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HARD ROCK MINING AND ANTITRUST LAWS: WHEN TOO MUCH REALLY IS TOO MUCH, EVEN IN THE NINTH CIRCUIT

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I. INTRODUCTION: ANTITRUST IMPLICATIONS OF ORE RESERVES

"There is a principal of too much; phrased colloquially, when a pig becomes a hog it is slaughtered." So said the court in a recent tax case,[1] but the country metaphor applies to mining as well. This is a note on the uneasy amalgam of antitrust and mining law. Antitrust law may well forbid what mining laws might otherwise permit. Mineral ore can be monopolized through the aggregation of reserves and exclusion of competitors by litigation. Two recent Ninth Circuit cases, *Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc.*, and *Energy Conservation, Inc. v. Heliodyne, Inc.*,[2] have extended the reach of the antitrust laws. This has special significance to the mining industry in the Ninth Circuit because of the court's unusual interpretation of the law applicable to the aggregation of mining claims.

This comment will explore the antitrust exposure which may arise upon the claiming of "too much" ore. An analogy will be drawn between mining law and United States patent and antitrust laws. The analogy is close, and in the proper case the lia-

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1. United States v. Dolese, 605 F.2d 1146, 1154 (10th Cir. 1982).

2. Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc., 690 F.2d 1290 (9th Cir. 1982), *cert. denied*, 1035 S.Ct. 1234 (1983); Energy Conservation, Inc., v. Heliodyne, Inc., 698 F.2d 386 (9th Cir. 1983).

bility quite large, which is of particular significance in the Ninth Circuit as the jurisdictional prerequisites of interstate commerce and standing are easily satisified.

II. THE LAW OF HARD ROCK MINING

The Ninth Circuit stands alone in a unique interpretation of American mining law. The court has consistently refused to apply the administrative "too much" rule to mineral ore reserves. The Bureau of Land Management (BLM) of the Department of Interior, and its administrative tribunal, the Interior Board of Land Appeals (IBLA) have long enforced a "too much" test.

The "too much" rule holds that a mining claimant who has claimed too much ore may undercut the very premise by which he is entitled to make a claim. That is, the mineral claim must meet the test of discovery, locatability and marketability.

Congress intends the business of mining to be as competitive as any other business and courts have decided antitrust cases concerning the mining industry. What is unique about mining is that most minerals lie in the public lands, and the public lands are subject to a comprehensive scheme of federal regulation of mineral claims dating to the Mining Acts of 1856 and 1872.[3] These claims were administered by the states until the 1976 federalization of filing requirements under the Federal Land Policy and Management Act.[4]

There are several levels of rights in mineral lands including the "pedis possessio" rights of a prospector, state mining claims, tunnels and mill sites protected by state and federal law, and the land conveyed from the federal government by a federal land patent.[5] Such rights, at whatever level, provide a holder with the right to exclude others from a particular piece of land through the remedies of quiet title, ejectment and injunctive and

3. *See generally* Gage, *Cry Wolf — Sherman and Clayton Are Coming!* 27A Rocky Mtn. Min. L. Inst. 1, (1982).

4. Federal Land Policy and Management Act, 43 U.S.C. § 1701 (1976). The FLPMA, is also known as the Organic Act for the Bureau of Land Management. For a good summary of state and federal mining statutes and requirements for miners, *see generally,* Robert G. Pruitt, Jr., Digest of Mining Claim Laws (Rocky Mountain Mineral Law Foundation, 2d ed. 1981).

5. *See generally,* American Law of Mining, Titles I-IX (Rocky Mountain Mineral Law Foundation, 1982), (hereinafter ALM).

damage actions.

Whether valid mining claims may be aggregated to exclude potential or actual competitors from a relevant market in a mineral ore is a antitrust as well as mining issue. The question is not merely academic, because the larger companies in the American mining industry, particularly in their operations within the Ninth Circuit,[6] have aggregated huge numbers of mining claims. These companies assert that the ore reserves subject to their exclusive use are worth billions of dollars. If these assertions are true, and the aggregations forestall competition in the production of the ore, then antitrust violations may arise.[7]

The test for discovery of a "valuable mineral deposit" is whether the deposit justifies the locator to have reasonable expectations of developing a paying mine.[8] The Interior Department has promulgated regulations to prevent the appropriation of minerals solely for speculative purposes before sufficient work has been done to determine whether a vein or lode really exists.[9]

The policy underlying the "too much" rule is an estoppel. If there is "too much" of the mineral lying in the ground the very quantity of it reduces the value of any one claim so that any single claim is no longer commercially viable.[10] In this instance, the "too much" rule is known as the rule against excess reserves. The fact that a mineral deposit on one claim satisfies the discovery standard, however, does not justify holding an entire group of claims on the mineral valid where the reserves on the claims are disproportionate to the total demand for such materials.[11]

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6. These companies have acted with immunity to the "too much" rule.

7. Upon a finding of antitrust liability the stockholders of any such aggregating mining company might well wish, in retrospect, that they had suffered the application of the Department of the Interior's "too much" rule rather than application of the Clayton Act's treble damage penalties.

8. 1 ALM § 2.4 at 163 (1982); the definition is based on Chrisman v. Miller, 196 U.S. 313 (1905) and Castle v. Womble, 19 L.D. 455 (1894). For a discussion of the none-to-clear relation of this "prudent man" test to marketability, *see* 1 ALM § 4.80 at 705 noting recent cases hold that mining claims may be invalidated upon a showing of no "present demand for the materials from the claim."

9. 43 C.F.R. § 3814.3-1 (1974); 1 ALM § 4.13 at 611.

10. The Ninth Circuit interprets mining law for most of the mineral rich western states yet does not apply the "too much" test.

11. 1 ALM § 4.87A at 710.10.

The excess reserve rule limits the number of claims which a claimant may hold on the rationale that otherwise valid claims in too large numbers may fail to meet the discovery and marketability test for location of a valuable mineral.[12] The Secretary of Interior has stated that: "[I]f the market could not absorb the materials from all of the [excess reserve] claims, then the super abundance of the available supply establishes the absence of a demand from the claim in question."[13]

The Ninth Circuit reviewed application of the excess reserve rule, which it dubbed the "too much test," in 1979 and found it to be "an abuse of discretion which was contrary to the existing mining law."[14] Therefore, the mining industry within the Ninth Circuit may freely aggregate excess reserves without fear of successful administrative challenge.

In the Tenth Circuit,[15] the industry aggregates excess reserves at some risk, in that the non-use of a group of claims may be held to be in abuse of the claims process.[16] In 1975 the Tenth Circuit[17] held that if a mining claimant has held claims for several years but has not developed them, a presumption arises that the claimant has failed to discover valuable mineral deposits where the market value of discovered minerals was not sufficient to justify the cost of extraction.[18]

These issues came to the Tenth Circuit on facts indicating that the defendant did not meet the customs of miners, let alone applicable law, in making its discoveries *en masse*. The mining industry, in fact, may not be as fastidious as an assert concerning its own compliance with the law.[19]

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12. *Id.* at 710.11.

13. United States v. Osborne, 28 IBLA 13, 15 (1976).

14. United States v. Baker, 613 F.2d 224, 229 (9th Cir. 1979), *cert. denied* 449 U.S. 932 (1980).

15. *See* Miller, *Surface Use Rights under the General Mining Law: Good Faith and Common Sense*, 28 Rocky Mtn. Min. L. Inst. 761, 773 (1983).

16. *Id.*

17. United States v. Zweifel, 508 F.2d 1150 (10th Cir. 1975) *cert. denied* 423 U.S. 829 (1976).

18. *See* Miller, *supra*, note 15, at 774. The Tenth Circuit's test is similar to the excess reserves rule.

19. For example, a story is told of a helicopter foray to the mountains of Colorado to stake out new claims the very next day after release of official news of potential mineralization in the area. However, there was so much snow on the ground that the would-be

Although the Ninth Circuit does not apply the "too much" rule to ore reserves, the antitrust laws, as interpreted by the Ninth Circuit, can reach the same result. Since the two recent antitrust holdings in *Clipper Exxpress* and *Heliodyne*[20], it is now possible for adversaries to reach would-be and actual holders of large ore reserves, and present antitrust and treble damage exposure against any mining company which seeks to enforce its federal mining rights in "too much" ore.

III. THE ANTITRUST CONSIDERATIONS

The antitrust laws are the fundamental constitution of our economic system.[21] The Supreme Court has called the Sherman Act the "charter of economic liberty aimed at preserving free and unfettered competition."[22]

The antitrust laws, however, not only favor competition, they promote the interest of competitors against what Justice Brandeis called "the curse of bigness."[23] Justice Black picked up

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discoverers of valuable mineralization would have been lucky to discover pine trees under the snow, let alone copper ore. *See* Summer, *Wilderness and Mining Law,* in THE LIVING WILDERNESS 8, 16, (Spring, 1973), as recounted in Strauss, *Mining Claims on Public Lands: A Study of Interior Department Procedures,* 1974 UTAH L. REV. 185 (1974).

20. *Clipper Exxpress,* 690 F.2d at 1290 and *Energy Conservation, Inc.,* 698 F.2d at 386.

21. Antitrust laws in general and the Sherman Act in particular, are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms. The freedom guaranteed to every business, no matter how small, is the freedom to compete — to assert with vigor, imagination, devotion and ingenuity whatever economic muscle it can muster. United States v. TOPCO Associates, Inc., 405 U.S. 596, 610 (1972).

22. "The Sherman Act was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade. It rests on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality, and the greatest material progress, while at the same time producing an environment conducive to the preservation of our democratic political and social institutions. But even were that premise open to question, the policy unequivocally laid down by the Act is competition. . . ." Northern Pacific Ry. v. United States, 356 U.S. 1, 4-5 (1958) (construing the Sherman Act, 15 U.S.C. § 1 (1974)).

23. As trenchantly put by Justice Douglas in a 1948 dissent that later became the view of a majority of the Justices: "The problem of bigness . . . can be an industrial menace because it creates gross inequalities against existing or putative competitors . . . Industrial power should be decentralized . . . That is the philosophy and the command of the Sherman Act. . . ." United States v. Columbia Steel Co., 334 U.S. 495, 535 (1948), (C. Douglas, J., dissenting).

this theme in 1962 stating that the antitrust laws protect viable small businesses.[24]

The inconsistency between promoting the efficiencies of competition on one hand, and the equities of protecting competitors on the other, may be a major flaw in the character of American antitrust law. The court has swung between the application of these two philosophies and may again swing towards economic efficiency at the expense of smaller competitors.[25]

American policy favoring competition in the minerals industries, including mining, has often been discussed in case law.[26] Courts of Appeal[27] and the Supreme Court[28] have noted the procompetitive congressional policy applicable to mineral lands.[29]

It has been the explicit policy of American mineral law since the *Gold Rush* days to avoid monopolization of the nation's mineral wealth. California passed the Possessory Act of 1850 to preclude the monopolization of mineral lands under the guise of agricultural uses. The intent of the legislature was to prevent monopolization of mining land and the anti-monopoly policy be-

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24. "It is competition, not competitors which the Act protects. But we cannot fail to recognize Congress' desire to promote competition through the protection of viable, small, locally owned businesses. Congress appreciated that occasional higher costs and prices might result from the maintenance of fragmented industries and markets. It resolved these competing considerations in favor of decentralization. We must give effect to that decision." *See* Brown Shoe Co. v. United States, 370 U.S. 294, 344 (1962) (construing the Clayton Act, as amended, 15 U.S.C. § 18 (1976)).

25. For an overview of applicable antitrust law and these policy issues, *see generally* P. AREEDA & D. TURNER, ANTITRUST LAW, §§ 103 - 113c at 7-33 (1978) (hereinafter ANTITRUST LAW); *see also* Rosenberg, *William Baxter's Antitrust Legacy*, CAL. LAW., Apr. 1984, at 29.

26. *See* Cage, *supra*, note 3, who is particularly good on the cases involving the extractive side of the minerals industry, and Carr, *The Int'l Energy Program and the U.S. Antitrust Law*, 15 NAT. RESOURCES L. 503 (1982).

27. For example, the Fifth Circuit has noted "[T]he public policy of the United States is directed at opposing the monopoly of federally-owned mineral deposits . . . ." McKenna v. Wallis, 344 F.2d 432, 435 (5th Cir. 1965).

28. The Supreme Court similarly analyzed the statute providing for leasing of mineral lands noting that Congress "[P]revented mineral rights, on pain of forfeiture, from passing into the hands of any unlawful trust or becoming the subject of any contract or conspiracy in restraint of trade . . . Its whole policy seems to contemplate the opening of the public domain to competitive exploitation . . . ." Chapman v. Sheridan Wyoming Coal Co., Inc., 338 U.S. 392, 397 (1950).

29. The present Supreme Court has even upheld use of outright public taking of private land "to reduce the perceived social and economic evils of a land oligopoly." Hawaii Housing Authority v. Midkiff, ___ U.S. ___, 52 U.S.L.W. 4673, 4676 (1984).

hind the Possessory Act was often emphasized by the California Supreme Court.[30] A later California case,[31] emphasized that in early California mining law, no matter was considered more important than the limitation upon the extent of mining claims.

Monopolization of, and restraint from trade in mineral ores has also given rise to the Justice Department and private antitrust cases. The famous *Alcoa* cast of 1945,[32] dealt in part with the allegation that *Alcoa* had monopolized aluminum ore. The Supreme Court also dealt with ore deposits in *Continental Ore*[33] where it was charged that ore deposits were monopolized.[34] The same ore monopolization also gave rise to another noteworthy antitrust case, in which the Tenth Circuit held that the defendant's "took affirmative and effective steps to fix the prices for the raw ore . . . and to forestall and eliminate competition. . . ."[35] The court went on to quote with approval Ninth Circuit holdings that "(t)he mere unlawful combination over a period of time to eliminate competition is proof of damage" and that any implied restraint of trade would patently result in some loss of business.[36] Any mining monopolist in the Western Circuit Courts of Appeal therefore, faces a presumption that the fact of

30. The [California] Possessory Acts of 1850 and 1852 (Cal. Gen. L 1850-1864, § 6790 (H. H. Bancroft & Co. 1868)). *See also* 1 ALM § 1.10 at 28, 29, Tartar v. Spring Creek Water & Mining Co., 5 Cal. 395, 398 (1855) and Smith v. Doe, 15 Cal. 100, 105 (1860).

31. Argonaut Mining v. Kennedy Mining & Milling Co., 131 Cal. 15, 63 Pac. 148, 150 (1900), *aff'd.* 189 U.S. 1 (1903).

32. United States v. Aluminum Co. of America, 148 F.2d 416, 432 (2nd Cir. 1945):

> The plaintiff (the United States) attempted to prove, and asserts that it did prove, that 'Alcoa' bought up Bauxite deposits, both in Arkansas — the chief source of the mineral in the United States — and in Dutch, and British Guiana, in excess of its needs, and under circumstances which showed that the purchases were not for the purpose of securing an adequate future supply, but only in order to seize upon any available supply and so assure its monopoly.

Id.

33. Continental Ore Co., v. Union Carbide & Carbon Corp., 370 U.S. 690 (1962).

34. "The defendants were charged with purchasing and acquiring control over substantially all accessible vanadium-bearing ore deposits in the United States . . . [and other restraints]." *Id.* at 693.

35. Union Carbide and Carbon Corporation v. Nisley, 300 F.2d 561, 575 (10th Cir. 1962).

36. *Id.* (quoting Fox West Coast Theatre Corp. v. Paradise Theatre Building Corp., 264 F.2d 602, 608 (9th Cir. 1958), and Richfield Oil Corporation v. Karseal Corp., 271 F.2d 709, 713 (9th Cir. 1959)).

antitrust injury arises from unlawful acts.

The cases demonstrate that mineral ores are a relevant product[37] subject to the protections of the antitrust laws, and that the antitrust laws reach restraints of trade and monopolization of mineral ores,[38] despite the pervasive federal scheme of exclusive mining claims on the public lands.[39]

IV. THE PATENT ANALOGY

Aggregation of mining claims is similar to situations which arise when invention patents and enforcement litigation violate the antitrust laws.[40] A patented invention and a patented mining claim reach the same result because ownership of a valuable property right is obtained by governmental action. An invention patent, like a mining claim, provides a certain exclusivity to the holder, by law, for the purposes of encouraging exploitation of the resource. However, if the holder of the exclusive governmental grant abuses it by using it to exclude competition from the whole market, or otherwise abuses its exclusivity, antitrust liability may arise.[41]

There are several species of antitrust violations involving invention patents which find ready analogies in the abuse of mining claims. The first stems from the *Kobe*[42] line of cases, where a patentee engages in a plan of monopolization by acquiring all present and future patents relevant to an industry or market. Even the good faith prosecution of the patent infringement law-

37. For a discussion of the parameters of the relevant market concept, *see generally* II ANTITRUST LAW, §§ 507 at 330.

38. The Supreme Court has broadly defined mineral reserve geographic markets when faced with the issue in merger cases. *See* Tampa Electric Co. v. Nashville Coal Co., 365 U.S. 320 (1961) and United States v. General Dynamics Corp., 416 U.S. 486 (1974) in Cage, note 3 *supra*.

39. Company size alone may have antitrust considerations. *See* Kennecott Copper Corp. v. F.T.C., 467 F.2d 67 (10th Cir. 1968), *cert. denied* 416 U.S. 909 (1969). *See also* Cage, *supra*, note 3, at 31, where it is stated that "[i]n an industry where deep pockets are part of the necessary uniform, the *Kennecott* decision must be viewed as just another example of the underlying resistance to the 'curse of bigness.' "

40. *See generally* III ANTITRUST LAW, § 704 at 114.

41. *See generally* I ANTITRUST LAW, § 201 at 36.

42. Kobe, Inc. v. Dempsey Pump Co., 198 F.2d 416 (10th Cir.), *cert. denied* 344 U.S. 837 (1952); Rex Chainbelt Inc. v. Harco Products, Inc., 512 F.2d 993 (9th Cir.), *cert. denied* 423 U.S. 831 (1975). The author is indebted to the court in Handguards v. Ethicon, Inc., 601 F.2d 986 (9th Cir. 1979) for its concise analysis of the patent/antitrust cases.

suit under these circumstances can give rise to antitrust liability if it infers restraint of trade.

The second type of antitrust exposure derives from the *Walker Process*[43] line of cases holding that bad faith in the acquisition of a patent can give rise to antitrust liability upon its attempted enforcement. A third sort of antitrust liability can arise as a counter-claim or separate action, in the *Handguards*[44] type of case involving a bad faith prosecution of a patent infringement case.

Fourth and fifth categories of antitrust exposure from enforcement litigation come out of the *Otter Tail*[45] line of authorities. These cases involve the restriction of access to a regulatory forum which precludes market entry.

Each of these lines of cases has a direct analogy to possible antitrust cases involving aggregation and enforcement of mining claims. For example, a complaint may properly allege that a defendant mining company aggregated mining claims for a "*Kobe*-type" violation, thereby monopolizing a market. It may also allege that some of the defendant's claims were obtained in bad faith, for a "*Walker Process* type" violation.

A plaintiff can also allege that the defendant brought the enforcement litigation in bad faith, for a "*Handguards* type"[46]

43. Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965).

44. Handguards v. Ethicon, Inc., 601 F.2d 986 (9th Cir. 1979) and Energy Conservation, Inc. v. Heliodyne, Inc., 698 F.2d 386 (9th Cir. 1982).

45. Otter Tail Power Co., v. United States, 410 U.S. 366 (1973); Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau Inc., 690 F.2d 1240 (9th Cir. 1982), *cert. denied,* 103 S.Ct. 1234 (1983). Energy Conservation, Inc., v. Heliodyne, Inc., 698 F.2d 386 (9th Cir. 1983). Each of these cases involved a single predicate case; for the pattern-of-cases language, *see*, California Motor Freight, Inc. v. Trucking Unlimited, Inc., 404 U.S. 508, 513 (1972) and I ANTITRUST LAW, § 203b at 41. It is also noted that neither *Clipper Exxpress* nor *Heliodyne* are patent cases. Both, however, involve single state cases prosecuted against a competitor as the predicate for antitrust liability.

46. See *Handguards*, 601 F.2d 986. The court noted that:

> We are confronted in this case with the complex interaction between two bodies of law; One, the patent law, is concerned with the creation and exploitation of a statutory grant of monopoly power; the other, the antitrust law, is concerned with proscribing various kinds of monopoly power. Reconciling the interrelationship between the patent and the antitrust laws has long been a topic of concern to courts as well as

of case and further, that the enforcement litigation itself is either part of a pattern, or even only a single case, that bars access to a market. Similarly, it can be alleged that the enforcement litigation is an abuse of process intended to eliminate or injure an actual or putative competitor, for an "*Otter Tail* like" violation.[47]

The patent/antitrust analogy is compelling in the mining context because the analysis applicable to the interrelationship applies in other areas of antitrust law as well. The Ninth Circuit in *Clipper Exxpress* held:

> The fact that the Ninth Circuit cases involving enforcement litigation as an integral part of an overall scheme which violates the antitrust laws arise in the context of patent litigation does not intimate that such a theory is only viable in the patent context. We see no reason for refusing to extend the rationale of these patent-antitrust cases to overall antitrust schemes in other contexts.[48]

The same relationship exists between mining and antitrust

commentators.

601 F.2d at 992.

47. The process of reconciliation between antitrust law and other statutory schemes is all the more subtle for the Constitutional aspects newly coming to the fore, although not widely recognized in the patent/antitrust cases. The antitrust laws have long been regarded as of near Constitutional dimension, and invention patents are provided for in the Constitution itself. What is new, however, is the judicial recognition that going to court is itself of Constitutional dimension, being part of the first amendment right to petition the government for redress of grievances. Circuit cases such as *Clipper Exxpress* and *Energy Conservation* arise within the "sham exception" to this Constitutional right to petition for redress by litigation, which litigation would otherwise be constitutionally privileged and thus never itself give rise to any consequent liability.

The patent/antitrust cases do not yet face the constitutional dimension of patent enforcement litigation. The next issue is whether any such litigation must be shown to be wholly sham for derivative liability to arise, or whether enforcement litigation with any anti-competitive intent or effect, in the context of a government grant of monopoly privilege, can create anti-trust exposure, despite contrary constitutional rhetoric in other contexts. *See Energy Conservation*, 698 F.2d at 389. *Also lurking is the issue of whether commercial litigation, like commercial speech, may enjoy less constitutional protection than its non-commercial counterparts. See* Securities and Exchange Commission v. Lowe, 725 F.2d 892 (2nd Cir. 1984) and Bigelow v. Virginia, 421 U.S. 809 (1975), both distinguishing commercial speech from political speech which is entitled to more protection.

48. *See Clipper Exxpress*, 690 F.2d 1264.

law. Mining law authorizes the exclusion of others from parts of a market, resulting in monopoly power. However, antitrust law implements competition as the policy of the nation and forbids the acquisition of monopoly power by protecting the interests of both actual and potential competitors.

Moreover, in any mining dispute between rival claimants where one has acted to protect or further a monopoly or near-monopoly position in a geographic area in ore reserves through "enforcement litigation" in state court, the scenario may fit the Ninth Circuit criteria and patent law analogies for antitrust exposure.

The mining pig that does go to law, particularly in the Ninth Circuit, takes the risk that the law will find it a hog fit for slaughter inasmuch as "too much" really can amount to too much, at least when measured by antitrust if not mining law.

V. PREREQUISITES TO ANTITRUST EXPOSURE: INTERSTATE COMMERCE AND THE PLAINTIFF'S STANDING TO SUE

A. *Mining Affects Interstate Commerce*

Many of the larger mining companies enjoy national market shares in the range of twenty percent of the several metals which they mine. Generally, however, these shares are insufficient for monopolization of the market.

It is difficult to define a market for a metal in less than national, or international terms, given the low ratio of transportation costs to value. The situation for mineral ores, however, is different. The ratio of transportation costs to value is high which contricts the geographic market. It makes little sense to ship ores, except in special circumstances, and usually the industry refines fairly close to the extraction site.

For the most part, the minerals industries are vertically integrated and do not buy ores in ore markets. Experience indicates that it is cheaper in the long run, to internalize what would otherwise be the market cost of buying ore, by integrating up stream to the mine.[49] It is noted, however, that if integration itself adversely affects the market, it may constitute an antitrust violation.[50]

It can be argued that a market for ore, given transportation costs, is so local as to avoid the reach of the commerce clause. Several early antitrust cases define mining as sufficiently local to escape the antitrust laws. Thus, even after conceding a twenty percent market share in a national metals market, any putative defendant can argue that its conduct, alleged to violate the antitrust laws, nonetheless does not affect interstate commerce. Yet, given the size and economic power of any national ranked minerals company, for any such company to claim that its activities do not affect interstate commerce is to ignore both economic reality and the applicable authorities.[51]

The controlling cases are *McLain*[52] and in the Ninth Circuit, *Western Waste*.[53] *McLain* held that after identifying an aspect of interstate commerce "to establish federal jurisdiction . . . there remains only the requirement that [the challenged defendant's] activities . . . be shown as a matter of practical economics to have a not insubstantial effect on the interstate commerce involved."[54] *McLain* states that the test for whether an activity affects commerce is whether any nexus exists between the activities of the defendant and interstate commerce.[55]

The Ninth Circuit utilized both the "effect on commerce"

49. *See generally*, R. H. COASE, THE NATURE OF THE FIRM, ECONOMICA, (1937), *reprinted in* G. STIGLER & K. BOULDING READINGS IN PRICE THEORY (1952).

50. *See generally*, IV ANTITRUST LAW, § 1000 at 207.

51. *See generally*, I ANTITRUST LAW, § 231 at 227.

52. McLain v. Real Estate Board, 444 U.S. 232 (1980).

53. Western Waste Service Systems v. Universal Waste Control, 616 F.2d 1094 (9th Cir. 1980).

54. *See McLain*, 444 U.S. at 246.

55. *See Western Waste*, 616 F.2d at 1095 n.1, where the court stated:

> It is axiomatic that a complaint should not be dismissed unless 'it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief.' . . . This rule applies with no less force to a Sherman Act claim, where one of the requisites of a cause of action is the existence of a demonstrable nexus between the defendant's activity and interstate commerce.

Id.

test and the "liberal pleading" test in *Western Waste*.[56] The court stated that *McLain* held "that it was not necessary for the alleged antitrust violations complained of to have affected interstate commerce as long as defendant's business activities, independent of the violations affect the interstate commerce."[57] Therefore, the test would be applicable to any mining company with an approximate twenty percent market share in a national market.

In *Roosevelt Lake Log Owners*[58] the court noted that "[j]urisdiction under the Sherman Act extends not only to activities actually in interstate commerce, but also to activities wholly local in nature that substantially affect interstate commerce."[59]

In *Roosevelt Lake Log Owners,* the case involved the salvage of logs on a local lake. The court identified the relevant aspects of the interstate commerce as the sale of Washington lumber and lumber products for use outside the state. Noting that ten percent of the nation's softwood lumber is partially produced in Washington State, the court held that the restraint, operating locally on the logs, sufficiently impacted interstate commerce to provide Sherman Act jurisdiction.[60]

The gathering of raw logs is an analogous to the mining of raw ore. Gathered logs are sold to local mills, much as ore goes to local smelters, sometimes after concentration or leaching. Logs are then cut and processed before going out of state, just as a mineral ore is processed and smelted before entering the national metals market. Just as a restraint operating locally on logs sufficiently impacts interstate commerce to provide Sherman Act jurisdiction, monopolization and attempted monopolization of mineral ore bodies affect interstate commerce in the metal or refined mineral itself.

These cases make it clear that however local a restraint on mineral ore may be, interstate commerce is affected and the re-

56. *Id.* at 1094.
57. *Id.* at 1097.
58. Palmer v. Roosevelt Lake Log Owners, 651 F.2d 1289 (9th Cir. 1981).
59. *Id.* at 1291.
60. *Id.* at 1292.

straint is within the reach of the federal antitrust laws.[61] Any defendant who argues that there is no restraint on interstate commerce, moreover, runs a risk of helping the plaintiff define a small but relevant geographical market. The more local the effects are claimed to be, the smaller the geographical market, thereby the easier it is to find antitrust liability.[62]

B. *Enforcement Litigation May Confer Antitrust Standing, Converting a State Defendant into a Federal Plaintiff.*

The key to antitrust standings in the Ninth Circuit cases has been that the plaintiff was injured in fact. It is not necessary that the parties be either actual or virtual competitors. For example, in *Mulvey v. Samuel Goldwyn Pictures*[63] the plaintiff was not a competitor of the violator nor otherwise the target of the violation, but was nonetheless held to have standing. The violation was aimed at distributors of motion pictures; plaintiff owned the rights to a picture and lost profits when the violator "blocked booked" the picture with others of less demand in an illegal tie.[64]

Standing, therefore, is clear for a would be competitor of a mining company in the same metal, who is excluded from ore reserves by aggregated claims and for would be purchasers of unproduced ore from the reserves. A more interesting issue may arise when a mining company ties up vast areas of federal land as claimed reserves in a particular ore, thereby excluding not only competitors in its own metal, but every other use of the land as well and certainly every other kind of mining.[65]

A company that is monopolizing local ore reserves, practically speaking, also excludes others from any commercial enterprise on that land. This necessarily precludes any mineral explo-

61. In *Roosevelt Lake Log Owners*, the court refused to quantify an amount necessary for impacting interstate commerce. However, in that case only $35,000 worth of logs were gathered by the single plaintiff. *Id.* at 1294.

62. For example, *see* United States v. Philadelphia National Bank, 374 U.S. 321 (1963) (Philadelphia and three adjacent counties held to be the relevant market.)

63. 433 F.2d 1073 (9th Cir. 1970).

64. Injury in fact may follow from proof of violation alone. *See* Union Carbide and Carbon Corp. v. Nisley, 300 F.2d 561, 575 (10th Cir. 1962).

65. For a general discussion of principles of antitrust standing, *see* II ANTITRUST LAW, § 334 at 163.

ration and development for any other mineral. Tracts of land containing reserves of one mineral may also contain other minerals of marketable value. Not only are valuable minerals often found associated[66] but the size of the aggregated claims is often so large as to embody areas of entirely different mineralization within the particular reserves.

The question then arises whether a plaintiff who was not an actual or putative competitor for a mineral in a monopolized reserve may nonetheless assert a claim for its commercial injuries by reason of the monopolization, once it has been named a defendant in a state court enforcement action for ejectment or quiet title with respect to the land at issue. Plaintiffs might be successful as long as antitrust injury to business or property is asserted and the violation is a cause in fact of that injury.[67]

Cause and fact suffices only if the plaintiff can show that it has been a "a direct victim of a defendant's coercive practices," according to the Supreme Court's recent decision in *Associated General Contractors* v.*California State Council of Carpenters.*[68] The court now reads its prior standing cases to require injury to a consumer or competitor of the violator, in effect implementing a proximate cost test for antitrust standing.

In *Brunswick* v. *Pueblo Bowl-O-Mat,*[69] the court denied standing to a union which was not itself a participant in the market for construction contracts or a direct victim of a coercive practices. However, it can be persuasively argued that any injury flowing from a antitrust violation, if sufficiently "direct" and proximate, is remediable. It must of course also be antitrust injury, with detriments to commerce that the antitrust laws were enacted to deter.[70]

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66. *See*, the table of typical paragenetic relationships in L. J. THOMAS, AN INTRODUCTION TO MINING, at 19 (Methuen of Australia, rev. ed. 1979).

67. Clayton Act, 15 U.S.C. § 4 (1973).

68. Associated General Contractors of California, Inc. v. California State Council of Carpenters, ___ U.S. ___, 103 S. Ct. 897 (1983).

69. *See* Brunswick v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477 (1979).

70. The procedural context in which these issues arise is through enforcement litigation in state court, by the company with the reserves. In state court such companies are defending their "turfs" not only from others interested in the same metals, but from any other use of the federal land in which the claimed reserves reside. The effect on a state court defendant of a lawsuit for an injunction or ejectment is certainly direct, and if the state case is in furtherance of a federal antitrust violation, the effect is certainly coercive.

VI. CONCLUSION: USE IT OR LOSE IT

The potential antitrust exposure arising from having "too much" ore is large, particularly for mining companies operating within the Ninth Circuit. Not only are treble damages awarded to the successful antitrust plaintiff, but the validity of the claimed reserves will be open to question. Moreover, the question is to be answered according to antitrust and not mining law. The vast mining reserves held off the market for so long by many companies may now be at risk. These reserves may be subject to exploitation by new claimants willing to invoke the federal antitrust laws to void the claims in the reserves, thereby re-opening the land to new claimants.

Rather than retaining the power to forever exclude competitors and others from valuable mineralization, large mining companies with vast reserves amounting to market power in any ore may soon come to face the evolutionary imperative, implemented by antitrust if not mining law: use it or lose it.

The mining company brings the full power of state real property law behind it. Moreover, an antitrust violation defense is a tenuous one in state court.

DIGIDYNE CORPORATION V. DATA GENERAL CORPORATION: MARKET POWER AND SOFTWARE COPYRIGHT

I. INTRODUCTION

In *Digidyne Corporation v. Data General Corporation,*[1] the Ninth Circuit held that a seller's refusal to license its computer operating system software except to purchasers of its central processing units ("CPUs")[2] was an unlawful tying arrangement, constituting a *per se* violation of the Sherman Antitrust and Clayton Acts.[3]

Defendant Data General Corporation manufactured computer hardware and software. Its line of products included a central processing unit known as NOVA[4] and operating system

1. 734 F.2d 1336 (9th Cir. 1984) (per Browning, C.J.; the other panel members were Alarcon, J., and Peck, J., sitting by designation).

2. A CPU is simply an integrated circuit which executes computer programs. It is the central component of a computer.

3. The federal antitrust law at issue in this case is section 1 of the Sherman Act, 15 U.S.C. § 1 (1976), which states: "Every contract, . . . in restraint of trade or commerce among the several states, or with foreign nations, is declared to be illegal. . . ." and section 3 of the Clayton Act, 15 U.S.C. § 14 (1976), which states, *inter alia*:

> 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, . . . on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, . . . 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. . . .

The latter statute, which in literal terms refers only to exclusive dealing contracts, has been extended in application to tying arrangements. Moore v. Jas. A. Matthews & Co., 550 F.2d 1207, 1214 (9th Cir. 1977) (citing International Business Machines Corp. v. United States, 293 U.S. 131, 135 (1936)). The standard for violation under these two acts is virtually identical. *Moore*, 550 F.2d at 1214 (citing Fortner Enterprises v. United States Steel Corp., 394 U.S. 495, 499 (1969) (*Fortner I*)).

4. The NOVA CPU utilizes the NOVA instruction set. An instruction set is the low level language with which the computer originates, and it is the only language which the CPU is able to understand. This language, also called machine language, is a binary language, consisting of 0s and 1s, which indicate to the integrated circuit either an open or a closed switch. All higher level software must be translated into the machine's instruction

software[5] called RDOS, designed for use with the NOVA CPU. Plaintiffs, Digidyne Corporation and Fairchild Camera and Instrument Corporation, manufactured "NOVA emulators," which are CPUs compatible with NOVA[6] and therefore capable of using the RDOS operating system. Defendant refused to license its RDOS software for use with any CPU other than its own NOVA, and plaintiffs claimed that this refusal restrained competition in the CPU market.[7]

The district court granted partial summary judgment[8] for plaintiffs, finding that a CPU and operating system software are separate products,[9] and that a substantial amount of commerce in the tied product had been affected by the tie-in.[10]

The trial[11] was limited to the issue of whether defendant, in its tying arrangement between NOVA and RDOS, possessed

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set before it can be executed by the CPU. The characteristics of the instruction set determine the compatibility of one CPU to another, as well as compatibility of a CPU to any particular operating system (an operating system will function with only compatible instruction set CPUs).

5. Software, of which there are two types, drives the CPU. Application programs are those which perform a specific task for the user such as word processing. Operating systems software, such as RDOS at issue here, manage the internal function of the computer and act as a bridge between the application software and the instruction set, which communicates with the CPU. A CPU cannot operate application software without an operating system.

6. The NOVA emulators also use the NOVA instruction set.

7. They postulate that potential buyers of their CPUs will desire to purchase the superior RDOS as an operating system (rather than inferior operating systems on the market), and that they will purchase defendant's NOVA CPU, rather than their compatibles, because without so doing they cannot purchase RDOS.

8. In re Data General Corporation Antitrust Litigation, 490 F. Supp. 1124-25 (N.D. Cal. 1980) (*Data General I*).

9. *Id.* at 1105. The court came to this conclusion notwithstanding the fact that a CPU and operating system software cannot function without one another. *Id.* Defendant's own marketing practices supported this conclusion in that it sold the CPU without software and in that its price list contained separate prices for the two products. *Id.* at 1104. Defendant admitted that it restricted the sale of its RDOS to those who also purchased its CPU, effecting the tying scheme. *Id.* at 1106.

10. It came to this conclusion because defendant sold approximately 52,700 CPUs from 1970 to 1978, with a dollar value of $254 million in 1977 alone, and a "substantial" number of defendant's CPUs were then installed in the United States and abroad. *Id.* at 1117.

Summary judgment was also granted to plaintiffs on the issues of their actual damage, *Id.* at 1117-19, and business justification. *Id.* at 1120-24.

11. The trial lasted 45 days and focused on the definition of the tying and tied product markets. In re Data General Corporation Antitrust Litigation, 529 F. Supp. 801, 804, 806 (N.D. Cal. 1981) (*Data General II*).

market power with respect to the RDOS ("tying product") market, enabling it to restrain competition in the NOVA CPU ("tied product") market. Although the jury rendered a verdict for plaintiffs,[12] the court granted defendant's motion for judgment notwithstanding the verdict,[13] holding that the evidence did not support a finding of market power. Plaintiffs then appealed to the Ninth Circuit.

II. BACKGROUND

A tying arrangement is an agreement by a seller to sell one of its products[14] only on the condition that the buyer also purchase another of its products,[15] or at least agree that it will not purchase that product from any other supplier.[16] Tying arrangements which restrain competition are illegal.[17] They are

12. *Id.* at 804. In response to special interrogatories the jury found that "defendant had power to raise prices, or instead of raising prices, to impose burdensome terms that could not be obtained in a completely competitive market or submarket," *Id.* at 812, that "defendant's operating system software was sufficiently unique that defendant had some advantage not shared by its competitors within the appropriate operating system software market or submarket," *Id.*, and that there was "an appreciable restraint within the tied product market or submarket." *Id.*

13. Alternatively, the court ordered a new trial. *Id.* at 821.

14. This product is called the tying product, and is the one desired by the consumer.

15. This product is called the tied product, and its purchase is usually undesired by the consumer.

16. Northern Pac. R. Co. v. United States, 356 U.S. 1, 5-6 (1958).

17. Jefferson Parish Hosp. Dist. No. 2 v. Hyde, ___ U.S. ___, 104 S.Ct. 1551, 1558 (1984). Tie-ins which do not restrain competition are not invalidated. For example, if seller has no economic interest in the tied product a tying arrangement is not illegal. Moore v. Jas. H. Matthews & Co., 550 F.2d 1207, 1216 (9th Cir. 1977); Roberts v. Elaine Powers Figure Salons, 708 F.2d 1476, 1479-81 (9th Cir. 1983); Rickards v. Canine Eye Registration Found., 704 F.2d 1449, 1454 (9th Cir. 1983). In addition, where the two products are available separately from other sources, a tying arrangement is not illegal. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1558. Tying arrangements can be invalidated either by application of the *per se* rule, or by use of the rule of reason analysis. *Id.* at 1556-57, 1567.

Even though they meet the criteria to be found illegal, there may be some tying arrangements which are nonetheless justifiable. One acceptable justification occurs in an infant industry, where seller has a great interest in assuring development. United States v. Jerrold Elecs. Corp., 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 356 U.S. 567 (1961). Another is a tie-in which is necessary to assure utility of the two products, particularly where separate sales have led to voluminous customer complaints in the past. Dehydrating Process Co. v. A.O. Smith Corp., 292 F.2d 653 (1st Cir.), *cert. denied*, 368 U.S. 931 (1961).

However, most justifications have been rejected. These include protection of goodwill, International Salt Co., Inc. v. United States, 332 U.S. 392, 397-98 (1947), and quality control, where it can be accomplished by providing the specifications to others who are manufacturing the product. *Moore*, 550 F.2d at 1217; Siegal v. Chicken Delight, Inc., proscribed because they hurt both customers and competitors.[18] Customers are forced into the purchase of an undesired, and possibly unusable, product,[19] and competitors are injured by the failure of the customer to purchase their product.[20]

One means of establishing the invalidity of a tying scheme is to demonstrate that it meets the requisite elements of *per se* illegality,[21] which are: existence of a tying scheme,[22] effect upon a substantial amount of commerce in the tied product,[23] and market power.[24]

Market power is the ability to force a purchaser to do something he would not do in a completely competitive market,[25] thereby controlling price and excluding competition.[26] This is the essential characteristic of a *per se* illegal tying arrange-

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448 F.2d 43, 51 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972). If it is possible to accomplish the end sought by the justification in another manner, the justification will be rejected.

18. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1559-60.

19. *Id.*

20. *Id.* Customers fail to purchase competitors' products because they must buy them from the seller of the desired product to be able to purchase that product.

21. *Fortner I*, 394 U.S. at 499; *Moore*, 550 F.2d at 1212.

22. A tying arrangement cannot exist unless there are two separate products, the purchase of one (desired or tying product) being conditioned on the purchase of the other (undesired or tied product). *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1563. For two products to be found separate, there must be a separate consumer demand for the purchase of the tying and tied products. *Id. See also* Times-Picayune Publishing Co. v. United States, 345 U.S. 594, 613-14 (1953) (purchase of advertising space in morning or evening edition of paper conditioned upon purchase of identical space in other edition not a tying arrangement because there were not two products as distinguishable in the eyes of buyers); *Moore*, 550 F.2d at 1214-15, *Siegel*, 448 F.2d at 48-49. A functional relationship between two products will not preclude their being found separate. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1562. *See generally International Salt*, 332 U.S. 392 (salt machine and salt found to be two separate products although functionally related).

23. A tying arrangement will not be invalidated unless it causes competitors in the tied product to lose sales amounting to a dollar volume which is more than *de minimis*. *Fortner I*, 394 U.S. at 501. *See also International Salt*, 332 U.S. at 396 ($500,000 in sales of the tied product was substantial), United States v. Loew's, 371 U.S. 38, 49 (1962) ($60,800 was more than *de minimis*). The total dollar amount considered must include the total volume of sales tied by defendant's sales policy, not just that portion of the total accounted for by a particular plaintiff. *Fortner I*, 394 U.S. at 502.

24. Market power means sufficient economic power with respect to the tying product to restrain competition appreciably in the tied product market.

25. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1559. For instance, seller may force buyer to purchase an item he might not have otherwise bought, or might have preferred to buy elsewhere. *Id.* at 1558.

26. *Loew's*, 371 U.S. at 45. *See also Fortner I*, 394 U.S. at 503.

ment.[27] Demonstration of market power presently requires an analysis of the tying product market to show the seller has the ability to force purchasers to buy an undesired product. However, when the *per se* rule first evolved, such an analysis was unnecessary, particularly where the tying product was found to be unique.

In *Northern Pac. R. Co. v. United States*,[28] the Supreme Court found market power based solely on the uniqueness of the tying product.[29] The Court did not analyze the tying product market to establish market power. The Court believed that the uniqueness of the tying product gave seller control over that product, thus enabling it to pressure buyers into taking the tied product, which established market power.[30]

The concept of market power based on uniqueness was exemplified in *United States v. Loew's, Inc.*,[31] where the Court stated that market power could be inferred from the uniqueness or desirability of a tying product.[32] That inference would be strongest, and would give rise to a presumption, where the tying product was either patented or copyrighted.[33] As a result of the inference, the Court concluded that in cases where the tying product was found to be unique, it is seldom necessary to embark on a full-scale factual inquiry into seller's share of the tying product market.[34]

However, in *Fortner Enterprises v. United States Steel*

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27. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1558. *See also* Flinn, *Tying After Fortner*, 46 A.B.A. ANTITRUST L.J. 602, 609 (1977).

28. 356 U.S. 1 (1957).

29. 356 U.S. at 7. In *Northern Pac. R. Co.*, the government had granted extensive landholdings to defendant railroad, which the railroad subsequently sold or leased. As a condition of the sale or lease, however, purchaser/lessee had to ship all commodities produced or manufactured on the land by defendant's railroad, although alternative means of transportation existed. *Id.* at 3. The trial court found that defendant's landholdings were "strategically located in checkerboard fashion within economic distance of transportation facilities." *Id.* at 7. The uniqueness thereby attributed to these parcels of land in and of itself conferred market power. *Id.*

30. *Id.* at 7.

31. 371 U.S. 38 (1962). In *Loew's*, defendant motion picture producer conditioned the license or sale of one or more feature films upon the acceptance of a package or block containing one or more unwanted films. *Id.* at 40.

32. *Id.* at 45.

33. *Id.* at 45 n.4.

34. *Id.*

Corp.[35] and *United States Steel Corp. v. Fortner Enterprises*,[36] the Court realized a need to analyze the tying product market to establish market power notwithstanding the fact that the tying product was found to be unique.[37] In *Fortner I* defendant credit company conditioned a loan for the purchase of real estate on the purchase, by buyer, of its parent corporation's prefabricated homes.[38] The financing program offered by defendant was established as unique and unavailable from any other source.[39]

The Supreme Court expressly rejected plaintiff's argument that market power could be inferred from the fact that the financing was unique and unusual.[40] It explained that uniqueness confers market power only when other competitors are prevented from offering the unique product themselves.[41] The proper method of proof to establish market power consists of a study of whether seller has the power to raise prices with respect to an appreciable number of buyers in the tying product market.[42] The case was remanded to the trial court[43] for market analysis, and was heard again following a verdict for plaintiff as *Fortner II*.

In *Fortner II*, the Court interpreted the power to raise

35. 394 U.S. 495 (1969) (*Fortner I*).

36. 429 U.S. 610 (1977) (*Fortner II*).

37. *Fortner I*, 394 U.S. at 505; *Fortner II*, 429 U.S. at 621-22.

38. *Fortner I*, 394 U.S. at 497.

39. *Fortner II*, 429 U.S. at 614. Plaintiff's president testified that he accepted the tying condition solely because of its uniqueness, *Fortner I*, 394 U.S. at 504, and that he was unable to get comparable financing elsewhere. *Id.* The latter testimony was supported by testimony of the president of an unrelated finance company. *Id.* In addition, an expert witness testified that the fact that the loan covered 100% of the cost of the land and houses, that no guarantee was required of anyone with an interest in borrower's business and that the interest rate of the loan was only 6%, made the loan so unusual as to make it inconceivable that it would be available from any other source. *Fortner II*, 429 U.S. at 616.

40. *Fortner I*, 394 U.S. at 505. *See also* Dam, *Fortner Enterprises v. United States Steel: "Neither A Borrower Nor A Lender Be"*, 1969 SUP. CT. REV. 1, 27.

41. *Fortner I*, 394 U.S. at 505 n.2. The inability of competitors to offer the product is probative of market power because it may allow seller to exact less favorable terms of purchase from the buyer, who has no alternative but to obtain the desired product from seller.

42. *Id.* at 504. Seller's ability to raise prices (without losing customers) is probative of market power because it demonstrates it has some means of leverage—otherwise purchasers would turn to competing products.

43. *Id.* at 506.

prices test to mean that seller must have power over price.[44] It went on to explain that market power can be established only where seller has some advantage not shared by its competitors.[45] Consequently, if the evidence shows merely that a product is unique,[46] plaintiff has failed to demonstrate market power.[47]

In *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*,[48] the Supreme Court upheld the validity of a tying scheme[49] where a hospital maintained an exclusive services contract with anesthesiologists,[50] finding that defendant did not have market power.[51]

The Court noted that, although market power may be presumed from the existence of a patent or similar type of monopoly because a buyer will be unable to purchase the product elsewhere,[52] the tying product market must be studied in each inquiry into tying arrangements to conclusively establish market power.[53]

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44. *Fortner II*, 429 U.S. at 620 n.13. The mere existence of even a large number of tying arrangements is not conclusive evidence of market power, unless seller could have raised the price, but demanded the tie-in in lieu thereof. *Id.*

45. *Id.* at 620. An unshared advantage may confer upon seller the ability to raise prices because buyers will have no alternative but to purchase the product from it (e.g., it may be unavailable from any other source). *See also* Jones, *The Two Faces of Fortner: Comment on a Recent Antitrust Opinion*, 78 COLUM. L. REV. 39, 40 (1978).

46. Uniqueness does not *per se* confer upon seller the advantage necessary to demonstrate market power. In many cases, particularly where a unique product is patented or copyrighted, the advantage may exist (where, for instance, competitors are unable to offer a comparable product), but this must be separately established.

47. *Fortner II*, 429 U.S. at 621-22. *See also* Note, *The Presumption of Market Power in Sales of Legally Differentiated Tying Products*, 56 TEX. L. REV. 1305, 1310 n.14 (1978) (the court's failure to find market power where United States Steel's "vast economic resources" likely gave it power in the credit market indicated its demand for a more thorough demonstration of market power).

48. ___ U.S. ___, 104 S.Ct. 1551 (1984).

49. *Id.* at 1556. The Court declined to abolish the *per se* rule as applied to tying arrangements because of the length of its existence and congressional concern about the anticompetitive character of tying arrangements but reasserted that not all tying schemes restrain competition. *Id.* at 1556-57.

50. *Id.* at 1554.

51. *Id.* at 1567.

52. *Id.* at 1560. The presumption is apparently rebuttable as the Court summarized its discussion of market power by stressing the necessity of analyzing the market in *any* inquiry into the validity of a tying arrangement. *Id.* at 1561.

53. *Id.* at 1561. The *Jefferson Parish* Court examined the market in which the hospital sold its services to its patients. It determined that only thirty percent of the patients living in Jefferson Parish used the Jefferson Parish hospital and that control over thirty percent of the tying product market was not sufficient to give defendant market power. *Id.* at 1556.

A four Justice concurrence, written by Justice O'Connor, advocated abolition of the *per se* rule in favor of the rule of reason analysis.[54] This analysis would apply once a tying scheme is shown to have met a threshold test which is similar to the three requirements for application of the *per se* rule.[55]

As part of the analysis now required to demonstrate market power, the relevant tying product market must be defined. In *Brown Shoe Co. v. United States*,[56] the leading case on market definition, the Supreme Court determined that reasonable interchangeability of use or cross-elasticity of demand between the product and its substitutes would control in defining the market.[57] In addition, the Court warned that the market must be defined so as to include competing products and to recognize competition.[58]

Once a market is defined, plaintiff must demonstrate that

54. *Id.* at 1570 (O'Connor, J., concurring, with whom Burger, C.J., Powell, J., and Rehnquist, J. joined). Under such an analysis, a tying arrangement would be invalidated only when its anticompetitive impact is found to actually outweigh its contribution to efficiency. *Id.* at 1574. A rule of reason analysis necessitates an inquiry into the tied product market, *Id.*, and the use of a balancing process to weigh all surrounding circumstances, Continental TV v. GTE Sylvania, 433 U.S. 36, 49 (1977), in a determination of whether the practice results in a "substantially adverse" effect upon competition. United States v. Arnold, Schwinn & Co., 388 U.S. 365, 375 (1967). Where the practice both enhances and restricts competition, the procompetitive effects must be weighed against those which are anticompetitive. *Sylvania*, 433 U.S. at 51-54. When the net effect is procompetitive, or anticompetitive but "insubstantial," the practice will survive rule of reason scrutiny. Smith v. Pro Football, Inc., 593 F.2d 1173, 1193 (D.C. Cir. 1978).

55. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1571. First, market power in the tying product market must be established. Second, there must be a substantial possibility of the seller acquiring market power in the tied product market. *Id.* at 1572. Finally, a coherent economic basis for considering the two products separate must exist. *Id.*

56. 370 U.S. 294 (1962).

57. *Id.* at 325. The following factors were listed for use as indicators: industry or public recognition of a market as a separate economic entity, a product's peculiar characteristics and uses, unique production facilities, sensitivity to price change and specialized vendors.

58. *Id.* at 326. According to the Department of Justice, a market is a product or group of products and a geographic area in which it is sold such that a hypothetical, unregulated profit-maximizing firm, which is the only present and future seller of the product in the area, would impose a "small but significant and nontransitory" increase in price (a hypothetical 5% is often imposed) above prevailing or likely future levels. United States Dep't of Justice Merger Guidelines 4 (June 14, 1984). The Department's policy is to begin with a narrow definition which, if the hypothetical price increase would cause enough buyers to substitute another product that the price increase would be unprofitable, would be expanded to add substitute products until the test could be met. The market will be the smallest number of products which will meet this test. *Id.* at 6.

seller has power in that market by showing that it has the ability to raise prices.[59] That determination is a question of whether seller is able to raise its prices without losing its customers[60] or causing new competitors to enter the market.[61]

The Ninth Circuit has considered the market power issue twice since the *Fortner* cases. In *Siegel v. Chicken Delight, Inc.*,[62] the Court held that defendant's trademark, registered in conjunction with its products and included on its packaging supplies,[63] was unique, which, with the existence of the tie-in, established market power as a matter of law.[64] The Court relied on the *Loew's* opinion to presume market power from the uniqueness of the product conveyed by the trademark,[65] and read *Fortner I* as supporting a presumption establishing market power as a matter of law.[66]

In *Moore v. Jas. H. Matthews & Co.*,[67] cemeteries required plot purchasers to also acquire grave markers and installation services from them. The Ninth Circuit analogized the facts to those in *Northern Pac. R. Co.*, thereby establishing the requisite uniqueness to demonstrate market power.[68] It distinguished the *Fortner II* decision by interpreting its tying scheme as price competition in the tied product market, an analysis inapplicable to the tying arrangement at issue in *Moore*.[69]

III. THE COURT'S ANALYSIS

In *Digidyne*, the Ninth Circuit adopted the district court's

59. *Fortner II*, 429 U.S. at 620.

60. United States Dep't of Justice Merger Guidelines 4-5 (June 14, 1984).

61. *Id. See also Jefferson Parish*, __ U.S. __, 104 S.Ct. at 1560; *Fortner I*, 394 U.S. at 505 n. 2.

62. 448 F.2d 43 (9th Cir. 1971). In *Siegel*, defendant franchisor required its franchisees to purchase cookers, fryers, packaging supplies and certain mixes exclusively from it at prices higher than those offered by competitors for comparable products. *Id.* at 47.

63. *Id.* at 46.

64. *Id.* at 49.

65. *Id.* at 50.

66. *Id.* Consequently, no analysis of the market was found necessary.

67. 550 F.2d 1207 (9th Cir. 1977).

68. *Id.* at 1215.

69. *Id. But see* Dam, *Fortner Enterprises v. United States Steel: "Neither A Borrower Nor A Lender Be"*, 1969 SUP. CT. REV. 1, 9 (credit cannot be distinguished from other types of goods and services because it too can act to extend seller's economic power, thereby foreclosing competition in the tied product market).

reasoning that the NOVA CPU and RDOS were separate products and that the volume of commerce in NOVA CPUs tied to the purchase of RDOS was substantial.[70] However, the Court ruled that the lower court erred in setting aside the jury's verdict[71] with respect to the remaining issue of market power.[72] It reinstated the jury's verdict noting that it was supported by sufficient evidence.[73]

Regarding market power, the Court relied on *Loew's* and *Fortner I*, reasoning that the RDOS copyright conferred market power on defendant. It criticized the lower court for reading *Fortner II* as requiring some degree of market analysis for a *per se* claim,[74] and stated that it would not review the record as to defendant's position in the tying product market, but only to determine whether the jury could have concluded RDOS was unique.[75] It distinguished *Fortner II* by reading it as providing that a seller lacks market power where its product is unique only if buyers have the opportunity to choose between seller's fungible product and fungibles offered by its competitors.[76] It found RDOS not to be a fungible product.[77]

The Court held that there was "abundant" evidence that RDOS was unique as a matter of law[78] because its copyright prevented reproduction by competitors.[79] It found market power

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70. *Digidyne*, 734 F.2d at 1339.

71. In the alternative, the court had ordered a new trial. *Id.*

72. *Id.*

73. *Id.* at 1341-44, 1347. The Court found that the evidence showed RDOS to be distinctive and particularly desirable to many as well as not readily reproducible.

74. *Id.* at 1339. The Court stated:

> Most, though not all, of the trial court's reasons for setting aside the verdict are traceable to the court's view that the legality of a tying arrangement must be tested by the seller's economic power throughout the market for the tying product, and by the relative substantiality of the restraint on competition in the tied product market considered as a whole.

Id. at 1344. In addition, it went on to say that the district court was "misled by its conception that power throughout the product market for the tying product was required." *Id.* It is apparent from this language that the Ninth Circuit believes that a study of seller's economic power in the tying product market should not be done.

75. *Id.* at 1341.

76. *Id.* at 1345.

77. *Id.*

78. *Id.* at 1341, 1343.

79. *Id.* at 1341.

based on this uniqueness by relying on *Loew's*,[80] and by ruling that the copyright conferred an advantage on defendant not shared by its competitors,[81] establishing market power under *Fortner II*.[82]

The Court also noted that several of defendant's customers were locked-in to the purchase of RDOS,[83] and that all RDOS licensees had to purchase peripheral hardware[84] in addition to the NOVA CPU, or pay a program license charge which was likened to a penalty.[85] Both of these facts supported the contention that defendant had market power.[86] Finally, the Court noted that the mere existence of a tying arrangement established market power.[87] The demonstration of market power, as the final element necessary for the *per se* claim, determined the invalidity of the tying arrangement.[88]

IV. CRITIQUE

In *Digidyne*, the Ninth Circuit declined to enter into an analysis of the tying product market, thereby disregarding Supreme Court precedent, beginning with the *Fortner* decisions and culminating with *Jefferson Parish*.

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80. *Id.* (citing *Loew's*, 371 U.S. at 45).

81. The Court came to this conclusion because it found that product uniqueness presupposes the inability of a competitor to offer that product. *Id.* at 1345 (quoting Carpa, Inc. v. Ward Foods, Inc., 536 F.2d 39, 48 (5th Cir. 1976)).

82. *Id.*

83. *Id.* at 1342. Many of defendant's customers were original equipment manufacturers (OEMs). OEMs purchase an operating system and a CPU, with which they combine application software to create a complete system for resale. The Ninth Circuit found that these OEMs were locked-in to the purchase of RDOS (rather than an alternative operating system) because their application software had to be modified to accommodate the operating system and it would be too expensive for them to change that software to accommodate a different operating system. *Id.*

84. *Id.* at 1343. Testimony indicated that some of the required peripherals had no functional bearing to the software and that some which were superior and cheaper were available from alternative sources. *Id.*

85. *Id.*

86. *Id.* at 1342-43.

87. *Id.* at 1346.

88. The Court also rejected defendant's argument that the tying arrangement was necessary to allow it to recover its substantial investment in research and development. *Id.* at 1343. For instance, there were alternatives available which would not restrict competition. The Court pointed out that defendant could have sold RDOS separately, at a price which would reflect the research and development costs. *Id.* Recovery of investment costs had been expressly rejected as a justification for tying schemes. *Jerrold*, 187 F. Supp. at 560-61.

The *Jefferson Parish* majority upheld application of the *per se* rule to tying arrangements,[89] but ruled that market analysis is an indispensable element in consideration of market power.[90] In *Digidyne*, the Ninth Circuit's reliance on the RDOS copyright, the locked-in OEMs and the purchase of peripheral hardware to establish market power without a study of the tying product market is contrary to this ruling.[91]

It is unlikely that the RDOS copyright would confer market power on defendant. Even if buyers initially chose RDOS because they believed it to be superior,[92] absent market power defendant will definitionally be unable to raise its price without losing some of those buyers who would choose an alternative[93] rather than pay the increased price. However, there is no means of determining what customers will do without examining the RDOS market.

The existence of the RDOS copyright will not act as a barrier to the entry of new competitors into the market, even if that market were defined to include only RDOS.[94] Although computer operating systems may be effectively copyrighted,[95] as with any copyright, only the expression is protected.[96] Consequently, anyone may examine such a program, take its ideas,

89. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1556-57.

90. *Id.* at 1561.

91. Analysis of the tying product market in the instant case would probably reveal that defendant had no ability to raise prices. In *Jefferson Parish*, defendant's control of 30% of the market did not confer on it this ability. *Id.* at 1555, 1567, and at the *Digidyne* trial, the highest estimate of the share of the tying product market controlled by defendant was 14%. Data General's Supplemental Brief, p. 2.

92. The district court found that there was substantial evidence that the alternatives were equally or more attractive and often preferred by customers. *Data General II*, 529 F. Supp. at 816.

93. The trial court found there were alternatives to the RDOS operating system for use with NOVA and its compatibles. *Id.*

94. Obviously, if it included all alternative operating systems, the inquiry would be moot by virtue of the fact that many competitors had already entered the market to create the alternatives.

95. Apple Computer, Inc. v. Formula Intern. Inc., 725 F.2d 521, 525 (9th Cir. 1984) (citing 17 U.S.C. § 101); Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1248 (3d Cir. 1983).

96. *Franklin*, 714 F.2d at 1252-53 (citing H.R. Rep. No. 1476, 94th Congress, 2d Sess. 54, 57, *reprinted in* 1976 U.S. CODE CONG. & AD. NEWS 5659, 5670). *See also* Jones, *The Two Faces of Fortner: Comment on a Recent Antitrust Opinion*, 78 COLUM. L. REV. 39, 41 (1978) (a copyright does not prevent creation of economic equivalents, which are almost always available in limitless supply).

and produce his own program accomplishing the same result and using the same ideas without infringing on the copyright.[97] Therefore, competitors are free to enter the RDOS market, notwithstanding the existence of the copyright.[98]

The locked-in nature of the OEMs also lends little support to the establishment of market power. Contrary to the Ninth Circuit's opinion, OEMs must be sensitive to the cost of RDOS, because it is tied to the cost of their systems for resale.[99] If the price of RDOS rises, the OEMs will be forced to raise prices to their end-users rather than lose money, consequently losing those customers who are unwilling or unable to pay the higher price.

In addition, the existence of alternatives to RDOS[100] demonstrates that the OEMs will not bar entry of competitors into the market. Certainly there is a substantial number of customers not locked-in to the purchase of RDOS, for whose favor a new competitor could compete.

The fact that defendant is able to force RDOS purchasers to also buy undesired peripheral hardware or pay a program license charge is more probative of market power. Such an ability is analogous to the power to raise prices.[101] However, whether this

97. The only limitation on the reproduction is that it not use the same expression as that which it reproduces. *Formula*, 725 F.2d at 525 (citing National Commission on New Technological Uses of Copyrighted Works, *Final Report 1* 20 (1979)); *Franklin*, 714 F.2d at 1253.

98. If the existence of a presumption of market power based on a patent or copyright continues, under either the *per se* rule or rule of reason analysis, its weight with regard to computer software copyrights should be severely diminished, because the reproducibility of copyrighted software makes it highly distinguishable from other forms of copyright where the actual expression is sought, rather than the process which that expression embodies. For example, in the *Loew's* case the copyrighted subject was motion picture films, which cannot be reproduced without either infringing on the copyright or changing the film entirely (e.g. using new script and different actors). Another example of this distinction is a literary work, where it is the actual words which are sought by the consumer.

99. The Ninth Circuit postulates that some OEMs are insulated from price sensitivity because they have an effective near-monopoly for their product. *Digidyne*, 734 F.2d at 1346. Even assuming arguendo that there exist some OEMs who are insensitive to price, they could hardly confer on defendant the power to raise prices, because there would need to be many of them, not just "some."

100. *Data General II*, 529 F. Supp. at 816.

101. The purchase of unwanted or more expensive peripherals from defendant resembles a raise in prices because it demonstrates seller has leverage to exact burdensome

ability is enough to confer upon defendant market power[102] cannot be determined without analyzing the market in which RDOS is sold.

The Ninth Circuit also interpreted *Fortner II* as holding that the existence of a tying arrangement demonstrates market power.[103] This is clearly contrary to that opinion, which adopts, as "correctly analyzing" plaintiff's burden of proof, a commentator's analysis stating both that the existence of a tying arrangement does *not* establish market power, and that the ability to raise prices must exist.[104]

Application of the *per se* rule to tying arrangements has always been strained. *Per se* condemnation has traditionally been reserved for contractual arrangements which have no redeeming characteristics, and so may be invalidated without considering the market in which they operate.[105]

When determining the legality of a tying arrangement under the *per se* rule, however, a court must find that seller has market power and that the tie affects a substantial amount of commerce. Both of these findings involve a study of the marketplace which contravenes the purpose of the *per se* rule.[106]

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terms from buyers. *Fortner I*, 394 U.S. at 504.

102. In other words, whether defendant can demand the purchase of peripheral hardware without loss of customers or entry of new competitors into the market.

103. *Digidyne*, 734 F.2d at 1346.

104. *Fortner II*, 429 U.S. at 620 n.13. *See also* Flinn, *Tying After Fortner*, 46 A.B.A. ANTITRUST L.J. 602, 608, 612 (1977).

105. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1556. For instance, price fixing which is inherently anticompetitive. *See also* Hollowell, *Hyde: Exclusive Contracts*, 14 N.C. CENTRAL L.J. 75, 77 (1983-84) (under the *per se* rule, balancing the restraint on trade caused against benefits to customers and competitors is unnecessary).

106. Under the *per se* rule, practices are conclusively presumed unreasonable "without elaborate inquiry as to the precise harm they have caused or the business excuse for their use," and the rule should only be invoked where a particular type of conduct is a "naked restraint of trade with no purpose except stifling competition." *Northern Pac. R. Co.*, 356 U.S. at 5. The rule exists to avoid an "incredibly complicated and prolonged economic investigation . . . to determine at large whether a particular restraint has been unreasonable." *Id.*

Application of the rule shuts out analysis of the extent of market effect as well as its nature. *Id.* The degree of market analysis necessary prior to invalidation of a tying arrangement is contrary to this traditional application of the *per se* rule.

In addition, the fact that not all tying schemes are found to restrain competition seems clearly contrary to such an application, which is used to invalidate a certain practice because it would always be found to restrain competition. *Jefferson Parish*, ___ U.S.

Furthermore, when a tying arrangement does not fall under the *per se* rule because one or more of the criteria for its use cannot be demonstrated, a rule of reason analysis will be invoked to test its validity.[107] Consequently, defendants are likely to introduce as much evidence as possible with regard to the benefits of the tie-in,[108] even in a case which is initially pursued on a *per se* theory. Once again, when this happens, the rule fails to effect its purpose.[109]

Finally, as Justice O'Connor pointed out in her concurring opinion in *Jefferson Parish*, there are instances in which ties that may be quite beneficial are invalidated because under the *per se* rule the market is analyzed only to establish potential for restraint of trade, and benefits are not considered.[110]

The *per se* rule should no longer be applied to tying arrangements. Because of the three prerequisites to its use and the analysis of the market involved in its application, it has become a legal fiction. The fact that it has been in existence for almost forty years, on which the majority in *Jefferson Parish* relies in part,[111] is a poor reason for its continued use. Our legal process must be flexible and able to conform to economic realities of the present, rather than remain entrenched in the past. In addition, the congressional policy expressing concern about the anticompetitive character of tying arrangements on which the majority also places reliance[112] does not necessitate application of the *per*

___, 104 S.Ct. at 1558.

107. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1561.

108. In providing for a balancing of pro and anticompetitive consequences of a practice, the rule of reason invites introduction of evidence by defendants supporting potential procompetitive effects. *See also* Dam, *Fortner Enterprises v. United States Steel: "Neither A Borrower Nor A Lender Be"*, 1969 Sup. Ct. Rev. 1, 34.

109. Professor Dam pointed out two "practical objections" to the fact that the rule of reason may be invoked alternatively to invalidate a tie. He asserts that where a seller has not got market power, or where the effect on commerce is insubstantial, the effect of the tie-in must be *de minimis* and therefore not an unreasonable restraint. Secondly, he believes that where plaintiff is not granted summary judgment, the evidence introduced in connection with market analysis will lead to an extremely complicated trial. *Id.* at 33-34. Both concepts illustrate the unworkability of the existing application of the *per se* rule to tying arrangements.

110. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1570 (O'Connor, J. concurring, with whom Burger, C.J., Powell, J., and Rehnquist, J. joined).

111. *Jefferson Parish*, ___ U.S. ___, 104 S.Ct. at 1556-57.

112. *Id.* at 1557.

se rule rather than a rule of reason analysis.[113]

V. CONCLUSION

Although the Supreme Court has ruled that establishment of market power requires market analysis, it has failed to expressly overrule its contrary earlier opinions, leaving the lower courts without a clear statement of the present state of the law on this issue. The dilemna those courts face is particularly exacerbated in cases such as *Digidyne*, where the tying product is unique, because it is with respect to this issue that the contradiction is most apparent.

If the Court promotes the presumption of market power in the case of unique or, more particularly, patented or copyrighted products, and it determines that the presumption should be conclusive or that minimal market analysis will be necessary, use of that presumption should be curtailed to products whose uniqueness truly can provide the power to raise prices or bar the entry of competitors into the market. For instance, in considering RDOS, such a presumption should hardly apply since a software copyright carries with it none of these characteristics.

Regardless of the future disposition of this dilemna, however, it is possible that the lower courts will no longer have to confront the problem, because application of the *per se* rule to tying arrangements may soon be abolished, as it was upheld by only a narrow five to four majority in *Jefferson Parish*. Since this application is strained and has the propensity to create confusion in the litigation process as well as invalidate beneficial tying schemes, this seems to be the optimal solution.

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113. A rule of reason analysis, where an involved study of the market is completed, will certainly invalidate any tying arrangement which is anticompetitive.

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