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Compulsory licensing in Europe: a rare cure to aberrant national intellectual property rights?

The early days – intellectual property clouded by free trade concerns

In the early days of European law, intellectual property rights were an inconvenience for the achievement of the Treaty's prime competition law goal, which was market integration. Intellectual property rights were seen as the way by which companies might partition the common market to prevent free movement of goods between the 6 (and latterly the 9) Member States. The concern was not baseless, but resolving it required considerable encroachments on classical IP privileges. IP rights in Europe are territorial; so far there has been full harmonisation only in the area of Community trademarks (legislation on a Community patent is pending). Companies sought to use IP rights to prevent parallel trade in genuine products either to protect higher prices in the country where prices were higher, or to protect their territory in situations where the rights to sell a product had been divided among unrelated parties. Significant encroachments have been made by European law on the entitlements of IP rightholders because of free movement of goods, arguably more than because of competition law.

Thus the "abuse" of IP rights as an instrument of territorial division was one concern of policy-makers. Another, which is today more controversial in classical competition law, is the "abusive" use of IP rights by a "dominant" company. As we shall see, the disparate nature of Europe's IP rights (and the surprising privileges they can confer) has been critical in permitting the development of European competition law in this field.

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On both sides of the Atlantic authors and advocates have presented intellectual property rights as sacred, and as such immune from the reach of the competition rules. In fact, significant encroachments due to European Community law have occurred upon all manner of property rights. And, in Europe, the encroachments upon the benefits accorded to IP rightholders have been attributable to market integration and competition policies. Both strands of the law should be remembered.

The first phenomenon is illustrated by the early cases of Sirena v Eda[2] and Hag [3]. In Sirena, the rights to use a trademark to a particular cosmetic had been sold by a US company to different companies in Italy and Germany before the entry into force of the Treaty of Rome. The Italian company applied for an injunction to prevent imports of the German cream into Italy. The European Court was asked for its advice on whether the agreement to split the trade mark rights could infringe Article 85 and whether the use of the trade mark to block imports could be abusive under Article 86. The Court ruled that Article 85 applies if the effects of the agreement to partition the common market were still in force, irrespective of the circumstance that the agreement between the Italian and the German owners and the American company were separate.[4] The judgment[5] contains a passage exemplifying the suspicion which the Court had of trademark rights:

> "*The exercise of a trade-mark right is particularly apt to lead to a partitioning of markets, and thus to impair the free movement of goods between states which is essential to the common market. Moreover, a trade-mark is distinguishable in this context from other rights of industrial and commercial property, inasmuch as the interests protected by the latter are usually more important, and merit a higher degree of protection, than the interests protected by an ordinary trade-mark.*"

The ruling never really answered the question of when the use of a trademark right was abusive under Article 86 (although it did not rule this out). The Sirena judgment is now ignored, an early judicial error in which the Court muddled what subsequently became clear.

In Hag, the ownership of a trademark on a famous German coffee brand, "Hag", had been split between Germany and the Benelux as a result of expropriation of enemy property in the Second World War. The German company tried to sell its coffee in Luxembourg but imports were blocked by the Benelux rightholder on the grounds that they infringed its Luxembourg trademark. The Court could not apply Article 85 since there was no "agreement" between competing companies giving rise to the discrepancy. It therefore decided to apply the Treaty's rules on free movement (Articles 30-36, now Articles 28-30) to condemn the use of national trademark rights in this case, as having the effect of partitioning the common market.

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2 Sirena S.r.l. v Eda S.r.l. and others, Case 40-70, [1971] ECR 0069.

3 Van Zuylen Freres v Hag AG, Case 192/73, [1974] ECR 731.

4 Paragraphs 11-12.

5 Paragraph 7.

The Court reasoned as follows:

> *"The exercise of a trade mark right tends to contribute to the partitioning off of the markets and thus to affect the free movement of goods between Member States, all the more so since - unlike other rights of industrial and commercial property - it is not subject to limitations in point of time."*
>
> *"Accordingly, one cannot allow the holder of a trade mark to rely upon the exclusiveness of a trade mark right - which may be the consequence of the territorial limitation of national legislations - with a view to prohibiting the marketing in a Member State of goods legally produced in another Member State under an identical trade mark having the same origin."*[6] (emphasis added)

Thus, in the Court's view, the common origin of the "Hag" trademark justified the application of the Treaty's rules on free movement to prevent the Luxembourg owner of the Hag trademark from blocking imports of "Hag" coffee manufactured by a different company in Germany. As a result, different coffees from different producers were sold under the same brand. (The Court feebly suggested that using national flags as labels would be a way of alerting consumers to the differing flavours of the competing versions of HAG coffee.) The Hag case shows the zeal of the Court in the 1970s to hinder any use of IP rights to thwart a Community goal. (The zeal tide subsequently ebbed, as we shall see.)

The law was therefore clear: the use of an IP right to hinder cross border trade in genuine goods, even if done unilaterally, was to be viewed sceptically. It was challengeable, in the absence of an agreement, not under the competition rules, but under the rules on free movement of goods. There was a problem for the Court, to define and rationalise its theory. IP rights were created by national law and could not be abolished by Community law. How could the conflict be reconciled?

In the Centrafarm cases[7], the Court developed its jurisprudence on the overlap between intellectual property rights and free movement of goods. It developed a theoretical distinction between the "existence" of an IP right and its "exercise" (although the existence v. exercise dichotomy had been used by the Court already in the golden oldie Etablissements Consten and Grundig v Commission[8]). The existence of a right was protected and immune from challenge under the rules on free movement of goods; whereas the exercise of a right was not. The notion of core rights was developed in these cases: European law could not derogate from, or take away from, the specific subject matter, the very core of the intellectual property right, but it could affect adjoining or ancillary rights.

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6 Paragraphs 11-12.

7 Centrafarm v Winthrop, Case 16-74, [1974] ECR 1183; Centrafarm v Sterling Drug, Case 15-74, [1974] ECR 1147.

8 Cases 56 and 58/64, [1966] ECR 429.

The specific subject matter of a patent right was found to be the following[9]:

> *"In relation to patents, the specific subject matter of the industrial property is the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements."*

This meant that once a patent holder put his product on the Community market for the first time, then he had benefited from the patent (whose existence was therefore respected) and Community law could prevent that patent holder from using the patent to prevent parallel trade. Once the patented invention was voluntarily put on the market in one Member State, then the patent holder could not object to an *arbitrageur* (commonly called a parallel trader) buying the product in that Member State and reselling it in another one. This was, applied Community-wide, the now-familiar principle of exhaustion, which dates back to 1871 in Belgian law. A similar technique was applied to the specific subject matter of a trademark right[10] to ensure that trade marks could not be used to partition the common market. The principle of exhaustion was applied also in cases where the Member State in question granted inadequate protection to the patented invention.[11]

The focus in these early cases was on ensuring that companies could not use IP rights to prevent free movement of goods. For this reason, early judgments such as Sirena v Eda and Hag gave a very low value to trademark rights, an error which the Court of Justice has since corrected[12]. The Centrafarm cases recognized the need for IP rights, but found a way to grant them a measure of respect, while giving priority to free movement of goods.

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9 Sterling Drug at §9.

10 Winthrop at §8: "*In relation to trade marks, the specific subject-matter of the industrial property is the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark.*"

11 Merck v Stephar, Case 187/80, [1981] ECR 2063; Merck v Primecrown, Case 267 and 268/95, [1996] ECR I-6285.

12 See in particular Advocate General Jacobs in SA CNL-SUCAL NV v HAG GF AG ('Hag II'), Case C-10/89, [1990] ECR I-3711, at §§16-20 ("*an unduly negative attitude*"); confirmed by the Court in the same case at §13: "*Trade mark rights are, it should be noted, an essential element in the system of undistorted competition which the Treaty seeks to establish and maintain. Under such a system, an undertaking must be in a position to keep its customers by virtue of the quality of its products and services, something which is possible only if there are distinctive marks which enable customers to identify those products and services. For the trade mark to be able to fulfil this role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality.*"

I conclude this section by noting that IP rights, although nominally respected by the Treaty, were subject to significant constraints to pursue Community law goals, and that the encroachments necessary for market integration purposes were justified intellectually by distinguishing two clusters of rights, the core or essential rights, and the peripheral or ancillary rights whose exercise can be constrained. More specifically, it would be wrong to analyse the IMS and Magill decisions as being the first to introduce big encroachments upon the privileges of IP rightholders.

The IBM undertaking – a "pure" competition approach and a unique solution

In this section, I will describe the very contentious evolution of the law concerning the application of the competition rules applicable to computer software in the IBM case from 1980 to 1991, an evolution which went in parallel with developments affecting other sectors.

On 1 August 1984, the Commission accepted a so-called unilateral undertaking from IBM to provide other computer manufacturers with the technical interface information needed to permit competitive products to be used with IBM's then most powerful range of computers, the System/370. The Commission thereupon suspended the proceedings under Article 82 which it had initiated against IBM in December 1980.[13] This was the first use of Article 86 (now Article 82) to limit the exercise of copyright by a dominant player. It brought to an end an exceptionally acrimonious dispute between the European Commission and IBM and IBM's allies, and avoided the necessity ot address the merits of the Commission's much-criticised Statement of Objections against IBM.

IBM agreed to provide interface information to software developers by specific benchmark dates, such as "as soon . . . as such interfaces had become reasonably stable but in any event no later than the date of general availability" and to announce changes to an existing interface that would make System/370 products attaching to such existing interface inoperable "sufficiently in advance of general availability". That information would be provided either through established documentation and related materials (such as source code) or through some other adequate means, including newly prepared documents containing only the interface information. Any company that was doing business in the EC and developing relevant products, including U.S. and Japanese companies, could ask IBM for such interface information. IBM would charge reasonable and non discriminatory fees for the information.

IBM was required to support international standards for open system interconnection for products, systems, and networks of different manufacturers. In addition to signing the Undertaking, IBM agreed to a system of oversight that required the company (i) to meet with DG Comp every year to "take stock of the implementation of the Undertaking and its effects," and (ii) to present DG Comp with an annual report describing in detail "IBM's response to each question or request received under the terms of the Undertaking." IBM would also discuss the outcome of these cases with DG Comp.

After five years, the company could have ended this arrangement. But IBM seemed to recognize that the EC process had created a new level of comfort for companies that made third-party products for

13 IBM Proceedings, [1984] CMLR 255.

the IBM mainframe platform and, in the eyes of some observers at least, helped protect IBM from potential liabilities. Thus, IBM voluntarily permitted the agreement to run for 11 years - six more than the minimum requirement.

The IBM Undertaking constituted a very heavy remedy for any IP holder whose rights are valuable. IBM had developed its dominant standard System/370 thanks to its own financial and creative efforts. Nonetheless, the Commission relied on the competition rules to ensure that compatible software could be developed by any third party and not only by IBM's licensees or partners.

This case is particularly relevant in network industries. It was largely forgotten until Microsoft's control over personal computer operating systems came under the scrutiny of competition authorities on both sides of the Atlantic. However, it influenced Community legislation, in that the notion of interoperability has been subsequently incorporated into EU copyright legislation on computer programs. It was disputed whether reproduction of the program in order to discern information about its interfaces (not in order to copy the program but, for example, to make another program which would attach to it) constituted a breach of copyright. Article 6 of Council Directive 91/250 ("the Software Directive") on the legal protection of computer programs[14] allows reproduction of the code and translation of its forms (also referred as decompilation) when these "are indispensable to obtain the information necessary to achieve the interoperability of an independently created computer program".

Decompilation does not require authorisation from the rightholder. However, it must be performed by "the licensee or by another person having a right to use a copy of a program, or on their behalf by a person authorised to do so" (Article 6.1(a)) and authorisation from the rightholder is required when, *inter alia*, the interface information is used "for the development, production or marketing of a computer program substantially similar in its expression, or for any other act which infringes copyright" (Article 6.2(c)).

Contrary to the IBM Undertaking, the Directive does not prohibit software companies controlling a dominant technology either denying access to interface information or announcing changes to an existing interface that would make third parties' software no longer interoperable. Delayed or discriminatory access to interface information may eliminate competition from third party developers to the advantage of products licensed or developed by the company controlling the dominant standard. The Directive applies to all computer programs, without distinguishing between dominant standards and compatible applications. It states the general law, not the special principles which may be relevant under Article 82, which applies a higher standard of pro-competitive conduct to dominant enterprises.

In addition, it is unsettled whether Article 6 may be invoked by companies to develop a product competing with the decompiled program. Article 6 refers to interoperability with "other programs", without distinguishing between programs competing or not competing with the decompiled program. No software developer has yet claimed (so far as has been reported) that the decompiled program constitutes a sort of "essential facility" for developers who wish to create not an attaching program but a

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14 Council Directive 91/250/EEC on the legal protection of computer programs, OJ L 1991 122/42.

competing program. It might be argued that the notion of interoperability should not apply in these cases, since the manufacturer of the competing program acts as a "free rider" to benefit from the network effects generated by the company which has been the first mover in the market. However, this issue has never been litigated before the Commission.

So far, the notion of interoperability has been applied only to computer programs subject to copyright. However, following the availability of patent protection to computer programs under certain EU jurisdictions (notably the UK), this notion could perhaps be extended to such patented inventions. Indeed, it might be argued that a 20-year monopoly over interface information is sufficient to discourage third parties from developing innovative software which may be competing with complementary software developed by or in partnership with the company having a monopoly over a dominant software. The case law on computer programs (experience is perhaps a better word, as there is a notable shortage of published fully-reasoned, technically-persuasive decisions which have been tested on appeal) suggests that, in contrast to other IP areas, the European Commission has been ready to demand concessions to ensure interoperability between a dominant software and third parties' interoperable products. Some of the Commission findings in the IBM case have clearly influenced Community legislation in the areas of computer software and database. This issue is at the core of pending Commission investigations.[15]

Volvo v Veng[16] – competition law and licensing of IP rights - was the door shut or ajar?

Early cases did not analyse the relationship between IP rights and competition law in fields unrelated to parallel imports or other distribution issues. None of the cases gave any indication as to whether reliance on IP rights could be abusive or whether the refusal to license IP rights could be abusive. Moreover, there was no indication as to whether the notion of core (specific subject matter) and non-core (mere exercise) rights applied only to free movement cases, or whether this analysis also applied to competition cases. These uncertainties persisted in the minds of many for several years, until the Court of Justice decided the Volvo v Veng case; and have persisted since then.

Volvo v Veng was the first case in which the Court considered whether a refusal to license an IP right could be abusive. The case concerned the front wings of Volvo 200 cars (on which Volvo held a registered design), which in effect gave a monopoly in a utilitarian three-dimensional shape which presented no patentable features. Veng imported these products, manufactured without authority from Volvo, and markets them in the United Kingdom. Volvo instituted proceedings against Veng for infringement of its exclusive rights. There are two famous paragraphs in the judgment[17]:

15 See Commission Press Releases IP/00/906 and IP/01/1232 (Microsoft) and the article, EC confirms ending Intel investigation, Meller, Computerworld, February 5, 2002 (Intel).

16 AB Volvo v Erik Veng (UK) Ltd, Case 238/87, [1988] ECR 6211.

17 Paragraphs 8 and 9.

"8. It must also be emphasized that the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right. It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a licence cannot in itself constitute an abuse of a dominant position."

However:

"9. It must however be noted that the exercise of an exclusive right by the proprietor of a registered design in respect of car body panels may be prohibited by Article 86 if it involves, on the part of an undertaking holding a dominant position, certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation, provided that such conduct is liable to affect trade between Member States."

The Court found that no such conduct was present in the instant case, and therefore answered the case in the following terms:

"The refusal by the proprietor of a registered design in respect of body panels to grant to third parties, even in return for reasonable royalties, a licence for the supply of parts incorporating the design cannot in itself be regarded as an abuse of a dominant position within the meaning of Article 86."

The Court's ruling cannot be criticized. Veng wanted to copy Volvo's design to make cheaper spare parts for Volvo cars. Veng had no intention to innovate. It was merely trying to "free ride" on Volvo's efforts to develop an original design for its cars. The underlying national IP right was not an aberration even if utilitarian decision rights are inherently less valuable and less honoured than patents.

After this judgment, many asked whether the Court had intended to close the door and to prevent companies from relying on competition law to attack a refusal to license an IP right. But the fact that it had expressly said that an abuse could be present in some circumstances (even though they were absent in the particular case), led many commentators to believe that the Court wished to leave the door open to argument along those lines in future cases. Could a "bare" refusal to license be abusive? Possibly, though probably not unless other elements were present. This was the approach which the Courts followed in a celebrated case about television magazines.

Magill[18] *– the door was in fact ajar and competition law can constrain the exercise of IP rights*

Broadcasters in the UK and Ireland issued lists of their future programme times to every newspaper publisher in the UK and Ireland, with permission (indeed encouragement) to publish these times free of charge on a daily basis (the lists could be published two days at a time on weekends). Reproduction of the times on a weekly basis was forbidden in order to avoid competition with the broadcasters' own weekly guides. The broadcasters collectively enjoined Magill from publishing a multi-channel guide showing all three broadcasters' programmes side-by-side. During the interlocutory proceedings in Ireland and before a judgment by the Irish courts on the merits, the Commission decided to act on Magill's complaint of abuse of dominant position, and ordered the broadcasters to begin negotiations with Magill for a royalty-bearing licence.

The decision, taken in one of the year-end bursts of table-clearing decision-making which used to characterise DG IV behaviour, was fiercely controversial inside the Commission and sharply criticized by many commentators. Scepticism was voiced by, notably, President Koopmans of the European Court of Justice (at interim measures) and Advocate General Gulman several years later (on appeal from the Court of First Instance). There were requests to intervene in the appellate proceedings from industrial associations, and indeed the European Court of Justice heard written and oral argument from "Intellectual Property Owners Inc.", an American-based association of enterprises valuing IP rights, about the apprehended dangers of the decision.[19]

The parties defending the decision relied on the broad terms of Article 86 (now Article 82), and above all on the strange factual situation. The critics relied on the uncertainties created by the decision for any future exploiter of IP rights. The Court of First Instance produced an extremely robust judgment, finding in favour of the Commission on every one of the challenges made by the three broadcasting companies, but containing some language that seemed problematic:

> "*However, while it is plain that the exercise of the exclusive right to reproduce a protected work is not in itself an abuse, that does not apply when, in light of the details of each individual case, it is apparent that that right is exercised in such ways and circumstances as in fact to pursue an aim manifestly contrary to the objectives of Article 86* "[20]

This seemed to avoid a number of questions, and to be circular or at least confusing, by suggesting that whereas acting "contrary to the objectives of Article 86" in refusing to license so as to exploit a

18 Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v Commission, Joined cases C-241/91 P and C-242/91 P, [1995] ECR I-0743, on appeal from RTE v Commission, Case T-69/89, [1991] ECR II-0485 and ITP v Commission, Case T-76/89, [1991] ECR II-0575.

19 Another group, representing a different constituency of large corporations concerned about the dangers posed to innovation and competition by the use of copyright over utilitarian material, also applied to intervene but too late to be admitted.

20 Case T-69/89, *RTE v. Commission*, paragraph 71.

dominant position, was an abuse, refusing to license an exclusive right was not an abuse even if engaged in by a dominant company. Paragraph 73 was clearer:

> "*Conduct of that type – characterized by preventing the production and marketing of a new product, for which there is potential consumer demand, on the ancillary market of television magazines and thereby excluding all competition from that market solely in order to secure the applicant's monopoly – clearly goes beyond what is necessary to fulfil the essential function of the copyright as permitted in Community law.*"

And the result (paragraph 73) was:

> "*The applicant's conduct cannot, therefore, be covered in Community law by the protection conferred by its copyright in the programme listings.*"

The appeal of the Court of First Instance judgment before all the judges of the European Court of Justice involved a robust clash of fundamental principles. Despite these intense legal debates, one of the judges at the final hearing before the European Court of Justice said that he had not even considered oral argument necessary to reach his own conclusion about the merits of the case.

The <u>Magill</u> case made it clear that the Court had intended to leave the door ajar in <u>Volvo v Veng</u> and that a refusal to license an IP right could, in the very particular circumstances of that case, constitute an abuse. The Court explicitly rejected the "immunity" argument advanced by the copyrightholders in <u>Magill:</u>

> *"With regard to the issue of abuse, the arguments of the appellants and IPO wrongly presuppose that where the conduct of an undertaking in a dominant position consists of the exercise of a right classified by national law as "copyright", such conduct can never be reviewed in relation to Article 86 of the Treaty."*

> *"Admittedly, in the absence of Community standardization or harmonization of laws, determination of the conditions and procedures for granting protection of an intellectual property right is a matter for national rules. Further, the exclusive right of reproduction forms part of the author' s rights, so that refusal to grant a licence, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute abuse of a dominant position (judgment in Case 238/87 Volvo, cited above."*

> *"However, it is also clear from that judgment (paragraph 9) that the exercise of an exclusive right by the proprietor may, in exceptional circumstances, involve abusive conduct."*

The Court agreed with the Commission that "exceptional circumstances" were present[21]. In my view, the Court was impressed, and correctly so, by the combination of several factors. First, the rightholders' refusal to license necessarily prevented the appearance of a new product, a comprehensive weekly guide, which the broadcasters did not offer, for which there was no substitute and for which there was a potential consumer demand. To be fully informed about forthcoming programmes, the viewer in Ireland would need to buy three weekly guides. The reason the broadcasters declined the proffered royalties was to ensure that each of them retained a valuable monopoly which would end if a new kind of product emerged. Article 86(b) prohibits abuses consisting in "*limiting production, markets or technical development to the prejudice of consumers*".

There was also an element of discrimination in that the same TV listings were given away for free to newspapers who published TV listings on a daily basis. Thus, the BBC (for example – the same applied to RTE and to ITN) was the sole source of listings as to its own programmes and used its copyright over such material to prevent the emergence of a weekly magazine competing with its own single-channel guide, "Radio Times". One reason offered for the two UK companies' attack on an Irish broadcaster was the risk of cross-border trade, in that multi-channel guides would enter the UK from Ireland: not a very attractive theory. The Court found that there was no justification for the refusal to license either in the activity of television broadcasting or in that of publishing television magazines.

There was debate over whether the decision had correctly defined the relevant markets and had correctly found the broadcasters to be in a dominant position. If it was the case that there were separate markets for listings and for daily publications and for weekly television guides, the invocation of copyright over listings, where the broadcasters of course had a monopoly, had the consequential effect of obtaining a monopoly on the downstream market for weekly guides. The broadcasters replied that they preferred to be the sole source of how their programmes were presented on a weekly basis. They said that they licensed generously the reproduction – on a daily basis – of the copyright material. Opposing parties asserted that the TV companies had reserved to themselves the "after market" of weekly television guides by excluding all competition on that market since they denied access to the basic information which was the raw material indispensable for the compilation of such a guide.

I submit that we cannot find one single factor which led the Commission to condemn the broadcasters and the European Court to uphold that decision. The combination of downstream monopolisation, discrimination, and prevention of the emergence of a new product was certainly potent. Probably the most impressive factor among these for the antitrust theorists was the use of a right in one sector to retain a monopoly in another sector, but this is not enough alone to explain the case. The remarkable facts were <u>extremely</u> important. The order in which TV programmes are to be shown during the forthcoming week is not something with intrinsic artistic value. The material was advertising for upcoming programmes, and its reproduction was encouraged by the broadcasters, who widely distributed it free-of-charge in the hope that it would be printed in daily newspapers. In a number of Member States, specific legislation covered the rights and duties of broadcasters and publishers of television times, and in no other Member State did monopoly guides still exist. It does seem strange that

[21] At paragraphs 51-56.

a list of programmes and dates and hours would be eligible for copyright protection in the sense that the broadcasting rightholder could prevent anyone else revealing in writing the titles, dates and times of its forthcoming programmes. However, Ladner J. of the Irish High Court found that copyright did subsist in the material, after the Commission Decision, after the interim measures hearing, but before the Court of First Instance hearing.

Many Member States did not recognize copyright in TV listings. This factor distinguishes European law from US law: there is still a wide variation between EU Member States in relation to when IP rights can be obtained, and the rights attached to them. This is particularly the case as to copyright. Member States are obliged by the Berne Convention to grant copyright protection in certain circumstances, but are free to grant protection in circumstances not contemplated by the Berne Convention. English law grants protection to compilations as a reward for the "sweat of the brow" expended by the compiler. The Software Directive remedied the state of the law in Germany, where the so-called Inkasso judgment had suggested that the existing German copyright law did not adequately protect computer programs which lacked originality.

It was argued, in my view unconvincingly, that the Commission was legislating in a field where it lacked the competence to do so, by condemning a country's IP laws. The better view, in my submission, would be that the Commission was challenging he application of Irish law in a manner and in circumstances which completely eliminated competition at the instance of dominant players.

The low intrinsic value of the right was not expressly mentioned in the Magill case by the Courts[22] (their role is not to comment on the appropriateness of national copyright rules). It was commented on by the Commission and defended by the broadcasters. It was, however, clearly part of the equation, part of the "exceptional circumstances". Despite Magill, it would only be in the rarest of circumstances that the European Commission and Courts would have even considered ordering the licensing of a genuinely innovative patent or copyright in which a company had invested significant sums in R&D.

Standardisation and IP rights falling within the standard

Another topic which is relevant to compulsory licensing, although identifying the relevance may require a moment's reflection, is standard setting. This topic is specifically relevant to the IMS case, about which there has been much commentary. Members of an industry or a trade association gather to agree on the technical standards which will govern their future commercial activity. What happens if that standard (the shape of a plug, a piece of software code, the process by which a modem and a piece of remote equipment make their handshake) is covered by a patent or a copyright owned by one member?

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22 Although Advocate General Jacobs said the following in his Opinion in the Oscar Bronner case (see below) at §63: "*the provision of copyright protection for programme listings was difficult to justify in terms of rewarding or providing an incentive for creative effort*."

The Commission's Guidelines on horizontal agreements[23] deal with standard setting in the context of Article 81. The Guidelines developed a number of principles that companies should follow in all standard setting procedures in order to ensure compatibility with Article 81. Standards should not limit innovation. The Commission says that it will examine the effects of standard-setting on innovation on a case-by-case basis.[24] Participation in standard setting should be open to all, unless such participation leads to inefficiency or unless some other mechanism exists for the collective representation of all interests.[25] Finally, standards which exclude actual or potential competitors are contrary to Article 81(1) and will not be exempted if third parties cannot access the standard on fair, reasonable and non-discriminatory terms.[26]

Although the Commission Guidelines do not specifically refer to standard setting involving IP rights, they would nevertheless apply to such cases by analogy. One of the critical issues in standard setting involving IP rights is the non-disclosure of proprietary technology (patent, patent applications, copyright, *sui generis* rights) to industry standard-setting groups.

This issue was examined by the FTC in the Dell Computer case.[27] In that case, the standard setting body established a rule requiring disclosure of any IP rights needed to practise a proposed standard. The standard setting participants came up with a new product which quickly became widely used and commercially successful. After the standard was adopted and new products based on the standard entered the market, Dell began to assert that these products infringed its patent, despite having twice certified during the standards development process that it had no intellectual property rights. If Dell had provided information on its patent claim up front, the participants could have made an informed choice whether to avoid the Dell technology and opt instead for a technology without any IP conflicts. The FTC alleged that Dell's belated assertion of IP rights was an unfair method of competition in violation of US antitrust law. Dell agreed to a consent order, under which it would not assert its patent rights against the standard.

A similar issue was addressed by the European Telecommunications Standardisation Institute ("ETSI") in its policy rules on IPR, which received approval from the Commission.[28] These rules required ETSI members (including the largest national telecommunication operators) to use "reasonable efforts" to

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23 Commission Notice on Guidelines on the applicability of Article 81 of the EC Treaty to horizontal cooperation agreements, OJ 2001 C 3/2.

24 Paragraph 170.

25 Paragraph 172.

26 Paragraphs 174-175.

27 Dell Computer Co., C-3658 (May 20, 1996) (consent order, Commissioner Azcuenaga dissenting), 121 F.T.C. 616.

28 1995 OJ C 76/5, 25th Report on Competition Policy (1995), pp131-132.

inform ETSI in a timely manner when they became aware of IPRs in a given standard being developed. If the member was unwilling to grant licences, ETSI was to seek a viable alternative technology which would not be blocked by that IPR; if no viable technology was found, work on that standard would cease. Members would merely be required to explain in writing their reasons for refusing to license the IPR in question, and the explanation would be sent to, *inter alios*, the Commission. If ETSI itself became aware of IPRs in a particular standard, it would ask whether the owner (member or non-member) was prepared to grant irrevocable non-exclusive licences on fair, reasonable and non-discriminatory terms and conditions. A refusal would give rise to further consultations, possibly culminating in the non-recognition of the standard in question, to the extent it had already been adopted. The Commission approved ETSI's policy on the basis that it did not involve a restriction of competition. It approved ETSI's efforts to prevent one company from hijacking a standard.

In light of these cases, companies involved in the standard setting process should be encouraged to disclose up front any exclusive right to the technology which will eventually form the basis of the standard (similarly to ETSI's IPR policy). It is possible that the Commission, similarly to the FTC in Dell, would apply Article 82 to prevent companies from hijacking an open standard through a tardily-asserted IP right claim. In addition, if the standard is assigned to a body participated in by members of the industry, Article 82 may apply to a refusal to grant third parties access to the standard.[29]

An unsettled issue is whether the Commission guidelines on horizontal agreements should also apply to standard setting between a company and the members of the industry in the downstream market. Once the standard is adopted, the industry will have difficulty switching to an alternative standard, since switching costs may be too high and represent an insurmountable barrier to entry for a new competing standard to be developed (the so-called "lock-in" effect). In addition, the company controlling the standard may invoke IP rights to protect its products from competition, ultimately to the detriment of future product innovation. As a matter of policy, Article 82 may be available to afford competitors access to the standard. We may expect this to be more likely if the company did not reveal the existence of its IP rights at an early stage during the standard setting process.

The relevance of these standard-setting precedents to the IMS case lies in the disputed circumstances of the drawing up of a map based on German postal codes some 14 years ago. In large towns and cities, the zone or "brick" is often one single postal code (about 500 out of 1860). Sometimes two postcodes are aggregated to form one zone or brick for purposes of gathering sales data and reporting thereon to pharmaceutical clients (about 400 out of 1860). In areas where the population is less dense and where

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29 See the IGR Stereo Television case, Eleventh Report on Competition Policy, 198, paragraph 94, where two German TV companies set up a body which obtained patents on inventions needed for the manufacture of a converter for television set which could receive stereo transmissions. In 1980, this body assigned these rights to IGR, whose members included all the firms making colour TV sets in Germany. IGR granted licences to its members, but decided to license non-members for only a limited number of sets. IGR invoked the patents to prevent Salora, a Finnish manufacturer already operating on the German market, from meeting orders for such sets. Salora complained to the Commission, which obliged IGR to open up its licence scheme to third parties. The Commission considered IGR as a monopoly for the benefit of its members, contrary to the competition rules.

pharmacies are few in number, several postal codes are aggregated to form one zone or brick. In some cases, the physical geography of the area dictated which postcodes should be aggregated. Data privacy reasons make it necessary to ensure that there are several pharmacies within every individual brick.

It is alleged that IMS convoked members of the pharmaceutical industry in Germany to meetings to decide collectively the best way of aggregating the areas bounded by postcodes, with the intention of using the areas thus defined as zones (or "bricks") for the gathering and reporting of deliveries of pharmaceutical products to pharmacies in each zone. Among the many questions presented was whether copyright, if it existed in the map, was owned by IMS as the scribe and coordinator of the meetings, or by all participants. Was IMS hijacking for its exclusive use a standard which had been drawn up by industry members on the basis that it would be an open standard?

The IMS litigation, which presented numerous interesting questions under Article 82, not just in a standard-setting context, is described in greater detail below.

The Database Directive

Several items of Community legislation creating IP rights have also confirmed that IP rights remain subject to the competition rules. As explained above, I have always been sceptical about the proposition that IP rights enjoyed some sort of immunity under the competition rules, or - differently phrased - that the "specific subject matter" or "core" of the IP right could never be touched by the competition rules. This distinction, much relied upon in free movement cases, is not in my submission a reliable guide in modern law for deciding whether and how Article 82 may be applicable. The inclusion, in new legislation creating or harmonising national IP rights, of a reference to the competition rules serves mainly for the avoidance of doubt. What Community law has created, Community law can in principle constrain in exceptional circumstances.

Directive 96/9/EC harmonised the copyright protection of databases and introduced a 15 year *sui generis* right to protect the contents of a database against improper extraction. One of the aims of the Directive was to harmonise the originality criterion to enable more works to benefit from copyright protection. In particular, the Commission considered that the originality criterion under German copyright law - which previously required a work to have qualitative or aesthetic merits before qualifying for protection - was unduly burdensome. The legislation was alert to the dangers presented by the possible misuse of the harmonised copyright and newly-created *sui generis* right. It introduced an explicit competition law safeguard. Recital 43 states that:

> *"in the interest of competition between suppliers of information products and services, protection by the sui generis right must not be afforded in such a way as to facilitate abuses of a dominant position, in particular as regards the creation and distribution of new products and services which have an intellectual, documentary, technical, economic or commercial added value; whereas therefore the provision of this Directive are without prejudice to the application of Community or national competition rules."*

In addition, Article 13 subjects the Directive provisions to the "*laws on restrictive practices and unfair competition*".

Thus any rightholder who chooses to invoke copyright or *sui generis* rights based on the Directive knows that competition law can limit that right. It was indeed argued during the IMS case that the advent of the Database Directive conferred upon IMS an unexpected windfall in that it was given more possibility to claim protection for its map dividingGermany into 1,860 zones, but that this windfall was, however, subject to the constraints of the competition rules.

Similar language can also be found in EU legislation concerning plant variety rights,[30] biotechnological inventions[31] and design.[32] Draft legislation on a Community patent[33] includes provisions on compulsory licensing (Article 21). The explanatory memorandum to the proposal explains that the *"system of compulsory licenses is designed to provide guarantees against abuses of the rights conferred by the patent. It is based on the requirements of Article 5 of the Paris Convention on the protection of industrial property and on the more recent requirements referred to in Article 27(1) and Article 31 of the TRIPS Agreement."* In particular, the Commission may grant compulsory licensing of a Community patent *inter alia*:

(i) when licensing is needed to use a second patent involving an important technical advance of considerable economic significance in relation to the invention claimed in the first patent, subject to an obligation to cross-license;

(ii) in times of crisis or extreme urgency, or to remedy a practice determined after judicial or administrative process to be anticompetitive.

According to Article 21(5) of the draft proposal, a licence may be granted under (i) or (ii) only if the proposed user has made efforts to obtain authorisation from the patent holder on reasonable commercial terms and conditions, but such efforts have not been successful within a reasonable period of time. However, the Commission may derogate from this condition in situations under (ii).

A compulsory licence must be non-exclusive, and may be cancelled when the circumstances which led to its granting cease to exist and are unlikely to recur. Member States may not grant compulsory licences in respect of a Community patent. (Article 22)

[30] Council Regulation 2100/94 on Community Plant Variety Rights, OJ 1994 L 227/1.

[31] Directive 98/44/EC of the European Parliament and of the Council on the legal protection of biotechnological inventions, 0J L 213/13.

[32] Directive on the Legal Protection of Designs 98/71/EC OJ 1998 L 289/28 and Regulation on the Legal Protection of Industrial Designs and Models (not yet published).

[33] Proposal for a Council Regulation on the Community Patent, COM(2000) 412 final, August 1, 2000, OJ C 337 E/278, November 28, 2000.

The reservation in the above EU legislation ensures that the competition rules can intervene in exceptional circumstances like Magill.

The evolution of the law in refusal to deal cases

After Magill there were a number of cases relating to refusals to deal and "essential facilities". Initially, the cases concerned subjects such as access by a ferry company to port facilities which were owned by its competitor on the particular route[34]. Given that it would be impossible for the competing transport company to build a second port, the unjustified refusal to allow access to the port was considered abusive. By contrast, if a reasonable owner of the facility who had no interest in the downstream operations would have grounds to refuse to grant access, then there would be no abuse under Article 82 if the dominant player were to refuse access. The application of the doctrine to physical assets which are said to be essential for the conduct of a business involving an element of public service is, on both sides of the Atlantic, a part of normal competition enforcement. However, we should note that although there have been a number of Commission decisions on such essential facilities, the European Courts have not pronounced explicitly on whether the doctrine forms part of EC competition law. I submit that the outcome of the cases on access to harbour facilities would not be different in the two continents. In the Ladbroke case[35], an attempt was made to extend this line of authority to IP rights.

Ladbroke, which operates betting shops in which punters bet on horse races, brought the Commission before the European Court of Firstance for having refused Ladbroke's demand that the Commission should issue a decision compelling a compulsory licence by its French competitor, the Pari Mutuel International. Ladbroke requested PMI to grant a licence to Ladbroke betting shops of its copyright on televised pictures and sound commentaries of French horse races. It relied on Magill to argue that without access to the televised pictures and sound commentaries it was unable to compete on the horse-race betting market. The Commission refused to pursue the complaint for various reasons. It would have been useful to have access to the pictures, but it was not essential. The Court of First Instance rejected Ladbroke's appeal against the Commission's negative decision, while describing Magill as follows[36]:

> *"The refusal to supply the applicant could not fall within the prohibition laid down by Article* 86 *unless it concerned a product or service which was either essential for the exercise of the activity in question, in that there was no real or potential substitute, or was a new product whose introduction might be prevented, despite specific, constant and regular potential demand on the part of consumers (see in that connection Joined Cases C-241/91 P and C-242/91 P RTE and ITP v Commission [1995] ECR I-743, paragraphs 52, 53 and 54)."*

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34 See e.g. B&I Line v Sealink Harbours and Stena Sealink, Commission Decision of June 11, 1995, [1992] 5 CMLR 255.

35 Tiercé Ladbroke SA v Commission, Case T-504/93, [1997] ECR II-0923.

36 Paragraph 131.

The Ladbroke judgment can be read as suggesting that there may be a duty to license either where access is essential or where the refusal will block the emergence of a new product, and perhaps also that once a licence has been granted to someone by the dominant player, subsequent refusals may be of doubtful legality (the latter point can also be deduced from Magill). Alternatively, the Court may have been saying that, in any event, the matter did not need to be further considered as the access was not indispensable.

The "essential facilities" doctrine was assessed by the European Court of Justice in Oscar Bronner[37]. Mr. Bronner, the owner of a small daily newspaper company, brought an action against Mediaprint, the dominant daily newspaper company in Austria seeking access to Mediaprint's nation-wide home delivery scheme (having had a request to this effect refused). He claimed that Mediaprint's refusal was contrary to Article 82. The Advocate General offered a number of valuable observations, cautioning against a too great readiness to compel enterprises to deal against their will. The European Court held[38]:

> *"…it would still be necessary, for the Magill judgment to be effectively relied upon in order to plead the existence of an abuse within the meaning of Article 86 of the Treaty in a situation such as that which forms the subject-matter of the first question, not only that the refusal of the service comprised in home delivery be likely to eliminate all competition in the daily newspaper market on the part of the person requesting the service and that such refusal be incapable of being objectively justified, but also that the service in itself be indispensable to carrying on that person's business, inasmuch as there is no actual or potential substitute in existence for that home-delivery scheme."*

The Court continued:

> *"Moreover, it does not appear that there are any technical, legal or even economic obstacles capable of making it impossible, or even unreasonably difficult, for any other publisher of daily newspapers to establish, alone or in cooperation with other publishers, its own nationwide home-delivery scheme and use it to distribute its own daily newspapers.*
>
> *It should be emphasised in that respect that, in order to demonstrate that the creation of such a system is not a realistic potential alternative and that access to the existing system is therefore indispensable, it is not enough to argue that it is not economically viable by reason of the small circulation of the daily newspaper or newspapers to be distributed.*

37 Oscar Bronner v Mediaprint, Case C-7/97, [1998] ECR I-7791.

38 At paragraph 41.

For such access to be capable of being regarded as indispensable, it would be necessary at the very least to establish, as the Advocate General has pointed out at point 68 of his Opinion, that it is not economically viable to create a second home-delivery scheme for the distribution of daily newspapers with a circulation comparable to that of the daily newspapers distributed by the existing scheme."

The indispensability test is not subjective (could Bronner replicate the network?), but objective (could a company with the same size as Mediaprint replicate the network?). It is not material that a newspaper with a low circulation would not find it economic to establish a nation-wide distribution system. The complainant would need to show not just that it would be useful, profitable or highly desirable to use the other's asset, but that the market could not sustain a competing system at all.

The <u>Oscar Bronner</u> judgment clarifies that under Article 82, a company should not lightly be required to assist its competitor. The mere facts that one enterprise is very big and has juicy assets and that the complainant would greatly benefit from being allowed to use them do not suffice for the invocation of Article 82. As Advocate-General Jacobs points out in his much-noted opinion, levelling the playing field by regularly allowing competitors to use what they do not own can in fact harm the competitive process and consumer interests[39]. There has indeed been no judgment which casts doubt on the widely accepted notion that the <u>Magill</u> doctrine is available only in exceptional cases.

<u>Bronner</u> is thus authority for the proposition that the legal consequences and opportunities applicable to the dependent company will be quite different if it is truly facing extinction as a result of a refusal to gain access to the assets of another, as opposed merely to being inconvenienced by being denied access to them. It also offers, in the opinion of Advocate General Jacobs, useful cautions to quell over-exuberance. In <u>Bronner</u> as in <u>Ladbroke</u>, Court clarified why competition law did not impose a duty to deal, rather than clarifying when a duty to deal could be imposed. But the three cases – <u>Magill</u>, <u>Ladbroke</u> and <u>Oscar Bronner</u> – constitute a triptych which indicates the circumstances in which the law may be invoked under Article 82 to condemn abuses by dominant players who are accused of infringing Article 82(b). I submit that <u>Magill</u> is to be regarded as the richer precedent because it involved a Commission decision (for a licence), an order of the President of the European Court of Justice (against), a judgment of the five judges of the European Court of First Instance (for), an Advocate General's opinion (against), and a judgment of the whole bench of the European Court of Justice (for). The facts could hardly be disputed, and every possible shade of opinion had been heard. The tricky questions arising out of <u>Ladbroke</u> and <u>Bronner</u> were not whether the complaining enterprises deserved to prevail – that was not very difficult – but whether the European Courts, when explaining by reference to certain factors why they should not prevail, were also indicating that if those factors had been different, a complaint would have been more successful. The case on everyone's lips is, of course, <u>IMS/NDC</u>.

[39] See Advocate General Jacobs in the Bronner case at §57, §69.

NDC v IMS[40]

The IMS decision was the first time since the Magill case that the Magill doctrine was applied, 12 years after that landmark initiative. IMS is the world leader in gathering and supplying data on deliveries to pharmacies by wholesalers of pharmaceuticals and prescription sales. On the German market a geographic format for presenting this data had been developed by IMS and its customers (the pharmaceutical companies) and had become the *de facto* industry standard described above. This structure divides the map of Germany into 1860 zones or "bricks" consisting of postcodes, by reference to which marketing data describing deliveries, prices and volumes in those zones is compiled and analysed. When significant competitors appeared on the German market, IMS relied on copyright to prevent them operating. The competitors challenged before the German courts the use of copyright to prevent them competing[41], and also complained to the Commission. NDC was the most prominent complainant.

As in Magill, the Commission's intervention in IMS was requested to moderate the otherwise fatal consequences of a dominant player's successfully invoking at an interlocutory stage an improbable national IP right. The decision's operative part was suspended by the Court President at interim measures; the Magill decision suffered the same fate.

The Commission found that there was no real or practical possibility for companies wishing to offer pharmaceutical sales data in Germany to employ any convention for ascribing sales data geographically other than the convention used by IMS. In order to supply usable marketing data to customers, that data had to describe sales in geographic zones as their customers delineated them. There were no actual or potential substitutes or alternatives to reporting sales along the same geographic lines as the map of postcodes as arranged by IMS, which IMS was successfully claiming constituted a breach of its copyright. The Commission found that IMS's bringing of copyright infringement actions was an abuse of its dominant position. The Commission considered that the litigation was likely to eliminate all competition, and that the refusal to grant a licence lacked objective justification. The Commission adopted an interim measures decision requiring IMS to embark on the process of negotiating a fee-generating licence over the copyright on its brick structure. (IMS was no stranger to competition law controversy, having already granted, as part of an antitrust settlement in the UK, a perpetual royalty-free licence there over a system comparable to the one it used successfully in Germany.)

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40 Commission Decision of 3 July 2001, not yet formally published but available on the internet at: http://europa.eu.int/comm/competition/antitrust/cases/decisions/38044/en.pdf.

41 The validity, indeed the existence, of the copyright which IMS invokes is also the subject of challenges. IMS had a number of early victories; NDC has had recent success. As of May 2002, there has been no final judgment on the merits of the dispute, most of the national litigation having concerned interim measures. The Commission Decision was issued before NDC's victory on appeal in Germany, and IMS's victory on other interlocutory points. The German litigation proceeds concerning such questions as the scope of the copyright protection, whether the copyright was held jointly by IMS and members of the pharmaceutical industry in Germany, and whether the so called brick structure is indeed an industry standard. Unusually for the German court tradition, sworn testimony has been received from a number of witnesses, indicating the intensity of the factual disputes.

The decision did not state explicitly that the 1860 brick structure was an essential facility, although essential facilities questions were obviously under discussion, and although some critics of the decision have done so on the basis that it departed from essential facility principles. The Commission's legal analysis relied on the three leading cases:[42]

- First, it relied on Magill to state that compulsory licensing may be requested under "exceptional circumstances";
- Second, it relied on Ladbroke to state that "exceptional circumstances" may be present where access concerns a product or service which is essential for the exercise of the activity in question;
- Third, it determined whether the circumstances of the case satisfied the Oscar Bronner test, in order to decide whether access to a product or service is essential. These are:

  (i) the refusal to access the facility is likely to eliminate all competition in the relevant market;

  (ii) such refusal is not capable of being objectively justified; and

  (iii) the facility itself is indispensable to carrying on business, inasmuch as there is no actual or potential substitute in existence for that facility.

As noted above, IMS won an interim injunction to have the Decision suspended until judgment in the main action[43]. In granting the suspension of the effectiveness of the operative part of the Decision, the President of the Court of First Instance voiced doubts about the Commission's non-cumulative interpretation of the conditions regarded as constituting 'exceptional circumstances' in Magill. In particular, he was concerned that the Commission did not regard it as necessary that the refusal to license should prevent the emergence of a new product or service for which there is potential consumer demand on a market separate from that where the licensor is dominant. He also expressed concern that a compulsory licence might create doubts among rightholders. The merits of the controversy are likely to be resolved by the Court of First Instance when it gives judgment in the main action, or by the Court of Justice, should it give judgment first in parallel proceedings involving a reference from the Frankfurt Oberlandesgericht about whether copyright rights should indeed exist in the circumstances.

There was much debate about whether the situation of the complainants against IMS could be compared to the situation of Magill. The IMS and Magill cases seemed, at least to this advocate, highly

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42 Paragraphs 63-73.

43 Case T-184/01R, IMS v Commission, order of 26 October 2001, available on the internet at http://europa.eu.int/jurisp/cgi-bin/form.pl?lang=en, just confirmed by the President of the European Court of Justice.

comparable. First, as with Magill, the subject matter of the right, namely the use of postal code boundaries as the boundaries of areas for reporting market data, is "*difficult to justify in terms of rewarding or providing an incentive for creative effort*" (in the words of Advocate General Jacobs in Bronner). It is clear that a map can enjoy copyright protection, but it is not clear (at least to my sceptical eyes) why conveying information about commercial activities in individual zones on that map should be a breach of copyright in the map, especially when the zones' frontiers are nothing more than postal codes' frontiers. Second, there was an element of discrimination: IMS gave the rights to the 1860 structure away to other companies, such as map-makers, with which it was not in competition (as did the broadcast companies in Magill). Third, as in Magill, the Commission found that the refusal to license would eliminate all competition. Fourth, an additional factor present in the IMS case, but not in Magill, was that the 1860 brick structure was an industry standard which when created by IMS and its customers was an open standard, but on which IMS subsequently sought to rely to exclude competition. IMS could be said to have appropriated an open standard[44].

However, there were some differences between the two cases. The Commission did not assert that a wholly new product would have emerged as a result of the granting of the licence. The complainants said their products were delivered by different technology, captured more data, covered returned products as well as delivered products. However, these differences did not amount to a "new" product. Better, cheaper, faster, more user-friendly, but not fundamentally different in nature to that of IMS. On the other hand, it was argued that the posture of the complainant NDC was superior to that of the complainant Magill in that NDC wanted to procure, pay for, compile, edit and deliver marketing information it had acquired on the open market, whereas Magill was in one sense a free-rider which wished to present, albeit in a different format, data drawn up with skill and effort by the three broadcasters.

There was much debate about whether the IMS/NDC controversy related to one market or two markets, a controversy which I submit is not crucial. The IMS camp argues that essential facilities cases have involved using a monopoly over an asset in one market (the port) to obtain advantage in another market (ferry services). The broadcasters used their monopoly over how the TV listings were reproduced to secure a monopoly on the market for weekly guides, a separate market. However, there are responses to these arguments. Neither of the European Courts or the Commission has ever stated that the Magill doctrine must be limited to two-market situations. The essence of the objectionable conduct is not using an advantage in one market to capture another market, but rather abusing a dominant position by extinguishing competition in the presence of exceptional circumstances, and limiting markets to the prejudice of consumers.[45]

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44 In this respect there are some similarities with the Dell case in the USA, mentioned above at footnote 26.

45 Moreover, it is not obvious that only one market is involved in the IMS/NDC saga: the making of a map aggregating postal codes in a convenient way is one activity, while the procuring from wholesalers of reliable data, processing that data and delivering it in a manner which is useful to the pharmaceutical industry can be said to be another.

Similarly, in the course of Magill, a lot of creativity was devoted to showing the presence or absence of the three special circumstances contemplated by the ECJ in Volvo v Veng as possibly justifying a compulsory licence. In retrospect, most of this effort was a waste of time. Every Article 82 case is different. Slotting one situation into criteria drawn up to analyse a completely different situation is unlikely to be helpful.

I have had the privilege of being involved as an advocate in both Magill and IMS. Both cases involved the Commission summoning up its courage and building internal procedural consensus, amid sharp criticism, to take a very rare step. Each involved the surprising use of a national IP right, where the national law was disputed and where if the initial court interlocutory victories remained undisturbed, there would be the elimination of a competitor and – more to the point – competition.

The result in both cases would have been the same in US law, in that a US court would not have been likely to recognise the existence of alleged copyright. It would not have been necessary for antitrust law to remedy a surprising lower court judgment because an American court would not have found that the aggregation of five post codes into a single area conferred copyright over marketing data describing sales in that area; but if a court (in the 51st state or Louisiana, which has a unique legal pedigree) were to render a judgment along the lines of the Irish or German courts in Magill or IMS, then antitrust or "misuse" of copyright arguments would surely be made.

The very point of Article 82 is to impose special pro-competitive burdens on dominant players, and Article 82(b) in particular describes as an abuse "limiting markets to the prejudice of consumers". The totality of the circumstances which will determine whether the Article can be invoked. It is vain to pretend that every European IP right is equally precious, equally sacrosanct, equally deserving of immunity or tolerant treatment under the competition rules. In both Magill and IMS there was a clear imbalance between the creative effort of the rightholder and the economic advantages flowing from its exercise of the right. EC competition law is fact driven, and takes notice of such imbalances. The Magill decision and the IMS decision were greeted with a chorus of concern to the effect that imposing a compulsory licence on any holder of an IP right betokened grave dangers for all IP rights. Those fears were exaggerated, I submit, in 1989 and are exaggerated now. If the rights in question were patents or crucial software, which were the result of years of expensive R&D in a technology-driven industry, I am confident the Commission would not have reached the same conclusion. However, it is reasonable for any operator, dominant or not, to operate in a legally stable and predictable environment. It is clearly not a light matter to encroach upon an economically valuable right which has been judicially upheld. IMS was no stranger to antitrust controversy about its practices, and did enjoy a near-monopoly, but any party can fairly wish to have notice of when it will be at legal risk. Whether IMS means that no rightholder can sleep easily in his bed because the Commission is uncaged again, and is roaming the world in search of plunder, or whether IMS is a one-off remedying of erroneous interlocutory decisions in national courts, the possibly dominant enterprise is entitled to be able to plan its affairs. I support recent reflections in the UK which have suggested that before taking action to impose a compulsory licence, an authority should consider such questions as:

- Was the work of trivial value or of significance? What was the investment by the dominant company?

- Is the market dynamic? If so, will it take care of distortions flowing from the refusal to license? If not, is compulsory licensing the only plausible means of creating some movement in the marketplace?

- What will be the impact on future innovation and R&D activities if the use of the IP right were to be challenged in this case? What signal will the competition enforcer give to the marketplace if it compels a licence?

Merely asserting that the refusal to license lacks objective justification does not greatly advance matters. Declining royalty income may sometimes reflect a hope to reap monopoly profits after competition has been extinguished, but it may reflect a benign pro-competitive business strategy. It would also be proper to reflect on whether the refusal to license is explicable economically.

Professor Pitofsky refers to "anticompetitive animus", the pursuit of monopolization activities with the goal of harming or excluding rivals whose activities could present a competition threat. John Temple Lang has vividly described the same notion orally (and perhaps in writing, though I do not have a citation if so) as a "dog-in-the-manger attitude". I have called this element "moral misconduct", to connote the use of a right in an offensive manner. Elements supporting such an accusation will be discriminatory behaviour, invocation of the right against foes but not friends, invocation of the right only once the unwelcome competitor materialises, and similar circumstances.

Every one of these cases will give rise to extremely difficult and controversial definitions. Every new decision is said to be in several ways either less bold or more bold than its predecessor. There will never be an uncontroversial compulsory licence. The essential facilities doctrine has not yet been confirmed as part of competition law by judgments of the European Courts. The <u>IMS</u> decision does not state explicitly that it is based on the essential facilities doctrine. It is not necessary for that doctrine to form part of European law for a compulsory licence to be granted. We cannot avoid looking at the entire context and taking an undogmatic look at reality.

It is remarkable that both Commission decisions granting compulsory licensing, <u>Magill</u> and <u>IMS</u>, were suspended in interim measures by the European Courts. This shows that compulsory licensing measures are likely to take time to be effective, since they will certainly be appealed before the Courts, and the licensing terms and conditions will be subject to prolonged negotiations between the parties. Generally, a company will not have sufficient resources to wait two-and-half-years – the average time to get a response from European Courts on the merits of a Commission decision – to know whether it can do business without infringing the IP rights of a dominant company.

I also consider it highly indicative that in both <u>Magill</u> and <u>IMS</u> the action was taken in response to the inconsistent exercise of a most improbable intellectual property right. It would be unimaginable to me that a truly innovative piece of technology (a pharmaceutical patent or novel software code, for example) would be treated in such a manner. Thus the <u>Magill</u> and <u>IMS</u> cases can be seen as remedies to aberrations in the application of national copyright laws.

Conclusions

1. European companies are no different from American companies: they each invest large sums in invention and R&D. Europe must resist dilution via competition law or otherwise of the value of the fruits of such R&D. European artists, authors and scientists engage in the same creative thought as their American counterparts. Europeans expect patent and copyright protection to be given for their creativity. They do not expect that their rights will be limited, other than in the most exceptional of circumstances. In European law it is only in the rarest and most extraordinary factual circumstances that a rightholder who seeks to rely on his IP rights will be accused of abusing a dominant position.

2. Predictions of dire consequences for IP rightholders due to the uncertainties created by Commission decisions have not been borne out in practice. In substantive result I think the current situation is thus far not alarming. Other than those exceptional cases, which I think are in large measure corrective action by competition authorities to aberrant national copyright cases, compulsory licensing of IP rights on competition grounds is almost unknown in European law. These cases probably represent a corrective reaction by competition authorities to a national right covering questionable or doubtful subject matter, coupled with discriminatory use of the IP right, to prevent competition from emerging or to prevent the emergence of a stronger or equal competitor after having allowed a small measure of competition.

3. Intellectual property rights have presented systemic policy and political problems for the European Union, particularly in that they have been used as a mechanism for hindering cross border trade between EU Member States, less problems having been created by the use of Article 82 to prevent their abusive invocation.

4. There have been only two cases in which the European Commission has actually found there to be an abuse of a dominant position when an IP rightholder refused to license his IP right. In neither case was the finding of an abuse of a dominant position based on the mere refusal to license. In each Article 82 case there will be an element of moral misconduct intended to eliminate competition. In both cases there were additional circumstances over and above the refusal to license. It can be argued whether those circumstances were enough. But in any event, European competition policy on compulsory licences must be discerned from a tiny number of cases. It is not surprising that every new case is fiercely controversial.

5. Both cases involved national IP rights which are unique to the national legal system in terms of the subject matter of IP protection, and not generally regarded on a global basis as mainstream IP subject matter.

6. The great majority of requests for obligations to deal fail, and deserve to fail, on both sides of the Atlantic. Most demands for a licence fail, and deserve to, either because the requested concession is not really indispensable or can be procured elsewhere, or because the circumstances otherwise do not warrant such a step.

Brussels, June 21, 2002