

THE INTELLECTUAL PROPERTY ANTITRUST PROTECTION ACT OF 1987

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The following is taken from the statement of Jack E. Brown in opposition to S. 438,¹ given October 20, 1987, before the United States Senate Subcommittees on Technology and the Law and on Antitrust, Monopolies, and Business Rights. Mr. Brown is the name partner of the firm Brown & Bain, whose practice has been heavily committed to the often related subjects of antitrust and intellectual property.

In my view, the proposed legislation is unnecessary to protect legitimate intellectual property licensing practices and would be harmful by undermining useful antitrust doctrines under the present statutory provisions.

I. THE PROPOSED ELIMINATION OF *PER SE* ILLEGALITY

The proposal to abandon the *per se* rules of illegality in all cases involving intellectual property licenses is pernicious. The doctrine of *per se* illegality, as explained by the Supreme Court, is not antithetical to the "rule of reason" which governs in all restraint of trade cases.² The *per se* doctrine is simply a pronouncement that certain agreements or practices are *per se* illegal and not subject to the complex rule of reason analysis because their "nature and necessary effect are so plainly anticompetitive"³ or, stated other-

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1. S. 438, 100th Cong., 1st Sess. (1987). This bill, short-titled the "Intellectual Property Antitrust Protection Act of 1987," would declare that patent, trade secret, copyright, and mask work licenses "shall not be deemed to be illegal *per se* under any of the antitrust laws" and would prohibit the recovery of any more than actual damages (plus interest and costs, including a reasonable attorney's fee) in any action based upon such a license agreement. The bill is the analogue to H.R. 557, 100th Cong., 1st. Sess. (1987).

2. Under the rule of reason, "the factfinder weighs all of the circumstances of a case in deciding whether a restrictive practice should be prohibited as imposing an unreasonable restraint on competition." *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 49 (1977). This entails a thorough examination of the relevant industry and a balancing of the restrictive practice's positive and negative effects upon competition. If the challenged conduct has a *de minimis* effect upon competition or has legitimate business justifications, it will not be determined to violate the antitrust laws under the rule of reason analysis. KAKERIS, ANTITRUST BASICS § 1.03[2] (1987).

3. *National Soc'y of Professional Engineers v. United States*, 435 U.S. 679, 692 (1978).

wise, because of "their pernicious effect on competition and lack of any redeeming virtue."⁴

Thus, *per se* illegality is deemed to exist, under current law, in only a few situations. In the present context, these situations involve either agreements among competitors to fix prices, limit output, or divide markets,⁵ or tying arrangements.⁶ There is no good reason to abandon *per se* illegality in such cases merely because a conveyance of intellectual property rights may be involved.

A. Agreements Among Competitors Fixing Prices, Restricting Output, or Dividing Markets

Permit me to deal first with the doctrine of *per se* illegality in price-fixing cases. Many antitrust critics today favor the abandonment of any *per se* rule in cases involving only vertical price-fixing, that is, price-fixing between companies at different levels of the distribution chain.⁷ In particular, in vertical price-fixing cases involving intellectual property, these critics favor according wider scope to resale price restrictions in patent licenses, approved by the Supreme Court in *United States v. General Electric Co.*⁸ There is much to be said for that view, and I shall leave that debate for another day.

4. *Northern Pac. Ry. v. United States*, 356 U.S. 1, 5 (1958).

5. See, e.g., *Catalano, Inc. v. Target Sales, Inc.*, 446 U.S. 643 (1980) (horizontal price-fixing); *California Retail Liquor Dealers Ass'n v. Midcal Aluminum, Inc.*, 445 U.S. 97 (1980) (vertical price-fixing); *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945) (output limitations); *United States v. Topco Assocs.*, 405 U.S. 596 (1972) (horizontal market divisions).

6. See, e.g., *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984). "[A] tying arrangement may be defined as an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier." *Northern Pac. Ry.*, 356 U.S. at 5-6.

7. See, e.g., R. BORK, *THE ANTITRUST PARADOX* 288 (1978); R. POSNER, *ANTITRUST LAW* 165 (1976); Easterbrook, *The Limits of Antitrust*, 63 TEX. L. REV. 1 (1984). But see Turner, *The Durability, Relevance, and Future of American Antitrust Policy*, 75 CALIF. L. REV. 797, 804 (1987). In *Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752 (1984), the Solicitor General invited the Supreme Court to re-examine *per se* illegality of vertical price restraints, but the Court did not reach the merits of that argument. *Id.* at 761 n.7.

8. 272 U.S. 476 (1926). In *General Electric*, the Court approved a General Electric license to Westinghouse to manufacture tungsten filament light bulbs under General Electric patents on the condition that Westinghouse maintain the prices established by General Electric for its own sales.

It is widely recognized that subsequent cases substantially eroded the *General Electric* holding to the point where it is a precedent of slight and uncertain value. See *Interstate Circuit v. United States*, 306 U.S. 208, 228 (1939) (refusing to apply *General Electric* where the price restriction applied to copyrighted movies and entertainment other than the particular movie licensed); *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942) (refusing to apply *General Electric* where the price restrictions were on the resale of a patented product because the first sale "exhausts the monopoly in that article"); *United States v. Line Material Co.*, 333 U.S. 287, 314-15 (1948) (declaring unlawful price restrictions in a cross-license agreement of two

There is, however, little if any support among commentators for elimination of the rule that *horizontal* price-fixing, that is, price-fixing among competitors at the same level in the distribution chain, is to be treated as *per se* illegal,⁹ and there is little if any basis to view with greater favor or solicitude horizontal price-fixing activity incidental to intellectual property licenses.¹⁰ Indeed, courts have had occasion to find such licenses to have been used to create cartels which restrained competition and therefore were *per se* illegal.¹¹

Courts have applied the same analysis to intellectual property licenses which effectuate output limitations or market divisions among competitors.¹² In *Hartford-Empire Co. v. United States*,¹³ for example, the Supreme Court invalidated a network

"blocking" patents); *United States v. United States Gypsum Co.*, 333 U.S. 364, 399-401 (1948) (invalidating price restrictions in patent licenses on the ground that the licenses were in aid of a cartel among competitors). The cited cases are analyzed in Furth, *Price Restrictive and Patent Restrictive Licenses Under the Sherman Act*, 72 HARV. L. REV. 815 (1958).

More recently, the Supreme Court divided equally on the question of overruling *General Electric* outright in *United States v. Huck Mfg. Co.*, 382 U.S. 197 (1965) (*per curiam*), *aff'g* by an equally divided Court, 227 F.Supp 791 (E.D. Mich. 1964), but may have given the case new life in *Broadcast Music, Inc. v. CBS.*, 441 U.S. 1 (1979) (declaring not subject to *per se* illegality an arrangement for pooling copyrights for licensing by a single agency). *Cf. Illinois Corporate Travel, Inc. v. American Airlines, Inc.*, 806 F.2d 722, 724 (7th Cir. 1986) ("*General Electric* is healthy").

9. See Goldschmid, *Horizontal Restraints in Antitrust: Current Treatment and Future Needs*, 75 CALIF. L. REV. 925 (1987) ("[W]hatever one's antitrust value scheme, I see no room for tolerance of hardcore horizontal price fixing or of production and territorial restraints. The same is true of certain competitor-excluding group boycotts.")

10. See P. HOFF, *INVENTIONS IN THE MARKETPLACE: PATENT LICENSING AND THE U.S. ANTITRUST LAWS* 11 (1986) ("[E]ven those who see no conflict between vertical arrangements involving patent licenses and the antitrust laws agree that licensing arrangements may most certainly run afoul of the antitrust law if the patent arrangements disguise horizontal collusion between competitors.")

11. See, e.g., *Line Material Co.*, 333 U.S. 287; *United States Gypsum Co.*, 333 U.S. 364. *Cf. Baxter, The Definition and Measurement of Market Power in Industries Characterized by Rapidly Developing and Changing Technologies*, 53 ANTITRUST L.J. 717, 725-26 (1984) ("Price maintenance clauses in patent licenses may very well be a smokescreen for inducing a wide set of participants to use your technology and suppress equally good technologies, in order to be able to take advantage of a patent monopoly regime.")

12. See National Collegiate Athletic Ass'n v. Board of Regents, 468 U.S. 85, 100 n.21 (1984) (citations omitted) ("While judicial inexperience with a particular arrangement counsels against extending the reach of *per se* rules, the likelihood that horizontal price and output restrictions are anticompetitive is generally sufficient to justify application of the *per se* rule without inquiry into the special characteristics of a particular industry."). See also Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267, 339 (1966).

Section 261 of the Patent Code provides that a patentee may "grant and convey an exclusive right under his . . . patent to the whole or any specified part of the United States." 35 U.S.C. § 261 (1982). That provision may provide a special authorization for territorial restrictions in patent licenses. See *Dunlop Co. v. Kelsey-Hayes Co.*, 484 F.2d 407, 417 (6th Cir. 1973), *cert. denied*, 415 U.S. 917 (1974).

13. 323 U.S. 386 (1945).

of cross-licenses among manufacturers of glassware where various output restrictions had the effect of regulating competition among the licensees.¹⁴

S. 438 appears to make no distinction of any kind between or among these different kinds of cases and, instead, directs the wholesale elimination of any rule of *per se* illegality under any of the antitrust laws in all cases involving intellectual property conveyances. Moreover, S. 438 would appear to permit competitors to escape the present *per se* rules affecting anticompetitive agreements simply by including the desired anticompetitive provisions in a patent, copyright, or trade secret cross-license agreement. I venture to suggest that it will not take astute antitrust practitioners more than a day to see the availability of that ready device for safeguarding against antitrust liability.

The problem with the bill to which I have alluded is magnified by the fact that the bill extends its protection to conveyances of trade secret rights. "Trade secret" encompasses a far broader range of intellectual property than either "patent" or "copyright."¹⁵ Virtually every business has its share of trade secrets, often combined and in the aggregate referred to as "know-how," that create considerable opportunities for antitrust abuse even under current law through the medium of "know-how licenses." For example, a licensor of manufacturing know-how accompanying a patent license could claim that the license restrictions on the use of the know-how continued for many years after expiration of all of the relevant patents. The licensor could thereby

14. *Id.* at 406-07.

15. Restatement of Torts § 757 comment b (1939) defines "a trade secret" as follows:

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers

Section 1 of the UNIFORM TRADE SECRETS ACT, 14 U.L.A. 537 (1985), adopted in nineteen states as of January 1, 1988, defines a "trade secret" as

information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

In comparison, patent protection is given only to any non-obvious, new and useful process, machine, manufacture, or composition of matter [35 U.S.C. §§ 101, 103 (1982)], while copyright protection is only afforded to the expression of original works of authorship fixed in any tangible medium. 17 U.S.C. § 102(a) (1982).

For a comparison of patent law and trade secret law, see *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

preclude the licensee from developing a competing technology using the same know-how free of the restraints imposed by the license. Antitrust theorists have always understood the danger that industry-wide patent and know-how licenses might discourage licensees from developing innovative competing technologies.¹⁶ That is a danger which, it seems to me, would be enhanced by the enactment of S. 438.

Enactment of the proposed legislation presumably would remit all cases involving intellectual property conveyances to a full factual inquiry into the competitive effects of every challenged restraint under the rule of reason. I hesitate to predict what that might mean in cases of horizontal price-fixing, output restrictions, or market division, but I think it is safe to predict that the complexity of the inquiry that is eventually required is likely to give pause both to litigants and to the courts.¹⁷ The likelihood of a successful challenge to any restraint is bound to be decreased; that, after all, is plainly the ultimate objective of the proposed legislation.¹⁸

16. See C. Rule, Statement before the John Marshall Law School at 8 (Feb. 22, 1985) (acknowledging that patent license restrictions may be anticompetitive where they are used "to suppress the creation or development of competing technologies"). See also R. Andrew, *The Antitrust Division's Perspective on Intellectual Property Protection and Licensing—The Past, the Present, and the Future*, Remarks before the ABA Patent, Trademark, and Copyright Section (July 16, 1985).

The task force engaged in revising the *Antitrust Guide for International Operations*, issued by the United States Department of Justice in 1977, while arguing that patent licenses should be viewed generally as vertical relationships, acknowledged antitrust concerns "if there is a horizontal element to the restraint, or if there is no significant interbrand competition," i.e., competition among manufacturers of the same generic product, and explained, "This might occur where the patent license and its provisions serve to restrict competition in the use of previously available technology or serve to reduce competition in the development of new technology." *Task Force Report: The Antitrust Guide for International Operations Revisited*, 54 ANTITRUST L.J. 841, 845-46 (1985).

Deputy Assistant Attorney General Rule has advised that a license should be analyzed as a horizontal restriction if the parties "own or control competing technologies, and the license restricts their price or output decisions." Rule, *The Antitrust Implications of International Licensing: Analyzing Patent and Know-How Licenses*, 5 TRADE REG. REP. (CCH) ¶ 50,482, at 56,295 (Oct. 27, 1986).

17. See Blecher, *The New Antitrust as Seen by a Plaintiff's Lawyer*, 54 ANTITRUST L.J. 43, 45 (1985). In a brilliant article contending for a more practical rule of reason judicial analysis in "terms that a country lawyer can understand," Professor Sullivan referred to the rule of reason as signifying "endless inquiry into cross elasticities, supply substitutability, scale economies, transaction costs, and learning curves." Sullivan, *The Viability of the Current Law on Horizontal Restraints*, 75 CALIF. L. REV. 835, 847 (1987).

18. Among the reasons given in recent rule of reason cases for dismissal of private suits were that the plaintiff could not or did not show: an adequately defined economic market in which competition could be properly assayed or in which the defendant possessed the requisite market share (or other manifestation of market power) in a properly defined market [*Cf. Nobel Scientific Indus. v. Bechman Instruments, Inc.*, 670 F. Supp. 1313 (D. Md. 1986), *aff'd on the opinion below*, 831 F.2d 537 (4th Cir. 1987); *Belfiore v. New York Times Co.*, 826 F.2d 177 (2d Cir. 1987)]; concerted action [*Key Financial Planning Corp. v. ITT Life Ins. Corp.*, 828

Finally, the cost of whatever additional inquiry is required is likely to be prohibitive to government prosecutors and daunting to even the richest and most daring of private litigants. The process of defining a relevant market, sometimes said to be a prerequisite in every rule of reason case,¹⁹ and determining the defendant's share of that market can in itself be enormously time-consuming and expensive as well as delusive.²⁰ It seems inevitable that the net result will be that antitrust cases which under today's rules might be brought, will, if S. 438 is adopted, never be brought, and many anticompetitive arrangements which under today's rules would not be entered into will, under S. 438, be considered and adopted.

B. Tying Arrangements

Tying arrangements present a separate problem. Although ties are nominally *per se* illegal under both Section 1 of the Sherman Act²¹ and Section 3 of the Clayton Act,²² it is well understood that the *per se* rule is not to be applied in any tie-in case except where a defendant's "market power" is demonstrated.²³

F.2d 635 (10th Cir. 1987)); anticompetitive effects in an industry at large or in a defined market [Rutman Wine Co. v. E. & J. Gallo Winery, 829 F.2d 729 (9th Cir. 1987)]; a sufficiently close connection between the arrangement complained of and the alleged injury to competition [Lomar Wholesale Grocery, Inc. v. Dieter's Gourmet Foods, Inc., 824 F.2d 582 (8th Cir. 1987), *cert. denied*, 108 S.Ct. 707 (1988)]; or the antitrust injury to the claimant directly resulting from the alleged illegal conduct [Cf. Isaksen v. Vermont Castings, Inc., 825 F.2d 1158 (7th Cir. 1987); Orion Pictures Distribution Corp. v. Syufy Enters., 829 F.2d 946 (9th Cir. 1987)].

19. See Rule, *The Antitrust Implications of International Licensing: Analyzing Patent and Know-How Licenses*, *supra* note 16, at 56,295 ("The first step in the rule of reason analysis is to identify the technologies that are true economic substitutes for the patent being licensed and with which that patent competes. This determination is analogous to the process of defining markets in merger analysis."). *But see* NCAA v. Board of Regents, 468 U.S. at 109-10 (extensive industry analysis not required in some situations).

20. See Areeda, *Monopolization, Mergers, and Markets: A Century Past and the Future*, 75 CALIF. L. REV. 959, 979 (1987); Rowe, *Market as Mirage*, 75 CALIF. L. REV. 991 (1987).

21. 15 U.S.C. § 1 (1982). Section 1 of the Sherman Act provides in pertinent part: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal." *Id.*

22. 15 U.S.C. § 14 (1982). Section 3 of the Clayton Act states in pertinent part:

It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States . . . or fix a price charged therefore, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Id.

23. See *Jefferson Parish*, 466 U.S. 2 (1984).

Traditionally, the focus of inquiry has been on the defendant's power in the market for the tying product, on the theory that "the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms."²⁴ Recent cases, however, have imposed an additional requirement that there be "a substantial danger that the tying seller will acquire market power in the tied product market."²⁵

In addition, there has been a perceptible, although still ambiguous, change in the meaning of "market power." The earlier cases tended to focus on the power accruing to a seller inherent in the tying product.²⁶ Some later cases, however, have shifted attention from the tying product to the "market for the tying product," calling for extensive market analysis, including market definition and share-of-market measurement exercises of the kind employed in merger cases under Section 7 of the Clayton Act²⁷ and monopolization cases under Section 2 of the Clayton Act.²⁸

24. *Id.* at 12.

25. See *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 674 (7th Cir. 1985), *cert. denied*, 475 U.S. 1129 (1986); *Carl Sandburg Village Condo. Ass'n No. 1 v. First Condo. Dev. Co.*, 758 F.2d 203, 210 (7th Cir. 1985). *But see* *Parts and Elec. Motors, Inc. v. Sterling Elec., Inc.*, 826 F.2d 712, 719 (7th Cir. 1987) ("the requirement that there be a threat of market power in the tied product has not been endorsed as a requisite for a tying violation by a Supreme Court majority"). The concurring opinion of Justice O'Connor in *Jefferson Parish*, 466 U.S. at 38, did set forth such a requirement but also stated, "If, on the other hand, the tying arrangement is likely to erect significant barriers to entry into the tied product market, the tie remains suspect." *Id.* at 39.

26. See *Northern Pac. Ry.*, 356 U.S. at 1.

While there is some language in the *Times-Picayune* [345 U.S. 594 (1953)] opinion which speaks of "monopoly power" or "dominance" over the tying product as a necessary precondition for application of the rule of per se unreasonableness to tying arrangements, we do not construe this general language as requiring anything more than sufficient economic power to impose an appreciable restraint on free competition in the tied product (assuming all the time, of course, that a "not insubstantial" amount of interstate commerce is affected). To give it any other construction would be wholly out of accord with the opinion's cogent analysis of the nature and baneful effects of tying arrangements and their incompatibility with the policies underlying the Sherman Act.

Id. at 11.

Justice Harlan, joined by Justices Frankfurter and Whittaker, dissented in *Northern Pac. Ry.*, arguing that some showing of defendant's dominance over the relevant market, or at least "of the 'uniqueness' of appellants' landholdings in terms of quality or use to which they may have been put," should have been required before the *per se* rule of unreasonableness for tying arrangements was invoked. *Id.* at 16.

27. 15 U.S.C. § 18 (1982).

28. *Id.* § 13 (1982). See *Jefferson Parish*, 466 U.S. 2 (holding that a 30% market share was insufficient to establish market power in the tying product market); *United States Steel Corp. v. Fortner Enters, Inc.*, 429 U.S. 610, 620 (1977) (*Fortner II*) (requiring a showing that "the seller has some advantage not shared by his competitors in the market for the tying product");

Moreover, regardless of whether S. 438 is adopted, the *per se* rule in tying cases is under serious threat of being eviscerated or abandoned altogether. The 1985 Vertical Restraint Guidelines ("Guidelines") put forth by the Antitrust Division of the Justice Department²⁹ state that "[t]ying arrangements generally do not have a significant anticompetitive potential" and suggest a presumption favoring legality in the absence of proof of "a degree of market power in the tying market that approaches monopoly proportions."³⁰ Justice O'Connor, in her concurring opinion in *Jefferson Parish*, joined by Chief Justice Burger and Justices Powell and Rehnquist, expressed the view that "[t]he time has . . . come to abandon the '*per se*' label and refocus the inquiry on the adverse economic effects, and the potential economic benefits, that the tie may have."³¹ The opinion also expressed a view of tying arrangements as frequently "procompetitive" because such arrangements may be "more efficient," providing "economic benefits" and "advantages," or at least "entirely innocuous" and therefore not subject to condemnation.³² The opinion also approved assessing the economic advantages of joint packaging in order to determine whether the combined sale of two products should be viewed as a single product for the purpose of antitrust analysis.³³

This brings us to consideration of the decision of the Court of Appeals for the Ninth Circuit in *Digidyne Corp. v. Data General Corp.*³⁴ The case is important to the present discussion because some supporters of S. 438 have cited *Data General* as illustrating the reasons a change in the law should be made.³⁵ The case involved a number of plaintiffs who each manufactured a computer

A.I. Root Co. v. Computer/Dynamics, Inc., 806 F.2d 673, 675 (6th Cir. 1986) (affirming summary judgment against plaintiff because defendant did not possess the requisite economic power for an illegal tie). See also Dam, Fortner Enterprises v. United States Steel: "Neither a Borrower, Nor a Lender Be," 1969 SUP. CT. REV. 1, 23-28.

29. Reprinted in 5 TRADE REG. REP. (CCH) ¶ 50,473, at 56,185 (April 15, 1985).

30. Guidelines §§ 5.1, 5.2, 5.3 n.35. For a fine critical view of the Guidelines, see Baker, *New Vertical Restraints Guidelines: Justice's Efforts to Influence Courts*, NATIONAL L.J. (Mar. 4, 1985).

31. 466 U.S. at 35 (O'Connor, J., concurring).

32. *Id.* at 35-42.

33. "When the economic advantages of joint packaging are substantial the package is not appropriately viewed as two products, and that should be the end of the tying inquiry." *Id.* at 40.

In a published dissent from denial of *certiorari* in *Digidyne Corp. v. Data General Corp.*, 473 U.S. 908 (1985), Justice White, joined by Justice Blackmun, endorsed the view that tying arrangements "may have procompetitive justifications" and should not be condemned "without considerable market analysis." *Id.*

34. 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985).

35. See, e.g., S. Feman, Testimony of the Hewlett Packard Co. on S. 438 before the U.S. Senate Subcommittee on Technology and the Law and the Subcommittee on Antitrust, Monopolies, and Business Rights (Oct. 20, 1987) (stating that the choices for computer companies under the *Data General* opinion are "undesirable").

that utilized the same publicly available NOVA instruction set as was utilized in Data General's NOVA computers and was therefore capable of running the same operating system software. The appellate court affirmed the jury verdict in favor of the plaintiffs as to Data General's market power in the relevant software market and held that Data General had illegally tied the sale of its NOVA computers to the licensing of its operating system software by refusing to allow the use of its software with any competing computer.³⁶

The aspect of the decision that has been subjected to the greatest criticism is its reliance on Data General's copyrights in its operating system software as giving rise to a presumption under *United States v. Loew's, Inc.*³⁷ of the necessary economic power required to impose *per se* illegality.³⁸ I would submit that the decision does not pose a serious threat to any legitimate licensing activity and certainly does not call for such a radical, far-reaching measure as S. 438.

First, *Data General* is truly *sui generis*. The subject of copyright was only a small part of the opinion and a much smaller part of the case presented by the plaintiffs in demonstrating Data General's economic power.³⁹

Second, *Data General* is not the last judicial word on the subject of economic power in tying cases. To the extent that there is any problem of interest arising from the case, the problem is like-

36. 734 F.2d at 1346.

37. 371 U.S. 38, 45 (1962) ("The requisite economic power is presumed when the tying product is patented or copyrighted."). In *Jefferson Parish*, the Supreme Court similarly stated that "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." 466 U.S. at 16.

38. For example, Deputy Assistant Attorney General Rule has criticized this dictum as "wrong, and also very troublesome because of the negative impact it may have on pro-competitive licensing practices." C. Rule, Statement before the John Marshall Law School at 12 (Feb. 22, 1985).

39. One unique reflection of Data General's economic power was Data General's Minimum Equipment Configuration - Program License Charge requirement. See 734 F.2d at 1343. As a condition of every software license, Data General required that the licensee acquire from Data General a specified minimum amount of hardware or, alternatively, pay to Data General a charge—in addition to a software license fee—which was so high that it was viewed by many as a "fine" or "penalty." Many of the items which customers were required to purchase were acquired by Data General from other manufacturers and resold at huge mark-ups; in 1979, for example, Data General's mark-up for such resales averaged more than 250%. Many of the items manufactured by Data General were thought to be inferior in quality to items available from others. Not infrequently, customers were required to purchase equipment for which they had absolutely no need. Professor Richard Schmalensee described the Data General scheme as "a classic demonstration of power over price." See Appellants' Opening Brief at 19-22, *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336 (9th Cir. 1984) (Nos. 82-4162, 81-4628, 81-4667, and 81-4671), cert. denied, 473 U.S. 908 (1985); Special Appendix to Accompany Appellants' Brief at 95A-105A, *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336 (9th Cir. 1984) (Nos. 82-4162, 81-4628, 81-4667, and 81-4671), cert. denied, 473 U.S. 908 (1985).

ly to be satisfactorily resolved by the courts in regular course. Judge Easterbrook, who as a private practitioner authored Data General's petition for Supreme Court review, has already found an opportunity to criticize and refuse to follow the case.⁴⁰ Furthermore, criticism of the presumption of economic power emanating from patents or copyrights has been stimulated by the decision⁴¹ and may result in less judicial reliance upon such a presumption.⁴² But even if the presumption is maintained in full vigor in future cases, nevertheless, it is rebuttable. If it is true, as Professor Scherer has suggested, that "the vast majority of all patents confer very little monopoly power,"⁴³ then that fact ought to be readily demonstrable, and a debate as to which party will bear the burden of proving or disproving the economic power inherent in such intellectual property should not strike anyone as the most pressing question demanding the attention of the United States Senate.⁴⁴

Third, on the merits I would submit that the defense of tying arrangements advanced by the Chicago School of economists is overdrawn.⁴⁵ As I have related, the *per se* rule against tying arrangements is not invoked today without a meaningful showing of economic power. Further, leading cases have recognized and allowed sound business justifications, such as quality control and new product introduction, as absolute defenses in particular tying arrangement cases.⁴⁶

40. *Will v. Comprehensive Accounting Corp.*, 776 F.2d at 673 n.4.

41. *See, e.g., Note, The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 COLUM. L. REV. 1140 (1985).

42. In *Nobel Scientific Indus.*, the court held:

Absent an exclusive right or a patent covering a whole product, economic power cannot be assumed. Where there are numerous [machines] performing the same functions, the fact that parts of [a machine] may have patent protection is not critical.

What is more important, as demonstrated by cases dealing with market definition, is whether other products are interchangeable with the item, even despite the patents.

670 F. Supp. at 1328-29.

43. *The Value of Patents and Other Legally Protected Commercial Rights—Panel Discussion*, 53 ANTITRUST L.J. 535, 547 (1984) (F. Scherer speaking) [hereinafter *Panel Discussion*].

44. *See id.* at 546-47 (J. Brown speaking).

45. Leading statements of the Chicago School position may be found in W. BOWMAN, PATENT AND ANTITRUST LAW 64-119 (1973); R. BORK, THE ANTITRUST PARADOX 140, 365-81 (1978); and Posner, *The Chicago School of Antitrust Analysis*, 127 U. PA. L. REV. 925 (1979).

46. *See, e.g., The Mozart Co. v. Mercedes-Benz of North America, Inc.*, 833 F.2d 1342, 1348 (9th Cir. 1987) (upholding a business justification defense and explaining, "We have recognized that antitrust defendants may demonstrate a business justification for an otherwise *per se* illegal tying arrangement."); *Dehydrating Process Co. v. A.O. Smith Corp.*, 292 F.2d 653 (1st Cir.) (recognizing good will defense where, over a period of seven years, defendant received numerous complaints when its unloading machines were sold for use with competitive silos), *cert. denied*, 368 U.S. 931 (1961); *United States v. Jerrold Elec. Corp.*, 187 F. Supp. 545 (E.D. Pa. 1960) (tie-in of product to service contract held not illegal where industry was new and products unavailable from multiple sellers, illegality coming only after products became available from others), *aff'd mem.*, 365 U.S. 567 (1961) (*per curiam*).

The main arguments advanced by the Chicago School in defense of tying arrangements—for example, that tying arrangements are meaningless because a seller can recover only one monopoly profit or are benign because they are merely efficient metering devices—strike me as over-sophisticated rationalizations.⁴⁷ These arguments do not prove that a tying arrangement is required to accomplish whatever legitimate objective a seller may have. Nor do they counter the fact that, in each case, the seller expects to make sales of the tied product which it otherwise could not gain if each product was sold separately on its merits.⁴⁸ There ultimately remains a powerful truth in the common sense observation of Justice Frankfurter in *Standard Oil Co. v. United States*,⁴⁹ that “[t]ying agreements serve hardly any purpose beyond the suppression of competition.”⁵⁰ If that is so, to eliminate any use of a *per se* rule in tying cases, which already are beset with increasingly difficult burdens of proof, would be to take a backward step.⁵¹

In sum, the *per se* rule in tying cases already is attenuated and subject to a high degree of judicial scrutiny. If the dictum in *Data General* according a presumption of economic power to the holding of a patent or copyright is bad law, it is without much significance and provides no justification for the enactment of a worse statute with wide-ranging consequences.

47. For broad critical reviews of the Chicago School main theses, see Pitofsky, *Antitrust in the Next 100 Years*, 75 CALIF. L. REV. 817, 822-27 (1987); Fox, *The Battle for the Soul of Antitrust*, 75 CALIF. L. REV. 917 (1987).

48. See *Panel Discussion*, *supra* note 43, at 541-42 (J. Brown speaking).

49. 337 U.S. 293 (1949).

50. *Id.* at 305-06. The Supreme Court noted in *Jefferson Parish* the strong Congressional views that led to the condemnation of tying arrangements in Section 3 of the Clayton Act, 15 U.S.C. § 14 (1982). See 466 U.S. at 10-11. For current analysis of tying arrangements in terms other than those used by the Chicago School of economists, see SULLIVAN, *HANDBOOK OF THE LAW OF ANTITRUST* § 152 (1977); Bauer, *A Simplified Approach to Tying Arrangements: A Legal and Economic Analysis*, 33 VAND. L. REV. 283 (1980); Kaplow, *Extension of Monopoly Power Through Leverage*, 85 COLUM. L. REV. 515 (1985); Kaplow, *The Patent Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1815 (1984).

51. I do not mean to suggest unqualified approval of all aspects of tie-in law as pronounced in prior cases. I would particularly invite renewed and continuing study of the definition of single and separate products, as suggested in Justice O'Connor's concurring opinion in *Jefferson Parish*, 466 U.S. at 39-40.

The case law took a bad turn in this regard in *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 498 (1969) (*Fortner I*) (holding that the credit terms upon which the seller's houses were offered were a separate product from the houses), compelling an unnecessarily tortured opinion to reach an obviously sound result in *Fortner II*, 429 U.S. at 622 (holding that the defendant did not have sufficient economic power in the credit field to make the tying arrangement unlawful). Much of the unease expressed by critics of the tying cases might be allayed, I suspect, if a more sensible standard were used to define single and separate products.

II. THE PROPOSED ELIMINATION OF TREBLE-DAMAGES

The provision of S. 438 eliminating treble damages in all cases involving patent, trade secret, copyright, and mask work licenses⁵² would provide almost certain assurance that very few private suits based upon any kind of illegal arrangement involving an intellectual property license ever would be filed and adequately prosecuted. Because private suits are often more important than government actions in protecting against antitrust misconduct, the elimination of treble damages as a remedy might well be a fatal blow to meaningful antitrust enforcement on a broad front.⁵³

III. THE ENCOURAGEMENT OF PROCOMPETITIVE LICENSING OF INTELLECTUAL PROPERTY

Finally, I would like to consider the claim that legislation like S. 438 is necessary in order to encourage procompetitive licensing of intellectual property. I have no doubt that proponents of the legislation are well-intentioned in thinking that some good may come of it in the form of assistance for high technology businesses beleaguered by foreign competitors. I think, however, that the proponents are wrong in looking for assistance in this kind of a proposal. I fear that S. 438 will further hamper high technology business by eliminating the present mild antitrust restraints on those competitors with conspiratorial or predatory inclinations.

As I understand it, a main justification offered for the bill is that licensing restraints may be particularly important to small firms or individuals required to license their respective inventions in order to gain the manufacturing and distribution assets and skills of larger firms.⁵⁴ I have no difficulty in recognizing the need for, and benefits of, technology licensing in those instances, but I do not think it has been, or can be, shown that small firms or individuals require immunization from the *per se* rule in price-fixing or tying cases to fully exploit the benefits of technology licensing. Indeed, in the hypothesized case, the small firms or in-

52. See *supra* note 1.

53. For a compelling statement explaining that the combined effect in the proposed legislation of requiring a rule of reason inquiry while eliminating treble damages would be to make private suits impractical for most firms and impossible for some small firms, see J. Provine, Statement before the Subcommittee on Monopolies and Commercial Law, Committee on the Judiciary, U.S. House of Representatives, concerning H.R. 557 (April 30, 1987). Dean Pitofsky, while acknowledging the criticism of private enforcement, nevertheless concludes that there is good reason to retain private enforcement. Pitofsky, *supra* note 47, at 832-33.

54. R. Andewelt, Statement before the Subcommittee on Monopolies and Commercial Law, Committee of the Judiciary, House of Representatives, concerning H.R. 557, at 4 (April 30, 1987) [hereinafter Andewelt Statement].

dividuals are by definition purely (or at least primarily) licensors, not competitors of their licensees. As licensors rather than competitors of larger firms engaged in manufacturing and distribution, small firms simply need not be troubled by the *per se* rule against horizontal conspiracies.

I am fully committed to the legal protection of intellectual property as a means of encouraging technological innovation. I have argued elsewhere that technological innovation is what ultimately matters in economics.⁵⁵ The focus of attention must always be on whether, and the extent to which, a given rule promotes or hinders innovation. My belief is that the current *per se* antitrust rules do not conflict with the goal of encouraging technological innovation. I hope that I have demonstrated in a small way that by assisting the competitive process, the antitrust prohibitions to which the *per se* rules pertain encourage technological innovation.

For example, because a tying arrangement creates an inherent barrier to entry into the manufacture of both the tying product and the tied product by requiring a new entrant to prepare to manufacture *both* items if it wishes to compete on par with the first entrant,⁵⁶ the tie operates indirectly to inhibit and stultify innovation.⁵⁷ Therefore, to the extent that the *per se* rule prevents such tying arrangements from existing, the rules aid technological innovation.

Lastly, it has been argued that antitrust illegality may be proven under the rule of reason without the benefit of any *per se* rule and thus the proposed legislation "would not render lawful any anticompetitive licensing scheme."⁵⁸ Although strictly speaking that statement is true, because of the combined difficulties of eliminating treble damages and proving a rule of reason violation,⁵⁹ as a practical matter S. 438 would render almost every anticompetitive licensing provision virtually immune from suit.

55. See *Panel Discussion*, *supra* note 43, at 543 (J. Brown speaking).

56. See *Jefferson Parish*, 466 U.S. at 13 n.19, quoting at length from the dissenting opinion of Justice White in *Fortner I*, 394 U.S. at 512-14.

57. I take some comfort in knowing that one of the harshest critics of the law against tying arrangements, Professor and former Assistant Attorney General William Baxter, has at least noted that "every once in a blue moon, one can find a tie-in case where somebody is trying to erect entry barriers." Baxter, *The Definition and Measurement of Market Power in Industries Characterized by Rapidly Developing and Changing Technologies*, 53 ANTITRUST L.J. 717, 725 (1984).

58. Andewelt Statement, *supra* note 54, at 9-10.

59. See *supra* notes 17, 18 and accompanying text.

