰³ and issued its very first statement about antitrust in July 1983. A trio of German inventors had received a U.S. patent for their vibration-sensing machine, useful in balancing tires, and assigned it to Carl Schenck, A.G.²⁰⁴ Schenck sued the Nortron Corporation and two other American companies for infringing its patent.²⁰⁵ Schenck won on both validity and infringement, and Nortron appealed.²⁰⁶ In addition to trying to reargue both the facts and the law, Nortron took the low road:

Nortron's brief characterizes Schenck as a "German monopolist." That denigration, whether inserted in a vain hope of prejudicing the court or otherwise, has no support in the present record. Disclosure of an invention found to have revolutionized an industry is but a classic example of the ideal working of the patent system. If a patentee or licensee enjoys widespread sales, that too is but an example of the incentive-useful arts promoting element in the patent system. Patents and licenses are exemplifications of property rights. Further, and happily, participation in the U.S. patent system, as patentees and as licensees, is available to citizens and non-citizens alike.²⁰⁷

The court added in a footnote:

Nortron begins its . . . argument with "Patents are an exception to the general rule against monopolies . . ." A patent, under the statute, is property. Nowhere in any statute is a patent described as a monopoly. The patent right is but the right to exclude others, the very definition of "property." That the property right represented by a patent, like other property rights, may be *used* in a scheme violative of antitrust laws creates no "conflict" between laws establishing any of those property rights and the antitrust laws. The antitrust laws, enacted long after the original patent laws, deal with appropriation of

203. Haldane Robert Mayer, *Foreword* to UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT: A HISTORY: 1990-2002, at xxi, xxi (Kristin L. Yohannon ed., 2004).

204. *See* Carl Schenck, A.G. v. Nortron Corp., 713 F.2d 782, 783-84 (Fed. Cir. 1983).

205. *Id.* at 783.

206. *Id.*

207. *Id.* at 784.

what should belong to others. A valid patent gives the public what it did not earlier have. Patents are valid or invalid under the statute. It is but an obfuscation to refer to a patent as “the patent monopoly” or to describe a patent as an “exception to the general rule against monopolies.”²⁰⁸

This very first Federal Circuit statement about antitrust evinces a belief that, at least as far as antitrust law is concerned, there is no difference between patents and other forms of property. Beyond that, though, the court had little to say; the case before it did not really implicate antitrust law.

The Federal Circuit’s first actual ruling on a question at the interface of antitrust and patent law arrived five months later. In a pattern that would come to characterize the majority of the Federal Circuit’s forays into the realm of antitrust, the case in question involved a “Walker Process Claim.” In 1965, the Supreme Court established that patentees who use fraudulently obtained patents in an anticompetitive manner *may* have violated the antitrust laws—provided the plaintiff can also prove all of the other elements of an antitrust violation.²⁰⁹ In 1984, the first of many Walker Process claims landed on the Federal Circuit’s docket. American Hoist & Derrick Company had sued Sowa & Sons for infringing its patent.²¹⁰ Sowa countered that American Hoist had defrauded the Patent and Trademark Office (“PTO”) to obtain its patent.²¹¹ A district court in Oregon agreed with Sowa on validity and fraud, but concluded that the fraud in question was insufficient to qualify as an antitrust violation.²¹² On appeal, the Federal Circuit applied its standard choice-of-law rule—the new body of Federal Circuit law governed the patent issues and Ninth Circuit law governed the non-patent issues—and remanded the matter for another trial.²¹³ The upshot of the Federal Circuit’s first true antitrust ruling was entirely predictable and noncontroversial: regional circuit law applies to antitrust cases and *Walker Process* plaintiffs must prove *all* elements of their antitrust claims.²¹⁴

For the next fourteen years, the Federal Circuit remained a rather minor player in the antitrust world. Throughout at least much of this period, that

208. *Id.* at 786 n.3 (citations omitted).

209. *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 174 (1965).

210. *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1352 (Fed. Cir. 1984).

211. *Id.* at 1354.

212. *Id.* at 1352.

213. *See id.* at 1358-65 (patent issues), 1365-68 (antitrust issues).

214. *See id.* at 1365-68 (setting forth the requisite elements under Ninth Circuit law).

result was hardly surprising: As noted above, the Chicago School economics that dominated antitrust in the 1980s had led to a sharp decline in antitrust enforcement, as well as in private antitrust litigation. The Federal Circuit had thus been born in 1982 amidst a tectonic shift whipsawing the American economy from a period of weak patents and strong antitrust into one of strong patents and weak antitrust.²¹⁵ Congress tasked the Federal Circuit to help rationalize and to strengthen the patent system. When it came to antitrust, the new court's rules were simple. First, patentees have a legal exclusive over the market that their patents define, whether or not the monopolization of such a market might otherwise violate the antitrust laws. Second, defrauding the PTO works to the detriment of the patent system. Because fraudulently obtained patents cannot protect anyone from anything, a fraudulent patentee who monopolizes a relevant antitrust market is liable under the antitrust laws. Third, because antitrust issues are not unique unto the patent laws, the law of the appropriate regional circuit governed all Federal Circuit antitrust analyses. And fourth, attempts to leverage patents to monopolize markets beyond those that the patent covers are subject to the same analysis as attempts to leverage *any* property right to monopolize a market—which at the time, meant relatively lax scrutiny and enforcement. *Schenck*²¹⁶ and *American Hoist*²¹⁷ had established these principles and, in retrospect at least, though some may have disagreed with the court's resolution of specific disputes, no one should have been surprised by anything occurring at the Federal Circuit's patent/antitrust interface.

But things change and eras end. By the early 1990s, many people believed that the Chicago School had overplayed its hand. A new band of Post-Chicago economists had arrived in Washington, agreeing with Bork's description of antitrust as “a set of continually evolving theories about the economics of industrial organization,”²¹⁸ but contending that the evolution needed to progress beyond the laissez-faire theories that Bork himself had favored. While the distinction may appear subtle to some, the shift from a Chicagoan belief that successful anticompetitive behavior is truly exceptional to a Post-Chicagoan belief that successful anticompetitive behavior is merely rare opened the door to yet another reassessment of antitrust policy—as the Supreme Court put into full view in *Kodak*.²¹⁹ Unlike the Chicagoan revolution of the early 1980s, however, the Post-Chicago

215. See, e.g., Pitofsky, *supra* note 49.

216. See *supra* text accompanying notes 204-08.

217. See *supra* text accompanying notes 209-14.

218. BORK, *supra* note 36, at 10.

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

Thermidor arrived with little fanfare. Federal officials heralded few changes, and courts moved their rulings gingerly in its direction, rarely if ever overtly attacking or overruling a Chicagoan precedent. The new theories worked their way slowly into case law, agency guidelines, and enforcement decisions. Post-Chicagoans looked for signs of change one institution at a time. What they saw at the Federal Circuit marked *this* institution as a particular source of concern.

B. Federal Circuit Antitrust Law

The first hint of a shift in the Federal Circuit's thinking about antitrust came in March 1998, in an odd place: an *in banc* footnote. Nobelpharma had lost a Walker Process trial involving its patent relating to dental implants, and appealed to the Federal Circuit.²²⁰ In an otherwise straightforward opinion affirming the district court on all issues, footnote five of the Federal Circuit opinion read: "Because precedent may not be changed by a panel, the issue of 'choice of circuit' law set forth [here] has been considered and decided unanimously by an *in banc* court"²²¹ Armed with the unanimous *in banc* license, the panel overturned fourteen years of precedent:

As a general proposition, when reviewing a district court's judgment involving federal antitrust law, we are guided by the law of the regional circuit in which that district court sits. However, we apply our own law, not regional circuit law, to resolve issues that clearly involve our exclusive jurisdiction.

Whether conduct in the prosecution of a patent is sufficient to strip a patentee of its immunity from the antitrust laws is one of those issues that clearly involves our exclusive jurisdiction over patent cases. It follows that whether a patent infringement suit is based on a fraudulently procured patent impacts our exclusive jurisdiction.

Moreover, an antitrust claim premised on stripping a patentee of its immunity from the antitrust laws is typically raised as a counterclaim by a defendant in a patent infringement suit. Because most cases involving these issues will therefore be appealed to this court, we conclude that we should decide these issues as a matter of Federal Circuit law, rather than rely on various regional precedents. We arrive at this conclusion because we are in

220. See Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1061-63 (Fed. Cir. 1998).

221. *Id.* at 1068 n.5 (citation omitted).

the best position to create a uniform body of federal law on this subject and thereby avoid the “danger of confusion [that] might be enhanced if this court were to embark on an effort to interpret the laws” of the regional circuits. . . . However, we will continue to apply the law of the appropriate regional circuit to issues involving other elements of antitrust law such as relevant market, market power, damages, etc., as those issues are not unique to patent law, which is subject to our exclusive jurisdiction.²²²

That passage introduced for the first time the concept of “Federal Circuit antitrust law.” For the very first ruling of Federal Circuit antitrust law, the court announced that it reached precisely the same conclusion that the trial court had reached in ruling against Nobelpharma as a matter of Seventh Circuit antitrust law. Hardly a cause for immediate concern.

While this overruling of precedent may have made some people uncomfortable, the source of that discomfort was initially inchoate. For about two years into the life of Federal Circuit antitrust law, few could point to anything of earthshaking significance to either substantive antitrust law or substantive patent law. By 2001, however, Professor James Gambrell was able to publish a troubling critique:

While there has been a warming trend in the relationship between the patent and antitrust laws . . . it would be inaccurate to say they are really friends. Indeed, it is doubtful that they will ever be friends in the conventional sense of the word, because an inherent tension exists between the assertion of patent rights and the restraints that antitrust imposes on any bundle of patent rights. . . .

. . . .

While this “warming” trend is evident in the Antitrust Guidelines and elsewhere, a “warning” trend is evident in a number of recent decisions by the Federal Circuit, a court created primarily to handle all patent appeals. These recent decisions find the court concluding that it should develop the principles governing the relationship between patent rights and antitrust restraints instead of looking to antitrust precedents in the appropriate regional circuits. . . . Instead of patent rights being circumscribed by core antitrust principles, the fear is that the Federal Circuit will emasculate the

222. *Id.* at 1067-68 (alteration in original) (citations and footnote omitted).

patent-antitrust interface by taking too liberal a view of the bundle of rights granted to the patent owner when antitrust principles are involved.²²³

. . . .

The principal problems inherent in the current path of the Federal Circuit on the scope of its substantive jurisdiction over non-patent subject matter are four-fold. First, it elevates patent rights at the expense of unfair competition and core antitrust principles that it was not given the jurisdiction to control. Second, it squeezes out the regional circuits involvement in constructing antitrust principles that should properly circumscribe the bundle of rights the intellectual property laws protect. Third, its expansive interpretations create uncertainty when other intellectual property rights are involved. And fourth, it requires district courts to have the sophistication of Houdini and the imagination of Alice in Wonderland to sort out what principles the Federal Circuit has responsibility for and what principles the regional courts have the final say on.²²⁴

The Post-Chicago discomfort with the direction that the Federal Circuit was taking cases at the patent/antitrust interface was alive and well.

Six years after *Nobelpharma*, the Federal Circuit attempted to address at least the fourth of Gambrell's complaints:

The fundamental question of Federal Circuit antitrust law is whether or when a patentee's behavior in either procuring or enforcing a patent can give rise to antitrust liability. As a general rule, behavior conforming to the patent laws oriented towards procuring or enforcing a patent enjoys immunity from the antitrust laws.

But this immunity is hardly absolute. Nearly forty years ago [in *Walker Process*], the Supreme Court recognized that an inventor who obtains a patent by defrauding the patent office deserves no immunity. . . . More broadly, "[t]he Court has held many times that power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to liability if a seller exploits his dominant position in one market to expand his empire into the next."

. . . As a well established matter of law, then, patentees acting under the color of their patents may nevertheless be liable if they engage in any one of

223. James B. Gambrell, *The Evolving Interplay of Patent Rights and Antitrust Restraints in the Federal Circuit*, 9 TEX. INTELL. PROP. L.J. 137, 137-39 (2001) (footnotes omitted).

224. *Id.* at 156-57.

a number of improper activities. In short, the policy rationale behind stripping selected patentees of their antitrust immunity is straightforward.

. . . Walker Process claims . . . relate to a single type of behavior capable of stripping a patentee's patent-law immunity and thereby exposing the patentee to liability under other laws. Though we cannot enumerate the full range of activities capable of effecting such a loss of immunity, the determination of which actions can cause a patentee or a patent applicant to lose the general protection of the patent law and to risk liability for damages is clearly an issue unique to the patent law—and therefore inappropriate for resolution under the potentially varying interpretations of the regional circuits.

As a result, Federal Circuit antitrust law centers on a single critical question: What behavior by the patentee in procuring or in enforcing a patent can strip the patentee of antitrust immunity? When the courts consider a patentee's behavior under Federal Circuit law and determine that it involved nothing more than an appropriate attempt to procure a patent and an appropriate attempt to enforce a legitimately obtained patent, the antitrust inquiry is over with respect to the behavior at issue. When, on the other hand, the courts consider a patentee's behavior under Federal Circuit law and determine that it involved either an inappropriate attempt to procure a patent or an inappropriate attempt to enforce a patent, the remainder of the antitrust inquiry must proceed under the law of the regional circuit.²²⁵

This attempted clarification of Gambrell's fourth complaint notwithstanding, it was the first three that really went to the heart of public policy at the patent/antitrust interface. The "warming" and "warning" trends that Gambrell identified suggested that the Federal Circuit was emerging as odd man out among America's institutional antitrust players. The FTC, the DoJ, the Supreme Court, and the regional circuits all seemed to favor a Post-Chicago formulation: patent rights are great as long as they do not distort competition, but if they start interfering with competitive markets, antitrust should assume center stage. The Federal Circuit seemed mired in a 1980s view of the world: patentees may use valid patents as they see fit. Even antitrust law recognizes that most monopolies are legal if the monopolist acquired them legally—and monopolies derived through patents are not only

225. *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341, 1356-57 (Fed. Cir. 2004) (second alteration in original) (citations and footnote omitted), *rev'd on other grounds*, 546 U.S. 394 (2006).

legal, but demonstrations of the “incentive-useful arts promoting element in the patent system.”²²⁶

In particular, two cases that the Federal Circuit decided under its own evolving view of antitrust law earned the ire of much of the antitrust bar, including virtually all of its Post-Chicagoans. We have already considered the first of these cases, namely *Xerox*.²²⁷ We concluded that though it is possible to read the case as consistent with the consumer welfare norm and a balancing test designed to subject patent/antitrust conflict to a rule of reason, those who see it as a bald elevation of IP rights over antitrust concerns remain justified in doing so. The second critical case, *Intergraph Corp. v. Intel Corp.*, involved the antitrust violation called a “refusal to deal.”²²⁸ Under normal circumstances, people are free to conduct business with whomever they please, and to refuse to do business with whomever they please. Antitrust law recognizes that under some unusual circumstances, a monopolist who refuses to deal with a supplier or with a distributor may be attempting to monopolize a market.²²⁹ When the Federal Circuit saw its first significant refusal to deal case, the court implied that when the refusal in question is a refusal to license IP, the effect on the market is irrelevant.²³⁰

Intergraph owned the technology and several patents related to the “Clipper Chip,” a chip that it used to power its own workstations from 1987 to 1993—at which point it shifted its production from Clipper-based machines to Intel-based machines.²³¹ Intel responded by designating Intergraph a “strategic customer,” and granted it access to proprietary information that helped Intergraph maintain a competitive position within the computer market.²³² By 1996, Intergraph suspected that Intel was infringing its Clipper patents. Intergraph started by chasing some of its direct competitors who were using Intel’s products, but by November 1997 filed suit in Alabama against Intel itself, alleging fraud, misappropriation of trade secrets, negligence, wantonness and willfulness, breach of contract, intentional interference with business relations, breach of express and implied warranties, and violation of the Alabama Trade Secrets Act, in

226. *Carl Schenck, A.G. v. Nortron Corp.*, 713 F.2d 782, 784 (Fed. Cir. 1983).

227. *See In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000).

228. *See* HERBERT HOVENKAMP, *FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION AND ITS PRACTICE* §§ 7.5-7.7 (1994) (describing the various facets of the “refusal to deal” concept).

229. *See id.* § 7.5, at 263.

230. *See Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1358, 1362 (Fed. Cir. 1999).

231. *Id.* at 1349-50.

232. *Id.* at 1350.

addition to the infringement of its patents.²³³ When Intel threatened to terminate Intergraph's status as a strategic customer, Intergraph added an antitrust claim.²³⁴

The district court in Alabama agreed with Intergraph, ruled against Intel under numerous different theories, concluded that Intel was a monopolist likely to lose in the event of a full-blown trial, and preliminarily enjoined Intel from terminating Intergraph's rarefied status while the trial was pending.²³⁵ The Federal Circuit saw it differently:

Intel [argues] that no law requires it to give such special benefits, including its trade secrets, proprietary information, intellectual property, pre-release products, allocation of new products, and other preferences, to an entity that is suing it on charges of multiple wrongdoing and is demanding damages and the shutdown of its core business. Intel states that its commercial response to Intergraph's suit is not an antitrust violation, and that this "garden-variety patent dispute" does not warrant the antitrust remedy here imposed. . . .

Intergraph's response is that it can not survive in its highly competitive graphics workstation business without these services and benefits from Intel, and that the district court simply acted to preserve Intergraph's prior commercial position while the parties litigate unrelated patent issues. Intergraph states that the national interest requires that patentees be free to enforce their patents without risk of retaliatory commercial response from the accused infringer. Intel disputes these premises, and also points out the incongruity of Intergraph's statement that it is essential to Intergraph's business that it have the products for which it is demanding the shutdown of Intel's production.²³⁶

From there, things went straight downhill for Intergraph, as the Federal Circuit reversed one after another of the district court's rulings in its favor, providing some choice language about the relationship between antitrust law and patent law along the way:

[T]he Sherman Act does not convert all harsh commercial actions into antitrust violations. Unilateral conduct that may adversely affect another's

233. *Id.*

234. *Id.*

235. *Id.*

236. *Id.* at 1351.

business situation, but is not intended to monopolize that business, does not violate the Sherman Act. Although Intergraph stresses the adverse effect on its business of Intel's proposed withdrawal of these special benefits, the record contains no analysis of the effect of such action on competition among manufacturers of graphics subsystems or high-end workstations. "The antitrust laws were enacted for 'the protection of *competition*, not *competitors*.'"²³⁷

....

Courts have recognized that "[t]he relationship between a manufacturer and its customer should be reasonably harmonious; and the bringing of a lawsuit by the customer may provide a sound business reason for the manufacturer to terminate their relations." Although we have observed a few rulings wherein a court has, for example, barred the termination of a distributor during litigation, no case has held that the divulgence of proprietary information and the provision of special or privileged treatment to a legal adversary can be compelled on a "refusal to deal" antitrust premise.²³⁸

....

In response to Intel's argument that its proprietary information and pre-release products are subject to copyright and patents, the district court observed that Intel's intellectual property "does not confer upon it a privilege or immunity to violate the antitrust laws." That is of course correct. But it is also correct that the antitrust laws do not negate the patentee's right to exclude others from patent property. The patent and antitrust laws are complementary, the patent system serving to encourage invention and the bringing of new products to market by adjusting investment-based risk, and the antitrust laws serving to foster industrial competition. The patent and antitrust laws serve the public in different ways, both of importance to the nation.²³⁹

....

Despite the district court's sensitive concern for Intergraph's well-being while it conducts its patent suit against Intel, there must be an adverse effect on competition in order to bring an antitrust remedy to bear. The remedy of compulsory disclosure of proprietary information and provision of pre-production chips and other commercial and intellectual property is a

237. *Id.* at 1354-55 (citations omitted).

238. *Id.* at 1358 (alteration in original) (citations omitted).

239. *Id.* at 1362 (citations omitted).

dramatic remedy for antitrust illegality, and requires violation of antitrust law or the likelihood that such violation would be established. In the proceedings whose record is before us, Intergraph has not shown a substantial likelihood of success in establishing that Intel violated the antitrust laws in its actions with respect to Intergraph, or that Intel agreed by contract to provide the benefits contained in the injunction. The preliminary injunction is vacated.²⁴⁰

That is what the Federal Circuit had to say about refusals to deal—and why large parts of the antitrust bar found the experience unsatisfying. Meanwhile, in climes that antitrust experts find more agreeable, the FTC saw enough in Intergraph’s complaints to bring a government case against Intel.²⁴¹

C. *The Perceived Patent Grab*

This emerging rift between the Federal Circuit and the FTC seemed intriguing. The AAI invited FTC Chair and Post-Chicago icon Robert Pitofsky to address its 2000 annual conference.²⁴² Pitofsky told his audience that the Federal Circuit had upset the traditional balance between antitrust and IP “in a way that has disturbing implications for the future of antitrust in high-technology industries,”²⁴³ foreshadowing his host organization’s focus on the IP grab six years later. Pitofsky, despite clarifying that he had “no quarrel with the fundamental rule that a patent holder has no obligation to license or sell in the first instance,” nevertheless wondered what the rules will be “when the patent holder conditions the availability of its patented products or inventions on terms that affect competition[.]”²⁴⁴ As he saw it, the emerging body of Federal Circuit antitrust law “could be read to say that the invocation of intellectual property rights settles the matter, except in [some exceptional] narrow situations . . . regardless of the effect of the refusal to deal on competition or the importance of the refusal to deal to

240. *Id.* at 1367.

241. *See* Complaint, Intel Corp., F.T.C. Docket No. 9288 (June 8, 1998), available at <http://www.ftc.gov/os/1998/06/intelfin.cmp.htm>.

242. *See* Robert Pitofsky, Chairman, FTC, Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property, Remarks at the American Antitrust Institute Conference: An Agenda for Antitrust in the 21st Century (June 15, 2000), available at <http://www.ftc.gov/speeches/pitofsky/000615speech.htm>.

243. *Id.*

244. *Id.*

protect incentives to innovate.” He concluded: “That should not be the way these issues are addressed.”²⁴⁵

Indeed it should not. The mechanism that Pitofsky described and rejected is precisely the IP supremacist view that we rejected when we considered the normative question about the appropriate resolution of true conflict situations. At the same time, his agreement that patentees have no obligation to license implies a parallel rejection of the antitrust supremacist view. Pitofsky thus seems to agree that some sort of balancing test is needed to resolve true conflicts in a manner consistent with public policy. His concern is that the Federal Circuit *might not* share that belief. He was careful not to overstate his case. He never accused the Federal Circuit of being IP supremacists; he merely noted with concern that their then-recent jurisprudence “could be read” to support that view.

Pitofsky’s 2000 address to the AAI thus leads us to reiterate the basic reflective question: Why do he and the AAI seem to believe this possible reading of Federal Circuit jurisprudence? The most likely answer lies back where the debate began: in the struggle between Chicago School and Post-Chicago economists over the propriety of Kodak’s behavior. It is important to recall what this debate implicated, and what it did not. No one ever doubted that OEMs possess significant power in all aftermarkets related to their own products. The source of the dispute was whether or not OEMs possessed enough power to achieve an aftermarket effect that was anticompetitive, profitable, and successful. Justice Scalia’s dissent gave the Chicagoan answer:

[A] rational consumer considering the purchase of Kodak equipment will inevitably factor into his purchasing decision the expected cost of aftermarket support. . . . If Kodak set generally supracompetitive prices for either spare parts or repair services without making an offsetting reduction in the price of its machines, rational consumers would simply turn to Kodak’s competitors for photocopying and micrographic systems.

. . . .

In my view, if the interbrand market is vibrant, it is simply not necessary . . . to police a seller’s intrabrand restraints. In such circumstances, the interbrand market functions as an infinitely more efficient and more precise corrective to such behavior, rewarding the seller whose intrabrand restraints

245. *Id.*

enhance consumer welfare while punishing the seller whose control of the aftermarket is viewed unfavorably by interbrand consumers.²⁴⁶

Justice Blackmun's opinion for the Court adopted a Post-Chicagoan analysis:

Even assuming . . . that all manufacturers possess some inherent market power in the parts market, it is not clear why that should immunize them from the antitrust laws in another market. The Court has held many times that power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to liability if a seller exploits his dominant position in one market to expand his empire into the next.

. . . .

At bottom, whatever the ultimate merits of the dissent's theory, at this point it is mere conjecture. Neither Kodak nor the dissent have provided any evidence refuting respondents' theory of forced unwanted purchases at higher prices and price discrimination. While it may be, as the dissent predicts, that the equipment market will prevent any harms to consumers in the aftermarket, the dissent never makes plain why the Court should accept that theory on faith rather than requiring the usual evidence needed to win a summary judgment motion.²⁴⁷

. . . .

In the end, of course, Kodak's arguments may prove to be correct. It may be that . . . the equipment market does discipline the [parts and service] aftermarket so that all three are priced competitively overall, or that any anti-competitive effects of Kodak's behavior are outweighed by its competitive effects. But we cannot reach these conclusions as a matter of law on a record this sparse.²⁴⁸

These statements capture the *Chicago vs. Post-Chicago* antitrust debate in a nutshell. Either market discipline will impose automatic corrections making any attempts at anticompetitive behavior self-defeating, or it will not. As the post-*Kodak* algorithm above implies, Post-Chicagoan analysis—the law since *Kodak*—advocates delving into case-specific facts and then refining theories as necessary.

It is important to emphasize that no one in this debate wants to resurrect any No-Nos or the oppressive antitrust regimes of the 1960s and 70s. Both

246. *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 495, 503 (1992) (Scalia, J., dissenting).

247. *Id.* at 479 n.29 (majority opinion) (citations and internal quotation marks omitted).

248. *Id.* at 486.

sides believe in the general robustness of markets; the debate hinges upon whether enforcement should be truly exceptional or merely rare. Nevertheless, this seemingly minor dispute has dominated the past few decades of debate within the antitrust community.²⁴⁹ Its impact on the patent community—or even on the broader IP community—has been less direct and less obvious. Yet, it reflects the primary philosophical dispute that we avoided earlier: Are patents property just like other property? Are they property, but of a sort fundamentally different from houses or cars? Or are they regulatory permits, set within a regime that captures some but far from all characteristics of property? A pure Chicago approach is most likely to see them in stark property terms. As a matter of theory, patents are neither harder nor easier to misuse in an anticompetitive manner than are other forms of property. That they may confer more leverage over a market than does real estate is interesting, but of no real consequence. To a Post-Chicagoan more likely to see patents in regulatory terms, that distinction is hugely consequential. If patents create great opportunities for exploitation, antitrust law should scrutinize patentees closely, examine the data, and identify abuses. If the abuses are systematic, the policymakers in Congress should consider rewriting the patent laws to frustrate their recurrence. If such a rewrite results in a weakening of patent rights, so be it; the entire purpose of a liberal regulatory mechanism is to serve the public by filling an economic gap that the free market is unable to fill on its own. In the patent context, that means rewarding innovation to generate innovation. At the patent/antitrust interface, it means curtailing those rewards before they harm the competitive markets that we want them to bolster.

All of which returns us to the Federal Circuit. The Supreme Court veered toward the Post-Chicagoans in 1992.²⁵⁰ At the time, the Bush *père* Administration filed an amicus brief supporting Kodak and the Chicagoans.²⁵¹ Less than a year later, the Clinton Administration came to town; by early 1995, Clinton had appointed Pitofsky Chairman of the FTC. In 2000, the Federal Circuit was still issuing opinions that made people doubt that the court had ever evolved its antitrust thinking beyond Chicago: it

249. See, e.g., Evans & Padilla, *supra* note 116, at 80; AEI-BROOKINGS JOINT CTR. FOR REGULATORY STUDIES, DID MICROSOFT HARM CONSUMERS? TWO OPPOSING VIEWS (David S. Evans et al. eds., 2000), available at <http://www.aei.brookings.org/publications/books/consumers.pdf>.

250. See *supra* text accompanying notes 247-48.

251. See *Eastman Kodak*, 504 U.S. at 453.

elevated IP rights over antitrust concerns in *Xerox*;²⁵² placed no limits on Intel's licensing conditions;²⁵³ rejected every claim of patent misuse;²⁵⁴ and generally ruled in a manner consistent with Chicago school analysis.²⁵⁵ None of these trends showed significant change between 2000 and 2006. This concern remained at the forefront of Post-Chicagoan thinking about the Federal Circuit when the AAI invited me to address its 2006 conference on "The IP Grab." It also answers my reflective question: the primary source of the AAI's concern that IP is grabbing results from antitrust in a manner antithetical to public policy lies in its feeling that the Federal Circuit remains wedded to Chicago School analysis—and not to its own preferred Post-Chicago approach.

D. Chicago or Beyond?

Is that feeling warranted? Given the court's track record, it is eminently reasonable for a Post-Chicagoan antitrust organization to ask: Is the Federal Circuit a Chicagoan court? Is it truly hostile to Post-Chicago analysis? The answers remain elusive because one of the relevant terms is ill defined. There *is* a Chicago School of economics. Chicago School economists believe, among other things, in economic libertarianism, a laissez-faire approach to regulation, and the power and the beauty of markets. From the school's inception, Chicagoan economists were interested in the interaction of law and policy. They pioneered "law and economics," applying analytic principles from economics to the study of the law.²⁵⁶ They also championed the lighter-touch antitrust reforms of the early 1980s, though some might have gone farther and eliminated antitrust enforcement altogether.²⁵⁷

There *is not*, however, a Post-Chicago school—at least, not beyond the confines of a very narrow antitrust community. It is a term that several antitrust scholars and organizations (such as the AAI) apply to themselves to differentiate their views, analyses, and policy recommendations from both the Chicagoans of the 1980s and the industrial planners who preceded

252. See *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1324 (Fed. Cir. 2000).

253. See *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1358, 1362 (Fed. Cir. 1999).

254. For a discussion of the patent misuse doctrine, see *supra* note 13 and the sources cited therein.

255. See ABRAMSON, THE SECRET CIRCUIT, *supra* note 13.

256. See Wikipedia, Chicago School (economics), http://en.wikipedia.org/wiki/Chicago_school_%28economics%29 (last visited Apr. 18, 2007).

257. See, e.g., Greenspan, *supra* note 34, at 63.

them.²⁵⁸ It is tough to be precise about the Federal Circuit's receptiveness to Post-Chicago analyses of patent law because there is no necessary consensus as to what such analyses would entail.

Nevertheless, the construction of a virtual dialog about IP law between Chicagoans and Post-Chicagoans analyses remains valuable because the debate in the antitrust world mimics a broader debate in the political and economic realms—and it does so using terminology that carries little enough political baggage to focus on substance, rather than on labels. In other contexts, we might view this division as pitting Reaganomics against Clintonomics, or 1980s economic policies against 1990s economic policies. The basic dividing questions are simple and fundamental—Adam Smith raised them in 1776:

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary.²⁵⁹

How often do imperfections creep into the workings of a free market? Is it possible for interventions to correct those imperfections without doing more harm than good? If imperfections are either truly exceptional or too tough to correct, the Chicagoans are correct; if not, the Post-Chicago argument represents a normative improvement. Two hundred and thirty years after Smith, America's top antitrust experts continue to debate the best resolution to the quandary he recognized.

So where does all of this leave us? What can we say about the status of the interface between patent law (or IP law, more generally) and antitrust law? How are aftermarkets faring at that interface? How does the state of that interface relate to our normative goals of promoting consumer welfare? As I cautioned at the beginning of this Article, these complex questions do not

258. See Foer & Lande, *supra* note 127 (“The [AAI] was created earlier this year to help coalesce, focus, and energize these forces. A small, independent non-profit organization whose mission is to develop a centrist/left coalition of supporters of antitrust, the AAI draws on the brainpower of a growing board of advisors. . . . All are committed to a post-Chicago reconstruction of antitrust.”).

259. ADAM SMITH, AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS, bk. I, ch. X, pt. II, at 137 (C.J. Bullock ed., P.F. Collier & Son 1909) (1776).

lend themselves to simple answers. The Reagan Administration's injection of Chicago School theories into antitrust analysis eliminated many of the most damaging constraints that statist thinking had imposed on the American economy. The further evolution of those theories through Post-Chicago analysis was also an important step toward a balanced antitrust policy. More than six years after *Xerox*, the data about the Federal Circuit's supposedly IP supremacist views remain sparse. Our review of existing case law—including the Federal Circuit's contributions—concluded that it is “not necessarily inconsistent” with good policy. But double negatives are understandably disconcerting—and more than enough to explain the AAI's concerns. It remains unclear whether our policymakers have really taken the time to think through the systemic issues that arise at the interface. It remains equally unclear whether any of the courts have really applied the correct case-by-case analyses. This critical arena, where more and more of our economic growth lies, remains a morass of uncertainty.

VI. CONCLUSION

I opened this Article with three questions pertaining to the role of IP in antitrust aftermarket analysis. The wide-ranging discussions that followed provide significant insights, but only partial answers:

What norm should courts apply when considering allegations that a defendant has leveraged IP rights in one market to anticompetitive effect in an adjacent aftermarket? The consumer welfare norm recognizes IP rights as critical to the long-term development of companies and industries, but generally favors competitive markets. A normatively correct balancing test must attempt to preserve most short-term competition and most motivation for long-term investment. In order to do this, economic and legal scholars must consider both economic theories and empirical evidence. Relevant theories and data will arrive from different loci, as antitrust experts emphasize theories of competition and evidence of anticompetitive effects, while IP experts emphasize theories of motivation and evidence of industrial innovation. When data do not appear to conform to accepted theories, scholars must encourage the courts to consider new theories. The post-*Kodak* algorithm extracted an accepted framework for allowing juridical theories of competition to evolve in light of new data. Future cases implicating genuine conflicts between IP rights and anticompetitive effects should provide opportunities for further refinements, and the courts should become places where theories and data collected by different experts studying different issues converge. The courts should evaluate all such cases, and allow legal doctrine to evolve, in a manner that serves the common norm: the promotion

of a robust technological economy providing American consumers with a wide array of innovative, low-priced products and services.

Which past judicial rulings appear consistent with this norm, which appear to deviate from it, and which leave the underlying policy norm ambiguous? Given the uniform absence of judicial discussions about the appropriate balancing of IP policy and antitrust policy, ambiguity remains the order of the day. Post-Chicago organizations like the AAI tend to read all rulings against antitrust plaintiffs in their worst possible light, and thus see a declining balance moving the economy further and further from the consumer welfare norm. As we have seen, such a reading is plausible, but hardly compelled. Other readings suggest that the appropriate balancing test and rule of reason analysis is emerging piecemeal from individual rulings; despite the ongoing controversy, *Kodak* remains good law, aftermarket remain subject to antitrust scrutiny, and the burden of proof remains capable of shifting between parties alleging anticompetitive behavior and those citing IP rights as a defense. At the extremes, no serious observer advocates a return to the pre-Chicago era of antitrust supremacy. Several trends at the Federal Circuit remain troubling, but even there no judge or panel has ever advocated IP supremacy. In the realm of copyright, the anticircumvention provisions remain a ticking bomb, but the courts have successfully narrowed their aftermarket effects to those that lie entirely within the realm of copyrighted products. In short, there is more than enough ambiguity in case law to justify concern, but nowhere near enough movement in normatively incorrect directions to warrant despair.

Why do many people seem to believe that the recent jurisprudential trend in this area is leading to public policies inconsistent with the recommended norm? The descriptive review of the case law provides much of the answer. The deeper answer, though, lies with a likely conflict over philosophy. The past several decades have witnessed the rise of a debate between two groups of economists, both of whom favor competitive liberal markets. Both agree that the mid-twentieth century approaches were heavy-handed, interventionist, and damaging to the economy. Both recognize that markets are robust institutions, generally capable of self-regulation. They split over how often market failures or imperfections necessitate intervention to restore markets to their natural self-regulating state. One school believes that such failures are truly extraordinary; they call themselves “Chicago School,” were strong advocates of Reagan’s deregulatory attempts, agree with Scalia’s dissent in *Kodak*, and generally (though with the notable exception of Bork) backed Microsoft in its battles with the U.S. government. Many of them are also highly deferential to IP rights, which they consider to be a form of property, and thus sacred. The other school believes that such failures are

“merely” rare; they call themselves “Post-Chicago,” favored Clinton’s regulatory approaches, agreed with the Supreme Court’s decision in *Kodak*, and backed the government in its fight with Microsoft. Many of them see the patent and copyright systems as forms of regulation, and thus extend to their grants a status less exalted than that due to real property. There is little doubt that the pendulum has swung back and forth over time. Post-Chicago organizations cheered when the pendulum swung furthest in their direction; they grow increasingly despondent as it swings back in the general direction of Chicago.

Therein lie the answers to all three questions: normative, descriptive, and reflective. Taken as a whole, the IP grab and the collapsing of aftermarkets are both very real phenomena. At least some of that grabbing and collapsing, however, was necessary. As networks and systems proliferate throughout our economy, so will aftermarkets. The Post-Chicago victory in *Kodak* established a critical rule: aftermarkets are subject to antitrust scrutiny. This scrutiny applies to *all* aftermarkets, including single-producer, proprietary markets derived from IP-protected OEM products.

Over the past six years or so, the courts have made it clear that though the Post-Chicagoans deserved to celebrate their victory in *Kodak*, some of their early giddiness was misplaced. There are plenty of legitimate reasons for OEMs to dominate the aftermarkets that they create. Some of these reasons stem from strategic decisions and valid business justifications. Others help to justify investment, innovation, and the IP system. But that hardly means that anything goes. Some aftermarket activities are anticompetitive; courts will assign antitrust liability and effect appropriate remedies against violators. Plaintiffs alleging inappropriate attempted monopolization of an aftermarket, however, will find few shortcuts in the form of helpful per se rules. They will have to establish every element of their claims, from market definition through market power to anticompetitive effect. They may also have to show that the negative effect that they have identified overwhelms any of its positive effects. Courts will have to evaluate these arguments in a case-specific manner, subject to a rule of reason.

At the moment, case law provides more questions than answers. Case law since *Kodak* has established that plaintiffs can prevail, but only if they do significant work. The case-specific analyses to date do not provide enough data to leave anyone—plaintiff or defendant—certain of an outcome. Only time will tell whether the data that do accumulate will resolve future disputes correctly more often than they err. The good news for the moment, however, is that the analytic framework that the courts are implicitly developing appears to be normatively correct. In an allegation of aftermarket monopolization implicating IP rights, either side may prevail, depending

upon the specifics of the allegations and the strength of the evidence. I will thus close with the common anticlimactic conclusion of objective inquiries into legal doctrines in flux: stay tuned.