Antitrust Immunity for Refusals to Deal in (Intellectual) Property Is a Slippery Slope

Jeffrey K. MacKie-Mason

The Federal Circuit's decision in *CSU v. Xerox*[1] has generated enormous controversy.[2] However, there seems to be emerging agreement among both critics and supporters of the decision on a correct, narrow reading of the decision. Whatever else the decision stands for, it appears to declare antitrust immunity for unilateral refusals to sell or license patented or copyrighted intellectual property (IP).[3]

What was at stake in *Xerox* is whether a firm with a legitimate property right in the design of certain parts has the right to condition sale of those parts with terms that enable Xerox to obtain a monopoly in a different market, for service labor. More broadly, what is at stake is a safe harbor for conduct that previously has been found illegal. For, although much emphasis is placed on whether this was a *unilateral* refusal to deal (as opposed to a concerted agreement, which would not be exempt from Section 1 scrutiny), it is at least as important that this was a *conditional* refusal. As I show below, the meaningful distinction between this conditional refusal to deal and a conventional illegal tie is nil. Further, if an antitrust exemption is given to all conditional unilateral refusals to deal, this formalistic shield will be easily available in the future to firms that would otherwise be subject to antitrust liability for tying or other concerted agreements.[4]

---

1 *In re* Independent Serv. Orgs. Antitrust Litig., *CSU, L.L.C., v. Xerox Corp.* (203 F.3d 1322 (Fed. Cir. 2000), *cert. denied* 121 S. Ct. 1077 (2001).

2 *See, e.g.*, *Symposium: The Federal Circuit and Antitrust*, 69 ANTITRUST L.J. No. 3 (2002), especially Ronald S. Katz & Adam J. Safer, *Should One Patent Court Be Making Antitrust Law for the Whole Country?*, *id.* at 687; Peter M. Boyle et al., *Antitrust Law at the Federal Circuit: Red Light or Green Light at the IP-Antitrust Intersection?*, *id.* at 739; *see also* the papers and presentations of the economists (including this author) and lawyers at the May 1, 2002 FTC-DOJ Hearings on "Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy," *available at* http://www.ftc.gov/opp/intellect/detailsandparticipants.htm#May%201:.

3 Jonathan Gleklen agrees in his companion article, *Point: Per Se Legality for Unilateral Refusals to License IP*, ANTITRUST SOURCE, July 2002.

4 FTC Chairman Robert Pitofsky criticized the *Xerox* decision as "leap[ing] from the undeniable premise that an intellectual property holder does not have to license anyone in the first instance to the unjustifiable conclusions that it can select among licensees to achieve an anti-competitive purpose or can condition a license (for example, you receive a license only if you agree not to do business with my competitor) to achieve an anti-competitive effect." Antitrust and Intellectual Property: Unresolved Issues at the Heart of the New Economy (Mar. 2, 2001), *available at* http://www.ftc.gov/speeches/pitofsky/ipf301.htm.

***Jeffrey K. Mackie-Mason** is Arthur W. Burks Professor of Information and Computer Science, and Professor of Economics and Public Policy, University of Michigan. Professor MacKie-Mason testified as an expert economist in several cases cited, including* Creative Copier Service v. Xerox *(*In Re *Independent Service Organizations Antitrust Litigation, 203 F.3d 1322 (Fed. Cir. 2000),* cert. denied *121 S. Ct. 1077 (2001)) (companion case to* CSU v. Xerox*);* Image Technical Services, Inc. v. Kodak Co. *(125 F.3d 1195 (9th Cir. 1997));* Intergraph v. Intel Corp. *(253 F.3d 695 (Fed. Cir. 2001));* Virtual Maintenance v. Prime Computer *(11 F.3d 660 (6th Cir. 1993));* Data General Corp. v. Grumman Systems Support Corp. *(36 F.3d 1147 (1st Cir. 1994)).* *I am grateful to Janet Netz, Bill Jaeger, Jonathan Gleklen and Mike Barnett for helpful comments.*

The *Xerox* Rule Is Not Supported by Economics

Economic theory and empirical research do not resolve whether blanket immunity for unilateral refusals to deal IP, all else equal, is on balance good or bad for social welfare.[5] What is understood is that such a rule involves tradeoffs, with some beneficial and some adverse consequences. When considering other uses of intellectual property rights with ambiguous overall effects, Congress and the courts have uniformly established that IP rights are *limited*. Owners of IP rights may not, for example, use them to engage in tie-in agreements, nor to facilitate price-fixing agreements.[6] Indeed, even the right to exclude unilaterally others from use—the right that is central to the *Xerox* controversy—is fundamentally limited: it extends for only a fixed number of years. These limitations on IP rights are intended to balance the benefits and harms that follow from granting property rights to ideas in the first place.

Quote?

The right to exclude others from making, using, or selling intellectual property is intrinsically an artificial right, created to further a public policy goal. One of the intrinsic features of ideas is that many can use them simultaneously without diminution in substance. That is, ideas are not excludable, unlike tangible property: if you sit on my chair, you are denying me the ability to sit on it. The U.S. Constitution delegates to Congress the power to grant authors and inventors exclusive rights for limited times "to promote the progress of science and useful arts."[7] Since IP rights are children of government, in service of an explicit public policy goal, it is important to analyze their implementation and enforcement in terms of their effect on social welfare.[8]

The economic impact of the *Xerox* rule depends on both immediate and future effects on consumer welfare. The immediate effects are those usually associated with antitrust policy; the future effects are the concern of both antitrust and intellectual property policy.

Immediate Effects on End Consumers. If a firm refuses to sell or license items embodying its intellectual property, consumers may face higher prices, less desirable variety, or less desirable quality. For example, in *Xerox* the defendant refused to sell replacement parts for its high-volume photocopiers to independent service organizations (ISOs). The ISOs complained they were not able to compete because Xerox had a monopoly on (at least some) parts, and thus consumers faced higher prices and less variety in service options.

If we focus for a moment on this question alone, and ignore other effects (discussed below), a refusal to deal IP is economically equivalent to a refusal to deal any other type of property. A variety of economists have shown that when a firm has market power, some refusals to deal harm consumers and some do not. That some refusals harm consumer welfare is not controversial.[9] Thus, the usual economic justification for limited antitrust restrictions on conduct holds for refusals to deal.

---

[5] This argument is developed with more detail in my paper, "What to Do About Unilateral Refusals to License?", written for the FTC-DOJ Hearings on "Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy," *available at* http://www.ftc.gov/opp/intellect/020501mackie2.pdf.

[6] *Xerox*, 203 F.3d at 1327.

[7] Article I, Section 8.

[8] *See* Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932) ("The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors").

[9] *See, e.g.*, Dennis Carlton, *A General Analysis of Exclusionary Conduct and Refusal to Deal: Why* Aspen *and* Kodak *are Misguided*, 68 ANTITRUST L.J. 659 (2001); Severin Borenstein, Jeffrey MacKie-Mason & Janet Netz, *Exercising Market Power in Proprietary Aftermarkets*, 157 J. ECON. & MGMT. STRATEGY 9 (2000); Michael Whinston, *Tying, Foreclosure and Exclusion*, 80 AM. ECON. REV. 837 (1990).

Indirect Effects on Future Consumption. Refusals to deal may also have effects on future consumption by affecting the incentives to invest in risky innovation projects. This, of course, is the well-known reason for granting property rights to exclude others from intellectual property. Because ideas are non-excludable, without government-enforced property rights inventors and authors may not earn a sufficient return to induce the socially desirable effort to innovate. An unlimited right to exclude is a strategic option that will, on average, increase the returns a firm can expect to earn on its innovations.

What is less widely recognized, and indeed, almost absent from most recent discussions of antitrust and IP in both scholarship and before the courts, is that while stronger rights to exclude sometimes induce greater innovation, they sometimes *reduce* innovation. When one firm gains exclusive rights to crucial technology, other firms can be discouraged from innovative effort in related areas. Blocking patents and large patent portfolios can have this effect.[10] More generally, economists have agreed for decades that innovative effort may either increase or decrease when a firm gains monopoly control of a market.[11]

Quote?

Thus, even if we consider solely the effects on future innovative effort, economics does not provide an unambiguous recommendation that society is better off with unfettered antitrust immunity for unilateral refusals to deal in IP.

Optimal Policy? What we learn from economics is that antitrust immunity for unilateral refusals to deal IP is not guaranteed to improve social welfare. Due to the ambiguity of the results, the converse statement cannot be made with any greater assurance. What is clear is that under some circumstances, consumers will face higher prices and less desirable variety and quality. Further, in some markets "progress of science and the useful arts"—the very public policy purpose that justifies the legislative creation of intellectual property rights in the first place—would be served better by a limited right to exclude, because total innovative effort can be reduced when a firm gains monopoly power.[12]

There is little debate that in most regards, the use of intellectual property rights is limited in time and manner of use. What we know from economics suggests that limiting the right to unilaterally exclude could also advance social welfare and the policy objective that underlies the creation of the rights.

The *Xerox* Law Is Not Supported by Prior Case Law

Supporters of *Xerox* argue that intellectual property rights are by definition rights to refuse to sell, and that these statutory rights should trump antitrust restrictions on such refusals.[13] However, the right to refuse to deal is inherent in any tangible or intangible property right, as the courts have recognized.[14] Generally, a monopolist is entitled to choose with whom to deal. That intellectual

---

[10] *See, e.g.*, Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools and Standard Setting*, in 1 INNOVATION POLICY AND THE ECONOMY (Adam Jaffe, Joshua Lerner, & Scott Stern eds., 2001).

[11] *See, e.g.*, F.M. SCHERER, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE 407–38 (2d. 1980).

[12] *See id.*

[13] *See, e.g.*, Gleklen, *supra* note 3.

[14] *See* Kaiser Aetna v. United States, 444 U.S. 164, 176 (1979) (the right to exclude others is "one of the most essential sticks in the bundle of rights that are commonly characterized as property").

property laws provide a right to exclude does not mark them as special, but as standard instances of property law in general.[15]

Equally well established is that intellectual property rights, the same as other property rights, are limited. They are limited in duration, and other laws constrain them,[16] including the antitrust laws.[17] Just as monopolists under some circumstances have a limited duty to sell their non-intellectual property, there is no logical incoherence in finding that monopolists may also sometimes face a limited duty to deal their intellectual property.

The question then is: did Congress through its laws (and the courts through their interpretations) specifically exempt intellectual property owners from this well-established limitation on the property right to refuse dealing?

Firms with Intellectual Property Rights Are Subject to the Obligations of Antitrust Law Unless Explicitly Exempted. The Patent and Copyright acts do not provide general exemption from the antitrust laws.[18] The Federal Circuit in *Xerox* states: "Intellectual property rights do not confer a privilege to violate the antitrust laws." [19] As the D.C. Circuit recently wrote:

> Microsoft's primary copyright argument borders upon the frivolous. The company claims an absolute and unfettered right to use its intellectual property as it wishes: 'If 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.[20]

Because intellectual property rights do not exempt all conduct from the antitrust laws, we must inquire whether unilateral refusals to deal are exempted without limitation.

Congress Did Not Exempt the Duty to Deal for Private or Intellectual Property. In general, a monopolist may have a duty to deal in its private property under some circumstances.[21] This point is not

---

[15] For a thorough argument that intellectual property should be treated the same as other property under the antitrust laws, see A. Douglas Melamed & Ali Stoeppelwerth, *The* CSU *Case: Facts, Formalism and the Intersection of Antitrust and Intellectual Property Law*, 10 GEO. MASON L. REV. (2002) (forthcoming).

[16] *See, e.g.*, U.S. v. Microsoft Corp., 253 F.3d 34, 63 (D.C. Cir. 2001).

[17] *Xerox*, 203 F.3d at 1327.

[18] *See, e.g.*, *U.S. v. Paramount Pictures, Inc.*, 334 U.S. 131 ("For a copyright may no more be used than a patent to deter competition between rivals in the exploitation of their licenses."); *Interstate Circuit, Inc. v. U.S.* ("An agreement illegal because it suppresses competition is not any less so because the competitive article is copyrighted."); *Broadcast Music, Inc. v. CBS*, 441 U.S. 1, 19 (1979) ("the copyright laws confer no rights on copyright owners to fix prices among themselves or otherwise to violate the antitrust laws."); *U.S. v. Line Material Co.*, 333 U.S. 287, 308 (1948) ("It is equally well settled that the possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly.").

[19] *Xerox*, 203 F.3d at 1325. *See also* Intergraph v. Intel Corp., 195 F.3d 1346, 1362 ("intellectual property 'does not confer upon it a privilege or immunity to violate the antitrust laws,'" quoting the district court, 3 F. Supp. 2d 1255 (N.D. Ala. 1998)).

[20] *Microsoft*, 253 F.3d at 63 (citations omitted).

[21] For example, in *Lorain Journal Co. v. United States*, 342 U.S. 143 (1951), the Supreme Court affirmed a Section 2 violation when a newspaper refused to sell advertising space to customers that had also bought advertising time from a newly established radio station that competed with the newspaper. The right to freely choose customers with which it would deal "is neither absolute nor exempt from regulation." *Id. at 155. See also* United States v. Colgate & Co., 250 U.S. 300, 307 (1919) ("In the absence of any purpose to create or maintain a monopoly, the act does not restrict the long recognized right of trader or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal."); Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585, 601 (1985) ("[t]he high value that we have placed on the right to refuse to deal with other firms does not mean that the right is unqualified").

controversial.[22] As is the case for other private property owners, the core feature of intellectual property is the right to exclude others from making, using, or selling the property. But the right to exclude for property generally is limited. Under some circumstances, the courts have found that a firm with market power can have a duty to deal. Has Congress made it clear that intellectual property should be different from other property in this regard? As I argued above, there is no economic or policy reason to think that it did: unlike tangible property, ideas are not in their nature excludable, and the creation of intellectual property rights serves to bring them onto the same footing as tangible property. It is not stated in the Constitution nor in the Patent or Copyright Acts that intellectual property holders have greater rights to exclude than do other property holders.

Quote?

Supporters of the *Xerox* decision infer such an exemption from analysis of the legislative history of Section 271(d) of the 1988 amendments to the Patent Act. In particular, supporters read an exemption from the antitrust laws into the language that "No patent owner otherwise entitled to relief for infringement or contributory infringement shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of having . . . (4) refused to license or use any rights in the patent."[23]

To the contrary, my reading of this language, and of the debate over its legislative history, is that this language was not intended to grant intellectual property greater protection than other property from antitrust liability.[24]

There are several statements in the legislative history indicating that the purpose of Section 271(d) was "to put intellectual property rights on *an equal footing with other property* with respect to the license, sale and other agreements concerning the distribution of property rights."[25]

On its face, the language in Section 271(d) does not even address antitrust liability: the section concerns the affirmative defense of misuse against an infringement claim by the patent holder.[26] Some argue that the second clause in Section 271(d)'s phrase, "misuse or illegal extension of the patent right," must refer to antitrust liability. How could it make sense to exempt firms from a misuse defense by an infringer, but then subject the firm to antitrust liability?[27] The argument is flawed. An infringer would not have automatic recourse to an antitrust counterclaim any time there is a refusal to deal. In fact, there are very narrow circumstances under which any refusal to deal violates antitrust laws. In all other circumstances, the patent owner not only will not be liable under

---

[22] *See, e.g.*, Jonathan Gleklen, *Antitrust Liability for Unilateral Refusals to License Intellectual Property:* Xerox *and its Critics*, ANTITRUST AND INTELLECTUAL PROPERTY Newsletter (ABA Section of Antitrust Law Intel. Prop. Committee), Spring 2001 ("A monopolist whose monopoly is based on tangible property may, in some circumstances, be compelled to share that property with others."

[23] 35 U.S.C. § 271(d)(4).

[24] Statutory construction and the analysis of legislative intent is not my area of expertise. Fortunately, the debate has been ably engaged elsewhere. For the opposing view, *see* Gleklen, *supra* note 3; Melemed & Stoeppelwerth, *supra* note 15.

[25] Senate Rep. No. 100-492 at 9 (1988). *See also* Grid Systems Corp. v. Texas Instruments Inc., 771 F. Supp. 1033, 1037 n.2 (N.D. Cal. 1991). The DOJ and FTC Antitrust Guidelines for the Licensing of Intellectual Property § 2 state, "for the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property," *available at* http://www.usdoj.gov/atr/public/guidelines/ipguide.htm.

[26] *See Grid Systems*, 771 F. Supp. at 1037 n.2 ("On its face, section 271(d) relates only to the defense of patent misuse," and "TI argues that the legislative history merits a judicial extension of this statute into the area of anti-trust. Some legislators did favor such an exception. However, a full reading of the legislative record reveals that Congress rejected the extension despite this articulate support.") The U.S. Solicitor General, in his *Xerox* amicus brief asserts that Section 271(d) on its face does not address monopolization by refusal to deal. Brief for the United States as Amicus Curiae at n.6, *CSU, L.L.C. v. Xerox*, 121 S. Ct. 1077 (2001) (No. 00-62), *available at* http://www.usdoj.gov/osg/briefs/2000/2pet/6invit/2000-0062.pet.ami.inv.pdf.

[27] *See, e.g.*, Boyle et al., supra note 2; Gleklen, supra note 3.

antitrust, but can also sue for infringement with immunity to an affirmative defense that its refusal to deal constitutes unclean hands. In other words, the patent owner is always immune to a misuse claim, and usually—but not always—free from antitrust liability.

The Ninth Circuit Is Not Alone. Some authors suggest that the Ninth Circuit in its *Kodak* decision is alone in suggesting that antitrust law may impose a limited duty to deal on an IP owner. Although this question is certainly unsettled, it is not lopsided. Quite recently, in *U.S. v. Microsoft*, Judge Jackson wrote, "copyright law does not give Microsoft blanket authority to license (*or refuse to license*) its intellectual property as it sees fit."[28] The D.C. Circuit upheld his decision.[29]

There has also been seemingly endless debate about whether the Supreme Court's footnote 29 in *Kodak* applied only to its thinking about tying agreements, or more generally: "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?'"[30] Although this footnote appeared in its discussion of the tying claim in *Kodak*, the Ninth Circuit pointed out that the Court referred back to its more detailed arguments in this section when discussing monopolization.[31] Certainly, the language is not on its face restricted to tying agreements: the Court is concerned that a firm might leverage its market power gained from intellectual property into another empire. This appears to be the thinking in the full sentence the Court quoted from *Times-Picayune*: "But the essence of illegality in tying agreements is the wielding of monopolistic leverage; a seller exploits his dominant position in one market to expand his empire into the next."[32] In that 1953 decision the Court is not saying that *only* tying agreements give rise to illegal leverage, but that the essence of illegality is itself "the wielding of monopolistic leverage."

It may be useful at this point to recall the allegation against Xerox. CSU did not complain that Xerox was monopolizing the market for replacement parts by refusing to sell its patented parts. Likewise, Xerox did not claim that CSU wanted to license its intellectual property so that it could go into the business of selling competing parts. Rather, CSU complained that Xerox was leveraging its power over a few patented parts in order to monopolize the market for *service labor*.

The *Xerox* opinion states that "a patent may confer the right to exclude competition altogether in more than one antitrust market."[33] I do not disagree: it may. For example, a patent on a material may legitimately prevent others from making infringing rollers for copiers and from making nonstick cookware. By the same token it may not: just as a patent does not give the right to monopolize another market through a tie-in, it would be economically, legally, and logically coherent to determine that some refusals to deal should be prohibited if their effect is to obtain a monopoly in a market which does not itself directly flow from the patent. There is at the least a colorable argument that the market for service labor does not fall within the scope of patents on a few replacement parts.

---

[28] U.S. v. Microsft Corp., [cite] _______, D.D.C. Sept. 14, 1998 (emphasis added).

[29] 253 F.3d 34, 63 (D.C. Cir. 2001).

[30] *Kodak*, 504 U.S. at 479 n.29 (1992) (emphasis added) (quoting Times-Picayune Publ'g Co. v. U.S., 345 U.S. 594, 611 (1953)).

[31] 125 F.3d 1195 at 1216. The Federal Circuit in *Xerox* dismissed this statement by the Supreme Court, stating that *Kodak* was a tying case when it was before the Supreme Court, and not commenting on the fact that there was also a monopolization claim. 203 F.3d at 1327.

[32] *Times-Picayune*, 345 U.S. 594, 611.

[33] 203 F.3d at 1327.

The *Xerox* Rule Will Easily Be Exploited and Will Provide a Safe Harbor for Illegal Conduct

Supporters of the *Xerox* decision characterize the rule of law as antitrust immunity for *unilateral* refusals to deal. However, it is important to realize that the conduct in question was also a *conditional* refusal to deal. Xerox sold parts to purchasers who wanted them for copiers they owned. That is, Xerox conditioned its refusal: a purchaser could not obtain parts *if* it was going to install those parts in a copier owned by another party.

The Xerox policy was not contractually a tie-in: it did not refuse to sell parts to purchasers unless the purchaser also purchased service labor from Xerox. Purchasers were allowed to buy parts and then hire ISOs to install them. However, this was not economically feasible for most copier owners, and thus the conditioned refusal had exactly the same consequences as a tie: service labor competition from ISOs was excluded. Ordering parts when a copier broke down took days, and most customers could not afford to maintain a sufficient inventory of parts (each machine used thousands of different parts). Thus, the conditioned refusal was very specific in its terms and impact: customers were permitted to purchase parts for their own machines, but they were not permitted to hire a third party to serve as their agent in purchasing parts. This was enough to exclude competition in the service labor market.[34]

Thus, *Xerox* supporters claim that firms should be able to unilaterally impose *conditional* refusals to deal, even as they acknowledge that tie-in agreements that have the same economic consequences on competition can be illegal. It is hard to see any logic supporting this formalistic distinction. As I have shown above, it is not supported by economic logic. Nor does it appear to be consistent with the Supreme Court's statements in *Times-Picayune* and *Kodak* that "the essence of illegality in tying agreements is the wielding of monopolistic leverage." To the extent that they are economically equivalent conduct in their impact on competition, conditional refusals to deal should not be treated differently from tying agreements. Indeed, claiming a distinction between the two is especially far-fetched because most tying agreements are unilaterally imposed on consumers as take-it-or-leave-it offers. Indeed, the Supreme Court stated in *Jefferson Parish* that "forcing" is the identifying characteristic of an illegal tying arrangement.[36]

It's bad enough that there is no sense in this formalistic distinction when the economic consequences are identical. Worse, the *Xerox* rule promises to lead to substantial mischief. If an intellectual property right to refuse to deal is absolute and immune to antitrust, then for all intents and purposes all non-intellectual property owners are likely to find that they have an absolute immunity to antitrust when they unilaterally refuse to deal in the future. Hardly any significant commer-

---

[34] The situation is not idiosyncratic. Consider the more generic hypothetical, from Eugene Crew, Microsoft's Copyright Defense, *in* INTELLECTUAL PROPERTY ANTITRUST 2000 (Practicing Law Institute June-July 2000): Xerox refuses to sell patented parts to Y unless Y agrees not to compete with Xerox in the service market, and Y agrees: Xerox would have no immunity from Section 1 prohibition of tying. *Cf.* U.S. v. Loews, 371 U.S. 38, 46 (1962). What if Y refuses to agree and Xerox then refuses to license Y? Y is thereby excluded from the service market, resulting in precisely the same harm to competition that results from Y's acceptance of Xerox's license offer. *See, e.g.*, Thompson v. Metropolitan Multi-List, Inc., 934 F.2d 1566, 1572 (11th Cir. 1991). Mr. Gleklen agrees that a "failed tie" is illegal. *See supra* note 22.

[35] Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 12 (1984). The courts have recognized that conduct that is not strictly a tying agreement nonetheless should be treated as a tie when its economic effects are equivalent. *See, e.g.*, Leitch Mfg. Co. v. Barber Co., 302 U.S. 458, 463 (1938) (pure unilateral conduct penalizing those who used a patented process without unpatented materials (through infringement litigation) was the "practical equivalent" of an illegitimate tie). See also Virtual Maint., Inc. v. Prime Computer, Inc., 11 F.3d 660 (6th Cir. 1993) (offering service labor separately from a copyrighted software program only at an economically prohibitive price was an illegal tie).

[36] See Transcript, May 1, 2002 FTC-DOJ Hearings on "Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy," at 71–73, *available at* http://www.ftc.gov/opp/intellect/020501xscript.pdf.

cial property sufficiently unique that its owner might leverage it to anticompetitive effect is devoid of components of intellectual property that could be protected by patent or copyright. Further, it would be a trivial matter for firms, on advice of counsel, to modify their designs in order to incorporate protected components. I have elsewhere referred to this as the "stupid washer" problem: a firm could patent the design of a washer, then integrate that washer as a component of its otherwise unprotected parts, assemblies, machines, etc.[36] The same could be done with a patented algorithm inserted in a firm's software programs.

Jonathan Gleklen (and others) argue that the "stupid washer" is not a problem under *Xerox* because it amounts to a tie, and the court in *Xerox* agrees that tie-ins conditioned on patented property are not exempt from antitrust scrutiny.[37] It is possible that some naked attempts to hide behind *Xerox* immunity would be ruled a tie, and thus not exempt.[38] However, courts do not generally question product design decisions, and if a component is integrated into the design and manufacture of a product, it is unlikely the courts would declare that integration to be a tie-in.[39] As an example, though I am not a technical expert on copier parts, I believe some of the patents in *Xerox* applied to components of parts, not to entire assemblies.

Lest my concern seem alarmist, it is instructive to note that many of the most significant refusal to deal cases in the past involved, or could easily have involved, protected intellectual property. Under the *Xerox* rule, many of these may have been wrongly decided. Should AT&T have been allowed to refuse to deal with MCI if its interfaces were patented? Its market power was due to its ubiquitous local network, not interfaces.[40] What if Aspen had a patented gear mechanism in its ski lifts?[41] Suppose Otter Tail Power had patents on parts in its electric transformers (which it refused to use to wheel power)?[42] It seems clear that in the future, firms will take advantage of this formalistic distinction to endow their non-intellectual property with an intellectual property component before they refuse to deal, thereby designing themselves into a safe harbor.

Conclusion

Congress has endowed owners of ideas a legal right to exclude that puts intellectual property on the same footing as other property. As with all such rights, it is limited. Economic analysis of the social welfare purposes behind intellectual property law does not support antitrust immunity for unilateral refusals to deal, nor does prior law or legislative history.

It is true that limits on the extent of an intellectual property right will, to some extent, reduce the expected return to the property right, which in turn may reduce the incentive for some firms to inno-

---

[37] Gleklen, *supra* note 3.

[38] I do not expect, for example, that we need to worry about Patterson's example that a firm might package an unprotected part in a box that is printed with copyrighted text, _____ Patterson, *When Is Property Intellectual? The Leveraging Problem*, 73 S. Cal. L. Rev. 1133 (2000)).

[39] *See, e.g.*, *U.S. v. Microsoft Corp.*, 147 F.3d 935, 949–50 (D.C. Cir. 1998) ("In antitrust law, from which this whole proceeding springs, the courts have recognized the limits of their institutional competence and have on that ground rejected theories of 'technological tying.' A court's evaluation of a claim of integration must be narrow and deferential."). This was the decision concerning the applicability of an earlier consent decree on Microsoft's decision to allegedly integrate its Internet Explorer Web browser product into its Windows operating system product. Indeed, in *B. Braun Med. Inc. v. Abbott Labs*, 124 F.3d 1419 (Fed. Cir. 1997), the court held that the patentee had the right to exclude competition in both the market for patented valves and the market for extension sets incorporating patented valves.

[40] MCI Communications Corp. v. AT&T, 708 F.2d 1081, 1132–33 (7th Cir. 1983).

[41] Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585 (1985).

[42] Otter Tail Power Co. v. United States, 410 U.S. 366 (1973).

vate. But this effect is true of any limitation on intellectual property rights, and it is well established that there are limits, as with any property right. Congress wants to endow inventors with some amount of protection, but not unlimited protection (and even limited the duration of the right to exclude). When the limitation is imposed in order to limit unwarranted accumulation of monopoly power, we cannot even be sure that such a limitation will reduce the total incentives to innovate, because the accumulation of monopoly power can itself reduce innovation.

I do not dispute that the right to exclude others from the use of the intellectual property is a core aspect of a patent grant. What I argue is that it is not essential or proper that it be an unlimited right, and that in some limited circumstances refusals to deal should be prohibited. We should be especially concerned about conditional refusals to deal, because they can have exactly the same economic consequences as tie-in agreements, which the Federal Circuit agreed are not exempt from antitrust scrutiny.

Indeed, the *Xerox* immunity rule can be easily expanded into a safe harbor for conduct previously found illegal. It may well be that this is precisely the outcome that supporters of *Xerox* prefer: that unilateral refusals to deal be immune from antitrust liability for all property, not just intellectual. Even if that is not the argument offered, that is the likely consequence of *Xerox*. ●