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EC Competition Policy on
Compulsory Licensing of
Intellectual Property Rights

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Summary

Both competition law and intellectual property law are considered good for economic efficiency, but the interface between the two legal fields is, and probably always will be, a complex area of law, since these legal areas in one sense can be said to strive for the opposite things. Intellectual property rights are considered public goods, which mean that it is hard to prevent others from using the goods without paying for it. This makes intellectual property rights into a market failure, which is something that hinders the market from reaching equilibrium. The protection of intellectual property rights is considered necessary in order to stimulate investments in research and development and the intellectual property laws therefore give exclusive rights to the holders, enabling them to exclude others from manufacturing, selling and marketing the protected goods. This creates a limited monopoly, which is also considered a market failure. Compulsory licensing can be seen as a balancing tool between these two market failures and the obligation to license can be used if an undertaking tries to abuse its intellectual property right. Compulsory licensing means that the state authorities will force the holder of an intellectual property right to grant one or more licenses to one or more of the holder's competitors.

The purpose of this master thesis is to make a detailed description of the Policy on Compulsory Licensing of Intellectual Property Rights in European Community Law. Furthermore, I will compare the European Policy with the policies set by International Treaties and by American Antitrust Law in order to find out what the differences are, if there are any, between the different legal systems. I will also present some microeconomic theories that could be used to explain and justify the concept of compulsory licensing. Finally, I will use this information to make a well-founded statement on the possible outcome of the *IMS Health* case.

To sum up my conclusions on the present status of compulsory licensing I have found that the International Treaties on the subject give some limited possibilities for the participating states to legislate on compulsory licensing. Since both the Member States of the European Union and the United States are parties of these Conventions the remedy is not widely used in either continent and similar principles are used in the assessment of whether or not compulsory licensing should be ordered. The American courts are, however, a little bit more restrictive than their European colleges.

Compulsory licensing is assessed under Article 82 EC within the European Union and an undertaking is not considered dominant on the mere fact that it holds an intellectual property right according to that provision. It depends, for example, on how the market is defined, which in turn depends on the

number of substitutes on the market. Only a refusal that is considered an abuse of a dominant position and that affect trade between Member States can be deemed unlawful under Article 82 EC and it is only if the elements of Article 82 are fulfilled that an undertaking can be ordered to grant a license to a competitor against its will.

The European case law on compulsory licensing shows that this remedy is used restrictively, just as the case law from the US courts show. In the *Volvo* case the ECJ ruled that the right for a holder of an intellectual property right to refuse to license that right is the specific subject-matter of the exclusive right. A refusal to license could, however, if an additional factor was present, constitute abuse within the meaning of Article 82. In the *Magill* case the ECJ found that some “exceptional circumstances” was present, which led the Court to the conclusion that the broadcasting companies abused their position. These “exceptional circumstances” was that the companies, by their refusal hindered the emergence of a new product, for which there was a potential consumer demand, since the information on their TV listings was indispensable in order to compete in the market. By doing so, they also reserved a secondary market for themselves and they could not show any objective justifications for their refusals. The Court ordered the companies to license their copyright protected TV listings.

In *Tiercé Ladbroke* the CFI found that the French horse racecourses was in their full right to refuse to license the sound and picture for the races, since they were not present in the Belgian market and the sound and picture was not indispensable in order for Ladbroke to carry out their business. Finally, the outcome of the *IMS Health* case remains to be seen, but in my opinion, it seems to be in line with the present case law that the court finds that IMS refusal to license the “1860 brick structure” is an abuse of their dominant position, since it is not, in my view, an absolute demand that the refusal hinders the emergence of a new product and the “1860 brick structure” is in fact indispensable in order to sell pharmaceutical sales data in Germany. The ECJ could, however, come to the opposite conclusion if they find the reservation of a secondary market necessary for applying Article 82.

Abbreviations

CFI	Court of First Instance
C.M.L.Rev.	Common Market Law Reports
EC	European Community
ECJ	European Court of Justice
ECLR	European Competition Law Review
ECSC	European Coal and Steel Community
EIPR	European Intellectual Property Review
E.L. Rev.	European Law Review
EU	European Union
FTC	Federal Trade Commission
Harv. J.L. & Pub. Pol’y	Harvard Journal of Law and Public Policy
J.Corp. L	The Journal of Corporation Law
NIR	Nordiskt immateriellt rättsskydd
N.Y.U.L. Rev.	New York University Law Review
OJ	Official Journal
PLI/Pat	Practising Law Institute - Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series
SvJT	Svensk Juristtidning
TRIPS	Trade Related Aspects of Intellectual Property Rights

1 Introduction

1.1 Background

Competition policy has always played a significant role in European Community Law, since the objectives of competition law are to enhance efficiency, protect consumers and small firms and to create a single market within the European Union.¹ Also the legislation concerning intellectual property rights plays an important role in the endeavour to increase market efficiency. Their existence stimulates investments in innovations, which in turn stimulates welfare in society. By setting out rules that gives undertakings an opportunity to make monopoly-profits, at least for a limited time, the legislator can create incentives for innovations and hence limit the problem with free-raiders. If there were no protection of intellectual property rights, free-raiders would be able to cut costs of development significantly and profit on the innovators investments.²

An extremely complex area of competition law is the application of competition rules on intellectual property rights.³ There is an obvious tension between intellectual property rights and competition law, since intellectual property rights are anticompetitive by nature.⁴ The problem rises between the interface of innovation and competition, and between monopoly and efficiency theories. The main problem, though, is that if undertakings can not earn a lot of money on an investment, the incentive for research and development decreases. Both competition rules and intellectual property laws are therefore considered necessary in order to promote innovation and generate consumer welfare.⁵ It is therefore very important to find a reasonable balance between rewarding undertakings for investing in innovation and the aim of competition on the market.

The concept of compulsory licensing is used as a balancing tool, which can be used if an undertaking tries to abuse an intellectual property right by, for example, refusing to exploit the right in a country or refusing to let another undertaking use the right and by doing so make sure to be the sole provider of the specific good in that market or a downstream market. Compulsory licensing means that the state authorities will force the holder of an intellectual property right to grant one or more licenses to one or more

¹ Craig, de Burca, *EU Law – text, cases and materials*, pp. 891.

² Lohmann, *The new EC Technology Transfer Regulation 240/96*, p. 15.

³ Faull, Nikpay, *The EC Law of Competition*, p. 575.

⁴ Prime, *European Intellectual Property Law*, p. 21.

⁵ Tom, Newberg, *Antitrust and intellectual property: From separate spheres to unified field*, p. 167.

undertakings, who might compete on the same market as the holder of the right.⁶ This is therefore considered a form of obligation to contract, which is thought of as an exemption to the principal rule in civil law that undertakings are free to choose their business counterparts and the terms of their contracts.⁷ An obligation to contract is usually based on legislation, case law or decisions from authorities and usually states the terms of the contract and its fulfilment.⁸

There are no specific provisions stating compulsory licensing in European Community Law. Such obligations hence have to be based on case law. It has been an increased use of economic principles while applying EC Competition Policy and it is nowadays normal to discuss market structure and entry barriers when the affect on the market is assessed in competition cases.⁹ The economic principles provide the policy setters, and the practitioners, with a set of tools which can be used to assess the impact on the market of an undertaking's conduct. The problem is that it is hard to identify which actions should be considered good and bad for competition and how efficiency is measured.¹⁰

While it is normally considered to be good for competition to allow undertakings to acquire, and exercise, monopoly status for an innovation for which they have invested a lot of money, an intellectual property right can also be used in an abusive manner by a dominant undertaking. An undertaking can for example use its right on one market, to make sure that it can also hold a monopoly status on another market. This was the case, for instance, in the *Magill*¹¹ case, in which the ECJ forced two undertakings to license its copyright protected TV programmes to another undertaking. The *Magill* case was considered to be an exceptional case, but the Commission has in a recent case, the *IMS Health*¹² case, extended the use of compulsory licensing of intellectual property rights and the area is therefore unclear. Undertakings with a dominant position and a big intellectual property portfolio should hence be cautious while they wait for the final judgement in this case.¹³ The case remains to be investigated by the Commission and settled by the Community Courts but policy setters should in the meantime figure out what effect this kind of judgement can have on the economy. Why should an undertaking make huge investments when he might be forced to

⁶ Scott, *Compulsory Licensing of Intellectual Property in International Transactions*, p.319.

⁷ Adlercreutz, *Avtalsrätt I*, p. 105.

⁸ Adlercreutz, *Avtalsrätt I*, pp. 105.

⁹ Faull, Nikpay, *The EC Law of Competition*, p. 4 and Bishop, Walker, *The Economics of EC Competition Law*, p. 2.

¹⁰ Scherer, *Antitrust, efficiency, and progress*, p. 998.

¹¹ Joined cases C-241/91 P and C-242/91, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v. Commission*.

¹² Commission Decision COMP D3/38.044, *NDC Health/IMS Health: Interim measures*.

¹³ Hull, Atwood, Perrine, *Compulsory licensing*, p. 38.

license the innovation to competitors for a “reasonable” fee? What is reasonable in a case like this? Are there any limits within which an undertaking can feel sure about its exclusive right to the intellectual property right?

Yet another interesting question is how the rest of the world looks at this problem. The area of intellectual property protection has within the European Union mostly remained an area with national legislation,¹⁴ but all Member States have signed international agreements on the protection of intellectual property rights. The fact that it is the individual states, and not the European Union, who have signed the agreements, means that the Union is not obliged to follow the treaties.¹⁵ It still seems strange if the European Union forces its members to go in a different direction than the rest of the world and by doing so decreases the incentive to innovate in Europe. The American market is known for its genuine belief in free trade. Does that mean that the American market does not agree with the late European development?

One final question is if the consumer and society welfare is threatened by the recent willingness to decrease the legal protection of intellectual property or if it is in fact so that the welfare is in danger if competition is not upheld at all markets and by all means possible?

1.2 Purpose

The purpose of this master thesis is to make a detailed description of the Policy on Compulsory Licensing of Intellectual Property Rights in European Community Law. Furthermore, I will compare the European Policy with the policies set by International Treaties and by American Antitrust Law in order to find out what the differences are, if there are any, between the different legal systems. I will also present some microeconomic theories that could be used to explain and justify the concept of compulsory licensing. Finally, I will use this information to make a well-founded statement on the possible outcome of the *IMS Health* case.

1.3 Method

While writing this thesis I have used both a descriptive and an analytical method, since part of the thesis consists of a description of the European and the American development of the area of compulsory licensing and some of

¹⁴ Up until now only the rules on the protection of trademark have been harmonized within the Union.

¹⁵ Govaere, *The Use and Abuse of Intellectual Property Rights in E.C. Law*, p. 32.

it consists of analyzing what effect this development will have on intellectual property rights, competition law and the welfare in society.

The reason why I selected this subject is that I found some recent articles about the *IMS Health* Case and since I am interested in both Law and Economics, and how they correspond with each other, this was a subject that caught my attention. In order to analyse the impact that this case might have on the future welfare of Europe I have chosen to describe a couple of theories concerning law and economics.

The work started with a pretty long research time. First of all I read books by, on the specific subject, well known authors. I also checked their bibliography and notes for more books, articles and cases on the subject. I also looked in the bibliography of old master thesis's with similar subjects to see if they had any books or articles that could help me. Finally I searched for information in some databases, for example Westlaw, Lovisa and ELIN, and on the internet. This research has resulted in a large number of books, articles and cases and a lot of work has been to sort this material and figure out what materials to use.

To avoid incorrect information, I have tried to use many different sources. In a large extent I have used material from well known authors, as well as case law from the ECJ, the CFI and the Commission, since that material is closest to the decision maker. I am aware that this might lead to biased material, but this insight might help me to avoid some of the biases.

1.4 Limitation

The fields of EC Competition Law, American Antitrust Law and intellectual property treaties and laws are huge. To make a detailed description of all the rules and the case law would not be possible within the scope of this thesis. Therefore I have decided to limit my exposition to the parts I have found necessary in order to draw conclusions on the subject. This means that I will not describe how EC Law corresponds to national intellectual property laws and I will not describe any rules regarding the grant of intellectual property rights. Furthermore, I will not make a detailed description of the American Antitrust Laws and by International Treaties on intellectual Property rights.

Chapter four, regarding Law and Economics, should not be viewed as a comprehensive description of the subject. I have only chosen to describe the parts concerning market equilibrium, efficiency and the market failures monopoly and public goods, in order to support my conclusions on how important both the legal fields of competition law and intellectual property rights are for the welfare of society.

I have also limited my description of the EC Competition rules a lot. First of all, my thesis only deals with compulsory licensing under Article 82 EC and not at all with licensing agreements, which would fall within the scope of Article 81. Secondly, either one of the three elements in Article 82, namely the assessment of dominant position in the relevant market, abuse and affect on trade, could constitute a single master thesis, since there are so many angles and principles of each element. For my thesis I have found it interesting to describe these conditions in respect of the impact put on them by intellectual property rights.

Finally, although compulsory licensing deals with the obligation to contract, I have chosen not to describe any civil law rules regarding this subject, except the short brief made in the introduction above and some exemplifications of how compulsory licensing is used in Swedish Patent and Copyright Law made in chapter two, since my main interest is how the EC Law deals with the subject.

1.5 Outline

The second chapter starts with a brief outline on how some International Treaties deal with the concept of compulsory licensing. This outline is followed by a short description of the American Policy on Compulsory Licensing. The American principles descend from case law on refusal to deal, a development which is presented in this section.

Chapter three starts with a short discussion about the balance between EC Law and national intellectual property laws. After that short section the EC Competition Policy on Compulsory Licensing is presented. In EC Competition Law refusal to grant a license is assessed under Article 82 EC, and the elements of Article 82 is therefore described in the light of intellectual property rights in this section, followed by some case law dealing with compulsory licensing. The chapter ends with a conclusion on compulsory licensing under EC Law.

In Chapter four some basic microeconomic theories are described, namely the theory of market equilibrium, market efficiency and market failure. These theories are presented in order to show what impact an extensive use of compulsory licensing can have on the market and also to show why the balance between the two legal fields of competition law and intellectual property rights is important, but still so hard to decide.

In the fifth chapter, I have started by analysing if, and in that case why, there are any differences between the European policy on compulsory licensing on the one hand and the American principles on the other hand. This analyse is followed by an analysis of the possible outcome of the *IMS Health* case.

In the last chapter, chapter six, I make some final remarks on my conclusions on the status of compulsory licensing in Europe and the United States.

2 Compulsory Licensing in International Conventions and American Antitrust Law

2.1 International Treaties

Intellectual property rights give its holder a form of limited monopoly and such a monopoly can always be abused. Most countries therefore try to confine the possibilities to abuse these rights and the concept of compulsory licensing is one form of such limit. The concept can be used if an undertaking tries to abuse an intellectual property right by, for example, refusing to exploit the right in a country or by refusing to let another undertaking use the right and by doing so make sure to be the sole provider of the specific good in that country. Compulsory licensing means that the state authorities will force the holder of an intellectual property right to grant one or more licenses to one or more undertakings, who might compete on the same market as the holder of the right.¹⁶

Since most countries have different laws for different types of intellectual properties, there are also different rules for compulsory licensing. Many companies do, however, work on an international level and it has therefore been considered necessary to harmonize the rules on the protection of intellectual property rights. A couple of Conventions on the protection of intellectual property rights have hence been drafted. One of them is the International Convention for the Protection of Industrial Property¹⁷, usually called the Paris Convention, whose parties have some limited possibilities to impose compulsory licenses to prevent abuses of patents.¹⁸

The Paris Convention states that a compulsory license can be obliged in exceptional cases, such as if a patent is exercised in an abusive manner or if the patent is not used within a specific country.¹⁹ Such a compulsory license can, however, not be invoked earlier than three years from the date of application or four years from the date of grant of the patent, whichever period expires last. A compulsory license should not be granted if the patentee can justify his action by legitimate reasons.²⁰ Most countries in the

¹⁶ Scott, *Compulsory Licensing of Intellectual Property in International Transactions*, p.319.

¹⁷ Paris Convention for the Protection of Industrial Property of March 20, 1883, revised 1967.

¹⁸ Article 5(2) of the Paris Convention.

¹⁹ Article 5(2) of the Paris Convention.

²⁰ Article 5(4) of the Paris Convention.

world have signed the Paris Convention and most of the signers have provided for the possibility of compulsory licensing in their legislation. In Sweden, for example, there are rules in the Swedish Patent Law admitting compulsory working of patent, which means that if the patent is not being used in Sweden the holder may be forced to license the right to someone else.²¹ There is no specific provision in the Patent Law about compulsory licensing of a patent if the right is being abused.

In copyright law, there are usually two types of compulsory licensing, namely statutory license and compulsory license.²² In the case of statutory license others are permitted to use the copyrighted work in exchange for a fee. The fee is fixed either by legislation or by a public or private agency. The compulsory license compels the holder to grant a license, but lets the holder negotiate the terms of the license.²³ The Berne Convention²⁴ establishes the international rules on compulsory licensing of copyrights. It includes two provisions on compulsory licensing, namely a broadcast right and a recording right.²⁵ Both provisions require that the moral right of the author is protected, equitable compensation must be provided and compulsory license is only applicable in a country that has passed laws on it and nowhere else. The Swedish legislation in this matter corresponds to the rules in the Berne Convention. There are only rules on statutory licensing in the Swedish Copyright Law.²⁶

Because of the large number of parties of the Paris and Berne conventions, there have been problems to reform the conventions. Therefore, a number of states started a new co-operation in some trade related matters. This led to the convention on Trade Related Aspects of International Property Rights, usually called the TRIPS Agreement.²⁷ The TRIPS Agreement came into force 1995 for the industry countries, while the developing countries have gotten a longer time to adjust to the new rules. The TRIPS Agreement allows compulsory licensing in exceptional cases if a patent holder has refused to grant a license on reasonable terms and to a reasonable royalty after a detailed assessment by a higher authority, taking into account the economic value of the license. These conditions are especially applicable where a compulsory license is employed to remedy anti-competitive practises.²⁸

²¹ Patentlagen 6 Kap. 45-50§§, SFS(1967:837).

²² Scott, *Compulsory Licensing of Intellectual Property in International Transactions*, p.320.

²³ Scott, *Compulsory Licensing of Intellectual Property in International Transactions*, p.320.

²⁴ Berne Convention for the Protection of Literary and Artistic Works hereinafter called the "Berne Convention".

²⁵ Article 11bis and 13 of the Berne Convention.

²⁶ Upphovsrättslagen 26i§, SFS (1960:729).

²⁷ Kocktvedgaard, Levin, *Lärobok i Immaterialrätt*, pp. 38.

²⁸ Article 31 read together with Article 27(1) of the TRIPS Agreement.

2.2 American Law

2.2.1 Background

The federal antitrust laws in the United States consist of several different statutes. The ground rules are laid down in the Sherman Act²⁹, which prohibits contracts and conspiracies that restrain trade.³⁰ Attempts to monopolize the market are also unlawful according to the Sherman Act.³¹ Since the Sherman Act is very broad, it has been complemented by the Clayton Act and the Federal Trade Commission Act.³² Neither the Sherman Act, nor the Clayton Act, have specific rules regarding intellectual property rights, but Section 1 of the Sherman Act is considered to apply to license agreements and Section 2 is applicable on refusals to deal.

Since the statutes are very broad, case law has been used to interpret their more exact meaning. Misuse of dominance and contracts, conspiracies to constrain trade and such conducts have therefore been prohibited according to American Common Law for a long time.³³ Some of the prohibitions laid down in Common Law have later been superseded and complemented by Federal and State Antitrust Statutes.³⁴

2.2.2 Refusal to deal

The policy on compulsory licensing in American Law is sprung out of case law on misuse of intellectual property rights and refusal to deal, rather than through legislation. Cases on refusal to deal are dealt with under Section 2 of the Sherman Act, which scope has been widened by common law. Since the case law on refusal to deal under Section 2 of the Sherman Act is very broad it is hard to define a single test stating exactly which refusals are unlawful under the Sherman Act.³⁵

The mere refusal to deal with another company is not considered to be contrary to the Common Law, not even if the refusal is based on spite, prejudice or caprice.³⁶ The right to deal with whom one pleases is thought of

²⁹ The Sherman Antitrust Act, 15 U.S.C. §§1-2.

³⁰ The Sherman Antitrust Act, 15 U.S.C. §1 and McManis, *Intellectual Property and Unfair Competition*, pp. 59.

³¹ The Sherman Antitrust Act, 15 U.S.C. §2.

³² Gutterman, *Innovation and Competition Policy*, p. 71.

³³ McManis, *Intellectual Property and Unfair Competition*, p. 59.

³⁴ McManis, *Intellectual Property and Unfair Competition*, p. 59.

³⁵ Glazer, Lipsky, *Unilateral refusals to Deal under Section 2 of the Sherman Act*, p. 750.

³⁶ McManis, *Intellectual Property and Unfair Competition*, p. 64.

as a constitutionally protected right, which was stated in the *Colgate*³⁷ case. Colgate's refusal to deal with a company, refusing to use the fixed retail prices that Colgate had stated, was not contrary to the Sherman Act.³⁸ The Supreme Court stated

*"In the absence of any purpose to create or maintain a monopoly, the [Sherman] [A]ct does not restrict the long recognized right of trader or manufacturer engaging an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal."*³⁹

As the judgement shows, the freedom to choose ones business partners is not an absolute right. Companies holding a monopoly or a quasi-monopoly, or undertakings trying to create a monopoly, can sometimes be required to deal with its competitors.⁴⁰ The finding in this case has later been referred to as the "Colgate Doctrine". This Doctrine has been confined as to mean that if the courts can prove that the refusal to deal is a disguise for an agreement on prices, then the refusal to deal is prohibited.⁴¹ Three tests has been used by the courts in the United States in order to determine if a monopoly company has unlawfully refused to deal or not, namely the test of changes in the pattern of dealing⁴², the Essential Facilities Doctrine and the Monopoly Leveraging Doctrine.⁴³

In analysing whether or not a monopolist has changed its pattern of dealing the courts try to determine if the undertaking intended to destroy competition on the market or not. However, it must also be shown that the refusal to deal had an overall anti-competitive impact on the market.⁴⁴ If the undertaking can show objective justifications for its refusal, it will not be considered a breach of Section 2 of the Sherman Act.

The Essential Facilities Doctrine states that it is considered a violation of Antitrust Law if an undertaking, which controls an essential facility, refuses to give access to that facility, without which a competitor can not compete on the market.⁴⁵ The Supreme Court has, in the *MCI Communication v. American AT&T*⁴⁶ case, established four elements that are necessary in order for the Doctrine to apply. The first element is that a monopolist has to control an essential facility. The second element states that competitors must be practically or reasonably unable to duplicate the facility, which means

³⁷ Case, *US v Colgate & Co.*

³⁸ Fejø, *Monopol - Law and Market*, p. 253.

³⁹ *US v. Colgate*, p. 307.

⁴⁰ McManis, *Intellectual Property and Unfair Competition*, p. 65.

⁴¹ Fejø, *Monopol - Law and Market*, p. 255.

⁴² This test is sometimes called the "intent test".

⁴³ Kobak, *Antitrust Treatment of Refusals to License Intellectual Property*, p. 580.

⁴⁴ Glazer, Lipsky, *Unilateral Refusals to Deal under Section 2 of the Sherman Act*, p. 750.

⁴⁵ Kobak, *Antitrust Treatment of Refusals to License Intellectual Property*, p. 583.

⁴⁶ 708 F.2d 1081 (7th Circ. 1983).

that the competitor must show that it has other reasons for wanting access to the facility other than the mere fact that it would be cheaper to have access to the facility instead of building or creating a new facility. The third element establishes that the monopolist must deny the competitor access to the facility and finally, the fourth factor is that it must be possible for the monopolist to give access to the competitor. If the monopolist can show objective business justifications for not giving access to the facility, the refusal is lawful.⁴⁷

The Essential Facilities Doctrine is only supposed to be used in exceptional cases, which means that a facility must be truly “essential” for the Doctrine to apply. This has led to the fact that the Doctrine can not be used if the facility is not defined as a single relevant market, because if the facility is not a single market that means that there are available substitutes, which means that the facility can not be “essential” to the competitor. It must hence be two markets in these cases, one upstream market, where the facility is, and one downstream, in which the effect is found.⁴⁸

According to the Monopoly Leveraging Doctrine, it is unlawful to use monopoly powers in one market, in order to create competitive advantages in a second market. Most American courts nowadays require that the regular premises put out in Section 2 of the Sherman Antitrust Act are fulfilled in order for leveraging to be prohibited, that is, there must be probable that the conducts lead to the creation of a monopoly in the second market.⁴⁹

2.2.3 Refusal to license

During the last century it has frequently been requested that specific provisions concerning compulsory licensing should be introduced in the Patent Law.⁵⁰ These requests have, however, for a long time been turned down because studies have shown that compulsory licensing is an overrated remedy, since it does not seem to lead to a more competitive market. One of the main problems is determining reasonable royalties so that the rightholder can get a reasonable rate of return for his investment.⁵¹ As a principal rule, holders of intellectual property rights are under no obligation to grant licenses under American Law, even if the intellectual property right creates monopoly powers for its owner.⁵² In later years some legal provisions have

⁴⁷ *MCI Communication v. American AT&T*, See Kobak, *Antitrust Treatment of Refusals to License Intellectual Property*, pp. 584 and Capobianco, *The essential facility doctrine: similarities and differences between the American and the European Approach*, p. 549.

⁴⁸ Capobianco, *The essential facilities doctrine: similarities and differences between the American and the European approach*, p. 556.

⁴⁹ Kobak, *Antitrust Treatment of Refusals to License Intellectual Property*, p. 588.

⁵⁰ Bowman, *Patent and the Antitrust Law*, p. 241.

⁵¹ Bowman, *Patent and the Antitrust Law*, p. 247.

⁵² Kobak, *Antitrust Treatment of Refusals to License Intellectual Property*, p. 591.

been stated in the Copyright Act that provides compulsory licensing in some limited cases.⁵³ These compulsory licensing provisions include for example the right to duplicate non-dramatic musical works for the purpose of making and distributing phonorecords after the copyright owner has distributed such albums and the licensing of works for cable television transmission.⁵⁴ The concept of compulsory licensing is, however, still considered to be applied only in exceptional cases.

In earlier days, compulsory licensing was used as a remedy for undertakings trying to create a monopoly. In *Hartford-Empire Co. v. US*⁵⁵ the company, which was the most important supplier of machinery in the glass industry, had concentrated the whole industry by, for example, acquiring a large number of patents and by making cross-license agreements with potential competitors. This resulted in a monopolization of the whole market. The government had requested dissolution of Hartford-Empire, but the Supreme Court thought that that was a too drastic remedy and ordered the company to license its products on non-discriminatory terms and to reasonable royalty rates instead.

Compulsory licensing has very rarely been granted in the United States, and when it has been granted it has usually been because the intellectual property right was wrongfully acquired or used for a pooling arrangement. These elements usually have to be accompanied by another predatory conduct.⁵⁶ This restrictive attitude towards compulsory licensing is also shown by the fact that the patent laws, since 1988, states that no patent owner should be deemed guilty of misuse of their patent right by reason of refusing to license the right.⁵⁷ Although no such provision has been incorporated in the Copyright Act, the conclusion has been drawn in case law that the same rule applies for copyrights. The same restrictive view towards compulsory licensing is also stated in section 2.2 of the “Antitrust Guidelines for the Licensing of Intellectual Property”⁵⁸, issued by the U.S. Department of Justice and the Federal Trade Commission, which states that the fact that intellectual property rights give their holder monopoly powers do not oblige them to license their right to competitors. The Guidelines, however,

⁵³ McManis, *Intellectual Property and Unfair Competition*, p. 258.

⁵⁴ McManis, *Intellectual Property and Unfair Competition*, p. 284.

⁵⁵ 323 U.S. 386 (1945).

⁵⁶ Kobak, *Antitrust Treatment of Refusals to License Intellectual Property*, p. 595.

⁵⁷ 35 U.S.C. §271(d) (1994), see Burling, Lee, Krug, *The Antitrust duty to deal and intellectual property rights*, p. 537.

⁵⁸ *Antitrust Guidelines for the Licensing of Intellectual Property*, Issued by the U.S. Department of Justice and the Federal Trade Commission on April 6, 1995, hereinafter called the Guidelines. The Guidelines only states the antitrust enforcement policy regarding patents, copyrights, trade secret law and know-how, Section 1.0 of the Guidelines. Other Intellectual Property rights are excluded.

recognises that conducts by the holder of an intellectual property right can be anti-competitive.⁵⁹

In the case *Westinghouse Electric v. US*⁶⁰, it was stated that the right to license, or the right to refuse to grant a license, is the “untrammelled” right of the owner of the intellectual property right. Some circuits have, however, tried to limit this right in an attempt to harmonize antitrust and intellectual property principles. Critics have argued that the courts should not change the balance between the two legal fields, since that is something that the Constitution and Congress already have done with great care taken to both fields.⁶¹

Such a limitation was shown in the *Image Technical Servs. Inc. v. Eastman Kodak Co*⁶² case, in which the court obliged Kodak to sell their products to independent service organizations⁶³, since their refusal to sell patented, as well as unpatented, parts was an attempt to use a monopoly on one market to monopolize an aftermarket, the market for service. The Court stated that antitrust and intellectual property laws both overlap and conflict, but two principles have emerged from case law concerning the balance between the two legal fields, namely, first of all that neither patent nor copyright holders are immune from antitrust liability and second of all that holders of intellectual property rights in most cases may refuse to sell and license protected work.⁶⁴ This basic right hence has its limits. The Court held that

*“[n]either the aims of intellectual property law, nor the antitrust laws justify allowing a monopolist to rely upon a pretextual business justification to mask anticompetitive conduct.”*⁶⁵

Since Kodak made no difference between the patented parts and the unpatented parts, the court found that Kodak’s refusal was not based on the fact that the parts were protected by intellectual property rights. Kodak only used their patent protection as an excuse to exclude the ISOs from the market. The Court therefore obliged Kodak to sell its products to independent service organisations. It is important, however, to note that this case concerned a refusal to sell patented (and unpatented) goods and not a refusal to license an intellectual property right, which could have had a different outcome.

⁵⁹ Section 2.2 of the Guidelines.

⁶⁰ 648 F.2d 642 (1981).

⁶¹ Burling, Lee, Krug, *The Antitrust Duty to Deal and Intellectual Property Rights*, pp. 534.

⁶² 125 F.3d 1195 (9th Circ. 1997).

⁶³ Hereinafter called ISOs.

⁶⁴ 125 F.3d 1195 at page 1215.

⁶⁵ Case *Image Technical Servs. Inc. v. Eastman Kodak Co*, at 1219.

No later cases has found refusal to license a breach of antitrust principles. In the *in re Independent Service Organisations Antitrust Litigation*⁶⁶, Xerox was accused of violating the Sherman Antitrust Act by setting prices for patented products higher for ISOs than for other end-users in order to eliminate ISOs from the market by forcing them to raise their prices. Xerox meant that their conduct was a consequence of their right to refuse to sell or license patented products and the Court rejected the finding in the *Kodak* case and stated that

*“In the absence of any indication of illegal tying, fraud in the Patent and Trademark office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using or selling the claimed invention free from liability under the antitrust laws.”*⁶⁷

The court could not see any indication for illegal tying, fraud or sham and did not find that Xerox had violated antitrust laws. Xerox was therefore under no obligation to sell or license their patented products.⁶⁸ Critics of this judgement have argued that although the general rule is that the owner of an intellectual property right is under no obligation to license his right, there must be a balance between antitrust rules and intellectual property rules. This balance was not upheld in the *in re Independent Service Organisations Antitrust Litigation*, in which the court obviously went too far and gave undue weight to intellectual property rights.⁶⁹ In *Integrgraph Corp. v. Intel Corp.*⁷⁰ the Federal circuit continued on this restrictive path and overturned the District Court’s decision, in which the District Court obliged Intel to give Integrgraph access to vital technical information. The Court found that Intel’s refusal to deal was not an unlawful conduct under American antitrust law.

In 1998 the Intel Corporation was under fire again for withholding technical information from existing customers, when they threatened to initiate infringement litigations towards their competitors. The Federal Trade Commission therefore issued a complaint against the company alleging anti-competitive behaviour on behalf of Intel. The case was, however, settled outside of court by a compromise, in which Intel promised that they would not withhold, or threaten to withhold, the information from existing customers and the Federal Trade Commission agreed that even a monopolist could refuse to supply such vital information to new customers. The goal of this order seems to be to avoid a compulsory licensing regime.⁷¹

⁶⁶ 203 F.3d 1322 (Fed Cir. 2000), cert denied, 121 S. Ct. 1077 (2002).

⁶⁷ 203 F.3d 1322 (Fed Cir. 2000) at page 1327.

⁶⁸ Kobak, *Antitrust Treatment of Refusals to License Intellectual Property*, pp. 601.

⁶⁹ Pitofsky, *Antitrust and Intellectual Property: Unresolved Issues at the Heart of the New Economy*, pp. 545.

⁷⁰ 3F. Supp. 2d 1255 (N.D. Ala 1998).

⁷¹ Pitofsky, *Antitrust and Intellectual Property: Unresolved Issues at the Heart of the New Economy*, pp. 549.

2.3 Conclusions on compulsory licensing

To conclude the current principles on compulsory licensing under the existing International Treaties and the American Antitrust Laws, both the Treaties and the American legal system do post some limited possibilities to impose licensing on holders of intellectual property rights. The Paris Convention states, for example, that the parties of the convention can legislate on compulsory licensing in cases where a patent is exercised in an abusive manner or if the patent is not used at all. The TRIPS Agreement states that a compulsory license can be employed to remedy anti-competitive practises.

In the United States it does not, as a principal rule, exist any obligations to grant licenses to competitors and the remedy of compulsory licensing has rarely been used. It is actually quite the contrary; companies have the freedom to choose their business counterparts to a large extent and the current Patent Law explicitly states that a refusal to grant a license to a competitor can not make the owner of an intellectual property right guilty of misusing its right. This is also considered to be the case when a copyright owner refuses to license that right.

The American Courts do, however, have the competence to order compulsory licensing upon undertakings, if a refusal to license meet the criteria in Section 2 of the Sherman Act, but this remedy has in practise rarely been used. The Federal Trade Commission seems to be a little bit more open to the use of compulsory licensing in order to protect competition, but the remedy is usually only used as a “threat” in order to reach a settlement between the company and the Federal Trade Commission. Many cases never reach the courts, which mean that one can not know if there would really be an obligation to license the intellectual property right in the end. The American courts do, as stated above, seem very reluctant to impose compulsory licensing of intellectual property rights on companies on the American market.

3 Compulsory Licensing in European Competition Law

3.1 Development

The application of the competition rules to the field of intellectual property rights is a complex area of EC Law. This is partly due to the fact that intellectual property law is still a competence held primarily by the member states. The fact that the Member States are governed by two legal systems, where neither the Community legislation, nor the national legislation can overturn the other, is one thing that makes the situation in Europe differ from the one in the United States. There are mainly two areas of Community Law where a conflict with national intellectual property laws can arise, namely the rules of free movement of goods and the competition rules. Article 295 EC obliges the union to accept the national intellectual property laws. This article hinders the community legislation to be interpreted in a way that would declare nationally granted intellectual property rights invalid.⁷² The European Court of Justice has, however, made a distinction between the existence of an intellectual property right, which could not be affected by the community laws, and the exercise of the right, which could.⁷³

The free movement provisions of the EC Treaty do not override the national intellectual property laws *per se*. Only if an undertaking uses its intellectual property right in a way which has negative effects on the Community trade, this exercise can be stopped. This distinction should not, however, be read as to limit the application of the Treaty in regard to intellectual property rights. In order to clarify this misconception the ECJ developed the concept of the “specific subject-matter”, which states that the exercise of intellectual property rights is justified as long as the exercise is made to safeguard the rights which constitute the core rights of the specific property right. The determination of what constitutes the “core rights” of the intellectual property right depends on what its essential function is, hence it might vary.⁷⁴

The second area where national intellectual property laws and community law interact is in the application of EC Competition rules on the licensing of intellectual property rights, and the refusal to license. Since the intellectual property right gives its holder an exclusive right, he may use that right in an

⁷² Faull, Nikpay, *The EC Law of Competition*, p. 577.

⁷³ Case 15/74, *Centrafarm v. Sterling Drug* and case 16/74, *Centrafarm v. Winthrop*.

⁷⁴ Bellamy, Child, *European Community Law of Competition*, pp. 614.

anti-competitive way, for example to impose unfair obligations into a licensing agreement, or he may refuse to grant a license in order to keep the market to himself.⁷⁵ The mere existence of an intellectual property right does not constitute a dominant position and a normal use of such a right is not considered a breach of the community rules.⁷⁶ The intellectual property right must be used in an abusive manner in order to be illegal.

3.2 Compulsory Licensing of Intellectual Property Rights

A fundamental principle in most EC Member States, just as in the United States, is the freedom for undertakings to engage in business activities with whomever they want.⁷⁷ Sometimes this principle cannot be upheld, because it would lead to anti-competitive results. Since the harmonization has not come very far in the field of intellectual property rights within the Union, there are still no explicit rules dealing with compulsory licensing in European Community Law. The Member States are, however, all parties of the International Treaties presented in chapter two, so they are all bound by the provisions stated in those conventions. Within the European Community compulsory licensing has to be dealt with by the ordinary competition rules.⁷⁸ Article 81 EC is mainly used on licensing agreements, while Article 82 EC is used in two main areas, namely in cases concerning the refusal to grant licenses to any other undertaking and the granting or refusal to license on discriminatory or otherwise abusive terms.⁷⁹ The power of the Commission to order an undertaking to license its intellectual property right under Article 3 of Regulation 17 was confirmed by the ECJ in the *Magill* Case.⁸⁰

In every case concerning Article 82 the Court has to decide if the undertaking has a dominant position in the defined product and geographical market. Article 82 EC does not prohibit dominance per se, but ones an undertaking has been found to have a dominant position, the undertaking has

⁷⁵ Faull, Nikpay, *The EC Law of Competition*, pp. 577.

⁷⁶ Nyberg, *Missbruk av dominerande ställning i EG-rätten och patent*, p. 45.

⁷⁷ Faull, Nikpay, *The EC Law of Competition*, p. 151.

⁷⁸ In the Proposal for a Council Regulation on the Community Patent, COM(2000) 412 final, there is a suggestion for a compulsory licensing passage, which would make it possible for the Commission to grant a license when licensing is needed to use a second patent, if it is necessary due to a time of crisis or extreme urgency or if it is needed “to remedy a practice determined after judicial or administrative process to be anticompetitive.”, Article 21(5) of the draft.

⁷⁹ Faull, Nikpay, *The EC Law of Competition*, p. 625.

⁸⁰ Joined cases C-241/91P and C-242/91P, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v. Commission*, at para 90.

*“a special responsibility not to allow its conduct to impair genuine undistorted competition on the common market.”*⁸¹

The dominant undertaking’s conduct must also be found abusive and it must affect trade between Member States. All three of these circumstances have to be fulfilled in order for Article 82 EC to apply. The way that Article 82 is applied on intellectual property rights and the concept of compulsory licensing will be dealt with further in the following sections.

3.2.1 Dominance and Intellectual Property Rights

Dominance is assessed by the undertaking’s ability to restrict competition without existing or potential competitors taking away its customers.⁸² The test of dominance under Article 82 EC is, however, not a test of purely economic factors, such as the ability of an undertaking to raise prices or decrease quantities without the concern of its competitors, but is also made by a legal assessment of whether or not the dominant undertaking prevent effective competition in the market.

The analysis of whether or not an undertaking occupies a dominant position involves three steps, namely a market definition, a market share analysis and an analysis of the competitive constraints.⁸³

3.2.1.1 Market Definition and Intellectual Property Rights

The definition of the relevant market includes two separate steps, namely the definition of the *product market* and the *geographical market*. The Commission has developed a guidance of how the market should be assessed in the “Relevant Market Notice”.⁸⁴

The Commission has defined the *product market* as

*“A relevant product market comprises all those products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the products’ characteristics, their prices and their intended use”*⁸⁵

The definition of the product market hence starts by identifying a particular product, for which substitutes then are sought. Undertakings are subject to

⁸¹ Case 322/81, *Michelin v. Commission*, at para 57.

⁸² Faull, Nikpay, *The EC Law of Competition*, p. 122.

⁸³ Bellamy, Child, *European Community Law of Competition*, pp. 685.

⁸⁴ Commission Notice on the definition of the relevant market for the purpose of Community competition law, OJ C 372, 9/12/1997. The Commission Notice has been used throughout this section.

⁸⁵ Commission Notice on the definition of the relevant market for the purpose of Community competition law, at para 7.

three main sources of competition restraints, namely demand substitutability, supply substitutability and potential competition.⁸⁶ The demand substitutability constitutes the most immediate disciplinary force for suppliers, since they can not influence the market by themselves if consumers can easily switch to a different product. The Commission takes the view of consumers while assessing this part of the market definition and ask itself if the consumer have the possibility to, and would in reality, switch to another product if price would increase by five to ten per cent. If consumers would buy another product after such a price increase, the increase would be unprofitable for the undertaking. This assessment goes on by adding or excluding products until the set of products is so small that a permanent price increase would be profitable.

Supply-side substitutability is assessed by an investigation of how fast and cost effective an undertaking can switch its production in order to meet demand. If competitors that can make such a switch fast are present on the market, another undertaking is not likely to be able to increase prices and keep them high, since the competitors will switch their production and offer substitutes at a lower price.

The practice of the Commission and the ECJ tends to put more weight into substitutions on the demand side than on the supply side and there is also a tendency for defining products narrowly by splitting an undertaking's business areas into different product markets. This technique was used in the case of *Hugin*⁸⁷, in which a cash register manufacturer ended a business relationship with a repairer, hence refusing to sell spare parts to the repairer. The ECJ found that there was a separate market for spare parts for Hugin machines in contrast to spare parts for cash registers in general, since there was a demand for those specific spare parts. Once the Hugin spare parts were considered a specific product, there was also a separate market for these spare parts, since there were no substitutes available. Hugin was said to occupy a dominant position on that market.

*Volvo*⁸⁸ and *Renault*⁸⁹ fought a similar battle in the ECJ in two later cases, where they tried to convince the Court that the relevant product market was the one for new cars and/or maintenance and repair works. The car manufacturers meant that the customers supposedly looked at this as a package deal. This definition was not accepted by the ECJ, which stated that the market is decided in the view of the buyer. The product market was defined as the market for Volvo spare parts and Renault spare parts

⁸⁶ Commission Notice on the definition of the relevant market for the purpose of Community competition law, at para 13.

⁸⁷ Case 22/78, *Hugin v. Commission*.

⁸⁸ Case 238/87, *Volvo v. Veng*.

⁸⁹ Case 53/87, *CICRA v. Renault*.

respectively, since there is a specific demand for those specific spare parts.⁹⁰

In the *Magill*⁹¹ case, which concerned the right for an undertaking to use some TV companies' TV listings, although these were protected by copyright law in Britain, the Commission divided the relevant market into three different markets. Each market was based on a particular product, namely the market for TV listings, the market for weekly TV guides and the market for TV programmes. The market for weekly guides was a secondary market to the market for TV programmes, since it was impossible to produce a weekly TV guide without the information about the TV listings, hence the market for TV listings was an essential infrastructure for the market for TV guides.

The product market for an intellectual property is not automatically defined as holding only the protected good, but the consequence of the above mentioned cases for intellectual property rights holders is that if the product is defined by demand, there is little room for the holder to argue differently before the ECJ. One of the primary strategies available to the holder of an intellectual property right is to make the consumers prefer it to other products, but this strategy may, according to the ECJ, be challenged in a competition case.⁹² The problem is also that the definition made from consumer demand can reduce the possible substitutions to nil, hence making their protected property into a single market. This can in turn lead to the finding that the holder occupies a dominant position or a *de facto* monopoly position.⁹³

The fact that a product is protected does not automatically make it a single market, but if the protected product has a specific form to fulfil a function, as in the *Volvo* and *Renault* cases, and that form is inseparable from the function, the intellectual property right can preclude substitutes, hence making the narrow product market into a single product market.⁹⁴ It also seems like the Commission use a narrow market definition in some cases in order to find dominance in these cases.⁹⁵ In intellectual property cases this task-oriented policy enforcement can lead to limited possibilities to use the right for the holder, since once a narrow or single market is defined the Commission can easily find that the undertaking occupies a dominant position in that market.⁹⁶

⁹⁰ Opinion of Mr. Mischo, Case 53/87 at para 49 and 50 and Case 238/87 at para 9 and 10.

⁹¹ Joined cases C-241/91P and C-242/91P, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v. Commission*.

⁹² Anderman, *EC Competition Law and Intellectual Property Rights*, p.158.

⁹³ Anderman, *EC Competition Law and Intellectual Property Rights*, p.159.

⁹⁴ Anderman, *EC Competition Law and Intellectual Property Rights*, p.159.

⁹⁵ Anderman, *EC Competition Law and Intellectual Property Rights*, p.161.

⁹⁶ Anderman, *EC Competition Law and Intellectual Property Rights*, pp. 164.

The *geographical market* is defined as

*“The relevant geographical market comprises the area in which the undertakings concerned are involved in the supply and demand of products or services, in which the conditions of competition are sufficiently homogenous and which can be distinguished from neighbouring areas because the conditions of competition are appreciably different in those areas”*⁹⁷

This means that the geographical market is decided by the area in which the product is marketed. The Commission searches for substitutes in the same manner as they do while defining the product market. The reason why it is important to define a geographical market is that the conditions of competition must be sufficiently homogenous to make an evaluation of the economic power of the undertaking in question possible.⁹⁸ The definition of the geographical market is influenced by both economic factors, such as transport costs and location of production facilities, and regulatory factors. In a case where an intellectual property right is involved, the geographical market is usually decided by the state in which the right is owned, since the width and time of the intellectual property right protection is decided by national laws.

In some cases the Commission has defined the market very narrowly, in fact to the area where the abuse is supposed to have happened, since that helps support the finding of dominance in that market.⁹⁹ Critics have accused the Commission for defining the geographical market as means for finding abuse, rather than really assessing the economic criteria.¹⁰⁰

3.2.1.2 Market Share Analysis

Although intellectual property rights do not create a dominant position *per se*, they do create a particular type of barriers to enter.¹⁰¹ They give their holder an exclusive right to usage, but that does not mean that the holder will have market power in that specific area. If the holder will have a dominant position or not depends, as stated above, on the number of substitutes to the intellectual property right on the market.¹⁰² The extent to which an intellectual property right can be commercially exploited by its holder is hence decided by the competition on the actual market. The Court

⁹⁷ Commission Notice on the definition of the relevant market for the purpose of Community competition law, at para 8.

⁹⁸ Case 27/76, *United Brands v. Commission*, at para 44.

⁹⁹ For example case 322/81, *Michelin v. Commission*.

¹⁰⁰ Anderman, *EC Competition Law and Intellectual Property Rights*, p.166.

¹⁰¹ Case 78/70, *Deutsche Grammophon v. Metro*, at para 6 and Faull, Nikpay, *The EC Law of Competition*, p. 128.

¹⁰² Faull, Nikpay, *The EC Law of Competition*, pp. 626.

has, however, been very clear on the fact that nothing prevents it from making the assessment that the holder of an intellectual property right occupies a dominant position, or even a position of *de facto* monopoly, because of its possession.¹⁰³ If there are no substantial entry barriers, market forces will diminish dominance over time.¹⁰⁴

Whether or not an undertaking has a substantial part of the market shares are assessed by both volume and value.¹⁰⁵ The assessment of how high market shares constitute dominance is not an absolute one. In the *Commercial Solvents*¹⁰⁶ case the undertaking were found to hold a world monopoly, which of course constitutes a dominant position. According to the *Continental Can*¹⁰⁷ case market shares of 70-90 per cent and in the *Suiker*¹⁰⁸ case market shares of 85-90 per cent both were clear cases of dominance.

Despite this, a high market share is usually not enough to establish a dominant position. There must also be an estimation of whether or not there is real, potential competition on the market. This is done by measuring the market shares and strengths of the main competitors.¹⁰⁹ In *Michelin*, the Court found that Michelin had a dominant position because of its market shares of 57-65 per cent, since their main competitors only had a market share of 4-8 per cent.¹¹⁰ In the *Rhone Poulenc/SNIA* Decision the Commission did not find that a market share of 53 per cent constituted dominance, since the undertaking's main competitor had 20 per cent of the market share.¹¹¹ The fact that the holder of an intellectual property right can exclude close substitutes, and that the Commission and the Court has a tendency of defining the market narrowly, usually means that the holder of such a right often has high market shares and hence a dominant position on the market.

3.2.1.3 Competitive Constraints

Although high market shares are one important factor in the dominance assessment, many other factors also affect it. The relevant question is whether or not the undertaking can create or sustain the ability to act

¹⁰³ Case 311/84, *Télémarketing v. Compagnie luxembourgeoise*, at para 16.

¹⁰⁴ Faull, Nikpay, *The EC Law of Competition*, p. 123.

¹⁰⁵ Bellamy, Child, *European Community Law of Competition*, p. 703.

¹⁰⁶ Joined case 6/73 and 7/73, *ICI and Commercial Solvents v. Commission*, at para 18.

¹⁰⁷ Case 6/72, *Continental Can v. Commission*, at para 31.

¹⁰⁸ Joined cases 40 to 48, 50, 54 to 56, 111, 113 and 114/73, *Suiker Unie v. Commission*, at paras 379, 381 and 382.

¹⁰⁹ Anderman, *EC Competition Law and Intellectual Property Rights*, p.170.

¹¹⁰ Case 322/81, *Michelin v. Commission*, at para 52.

¹¹¹ Anderman, *EC Competition Law and Intellectual Property Rights*, p.170.

independently without accounting for the behaviour of its competitors. The overall size and strength of the undertaking, high levels of advertising and exclusive rights, such as intellectual property rights, are all factors that can make an undertaking dominant.¹¹² The important question in the dominance assessment is whether or not the holder of such a right can impede effective competition on the market. In the *Magill* case, for example, the broadcasting companies were said to hold a *de facto* monopoly, since they were the only source of information regarding the TV listings. They were hence able to constrain effective competition on the market and were therefore considered dominant.¹¹³

Another resource that can reinforce dominance is technical superiority compared to rivals. Critics mean that if this view is upheld, the ECJ puts a penalty on Research and Development investments, which would have negative affect on the market. The Court has defended itself from this critique by saying that mere dominance is not frowned upon.¹¹⁴

If there are substantial barriers to enter a market, a dominant position is easy to uphold. Intellectual property rights can be said to be such a barrier, since it makes it possible to exclude competitors from the market. Undertakings wanting to compete on those markets depend on the intellectual property rights holder in order to do so. If that undertaking is not willing to license the right, it can keep the market to its own business. This means that the mere fact that the right is exercised can make the holder abuse its dominant position.

3.2.2 Affect on trade between Member States

For Article 82 to apply, the undertaking's conduct must also affect trade between Member States. This rule should be seen as a rule on jurisdiction, making it possible for Community Law to apply instead of national laws.¹¹⁵ This condition does not mean that abuse can not be prohibited if abusive behaviour is taking place within only one Member State. As long as the conduct is capable of having a sustainable affect on intra-Community trade it is considered a breach of Article 82.¹¹⁶ The reason why intra-State conduct is sometimes declared to affect trade within the Union is that the situation might change in the future and an undertaking might want to increase trade to other states. If the undertaking has held a monopoly within one state, it

¹¹² Bellamy, Child, *European Community Law of Competition*, pp. 707.

¹¹³ Joined cases C-241/91P and C-242/91P, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v. Commission*, at para 47.

¹¹⁴ Anderman, *EC Competition Law and Intellectual Property Rights*, p.172.

¹¹⁵ Bellamy, Child, *European Community Law of Competition*, p. 118.

¹¹⁶ Case 322/81, *Michelin v. Commission*, at paras 103 and 104.

might have a competitive edge even outside that state, which is unwholesome for competition.¹¹⁷

Two tests have been used by the Court to establish whether or not a conduct affects inter-Community trade, namely the “pattern of trade” and the structural or “pattern of competition” tests.¹¹⁸ The first test examines if the normal trade is diverted by the conduct, while the second one assesses if the competitive market structure is affected by the undertaking’s behaviour. A conduct hence has a sustainable affect on trade between Member States, in the meaning of Article 82, if the normal pattern of trade or the normal pattern of competition is affected.¹¹⁹

The affect on trade does not have to be proven and it does not have to be harmful or negative.¹²⁰ It is enough to find that a conduct is *capable* of having an affect.¹²¹ It is not enough to show that the conduct could affect trade; it must be shown with a sufficient degree of certainty.¹²² However, in the *Magill* case, the CFI found that the protection of the broadcasting companies copyright was abusive and their conduct therefore had “undeniable” affect on the trade between Member States.¹²³ The Court upheld this judgement.

3.2.3 Abuse and Intellectual Property Rights

An undertaking which have been found to occupy a dominant position on the relevant market has special responsibilities not to impair competition.¹²⁴ Otherwise they can be accused of having abused their position. Article 82 EC does not define exactly which conducts should be considered abusive, but the ECJ has held that both exclusive and exploitive conducts can be abusive. The concept of abuse is, however, an objective one, which means that the intent of the undertaking is not considered and can not be used as a defence for its actions.¹²⁵

Article 82 EC explicitly states that unfair purchase or selling prices, or other unfair trading conditions, limiting production, markets or technical development to the prejudice of consumers, dissimilar agreements with other trading parties and tie-ins, are abusive conducts. The examples in

¹¹⁷ Bellamy, Child, *European Community Law of Competition*, p. 124.

¹¹⁸ Faull, Nikpay, *The EC Law of Competition*, p. 96.

¹¹⁹ Govaere, *The Use and Abuse of Intellectual Property Rights in E.C. Law*, pp. 262.

¹²⁰ Faull, Nikpay, *The EC Law of Competition*, p. 97.

¹²¹ See for example case 322/81, *Michelin v. Commission*, at paras 103 and 104.

¹²² Bellamy, Child, *European Community Law of Competition*, p. 123.

¹²³ Case T-69/89, *Radio Telefis Eireann (RTE) v. Commission*, at para 77.

¹²⁴ Case 322/81, *Michelin v. Commission*, at para 57.

¹²⁵ Faull, Nikpay, *The EC Law of Competition*, pp. 146.

Article 82 EC should not, however, be considered to be exhaustive.¹²⁶ The aim of Article 82 EC is wide and it consequently prohibits structural or anti-competitive abuse, directed at competitors, both in primary and related markets. This is much more threatening to owners of intellectual property rights than the mere exploitive abuse.

Abuse by a holder of an intellectual property right is usually considered exclusionary abuse. The dominant holder of an intellectual property right may for example be prohibited to acquire other firms or intellectual property rights in the dominant market, or he can be required to supply or license the protected product to competitors on secondary markets. The dominant right holder must also be careful in its pricing or product bundling, or these conducts may be deemed to be abusive. The normal exercise of an intellectual property right is said not to be abusive, but some case law from the ECJ has shown that there is a thin line between normal exercise and abusive conduct of intellectual property rights.¹²⁷

The ECJ has in its interpretation of Article 82 EC found, in for example the *Commercial Solvents*¹²⁸ case and the *Hoffman LaRoche*¹²⁹ case, that damaging conduct, or conduct that almost abolishes competition on the market could be considered abusive and hence a breach of Article 82 EC. *Commercial Solvent* was found to be abusive when it refused to supply a raw material, for which they were the sole supplier world-wide, to an old customer. The reason for its refusal was that the undertaking planned to start producing the same product as its customer, hence wanting to keep the market for itself. The case showed that it was not necessary for the abusive behaviour to be made in the market in which the undertaking occupied a dominant position. It could be made in a related market.¹³⁰ The question raised in *Hoffman LaRoche* was how an undertaking in a dominant position was supposed to behave, in order not to infringe Article 82. The Court stated that dominant undertakings can use all methods used in normal competition and that only such methods that has as an aim to hinder the maintenance of the existing degree of competition on the market should be prohibited.¹³¹

In the *Michelin* case the Court stated that Article 82 covers conducts, which are thought to damage the competitive structure of markets that are already weakened by the presence of a dominant undertaking.¹³² There are hence two parts to this rule, namely that the conduct must be likely to weaken the structure of the market and that a conduct is considered to be abusive if the

¹²⁶ Faull, Nikpay, *The EC Law of Competition*, p. 118.

¹²⁷ Anderman, *EC Competition Law and Intellectual Property Rights*, p.180.

¹²⁸ Joined case 6/73 and 7/73, *ICI and Commercial Solvents v. Commission*.

¹²⁹ Case 85/76, *Hoffman LaRoche v. Commission*.

¹³⁰ Joined case 6/73 and 7/73, *ICI and Commercial Solvents v. Commission*.

¹³¹ Faull, Nikpay, *The EC Law of Competition*, p. 148.

¹³² Case 322/81, *Michelin v. Commission*, at para 70.

methods used to achieve this effect are different from normal competitive conducts.¹³³

It was, even after the *Michelin* case, hard to know what the court meant by “methods of normal competition”. The burden of proof as to if a conduct constitutes abuse, is on the Commission. This means that a dominant undertaking can justify its conducts by proving that it had business justifications for it.¹³⁴ Case law has shown that takeovers by a dominant firm¹³⁵, refusal to supply old customers¹³⁶ and acquisition of important intellectual property rights¹³⁷ have not constituted normal competition. The use of economic efficiency to lower prices¹³⁸, as well as using an innovation to create a competitive edge¹³⁹, is legitimate competition.

When assessing if a conduct is objectively justified, a test of proportionality may also be applied. Conducts that would not have been considered abusive in normal cases may after a proportionality test be regarded abusive just because the undertaking occupies a dominant position, and as such has a special responsibility not to diminish competition.¹⁴⁰ The dominant undertaking can act as efficient as it wants to as long as it uses methods which do not limit competition more than necessary.¹⁴¹

This wider concept of Article 82 creates some specific problems for holders of intellectual property rights. One main feature of intellectual property rights is that it gives its holder an exclusive right to exclude undertakings from trying to infringe the property right. This is a normal method within the field of intellectual property.¹⁴² The exclusive exploitation of intellectual property rights is in principle accepted by the Community Courts and the Commission, as long as the exploitation is made within the market for which the property right is granted. If a holder of an intellectual property right tries to use that right to create benefits in a related market it might be abusive.¹⁴³ The way in which the markets have to be linked has varied depending on the type of abusive behaviour.¹⁴⁴

¹³³ Anderman, *EC Competition Law and Intellectual Property Rights*, p.182.

¹³⁴ Anderman, *EC Competition Law and Intellectual Property Rights*, p.184.

¹³⁵ Case 6/72, *Continental Can v. Commission*.

¹³⁶ Joined case 6/73 and 7/73, *ICI and Commercial Solvents v. Commission*.

¹³⁷ Case 333/94P, *Tetra Pak Rausing SA v. Commission*.

¹³⁸ Case 62/86, *AKZO v. Commission*.

¹³⁹ Case 238/87, *Volvo v. Veng*.

¹⁴⁰ Bellamy, Child, *European Community Law of Competition*, pp. 717.

¹⁴¹ Anderman, *EC Competition Law and Intellectual Property Rights*, p.186.

¹⁴² Anderman, *EC Competition Law and Intellectual Property Rights*, pp.187.

¹⁴³ Anderman, *EC Competition Law and Intellectual Property Rights*, pp.190.

¹⁴⁴ Case 333/94P, *Tetra Pak Rausing SA v. Commission*.

3.2.4 Refusal to license intellectual property rights

The cases concerning compulsory licensing is, just as in the United States, sprung from the case law of refusal to deal. The reason for prohibiting the refusal to deal is the desire to protect short-term competition on the market and the refusal is therefore, usually, only prohibited if it weakens the competition on the market. The main question that has to be assessed in these cases is whether or not the dominant undertaking's competitors can survive without the supply.¹⁴⁵ Just as the case is in the United States, if an undertaking can justify its refusal to license by objective means, the conduct is not considered unlawful.¹⁴⁶

The refusal to supply was first considered an abuse in *Commercial Solvents*¹⁴⁷. The ECJ held that the undertaking's plan to start producing ethambutol itself did not justify a refusal to supply their old customer, since that would eliminate the competition on the market. The main reasons for the assessment was that Commercial solvents had spare capacity, Zoya was an old customer, who could not get the raw material from anywhere else, and Commercial solvents tried to reserve a related market for itself with the help of its dominant position in the market for raw materials. If a dominant undertaking refuses to supply an existing customer, hence drives the competitor out of the market, this is an abuse within the limits of Article 82.¹⁴⁸ In the *IBM*¹⁴⁹ case the Court stated that dominant undertakings in certain cases also had a positive obligation to supply new entrants on the market. If the undertaking can show legitimate business grounds for not dealing with a competitor, its conduct is usually not considered abusive.¹⁵⁰ In this case the ECJ seem to have gone further than the American Authorities, which only obliges companies to supply old customers.¹⁵¹

If a holder of an intellectual property right occupies a dominant position on the market, a refusal to license those rights may under specific circumstances constitute abuse.¹⁵² This view is different from the one held in the United States, at least to the view stated in the American Patent Law, according to which, the mere refusal to license a patent can never be deemed misuse of an intellectual property right. The use of compulsory licensing is, just as in the United States, very rare in EC Competition Law and has only been used in cases where the intellectual property right has been used in a

¹⁴⁵ Faull, Nikpay, *The EC Law of Competition*, pp. 152.

¹⁴⁶ Bellamy, Child, *European Community Law of Competition*, pp. 738.

¹⁴⁷ Joined case 6/73 and 7/73, *ICI and Commercial Solvents v. Commission*.

¹⁴⁸ Anderman, *EC Competition Law and Intellectual Property Rights*, pp.196.

¹⁴⁹ Case 60/81, *IBM v. Commission*.

¹⁵⁰ Faull, Nikpay, *The EC Law of Competition*, p. 154.

¹⁵¹ See above on p. 17.

¹⁵² Faull, Nikpay, *The EC Law of Competition*, p. 157.

way which is not necessary in order for it to fulfil its essential function.¹⁵³ Some mean that a duty to license under European Competition Law can only arise in cases where the intellectual property right constitutes an essential facility, without which the competitors are not able to compete in the market at all.¹⁵⁴ Whether or not an Essential Facility Doctrine even exists in European Community Law is a contested fact, but some mean that the doctrine, which was developed in the United States, has been inherited by at least the European Commission, although the Doctrine is used somewhat differently in the different legal systems.¹⁵⁵

3.2.4.1 The Renault¹⁵⁶ and Volvo¹⁵⁷ cases

Both the *Volvo* and the *Renault* cases concerned the refusal by car manufacturers to license to other manufacturers the right to produce spare parts, which were protected by national intellectual property laws. Both *Volvo* and *Renault* were offered a reasonable royalty, but they still refused to grant licenses.

In the *Renault* case, some Italian undertakings had started to manufacture and market copies of bodywork spare parts of some motor vehicles. The undertakings tried to convince the national court to declare the protected rights void and also that the manufacturing of the spare parts should be considered fair competition. *Renault* counterclaimed that the plaintiff companies had infringed *Renault*'s property rights. The national court asked the ECJ for a preliminary ruling on the question of whether or not Article 82 EC prohibited the abuse of the dominant position held by the car manufacturer, which consisted in pursuing the aim of eliminating competition from independent manufacturers of spare parts.

In the *Volvo* case, *Eric Veng Ltd* wanted to import spare parts for the *Volvo 200* series from Denmark and Italy and sell them in the UK. The dispute in particular concerned the importation of the 200 series front wing, for which *Volvo* had a registered design in the UK. *Volvo* commenced proceedings against *Veng* for infringement of their protected design. *Veng*, on his part, relied on Article 82 EC for his defence, as he pleaded that *Volvo*'s refusal to license was an abuse of their dominant position.

¹⁵³ Faull, Nikpay, *The EC Law of Competition*, p. 158.

¹⁵⁴ Temple Lang, *Defining Legitimate Competition: Companies' Duties to Supply Competitors and Access to Essential Facilities*, p. 513.

¹⁵⁵ Capobianco, *The essential facility doctrine: similarities and differences between the American and the European approach*, pp. 557. See below at pp. 61.

¹⁵⁶ Case 53/87, *CICRA v. Renault*.

¹⁵⁷ Case 238/87, *Volvo v. Veng*.

The ECJ had never interpreted Article 82 in that way in previous cases so the High Court of Justice of England and Wales asked the ECJ for a preliminary ruling on the interpretation of Article 82. The first question was if a substantial car manufacturer of a registered design was in a dominant position, by the mere fact that he was a sole provider of the designs and had an exclusive right to be such a sole manufacturer and importer. The second question was if it could be considered a prima facie abuse if such a dominant undertaking refuses to license its designs to others. The questions raised by the national court in the *Volvo* case were hence complementary to the one raised in the *Renault* case.¹⁵⁸

As stated above, the relevant market was found to be the spare parts of the car manufacturer respectively.¹⁵⁹ Since no substitutable goods could be made, which did not infringe those parts, both Renault and Volvo was found to occupy a dominant position in these markets.¹⁶⁰ The Court held that the mere fact that an undertaking registers an intellectual property right can not in itself constitute an abuse. The Court stated 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.”*¹⁶¹

The mere refusal to license a registered design, even for a reasonable royalty, could therefore not in itself constitute an abuse of a dominant position within the meaning of Article 82 and if such an obligation were imposed on the rightholder, he would be deprived of the substance of his right.¹⁶² The exercise of an intellectual property right could, however, constitute an abuse if an additional factor was present. Such a factor could, according to the ECJ, be the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices at an unfair level or a decision not to manufacture spare parts for a certain model, although many cars of that model were still in use.¹⁶³ The Court did not, however, explain how the national Courts were expected to apply these examples, or if they were expected to be exhaustive or not. None of these examples were present in the *Volvo* and *Renault* cases.

The first example of abusive conduct put out by the Court was the refusal to supply spare parts to independent repairers. From the *Volvo* case it seems like refusal to license is not an abuse, only refusal to supply physical goods.

¹⁵⁸ Govaere, *The Use and Abuse of Intellectual Property Rights in E.C. Law*, p. 232.

¹⁵⁹ See supra note 81.

¹⁶⁰ Opinion of Mr Mischo, Case 53/87, at para 54, and Opinion of Mr Mischo, Case 238/87, at para 14 and 15.

¹⁶¹ Case 238/87, *Volvo v. Veng* at para 8.

¹⁶² Case 238/87, *Volvo v. Veng*, at para 8 and 11.

¹⁶³ Case 53/87, *CICRA v. Renault* at para 18 (ii) and case 238/87, *Volvo v. Veng* at para 9.

As long as the car manufacturer only used their protected design to reserve the right to produce the spare parts it was okay. If they refused to supply independent repairers, hence monopolising the market for car maintenance, the conduct would constitute an abuse and therefore be prohibited according to Article 82 EC.¹⁶⁴ This example seems to be in line with the American case *Image Technical Servs. Inc. v. Eastman Kodak Co*¹⁶⁵, since the court in that case stated that it was an unlawful conduct to refuse to sell patented, and unpatented, spare parts to independent service organisations.

The second example of abusive conduct concerned the fixing of prices at an unfair level. This example does not seem to be unlawful in the United States, according to the American case the *in re Independent Service Organisations Antitrust Litigation*¹⁶⁶. One problem that arises with this example is the definition of “unfair” prices and intellectual property rights. In cases not concerning intellectual property rights, a comparison between the specific selling price and production costs or the selling price of possible substitutes can be made to assess if the price is fair.¹⁶⁷ However, the ECJ has in earlier cases stated that a higher price for a protected product than for an unprotected is okay, since the inventor has a right to achieve a return on his investment.¹⁶⁸ The national courts can therefore not make an assessment of what should constitute “just reward” based on selling price and production price in cases concerning intellectual property rights.¹⁶⁹ It seems unfeasible to uphold this second example, since it is impossible for the national courts to calculate a fair price without a competitive market to compare it with. If the holder of the intellectual property right could not charge the price he thinks is fair, the incentive to invest.¹⁷⁰

The third, and final, example of abuse presented by the Court in the *Renault* and *Volvo* cases was that a decision by the car manufacturer not to produce protected spare parts for a specific model of which many cars were still in use could be abusive. Some authors have expressed the opinion that this example is unlikely to create any difficulties, since a company holding an intellectual property rights is not likely to object to an infringement if it is not interested in producing the good itself.¹⁷¹ This opinion has been opposed by others, saying that the intellectual property owner, for example a car manufacturer, might want to force the owner of an old car to buy a new one,

¹⁶⁴ Govaere, *The Use and Abuse of Intellectual Property Rights in E.C. Law*, pp. 255.

¹⁶⁵ 125 F.3d 1195 (9th Cir. 1997).

¹⁶⁶ 203 F.3d 1322 (Fed Cir. 2000), cert denied, 121 S. Ct. 1077 (2002).

¹⁶⁷ Case 27/76, *United Brands v. Commission*, at paras 250 to 253.

¹⁶⁸ Case 24/67, *Parke, Davis and Co v. Centrafarm*, at page 72.

¹⁶⁹ Govaere, *The Use and Abuse of Intellectual Property Rights in E.C. Law*, p. 259.

¹⁷⁰ Korah, *No Duty to License Independent Repairers to Make Spare Parts: The Renault, Volvo and Bayer & Hennecke Cases*, pp. 382.

¹⁷¹ Korah, *No Duty to License Independent Repairers to Make Spare Parts: The Renault, Volvo and Bayer & Hennecke Cases*, pp. 383.

by making it impossible to buy spare parts to the old car. The main business of a car manufacturer is after all to sell new cars, not to make spare parts for old ones.¹⁷² Another problem with this example is for the national court to decide what number of cars are “many” cars. This will probably lead to a different interpretation of the word “many” by the different courts.

To sum up, the basic principle presented by the ECJ in these cases was that it is lawful for a dominant undertaking to acquire exclusive rights in the form of intellectual property rights and it is also lawful to refuse to license these rights.¹⁷³ This judgement has not been totally upheld by the Court in later cases.

3.2.4.2 The Magill¹⁷⁴ case

In the *Magill* case, three broadcasting companies in Ireland, RTE, ITP and BBC, refused to license the right of the information about their TV programmes to Magill TV Guide Limited, hereinafter called Magill, who wanted to publish a new weekly comprehensive TV guide in Ireland. The broadcasting companies had copyright to their listings according to Copyright Law in England and Ireland and they only licensed their information to certain newspapers free of charge on the ground that the newspapers only published the information one day ahead on weekdays and two days ahead on weekends. The only way for consumers to get comprehensive information about the programmes for the coming week was for them to buy three separate TV guides, published by each one of the different broadcasters.¹⁷⁵

Magill complained to the Commission that the broadcasting companies’ refusal to license was an abuse of their dominant position and as such a violation of Article 82 EC. In its assessments the Commission defined three separate relevant product markets, namely one for the TV listings, one for the weekly TV guides and one for the TV programmes. The geographical market was defined to the area in which the TV programmes could be received, that is Ireland, or at least the Northern Ireland.¹⁷⁶ Since the broadcasting companies had a legal monopoly to their TV listings, for which there were no substitutes, they occupied a dominant position on the relevant product markets. The Commission found that the broadcasting companies

¹⁷² Govaere, *The Use and Abuse of Intellectual Property Rights in E.C. Law*, p. 260.

¹⁷³ Faull, Nikpay, *The EC Law of Competition*, p. 158.

¹⁷⁴ Joined cases C-241/91P and C-242/91P, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v. Commission*.

¹⁷⁵ Joined cases C-241/91P and C-242/91P, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v. Commission*, at para 7 and 9.

¹⁷⁶ Commission Decision 89/205/EEC, p. 48.

did abuse their dominant position and ordered the companies to stop their abuse, especially

“by supplying [...] third parties on request and on a non-discriminatory basis with their individual advance weekly programme listings and by permitting reproduction of those listings by such parties”¹⁷⁷

The fact that the listings were protected by intellectual property rights was not something that prevented the Commission from making such a decision. On the contrary, the Commission found that the companies used their copyright as instruments of abuse, in a way which falls outside the specific subject-matter of that intellectual property right. The Commission also found that the companies abused their position by retaining the market for TV guides for themselves.¹⁷⁸

The reason why the Commission reach this decision was that they were worried that the judgement in the *Volvo* case would lead to an opportunity for holders of intellectual property rights to use their rights to get immunity from the competition rules.¹⁷⁹ Furthermore the Commission thought that the TV listings were essential facilities for the market for TV guides and that the broadcasting companies used their facilities to prevent a new and improved product on a secondary market.¹⁸⁰ The Commission also raised objections to the validity of the specific copyright, something which is outside the scope of EC Law.¹⁸¹ The ECJ chose to disregard from that remark.

All three companies sought an annulment of the Commission’s decision at the Court of First Instance, but the CFI upheld the decision on most parts. The CFI stated that, although the rules on the existence of intellectual property rights lie within the competence of the Member States, only such national grants, that protect the actual substance of the intellectual property right, are permitted under EC Law. In cases were

“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 8[2] [...] the copyright is no longer exercised in a manner which corresponds to its essential function [...]. In that case, the primacy of Community law [...] prevails over any use of a rule of national intellectual property law”¹⁸²

The CFI hence found that the refusal to license a copyright in this case was an abusive conduct, although the Court found that such a refusal was the

¹⁷⁷ Commission Decision 89/205/EEC, Article 2 of the decision.

¹⁷⁸ Commission Decision 89/205/EEC, p. 50.

¹⁷⁹ Anderman, *EC Competition Law and Intellectual Property Rights*, p. 205.

¹⁸⁰ Anderman, *EC Competition Law and Intellectual Property Rights*, p. 205.

¹⁸¹ Commission Decision 89/205/EEC, pp. 48.

¹⁸² Case T-69/89, *RTE v. Commission*, at para 71.

very subject-matter of a property right in the *Volvo* case.¹⁸³ The difference between the two cases was, according to the CFI, that the conduct by the broadcasting companies hindered the emergence of a new product for which it was a potential consumer demand.¹⁸⁴ The CFI also compared the conduct by the broadcasting companies with the first and third example stated by the ECJ in the *Volvo* case, namely that the refusal to license information about TV programmes could be compared with the refusal to supply goods to independent repairers and a decision not to manufacture spare parts for old cars any longer, although many cars are still in circulation.¹⁸⁵ The CFI did not, however, explain how it meant that these situations corresponded with the situation in *Magill*.

RTE and ITP, but not BBC, appealed to the European Court of Justice. Advocate General Gulmann opened his opinion by stating the great importance of protecting intellectual property rights, both for the individual owner of the right and for society. The Member States have, by entering into international obligations, committed themselves to protect intellectual property rights. Those rights hence give its owner an exclusive right to restrict competition in the field covered by the property right.¹⁸⁶ Gulmann also stated that the international obligations give its members the right to limit the extent of the property right, by legislating for example compulsory licensing. Such limits have also been introduced into the intellectual property laws of the Member States, which means that the balance between intellectual property rights and abusive conduct has already been taken into account by the Member States. It is therefore of great importance that care is taken by EC authorities when dealing with these issues on the basis of the Community Competition Rules.¹⁸⁷

Since the CFI based its judgement on the concept of the specific subject-matter, the Advocate General then proceeded by considering whether this was a correct way of approaching the problem or not. Gulmann stated that

*“The application of the concept of the specific subject-matter is an expression of the reasoning that for each intellectual property right it is possible to identify a number of core rights which the owner of that right enjoys under national law and whose exercise is not affected by the Treaty rules.”*¹⁸⁸

He then concluded that although this concept was originally used to determine the balance between the community rules on the free movement of goods and intellectual property rights, the ECJ has in recent cases used

¹⁸³ Govaere, *The Use and Abuse of Intellectual Property Rights in E.C. Law*, p. 255.

¹⁸⁴ Case T-69/89, *RTE v. Commission*, at para 73.

¹⁸⁵ Case T-69/89, *RTE v. Commission*, at para 74.

¹⁸⁶ Opinion of Mr Gulmann, Joined cases C-241/91 P and 242/91 P, at para 11.

¹⁸⁷ Opinion of Mr Gulmann, Joined cases C-241/91 P and 242/91 P, at paras 12 to 14.

¹⁸⁸ Opinion of Mr Gulmann, Joined cases C-241/91 P and 242/91 P, at para 28.

the concept of the specific subject-matter on competition assessments as well.¹⁸⁹

Which core rights that should be included in the specific subject matter are not totally clear. The specific subject-matter of copyrights could, according to the Advocate General, be to commercially exploit the copyright and it is definitely the exclusive right to reproduce the protected work. One part of the specific subject-matter is, according to the *Volvo* case, the right to refuse licences. The question in this case was, according to the Advocate General, not to determine whether or not the conduct was within the copyright's core right, but instead if there were any "exceptional circumstances", under which an obligation to license an intellectual property right existed, in spite of the fact that the owner exercised his right within the specific subject-matter.¹⁹⁰

The way of determining if any "exceptional circumstances" existed was, according to Gulmann, for the court to assess if the undertaking's exercise was necessary in order to fulfil the essential function of the copyright. If it is not, the rules of competition outweigh the national rules of intellectual property rights. The essential function of a copyright is always to reward to inventor's efforts.¹⁹¹ If it, for example, is sufficient for the essential function of the copyright to be carried out, that the owner gets an economical reward in the form of royalties, it is not necessary for the owner to refuse to licence its copyright in order to fulfil the essential function.¹⁹² The reason for defining a copyright's essential function is to determine the interests that must be balanced against the interest of free competition. The balance must, according to Gulmann, always be in favour of the intellectual property right.

To oblige upon a holder of a copyright to licence this right does constitute a serious interference in his right. There must therefore, according to the Advocate General, exist

*"particularly substantial and weighty competition grounds for the right to refuse licenses to [not] be regarded as necessary for [the] copyright to fulfil its essential function."*¹⁹³

Since Advocate General Gulmann could not find that the publication of a comprehensive TV Guide would constitute a particularly substantial and weighty competition ground, he recommended that the Court annulled the Commission's decision and set aside the judgement of the CFI. Mr Gulmann thought that the fact that Magill wanted to create a, in the view of the

¹⁸⁹ Opinion of Mr Gulmann, Joined cases C-241/91 P and 242/91 P, at paras 31 and 32.

¹⁹⁰ Opinion of Mr Gulmann, Joined cases C-241/91 P and 242/91 P, at para 40.

¹⁹¹ Van Kerckhove, *The Advocate General Delivers his Opinion on Magill*, p. 277.

¹⁹² Opinion of Mr Gulmann, Joined cases C-241/91 P and 242/91 P, at para 83.

¹⁹³ Opinion of Mr Gulmann, Joined cases C-241/91 P and 242/91 P, at para 87.

consumers, better product did not mean that the product was new. Since the needs of the consumers were met by the TV guides produced by the broadcasters, the interest of protecting the copyright should carry greater weight than the consumer interest of a better product.¹⁹⁴ The opinion of Advocate General Gulmann is well represented by academics, many of whom have been critical to the judgement by the ECJ.¹⁹⁵

The European Court of Justice was not convinced by the Advocate General's opinion on the cases and it therefore upheld the judgement of the CFI and the decision of the Commission, stating an obligation for the broadcasting companies to license the information about their TV programmes to Magill. The broadcaster's abusive conduct was based on three "exceptional circumstances". First, there was no actual or potential substitute to Magill's comprehensive TV Guide. The broadcasters published their weekly programme listings in three separate Guides, hence forcing the consumers to buy three guides to get a good overview of the programmes. The broadcasters

*"prevented the appearance of a new product [...] which the appellants did not offer and for which there was also a potential consumer demand"*¹⁹⁶

Second, the broadcasters could not produce an objective justification for their refusal to license the information to Magill. The mere ownership of an intellectual property right is evidently not an objective justification.¹⁹⁷ The third circumstance which made the broadcasters' conduct abusive was the fact that they reserved the right to an adjacent market. The Court compared the information of the TV programmes with an indispensable raw material.¹⁹⁸

The situation after the *Magill* case is somewhat different from the *Volvo* case, since Magill needed a license to the intellectual property right in order to develop a new product for which it is a potential demand. In such cases there may be a limited obligation to license.¹⁹⁹ Some critical voices have been raised after the judgement. Many of them have been concerned that the case will decrease the incentive for companies to invest in research and development of new products and processes if they are not given an

¹⁹⁴ Opinion of Mr Gulmann, Joined cases C-241/91 P and 242/91 P, at para 97.

¹⁹⁵ See for example Subiotto, *The Right to Deal with Whom One Pleases under EEC Competition Law: A Small Contribution to a Necessary Debate*, p 242 and Ridyard, *Essential Facilities and the Obligation to Supply Competitors under UK and EC Competition Law*, p. 445.

¹⁹⁶ Joined cases C-241/91P and C-242/91P, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v. Commission*, at para 54 of the judgement.

¹⁹⁷ Anderman, *EC Competition Law and Intellectual Property Rights*, p. 209.

¹⁹⁸ Joined cases C-241/91P and C-242/91P, *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v. Commission*, at para 54 and 56.

¹⁹⁹ Faull, Nikpay, *The EC Law of Competition*, p. 631.

exclusive right to exploit the product or process.²⁰⁰ Others mean that since the ECJ was very clear on the fact that “exceptional circumstances” are needed in order for the Court to oblige a license, the *Magill* judgement will not have a big impact in the future.²⁰¹

3.2.4.3 The *Tiercé Ladbroke*²⁰² case

Tiercé Ladbroke SA, hereinafter called *Ladbroke*, was a Belgian bookmaking company. When the *Pari Mutuel Urbain Français (PMU)*, an economic interest group for the French race courses, refused to license the right to broadcast French horse races to *Ladbroke*, the company lodged a complaint to the Commission, in which it alleged *PMU*, *PMI*²⁰³ and the race courses of infringing Article 81 and/or 82.²⁰⁴ The Commission did not find that the accused companies infringed the Competition rules.

Ladbroke appealed this decision to the Court of First Instance and held that the Commission had made a misapplication of Article 82 EEC. In relation to the definition of the relevant product market, the CFI held that the Commission had made a correct assessment when they found that the product market was the one for the retransmission of sound and pictures for horse races in general, rather than the market for transmission of French sound and pictures, which was alleged by *Ladbroke*.²⁰⁵

Ladbroke also wanted the CFI to change the Commission’s definition of the geographical market and hold it to be the Community market or at least France, Belgium and Germany.²⁰⁶ CFI rejected *Ladbroke*’s assessment, hence agreeing with the Commission on their definition of the geographical market as only including the Belgian market. The reason for CFI’s assessment was that there were such close geographical links between the ones placing the bet and the betting outlets.²⁰⁷ The mobility of the bettors was therefore limited. The legal frameworks in the specific countries are also different, which meant that the betting outlets could not compete with outlets in the neighbouring countries on the same conditions.

²⁰⁰ For example, Subiotto, *The Right to Deal with Whom One Pleases under EEC Competition Law: A Small Contribution to a Necessary Debate*, p. 237 and Ridyard, *Essential Facilities and the Obligation to Supply Competitors under UK and EC Competition Law*, p. 445.

²⁰¹ For example Greaves, *Magill Est Arrivé... RTE and ITP v Commission of the European Communities*, pp. 246.

²⁰² Case T-504/93, *Tiercé Ladbroke SA v. Commission*.

²⁰³ *PMI*, *Pari Mutuel International*, is a company, primarily owned by *PMU*, which exploit outside France televised pictures and information on French horse races.

²⁰⁴ I will primarily deal with the questions concerning Article 82 in this thesis.

²⁰⁵ Case T-504/93, *Tiercé Ladbroke SA v. Commission*, at para 12, 21 and 64.

²⁰⁶ Case T-504/93, *Tiercé Ladbroke SA v. Commission*, at para 12.

²⁰⁷ Case T-504/93, *Tiercé Ladbroke SA v. Commission*, at para 21, 98, 106 and 108.

As for the alleged abuse, the CFI held that it could not be found that the companies had abused their position in the Belgian market, since they were not present in that specific market.²⁰⁸ Since the markets were nationally distinct, Ladbroke could not demand to get a license, not even if they were willing to pay a reasonable royalty, on the grounds that PMU and the race courses had licensed the right to broadcast races in other markets. CFI also rejected Ladbrokes reference to the *Magill* case, by stating that PMU's and the race course's refusal to license did not prevent Ladbroke to enter the market. Ladbroke had not only entered the market prior to this case, they were the largest undertaking on the market.

Furthermore the Court of First Instance held that

“The refusal to supply the applicant could not fall within the prohibition laid down by Article 8[2] unless it concerned a product or service which was either essential for the exercise of the activity in question, in that there were no real or potential substitute, or was a new product whose introduction may be prevented.”²⁰⁹

Betting on French horse races was already possible in Belgium and the broadcasting of sound and pictures could therefore not be indispensable for Ladbroke. No abuse could hence be found and it seems like the CFI took a step back from the *Magill* judgement when it further specified the situations in which compulsory licensing could be obliged.

3.2.4.4 The IMS Health case²¹⁰

In December 2000 National Data Corporation Health Information Services²¹¹, which is an American database services company, lodged a complaint to the Commission, in which it requested that the Commission initiated a procedure to establish that the refusal by Intercontinental Marketing Services Health Inc²¹² to licence its “1860 brick structure”²¹³ was an abuse of their dominant position and also that the Commission should grant an interim measure, obliging IMS to grant such a license.

In July 2001, the Commission delivered such a decision against IMS, which is the world's largest supplier of information on sales and prescriptions of

²⁰⁸ Case T-504/93, *Tiercé Ladbroke SA v. Commission*, at para 124.

²⁰⁹ Case T-504/93, *Tiercé Ladbroke SA v. Commission*, at para 130 to 132.

²¹⁰ Commission Decision of 3 July 2001, Case COMP D3/38.044, *NDC Health/IMS Health*, Case T-184/01R, *IMS Health v. Commission*.

²¹¹ Hereinafter called NDC.

²¹² Hereinafter called IMS.

²¹³ The “1860 Brick Structure” was a structure dividing the German market into small parts, consisting of four to five pharmacies and/or physicians. IMS collected sales data from the pharmacies/physicians and put it in the “1860 Brick Structure” and the Pharmaceutical companies then used the information in order to, among other things, evaluate sales, plan marketing and calculate sales bonuses for their sales representatives.

pharmaceutical products.²¹⁴ In the interim measure, the Commission obliged IMS to grant a licence, without delay, to all third parties currently being present on the German market for regional sales data services for the use of the “1860 brick structure”.²¹⁵

The case before the Commission started when IMS sued NDC for copyright infringement before a German district court. IMS held that the “1860 brick structure” was copyright protected by them, which meant that NDC, or any other company for that matter, had no right to use the structure without IMS’ approval. The German Court agreed and gave the structure copyright protection on the basis of German legislation giving effect to the Database Directive.²¹⁶ As a principal rule, a database need to be original, either by its structure or its contents, but the Database Directive also has a *sui generis rule*, which gives copyright protection to a database if it is the product of a large investment.²¹⁷ The *sui generis rule* is the reason why the “1860 brick structure” was given copyright protection and the protection lasts until 15 years after the database was made public.

Prior to the Database Directive, IMS’ structure could not have gotten protection, since German legislation earlier required a work to have qualitative or aesthetic merits in order to qualify for protection. One of the aims with the Database Directive was to make it easier to get protection and to make the originality criterion less demanding.²¹⁸ On appeal the Frankfurt Court of Appeals found, on February 19th 2002, that IMS could not establish jurisdiction to assert infringement of copyright in the case, since there were strong evidence suggesting that the German pharmaceutical industry had helped develop the structure. The highest court in Germany has not yet delivered its opinion in the case, hence this litigation will continue parallel to the case before the European authorities for years to come.²¹⁹

The first brick structure was devised in 1969, and the system has later been revised a number of times. IMS initiated the shaping of the brick structure and invited a “working group”, comprised by the major German

²¹⁴ Commission Decision of 3 July 2001, Case COMP D3/38.044, *NDC Health/IMS Health*.

²¹⁵ Commission Decision, Case COMP D3/38.044, Article 1.

²¹⁶ Directive 96/9 of the European Parliament and of the Council of March 11, 1996 on the legal protection of databases. See Korah, *The Interface between intellectual Property and antitrust: the European Experience*, p.824. The Database Directive had to be implemented in the Member States’ legislations by January 1, 1998.

²¹⁷ Since this is an exceptional rule, which could easily be misused, there is also a provision in the Database Directive that states that this rule can be limited by competition rules, see the Database Directive recital 47 and Article 13.

²¹⁸ Forrester, *Compulsory licensing in Europe: a rare cure to aberrant national intellectual property rights?*, p. 15.

²¹⁹ The ground for copyright is not interesting for the application of the EC Competition Rules, but it is important to know these facts in order to understand the complicated merits of this case.

pharmaceutical companies, to help them to create the best possible system.²²⁰ For integrity reasons it is not legal to sell information about pharmaceutical sales by each single pharmacy or doctor in Germany. The system was therefore based on the postal codes of pharmacies and physicians, which was then grouped into four or five to create a stable group.²²¹ Since the pharmaceutical companies had helped creating the “1860 brick structure”, they considered it as a de facto industry standard. Very few of the pharmaceutical companies are prepared to trade the structure for a different system, since a change of systems would force them to make huge economical sacrifices.²²²

The Commission defined the relevant product market as being the market for German regional sales data.²²³ Since the information was demanded on a regional manner and since the fundamental aspects, such as names, packages and therapeutic categories of the drugs, differed between the Member States, the geographical market was considered to be Germany.²²⁴ IMS was considered to occupy a dominant position on the market because it held a quasi-monopoly.²²⁵

In its complaint NDC asserted that the “1860 brick structure” was an essential facility and that IMS therefore was obliged not only to refrain from anti-competitive activity, but it was also obliged to actively promote competition by allowing competitors access to the facility.²²⁶

The Commission started by stating that neither the ECJ nor the CFI has ever expressly referred to an essential facility doctrine, but they have, in for example the *Magill* case, considered the refusal to grant a license in “exceptional circumstances” to be abusive. From the *Ladbroke* case, it follows that a refusal to licence can be an abuse, not only if it hinders the emergence of a new product or service, but also if the product or service is essential for the exercise of an activity.²²⁷ From the *Bronner*²²⁸ case it

²²⁰ Commission Decision, Case COMP D3/38.044, at para 75.

²²¹ Commission Decision, Case COMP D3/38.044, at para 14.

²²² Commission Decision, Case COMP D3/38.044, at para 92.

²²³ Commission Decision, Case COMP D3/38.044, at para 51.

²²⁴ Commission Decision, Case COMP D3/38.044, at para 53 to 55.

²²⁵ Commission Decision, Case COMP D3/38.044, at para 62. It is hard to analyse exactly why IMS was considered dominant because much of the information, concerning for example market shares, is deleted from the decision, since it is considered a business secret.

²²⁶ Commission Decision, Case COMP D3/38.044, at para 63, where NDC referred to the opinion of the Advocate General in the *Bronner* case, C-7/97, see also note 235.

²²⁷ Commission Decision, Case COMP D3/38.044, at para 68.

²²⁸ Case 7/97, *Oscar Bronner v. Commission*. The *Bronner* case did not concern a copyright, but a newspaper home delivery structure. The ECJ held that a company abuses its position if it refuses to give access to a facility, which is indispensable in order to carry out business, and the refusal is likely to eliminate all competition and the undertaking can not objectively justify its conduct.

follows that a product or service is essential only if it is indispensable.²²⁹ The Commission concluded the criteria for establishing abuse of a dominant position in cases relating to intellectual property rights to be whether or not

*“- the refusal of access to the facility is likely to eliminate all competition in the relevant market;
- such refusal is not capable of being objectively justified; and
- the facility itself is indispensable to carrying on business, inasmuch as there is no actual or potential substitute for that facility.”*²³⁰

When assessing these criteria the Commission found that the “1860 brick structure” was indispensable in order to compete on the German market, since it was not possible for IMS’ competitors to develop their own structure, without infringing IMS’ copyright. The reasons for the Commission’s finding were that very few of the pharmaceutical companies were, for a number of reasons, willing to switch to a different structure. They all considered the “1860 brick structure” to be a de facto industry standard, a common language of this line of business.²³¹ The pharmaceutical companies did not even think it was possible to create a structure that did not infringe the “1860 brick structure”. Not a structure that made sense anyway.²³² The competitors had, prior to the present case, tried to create a couple of different structures, but every one of them had been followed by an infringement suit lodged by IMS. The Commission therefore considered the “1860 brick structure” to be indispensable to the competitors, since they could not find any actual or potential substitutes for it.²³³

The Commission then went on to investigate if IMS had any objective justifications for its conduct. Since it, according to the *Volvo* case, lies within the limits of the specific subject-matter of the intellectual property right, to refuse to grant a license, such an obligation can only be put on the holder of a property right if exceptional circumstances are at hand, as in the *Magill* case. IMS tried to argue that it had objective justifications for its refusal, such as the fact that NDC had infringed IMS’ copyright although they were aware of its existence and that NDC had offered to pay a too small royalty for the license. The fact that IMS had consequently refused to even discuss a license, together with the fact that another competitor had offered a royalty ten times the one offered by NDC and still had not gotten a license, made the Commission conclude that IMS had no objective justifications for its refusal to grant a license to NDC.²³⁴ After finding that the “1860 brick structure” was an indispensable facility, which IMS had no objective justifications for not giving access to, the Commission could not conclude

²²⁹ Commission Decision, Case COMP D3/38.044, at para 69.

²³⁰ Commission Decision, Case COMP D3/38.044, at para 70.

²³¹ Commission Decision, Case COMP D3/38.044, at para 86.

²³² Commission Decision, Case COMP D3/38.044, at para 131.

²³³ Commission Decision, Case COMP D3/38.044, at para 181.

²³⁴ Commission Decision, Case COMP D3/38.044, at paras 167 to 174.

otherwise than that IMS' conduct would lead to the elimination of all competition and their refusal to license hence constituted abuse. The Commission therefore ordered IMS to grant licenses to all competitors currently present on the market.

IMS appealed the Commission's interim measure to the Court of First instance on August 6th 2001, in which they asked the president of the CFI to postpone the enforcement of the Commission's decision. Due to the large economical consequences of the interim measures the President of the CFI granted IMS appeal on August 10th 2001, an order which was upheld by the CFI after a more thorough investigation of the case on October 26th 2001.²³⁵ The CFI first concluded that the Commission has a right to order interim measures according to Article 3 of Regulation 17. However, three circumstances must be fulfilled for the Commission to be able to deliver such decisions according to the *Camera Care*²³⁶ case and the *Ford* cases²³⁷, namely

- there is a reasonable strong prima facie case establishing an infringement;
- there is a likelihood of serious and irreparable harm to the applicants unless the measures are ordered;
- there is an urgent need for protective measures.”²³⁸

The CFI found that the first question, whether or not there is a prima facie establishment of an infringement should be answered negative. The main reason for the Court's finding was that the interpretation of Article 82 made by the Commission in the contested decision was rather novel and that the “exceptional circumstances” in the *Magill* case, which is the only previous case where the ECJ has upheld an obligation to grant a license of an intellectual property right, was not found in the contested case. First of all, there was no hindering of the emergence of a new product, a factor that was very important in the *Magill* case. Secondly, IMS did not try to reserve a neighbouring market for themselves by not granting a license, they were trying to reserve the market in which they did their main business activity.²³⁹

CFI held that although the interpretation made by the Commission may be correct, it can not be excluded that such an interpretation would not be upheld by the ECJ.²⁴⁰ Therefore, the Commission had not shown a

²³⁵ Case T-184/01R, *IMS Health v. Commission*, decision on August 10th 2001 and October 26th 2001.

²³⁶ Case 792/79 R, *Camera Care v. Commission*.

²³⁷ Joined Cases, C-229/82 R and C-228/82, *Ford v. Commission*.

²³⁸ Case T-184/01R, *IMS Health v. Commission*, decision on October 26th 2001 at para 52.

²³⁹ Case T-184/01R, *IMS Health v. Commission*, decision on October 26th 2001 at para 101.

²⁴⁰ The interpretation made by the Commission was drawn from the *Magill* case in connection with the later case *Bronner*, which did not concern a copyright, but a newspaper home delivery structure. The ECJ held that a company abuses its position if the refusal to give access to a facility is likely to eliminate all competition and the undertaking can not

reasonable strong prima facie case.²⁴¹ Although NDC would not be able to compete on the market without access to the “1860 brick structure” and although that is not good in the view of the public interest, the CFI came to the conclusion that it is also in the public interest to protect intellectual property rights and interim measures obligating compulsory licensing should therefore only be adopted under “exceptional circumstances”. Hence, the balance of interest fell in favour of IMS and the CFI suspended the interim measures until the case could be thoroughly investigated.²⁴² NDC appealed the order by the CFI, but the Court withheld its position and dismissed the appeal on April 11th 2002.²⁴³ The final word in this case has not yet fallen.

3.2.5 Conclusions on compulsory licensing under Article 82

To conclude what seems to be the current EC Competition Policy on compulsory licensing, at least before the *IMS Health* case, the general rule is that the holder of an intellectual property right is not obliged to license its right to competitors. The same restrictive view towards compulsory licensing as the one shown both in the International Conventions and in the American Common Law seems to be present within the European Community. According to the *Volvo* case, it is not considered unlawful for the holder of an intellectual property right to exclude competitors from the market in which the intellectual property right is granted. It is actually quite the contrary; this is the substance of the intellectual property right. This view is very similar to the view held in the *Westinghouse Electric v. US* case.

In some cases there may, however, be an obligation for a holder of an intellectual property right to grant a license to its competitors. In order for such an obligation to be at hand, the elements of Article 82 EC must be fulfilled, that is, the holder must occupy a dominant position on the relevant market, the holder must abuse that position and trade between Member States must be affected. The assessment of these criteria is somewhat different when intellectual property rights are involved than in cases concerning ordinary goods, but it seems like these elements can be used in a manipulative manner by the Commission and the Courts. They can, for example, use a narrow market definition in order to find high market shares or no substitutes and by doing so finding dominance in the case. They can

objectively justify its conduct, if the facility is indispensable in order to be able to carry out business.

²⁴¹ Case T-184/01R, *IMS Health v. Commission*, decision on October 26th 2001 at para 106. The CFI then went on to assess whether or not the Commission was right when deciding to order an interim measure. That assessment lies outside the scope of this thesis and will therefore not be presented here. For the interested reader I can recommend Navarro and Gonzalez, *Interim Measures in Competition Cases before the European Commission and Courts*, 2002.

²⁴² Case T-184/01R, *IMS Health v. Commission*, decision on October 26th 2001 at para 149.

²⁴³ Case T-184/01 P(R), *IMS Health v. Commission*, decision on April 11th 2002.

also use the rule that an undertaking's conduct must affect trade between Member States as a rule on jurisdiction. That is, they can assert that the refusal to license is capable of affecting trade, hence making the Community rules applicable instead of national rules, since this rule is not absolute. In the United States the authorities have no possibility of affecting jurisdiction in this way, since the rules on jurisdiction and competence between federal and state authorities has been established a long time ago.

It is, however, the element of abuse that finally can create an obligation to license. In the *Magill* case, the ECJ maintained that if some "exceptional circumstances" were present in a case, there could be an obligation to grant a license to an intellectual property right. The circumstances that made *Magill* exceptional was that there were no substitutes for the protected property, the refusal hindered the emergence of a new product, for which there was a potential customer demand, the holders of the rights could not present any objective justifications for their refusals and, finally, they reserved for themselves a secondary market by refusing to license.

Magill is the only case where a compulsory license has been ordered by the Community Courts, so it is hard to draw any far reaching conclusions on EC Competition Policy on Compulsory Licensing from the case. It is, however, probably not considered abusive to refuse to license an intellectual property right to a competitor that wants to create the same product as the rightholder makes, unless there is clear evidence that demand on a downstream market is not fulfilled by the rightholder, which leads to higher prices than necessary. It does not seem to be abusive to refuse to grant a license to a competitor that wants to create the same product in the same market, as the one were the rightholder makes its main business activity in. If the rightholder decides to license its right to one competitor, but not to others, it may be a case of discrimination, in which case the ordinary rules of Article 82 EC apply.

Since the Member States are parties of the International Conventions on intellectual property protection it seems odd if the European Community Courts diverge from the provisions set in these Conventions and increase the use of compulsory licensing within the Union. The general rule, that an undertaking is not obliged to grant a license to its intellectual property right, is in accordance with the International Conventions, but the fact that the rules on compulsory licensing are not established in legislation and the fact that the Commission and the Courts can make it easier for themselves to impose an obligation to grant a license by turning and tossing the elements of Article 82 does not seem to be in line with neither the International Treaties, nor the American development. The ECJ may further increase this discrepancy if they increase the use of compulsory licensing by their judgement in the *IMS Health* case.

4 Law and Economics

4.1 Introduction

The interface between competition law and intellectual property law is, as has been shown above, a complex area of law. Legislators, courts and authorities can therefore use theories of Economics to analyse how a certain legal rule will influence people's behaviour, before putting it into action. When Economic theories are used to analyse such affect, the law gets a scientific basis to stand on. Such analyse also makes it possible to predict people's response to new laws or changes in existing law.²⁴⁴ The laws are not passed for nothing. They are means to reach a specific social goal set by the lawmaker. The concept of compulsory licensing is introduced as a way of balancing between the incentive to invest, given by the intellectual property laws, and the interest of having many suppliers and products with good quality and low prices on the market, which is protected by competition laws.

In order to analyse the impact of a legal sanction, such as compulsory licensing, on the market some theories of microeconomics need to be explained. Microeconomics is the study of how scarce resources are allocated among competing ends, which means that there are limited resources in the world and that everyone therefore has to make choices every day.²⁴⁵ This means that we have to make decisions about what goods we really want and hence make trade-offs on the market. All people in the economy are, in microeconomic theory, considered to be rational human beings, which means that everyone will always strive to maximise his own wealth, within his own limits of income, at all times.²⁴⁶

4.2 Market equilibrium

There are two sides to every market, the *demand side*, which is dominated by the buyers (consumers), and the *supply side*, which is dominated by the producers and suppliers (firms). Since everyone strives to maximise his own wealth at all time there is a certain demand for goods at all time. This demand is mostly dependent on the price. Generally speaking, the demand for a product decreases when the price increases. The opposite is the case if the price falls. This is called *the law of demand*.²⁴⁷

²⁴⁴ Cooter, Ulen, *Law and Economics*, p. 3.

²⁴⁵ Cooter, Ulen, *Law and Economics*, p. 10.

²⁴⁶ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, p. 43.

²⁴⁷ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, p. 44.

Goods are, however, variously sensitive to price changes. The demand for a certain product can drop heavily if the price rises, while the demand for another product is hardly affected at all from the same price change. Economists call this phenomena *price elasticity*. How sensitive a product is for price changes are mainly affected by the number of substitutes the product has and also how much the buyer needs the product. If a person can easily find another product, with the same qualities and characteristics, he is not likely to be willing to pay more for the first product. If there is no substitute and he really needs the product, he might not have another choice than to buy the product, although the price is higher than before. This is usually the case with, intellectual property protected products.²⁴⁸

The other side of the market is the supply side. A firm's decision to supply goods is also affected mainly by the price. The firm is willing to supply a greater quantity if the price is high than if the price is low. This is true since the firm is rational and hence strives to maximise its profits. A firm will never produce a product if the marginal cost exceeds the profit, since that would mean that the firm would loose money to make the sale.²⁴⁹ This means that if a holder of an intellectual property right is the sole supplier of the protected product, he can influence the product's price by producing fewer products. All firms, of course, want to be in the position of being able to influence their product's price, since that puts them in a position where they can increase profit on each sold product. There is therefore an incentive for holders of intellectual property rights to refuse to license their right.

Since every market participant is considered rational in microeconomic theory, both buyers and suppliers are assumed to be trying to maximise their wealth/profit. If that is the case the buyer will not be willing to buy a product if the price is too high and the supplier will not sell a product if the price is too low. The market therefore moves towards a state of *market equilibrium*. When neither the buyers nor the suppliers can make changes that would benefit them both the market is said to have reached equilibrium (see figure 1).²⁵⁰

²⁴⁸ Cooter, Ulen, *Law and Economics*, p. 25.

²⁴⁹ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, pp. 46.

²⁵⁰ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, p 48.

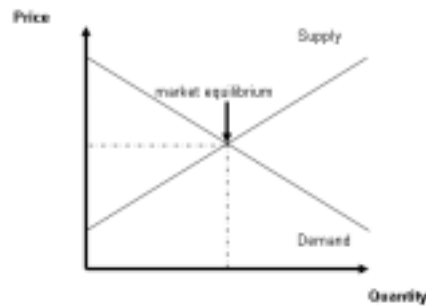


FIGURE 1

This market position is considered the ideal market state, since it is the most efficient state. Market equilibrium can only be reached in a market with perfect competition, that is, in a market where there are many independent actors, the quantity of products being bought and sold is small relative to the total quantity on the market, there is a large supply of substitutable products, all buyers and suppliers have perfect information and there is a complete freedom of entry and exit the market.²⁵¹ These conditions are important so that neither the buyer, nor the supplier, can influence the market price by its individual decisions.²⁵² Competition laws are passed in order to make it easier for the market to reach equilibrium.

If the market is in equilibrium and the price decreases, the demand will increase, but the suppliers will not be willing to supply all demanded goods. If the opposite happened, that is if price increased, the suppliers would usually be happy to supply a larger quantity, but buyers would not be willing to buy at the new increased price. In the first case, there would be a demand surplus, and in the other case it would be a supply surplus. Neither of these cases is considered to be optimal for the efficiency in society.

In a market where a holder of an intellectual property right refuses to grant a license to a competitor, who is willing to pay a reasonable fee for the right to use the protected right, just like in the cases presented in chapter two and three above, the market is not likely to reach equilibrium. The holder of an intellectual property right is usually in at least a quasi-monopoly position and he can therefore profit more from staying in that position, in which he can decide the quantity and price on his products, than he could if competitors entered the market. A holder of an intellectual property right is said to be a price taker. This is, however, not the ideal state for society, which could profit more from a competitive market. This is the reason why the refusal to license is sometimes considered an abuse and that it is more efficient for the authorities to force holders of intellectual property rights to share this right.

²⁵¹ Gellhorn, Kovacic, *Antitrust Law and Economics*, p 53.

²⁵² Cooter, Ulen, *Law and Economics*, p. 29.

4.3 Market efficiency

An efficient market is considered to be good for all market participants, since the more goods there are on a market, the more people will be able to fulfil their needs. Economic efficiency is explained by two criteria, namely the *Pareto criterion* and the *Kaldor-Hicks criterion*.²⁵³ Both criteria require that a transaction makes it better for the individuals. The Pareto criterion is fulfilled if a transaction makes it better for at least one individual without making it worse for anyone else.²⁵⁴ When a market is Pareto optimal no changes can be made that will make it better for someone without making it worse for someone else. The Kaldor-Hicks is a bit different from the Pareto criterion because the Kaldor-Hicks criterion is fulfilled if a transaction makes it better for one or more individuals than it makes it worse for someone else.²⁵⁵ This criterion accepts that some individuals get it worse than they used to, as long as the transaction creates a surplus of gains for some individuals.

When the market has reached equilibrium it is Pareto optimal and that is why this market state is said to be the ideal market state.²⁵⁶ No transactions could be made that would benefit both the buyers and the suppliers. In this state there is a difference between what the buyers are willing to pay for a good and the market price. This is called the buyer's surplus. At the same time there is a difference between the income that the suppliers have gained from sales and the price at which they were willing to make a sale. This is called supplier's surplus. (See figure 2).²⁵⁷ The total gain for society is the total of the supplier's surplus and the buyer's surplus and this gain is maximised when the market is in equilibrium.²⁵⁸

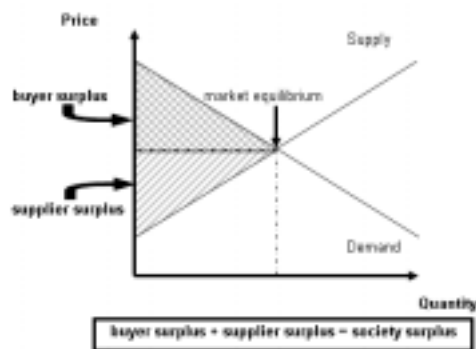


FIGURE 2

²⁵³ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, p 52.

²⁵⁴ Riis, *Ophavsret og retsøkonomi*, p. 30.

²⁵⁵ Riis, *Ophavsret og retsøkonomi*, p. 31.

²⁵⁶ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, p 54.

²⁵⁷ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, pp 56.

²⁵⁸ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, p 58.

If one move this line of reasoning to the *IMS Health* case one could say that it would not be Pareto optimal to force IMS to grant a license to NDC, since that would make it worse for IMS. It could, however, be Kaldor-Hicks optimal to oblige such a license if it made it better for NDC, and other competitors, than it made it worse for IMS. This seems to imply that compulsory licensing is not all bad for economic efficiency. In contrast to the European Commission, the authorities in the United States seem to favour the Pareto criteria over the Kaldor-Hicks criteria, since they are more reluctant of obliging a compulsory license. It does, however, seem like even the American authorities in some cases, for example if a holder uses its monopoly position in one market in order to gain a competitive edge in another market, mean that it would be better for society to order the holder to grant a license to a competitor. Critics of compulsory licensing fear that the incentive to invest will decrease if this remedy is used, but if it is only used in exceptional cases that fear is probably overrated.

The main problem with these microeconomic theories is that a world is created with a lot of simplifications and conditions, which are usually not at hand in the real world. In order to have a market in equilibrium it is necessary to have a market with perfect competition, with only private goods, where the participants have all necessary information and where all costs are included in the calculation.²⁵⁹ These conditions are almost never met and are therefore called market failures, that is, things that prevent the market to reach the state of equilibrium.

4.4 Market failures

4.4.1 Monopoly and market power

One of the sources for market failure is the lack of competition on the market. In order for a market to have perfect competition the buyer must have perfect information about all goods, prices, quality and so on so that he can make a decision about what kind of goods that will maximise his wealth. The suppliers also need to have perfect information so that they can produce the goods that the buyers want. No buyer or supplier should be strong enough to make his own decisions about price and quantity on the market. In order to prevent any supplier from becoming too strong and independent on the market there need to be lots of suppliers for the same type of goods. It must also be easy for new suppliers to enter the market. When a market meets these criteria it is said to be efficient.²⁶⁰

²⁵⁹ Cooter, Ulen, *Law and Economics*, p. 40.

²⁶⁰ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, p. 133.

The opposite of a market with perfect competition is a monopoly market. It can be described as a market where there is only one supplier that occupies the entire market, the product distributed is unique and there are substantial barriers to enter or exit the market.²⁶¹ The most important of these conditions is the existence of entry barriers. Without entry barriers, other undertakings are likely to enter into the market if the undertaking with monopoly powers raises prices too much. One common entry barrier is the one created by legal restraints, such as intellectual property rights.²⁶²

The main problem with monopoly is that the undertaking in such a position can restrict the quantity of products on the market, so that prices increase. The undertaking in such a position is said to have market power.²⁶³ By not producing in a competitive manner, the undertaking can raise profit on each product by increasing the price. This will lead to efficiency losses for society. Monopoly power is, however, not an absolute. The undertaking with monopoly power must always calculate with the risk of another undertaking developing a product that the consumer considers to be a substitute.²⁶⁴ This risk has become more impending in the recent years of technological developments. This risk is, however, diminished by laws on intellectual property rights, since a holder of such a right can exclude others from the market with the help of the legal order. The 9th Circuit court in the United States did, however, state, in the *Image Technical Servs. Inc. v. Eastman Kodak Co*²⁶⁵, that neither patent holders, nor copyright holders, are immune from antitrust liability. This seems to imply that the courts in the future may be harsher in their judgements of companies holding a monopoly position.

In earlier years the main mean of competition was the price of the good. However, in recent years there has been a change in society and nowadays many producers instead compete with new technological developments. This can, for example, lead to a higher number of products, better quality and decreased costs. This new state of market efficiency is called *dynamic efficiency*. No economic model has yet been developed to explain dynamic efficiency and all factors that affect it, but Economists worldwide agree that new developments are good for the welfare of society. The producers must, however, have an incentive to invest, since new developments and innovations usually demand big investments. This is the reason why intellectual property laws are important, since this incentive is not present in a market with perfect competition, where the price is set by the market.²⁶⁶ The producers usually demand to get high market power or even a

²⁶¹ Gellhorn, Kovacic, *Antitrust Law and Economics*, p. 58.

²⁶² Gellhorn, Kovacic, *Antitrust Law and Economics*, p. 59.

²⁶³ Bishop, Walker, *The Economics of EC Competition Law*, p. 27.

²⁶⁴ Gellhorn, Kovacic, *Antitrust Law and Economics*, p. 65.

²⁶⁵ 125 F.3d 1195 at p. 1215.

²⁶⁶ Gutterman, *Innovation and Competition Policy*, p. 37.

temporary monopoly position in order to be willing to take the risk of creating or improving a new product.

Technological innovation creates a pressure on all participants on the market, which is central for competition. Dynamic efficiency is therefore considered to increase the wealth of society and it would therefore not be good for efficiency to remove all intellectual property protection.²⁶⁷ There must instead be a reasonable balance between competition and monopoly established by laws on intellectual property rights. If one look at the case law from both the United States and the European courts it is, however, clear that this balance is probably not possible to make in legislation, since it is hard to create rules that are completely clear and hence catches everyone who is trying to abuse its position. This balance might therefore better be developed by case law, but it is important that the courts explain, at least with reasonable clarity, on which grounds such an obligation can be ordered so that innovation is not hampered because of unclear rules. The ECJ has not been very clear in recent judgement on the subject, and the exact meaning of, for example the “exceptional circumstances” in the *Magill* case, is still unclear. Such uncertainty increases the market failure and makes it even harder for the market to reach equilibrium.

4.4.2 Public goods

Another market failure is public goods. If a person or an undertaking can not earn money on something that they own, they are not likely to buy the property or make an investment in it. Private ownership is considered to be a necessary condition for effective investments to take place. In order to create incentives for investments it is very important for the legal order to protect private property.²⁶⁸ The United States have always been very eager to protect the right of private ownership, which is protected by the Constitution. The European development is quite the opposite, since the intellectual property protection has not yet been harmonized.

One problem with property protection is that all goods are not suitable for private ownership. Goods can be divided into two groups, private goods and public goods. Private goods are ordinary tangible assets. Public goods have two specific characteristics. First of all, their consumption are non-rivalrous, which means that the fact that one person is using the product, does not mean that other people are prevented from using it at the same time. Second of all, they are non-excludable, which means that it is very expensive, and often even impossible, to exclude someone from using the goods.²⁶⁹ These

²⁶⁷ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, pp. 140.

²⁶⁸ Dahlman, Glader, Reidhav, *Rättsekonomi – En introduktion*, p. 157.

²⁶⁹ Examples of public goods are national defence, lighthouses and TV-broadcasting.

characteristics make public goods unsuitable for private ownership. Public goods are therefore considered to be a market failure, since there are incentives for people to try to benefit from the good without paying for it. This is usually called “the problem of free-riders”.²⁷⁰

The laws protecting the rights of ideas and innovations, the intellectual property laws, are passed to deal with the problems concerning public goods. Since intellectual property rights often consist of information, it can be considered a public good.²⁷¹ If there were no rules protecting these rights it would be very easy for free-riders to copy the innovation and produce it at a much lower cost. That could seem like a good thing, but in the long run it would decrease the producers’ incentive to invest in new and improved products, since they would bear a large cost without getting a large income.²⁷²

The fact that the innovators will lose their incentive to invest if there were no intellectual property protection is often considered to be the standard argument for passing intellectual property laws.²⁷³ As stated above, innovations are considered to be good for the welfare of society, hence protecting them is important. The problem is that intellectual property rights creates exclusive rights, a kind of temporary monopoly status, which collide with the traditional interest of perfect competition. Fewer products will be produced, than would have been the case in a market with competition, and the price for the products will be higher than in a competitive market. This will result in a loss of society welfare.²⁷⁴ The legislator tries to deal with this problem by limiting the time and width of the protection. Another way of even out the balance is to allow authorities and courts to order compulsory licensing in some limited cases, in which the holder of an intellectual property right abuses its right.

The general argument for intellectual property protection is that if the exclusive rights were abolished, the result would be closely linked to the “tragedy of the commons”. The tragedy is that a common property would be over exploited so that it would not be anything left in the end. Everyone will try to take as much as they can and no one will have an incentive to invest in the common property. Converted to the field of intellectual property rights, undertakings, other than the inventor, would exploit the innovation as much as they could and the innovator would have a lower rate of return on the investment than he would have had if he had an exclusive right.²⁷⁵ Since intellectual property is usually information, and as such a public good, some

²⁷⁰ Cooter, Ulen, *Law and Economics*, p. 42 and Riis, *Ophavsret og retsøkonomi*, p. 45.

²⁷¹ Bowman, *Patent and Antitrust Law*, p. 17.

²⁷² Gutterman, *Innovation and Competition Policy*, p. 37.

²⁷³ Meiners, Staaf, *Patents, Copyrights and Trademarks: Property or Monopoly?*, p. 913.

²⁷⁴ Meiners, Staaf, *Patents, Copyrights and Trademarks: Property or Monopoly?*, p. 913.

²⁷⁵ Meiners, Staaf, *Patents, Copyrights and Trademarks: Property or Monopoly?*, p. 919.

people argue that it can not be stolen from someone. This because the innovator always has the information although someone else also has it at the same time.²⁷⁶ The problem, however, still remains that the innovator can not earn monopoly profits on its information if someone else can use it at the same time and provide it to the customers.

The old economic models were, as stated above, not created to analyze dynamic, innovative markets.²⁷⁷ There are therefore differences of opinion of how the balance should be between the incentive to innovate, given to the undertakings by the exclusiveness of intellectual property rights, and the social cost of monopolies on the market.²⁷⁸ It seems like, at least prior to the *IMS Health* case, the owner of an intellectual property right holds a pretty strong position in both Europe and the United States, but this position can be changed by the final ruling in the *IMS Health* case if the ECJ finds it important to establish a new balance for dynamic markets.

²⁷⁶ Meiners, Staaf, *Patents, Copyrights and Trademarks: Property or Monopoly?*, p. 919.

²⁷⁷ Cooter, Ulen, *Law and Economics*, p. 128.

²⁷⁸ Gutterman, *Innovation and Competition Policy*, p. 62.

5 Analysis

5.1 International policy comparison

It has been said that competition has been both God and devil in Western civilization.²⁷⁹ This is probably true, since it has provided both economic progress and wealth, while at the same time controlling and limiting the freedom of people and companies. The importance of competition policy is shown by the fact that it is considered an aim to reach the overall Community goals, such as integration and the creation of a single market. It is therefore not hard to understand why the principles of competition law are strongly guarded by the EC Commission.

After all this is said, it is not, however, contested that intellectual property laws are just as important for economic wealth as competition law is. On the contrary, most legislators, authorities and scholars admit that the protection of ideas and innovations is a necessary part of a developing society. These laws make sure that ideas are not kept a secret, but are instead made public so that new ideas can spring out of old ones in order for researchers to reach new conclusions, which will enhance the total wealth in society.

One can wonder what exactly seems to be the problem after all this has been established. Competition law is important and considered good for society wealth, and so is intellectual property laws. The problem, though, is that all laws and principles can be abused, and it is hard to create an optimal balance were the abusers get caught in the net, while the righteous people are protected. The legislators tries to create an optimal balance when they draft intellectual property laws, by giving different protection time and width in order to maintain the incentive to invest at the same time as competition is preserved, at least in the long run. This effort by the legislator is, however, not enough and that is why the remedy of compulsory licensing sometimes can be needed. The principle of compulsory licensing is in many countries used to hinder misuse of the exclusive position created by intellectual property laws.

The International Conventions give some, very limited possibilities, to order compulsory licensing of intellectual property rights. As shown by the presentation above, the outspoken policies on compulsory licensing in Europe and America are also restrictive and the view on these continents is not so different from the other. The reason for this might be that the US antitrust laws and the European Competition Rules were developed out of

²⁷⁹ Gerber, *Law and Competition in Twentieth Century Europe*, p.1.

the same legal and cultural traditions and at approximately the same time; that is in relation to industrialization and democratization.²⁸⁰ The development of competition laws in Europe was, however, disrupted by the World Wars of the 20th century. In the post war development of the European Community, and hence the Community Competition Laws, the US antitrust laws provided, or as some scholars claim, imposed, some ideas to the policy setters in Europe.²⁸¹ This does not mean that the whole concept of European Competition law is copied from US antitrust laws, but some ideas are inherited from America.²⁸²

Ever since the first Community treaty was drafted the EC Competition Rules have evolved and, for example, the conducts considered to constitute abuse have increased and the pattern seems to be expansive. In the search for abusers, the EC Commission sticks at nothing, so the recent development towards a harsher enforcement of abuse of intellectual property rights is not at all surprising. The seemingly more restrictive view towards compulsory licensing in US antitrust law can therefore be said to exist mostly in the minds of the courts and authorities, while the expressed policy on compulsory licensing is basically the same on both continents. The different view of the competition authorities in United States and Europe can be shown by these statements

“The intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare. The intellectual property laws provide incentives for innovation [...] by establishing enforceable property rights for the creators of new and useful products [...]. In the absence of intellectual property rights, imitators could more rapidly exploit the efforts of innovators and investors without compensation. Rapid imitation would reduce the commercial value of innovation and erode incentives to invest, ultimately to the detriment of consumers. The antitrust laws promote innovation and consumer welfare by prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers.”

Section 1.0 of the “Antitrust Guidelines for the Licensing of Intellectual Property”, issued by the U.S. Department of Justice and the Federal Trade Commission

“The Commission welcomes all genuine innovation [...] as highly positive developments for consumers and industry alike. Effective protection of copyrights and patents is most important for technological progress. However, we will not tolerate the extension of existing dominance into adjacent markets through leveraging of market power by anti-competitive means and under the pretext of copyright protection. All companies that want

²⁸⁰ Gerber, *Law and Competition in Twentieth Century Europe*, p.6.

²⁸¹ For example, a US professor of antitrust law, Robert Bowie, helped drafting the competition provisions for the ECSC. See Gerber, *Law and Competition in Twentieth Century Europe*, p.338 and 431.

²⁸² Gerber, *Law and Competition in Twentieth Century Europe*, p. 431.

to do business in the European union must play by its antitrust rules and I'm determines to act for their rigorous enforcement."

Statement by Mario Monti, the European Commissioner for Competition, in Press Release August 3, 2000

The historical view does not seem to be able to explain all the reasons for the difference in mind of competition authorities. I will therefore try to find other factors that might explain this difference in order to figure out the future development in this field.

5.2 Theories of Law and Economics and compulsory licensing

Perhaps one such explanatory factor may be that the theories presented in the field of Law and Economics are more widely developed and applied in the United States, than in Europe or the theories are at least applied in a different way on the different continents. These theories suggest that legal rules, and the sanctions backing them up, create incentives for people to act in one way or the other. Authorities should therefore carefully consider how a provision or principle will affect people's action before putting it to use. The theories of Law and Economics declare that all legal rules should strive to increase the total economic efficiency in society, but why is that considered to be good for society?²⁸³ In short, legal rules should strive for efficiency, because such rules will increase prosperity²⁸⁴ and/or welfare²⁸⁵ in society, hence making the total wealth larger. This means that there will be more goods to share between the members in that society, which suggests that it would be better for everyone, or at least most people.

There is, however, no evidence that everyone will prosper from increased wealth, since the wealth might be unevenly distributed. The important lesson to learn here is that authorities should at least consider in what way their laws, judgements or decisions influence people's actions. Authorities should not just let their policies be decided by mere chance. Critics of the concept of compulsory licensing often say that if this concept is widely used, that is if undertakings are not allowed to obtain a monopoly position for their intellectual property, not even for a limited time, the incentive for them to invest will be reduced and decreased development will follow. It is impossible, in a specific case, to tell which one, the owner of the intellectual property right, or his competitor, that will prosper or gain the most welfare from access to the right. Authorities can only set up policies which, in their opinion, enhance as well prosperity as welfare, in the long run.

²⁸³ This is considered in the normative part of the theories of Law and Economics.

²⁸⁴ Prosperity is defined by the total wealth in society and by the total value of all goods in society.

²⁸⁵ Welfare is explained by the total satisfaction in society.

The question, though, is if the enforcement authorities in Europe or the United States really do make such considerations in a specific case. It is impossible to say if the Commission and the FTC consider the long time affect of their decisions, but it seems like both commissions are more willing to oblige licensing than the courts are. One can not read between the lines of the *IMS Health* decision, and see if the EC Commission has considered the far-reaching consequences of their decision or if they are merely concerned by the facts of the specific case. In my opinion, they should, however, reflect on the bigger impact of their decision.

The joint fear by scholars seems to be that compulsory licensing will lead to a decreased incentive to invest, followed by a decline in society wealth. The fact, however, remains that if the EC Commission, no matter what the dominant undertakings do, allows them to further strengthen their powers by keeping a legal monopoly, this could, in the long run, mean that the undertaking get such a large market power so that they loose their incentive to invest further. If they are monopolists they can charge a higher price than if an equilibrium price was set by the market and they can also produce a smaller quantity than would be optimal from society's viewpoint. If the legal barriers to enter are substantial no other company can be expected to enter the market, so the dominant undertaking does not have to worry about loosing customers, and hence profits, to others. In my view, that does not seem to be a good development for society either.

In the long run, both competition law and intellectual property laws will increase economic efficiency, hence protecting both is important. Monopoly and public goods are both considered market failures, so that means that both of them hinder the market from reaching equilibrium, hence choosing one over the other must be seen as the "least bad thing". To automatically assume that the worst thing that can ever happen to a legal system is that an undertaking is limited in its use of intellectual property rights seems to make it far too easy. It therefore seems reasonable, from an economical viewpoint, that dominant undertakings' intellectual property rights are not immune from competition rules. After all, compulsory licensing is only supposed to be used in exceptional cases.

5.3 Possible outcome of the IMS Health Case

The *Magill* case makes it clear that EC Competition rules can be used to force holders of intellectual property rights to grant a license to that right to competitors. It is, however, not clear how wide this possibility should be. From the order of the CFI in the *IMS Health* case, one can see that the Court means that the interpretation of Article 82, made by the EC Commission in their Decision, broadens the scope of Article 82 EC, if the interpretation

were to be upheld in a final judgement. The CFI states that the Commission's interpretation is not an obvious one, but not a totally unlikely interpretation either. Since Article 82 is not detailed, its limits are specified in case law. The exact principles of cases concerning refusal to deal and license is not clear, since the courts and the EC Commission have not explained which specific refusals constitute abuse. Every case has some specific elements that might have been the reason why the Court found, or did not find, abusive behaviour on the dominant part.

The EC Commission based its decision in *IMS Health* primarily on the merits from *Magill*, in connection with *Ladbroke* and *Bronner*, which means that some "exceptional circumstances" need to be present in order for IMS' refusal to be abusive. The grounds found in the *IMS Health* case was that the refusal to license the structure was likely to eliminate all competition on the market, since the "1860 brick structure" was indispensable in order to carry out business on the German market and also that IMS could not show any objective justifications for its refusal. The question is, however, whether this is an interpretation that will hold up in the European Court of Justice. It is not clear after the *Magill* case if all the "exceptional circumstances" present in *Magill* also need to be present in another case for licensing to be obliged. Furthermore, it is not clear if there are other "exceptional circumstances" that could make licensing compulsory. Case law has also been unclear about the exact definition of "indispensable" asset and if there is an essential facilities doctrine in European Competition Law. Finally, one has to wonder if there are any other factors that should be weighed for or against a compulsory license in the *IMS Health* case. These are questions that I will deal with under the remaining sections of this chapter.

5.3.1 "Exceptional Circumstances"

The special merits of the *Magill* case made the ECJ conclude that there were "exceptional circumstances" present in the case, since the broadcasters' conduct, the refusal to license a kind of raw material, for which there was no actual or potential substitute and which was protected by an intellectual property rights, hindered the emergence of a new product. By their conduct the broadcasters also reserved a secondary market for themselves. The first question one has to ask is whether or not the circumstances in *Magill* were supposed to be cumulative, which means that they all have to be fulfilled at the same time in order for a conduct to be considered abusive. Many scholars mean that the circumstances presented in *Magill* were supposed to be cumulative, but, for example, Greaves disagree with such an interpretation and alleges that only some minimum requirements, namely that the dominant undertaking owns an intellectual property right, which is the sole source to a specific raw material, without which the competitor can not enter or be present in the market, is enough for abuse to be found and a

license to be obliged.²⁸⁶ Greaves interpretation is very close to the requirements for an essential facility, which will be dealt with further later on. The *Ladbroke* case, in which the CFI stated that a refusal to deal could not be considered abusive unless it concerned an essential *or* a new product, seems to be backing up Greaves' argument that the "exceptional circumstances" are not cumulative. However, the *Ladbroke* case has also been used to prove the opposite, hence that the "exceptional circumstances" in *Magill* are cumulative, so this question seems to be rather unclear.²⁸⁷

In *Bronner*, the ECJ stated that in order for a refusal to be abusive it must be likely to eliminate competition, and the dominant undertaking must be unable to give any objective justifications for its refusal, and, lastly, that the refused product or service must be indispensable in order to carrying out business.²⁸⁸ Since the ECJ does not mention the hindering of a new product at all in *Bronner*, a factor that seemed to be very important in *Magill*, it seems like the ECJ has left that demand behind and instead calls for an indispensable product or service. If it is not an absolute demand that the refusal hinders the emergence of a new product, the "exceptional circumstances" in *Magill* does appear to be neither cumulative nor exhaustive and IMS seems to be in a bit of trouble in their battle against the Commission.

Exactly what objections that could justify a refusal to deal are also unclear. IMS tried to justify its conduct by the fact that NDC had knowingly infringed IMS' copyright. This was not an objective justification according to the Commission. Temple Lang has suggested that objective justifications may be at hand if access would lead to reduced efficiency on the market, or reduced value of the facility, or if access would interfere with improvements or developments on the facility. Furthermore, if the party seeking access is not creditworthy the owner may definitely refuse to give access to the facility, since there is never an obligation to deal at loss.²⁸⁹ The *Magill* case has shown that the mere ownership of an intellectual property right is not an objective justification for refusing to license a copyright. None of the mentioned justifications seems to be at hand in the *IMS Health* case.

It is hard to make any far-reaching conclusions of how the courts will assess the criteria of "exceptional circumstances" in the *IMS Health* case, since the ECJ seems to resolve the cases on refusal to license on a case by case basis. The ECJ may very well add some new exceptional circumstances to the list

²⁸⁶ Greaves, *Magill est arrivé... RTE and ITP v. Commission of the European Communities*, at p. 246.

²⁸⁷ Schmidt, *Article 82's "Exceptional Circumstances" That Restrict Intellectual Property Rights*, p. 214.

²⁸⁸ Case 7/97, *Oscar Bronner v. Mediaprint*, at para 41.

²⁸⁹ Temple Lang, *Compulsory Licensing of Intellectual Property in European Antitrust Law*, pp. 22.

in the future, but according to present case law “exceptional circumstances” seem to be at hand in the *IMS Health* case, perhaps with the exception that IMS did not try to reserve of a secondary market for themselves, which will be dealt with in the next section.²⁹⁰

5.3.2 Essential Facility’s doctrine

Another question that has to be asked is if the Commission was right by finding that the “1860 brick structure” was an indispensable asset. This can only be seen as an attempt to further introduce the concept of “Essential Facility” into the field of intellectual property rights. The question, though, is if there really is an essential facilities doctrine in EC Competition Law? The Essential Facility Doctrine seems to be pretty well established in the American Common Law, but the ECJ has never explicitly referred to such a doctrine. Many scholars mean that the ECJ has given some pointers in case law, which could mean that there is in fact an Essential Facilities Doctrine in European Competition Law. The Commission definitely mean that the Doctrine is part of the Competition law.²⁹¹ The ECJ came close to pronouncing an Essential Facility Doctrine in the *Bronner*²⁹² case, when the Court held that in order for a refusal to give access to a facility to be prohibited, the refusal must be likely to eliminate all competition, the undertaking can not objectively justify it and the product in question must be indispensable to carrying out business. Whether or not there is an Essential Facilities Doctrine in EC Law can not be established for sure until the ECJ has stated it expressly, but one thing is clear; the mere ownership of an essential facility does not oblige the owner to share it. The refusal to share the facility must always be assessed within the EC Competition rules.

To start with the last criteria, the assessment of whether or not a product is indispensability is an objective criterion.²⁹³ This means that it is not an assessment of whether the specific competitor can access the market, but if *any* competitor can access it. In my view, the “1860 brick structure” is indispensable in order to sell pharmaceutical sales data in Germany, since the pharmaceutical companies helped develop the structure. There is no incentive, what so ever, for them to switch to a different structure, since this is the optimal structure and it would mean a large investment on the part of the companies to carry out the change. Since none of the pharmaceutical

²⁹⁰ Since the question whether or not two markets are necessary is also a factor in the Essential Facilities Doctrine, I have chosen to analyse the relevance of market factor for the outcome of the *IMS Health* case in section 5.3.2.

²⁹¹ Fine, *NDC/IMS: A logical Application of Essential Facilities Doctrine*, p. 457 and Temple Lang, *Defining legitimate competition: Companies Duties to Supply Competitors and Access to Essential Facilities*, pp. 523.

²⁹² Case 7/97, *Oscar Bronner v. Mediaprint and Others*.

²⁹³ Temple Lang, *Compulsory Licensing of Intellectual Property in European Community Antitrust Law*, p. 8.

companies have agreed to testify on behalf of IMS, but instead on behalf of NDC, it seems to me that they did not intend for IMS to get a copyright on the structure that the companies and IMS developed together.²⁹⁴ They probably meant for the business to get a workable structure to do business in. The fact that the pharmaceutical companies were involved in the development of the structure under a significant period of time also implies that they would not be interested in doing the job all over again. It might, in the long run, be possible to sell pharmaceutical data in another structure, but it is not likely that the competitors are interested in staying on the German market for that long, while working on a new structure. This further indicate that the “1860 brick structure” is an indispensable system for carrying out business in the German market and without access to it, competition is likely to be eliminated.

An even harder nut to crack is whether or not the “exceptional circumstances” and the Essential Facilities Doctrine demand that two markets are involved in order for refusal to be considered abusive. In the *Magill* case, the broadcasters were accused of using a dominant position in one market to protect a secondary market by refusing to license its TV listings. This was also a circumstance which led to the fact that the merits of the case were exceptional. In the *IMS Health* case, the undertaking was only trying to protect the market in which it made its main line of business. According to the *Volvo* case, that does not seem to constitute abuse but instead the substance of the exclusive right instituted by the intellectual property laws. The judgement in the *Volvo* case, however, fell earlier than the ones in *Magill* and *Bronner*, so the *Volvo* case may have lost its precedent on that point by now.

Frank Fine, lead counsel in the *IMS Health* case on behalf of NDC, object to the assertion that all essential facilities’ cases need two markets. He means that market foreclosure, rather than market leveraging, is the important factor to assess.²⁹⁵ This reasoning seem to imply that the Monopoly Leveraging Doctrine, which is one of the tests used in the United States to establish unlawful refusal to deal, is not present in EC Competition Law. Fine means that some case law concerning the refusal to deal, for example in the *United Brands*²⁹⁶ case, has found abusive behaviour even when only one market was involved. Furthermore, the main concern by the ECJ in *Magill* and *Bronner* was not whether or not two markets were involved, but rather if the undertakings were trying to create a monopoly for themselves.²⁹⁷

²⁹⁴ The fact that no pharmaceutical companies want to testify on behalf of IMS have I gotten from Fine, *NDC/IMS: A logical Application of Essential Facilities Doctrine*, p. 466, and since Mr. Fine represents NDC in the *IMS Health* case this fact might not be a hundred percent reliable.

²⁹⁵ Fine, *NDC/IMS: A Logical Application of Essential Facilities Doctrine*, p. 458.

²⁹⁶ Case 27/76, *United Brands v. Commission*.

²⁹⁷ Fine, *NDC/IMS: A Logical Application of Essential Facilities Doctrine*, p. 459.

This is a view that has been strongly opposed by IMS lead Counsel, John Temple Lang, who means that two markets are compulsory for the Essential Facilities Doctrine to apply. Temple Lang means that

*“The basis for the essential facility principle is that if a facility supplied on one market is a truly essential input for the production of goods or services in a downstream market, then a competitor which has or obtains control of that facility would not be legitimately competing “on the merits” [...] of that market if it restricts access to the facility”*²⁹⁸

However, Temple Lang alleges that although the principal rule must be that no one should be forced to deal, the essential facility principle can apply in one-market situations if this significantly improves competition.²⁹⁹ In regards to intellectual property rights Temple Lang states that EC Competition Law allows the holder to use the right in the market, for which it was intended, but not to leverage that competitive edge to secondary markets.

The concept of essential facility originates from the United States, which implies that it can be helpful to look at how US Authorities have interpreted the doctrine even when it is used within the Union. This would mean that a refusal to deal must involve two markets, one upstream and one downstream, in order for it to constitute abuse. There has, however, been said that the economic situation in the United States and Europe is very different, which is why such a comparison is not really relevant.³⁰⁰ In Europe many market are regulated, or has at least been regulated for a long time, which has led to a large number of dominant, former state-owned, undertakings that own essential facilities, such as railroads and telecommunication infrastructure. This may be a reason for the harsher interpretation of the Essential Facilities Doctrine than the one made in the United States. The Doctrine has also been more widely used in Europe than in the United States, at least by the EC Commission.³⁰¹

The ECJ, however, limited the scope of the Essential Facilities Doctrine by the judgement in the *Bronner* case. It does seem to be in line with the application of the essential facility principle in EC Competition law that two markets are involved. It does, in my opinion, seem odd if the fact that an undertaking has gotten itself a competitive edge in the form of an

²⁹⁸ Temple Lang, *Compulsory Licensing of Intellectual Property in European Community Antitrust Law*, p. 11.

²⁹⁹ Temple Lang, *Compulsory Licensing of Intellectual Property in European Community Antitrust Law*, p. 12.

³⁰⁰ Temple Lang, *Defining Legitimate Competition: Companies’ Duty to Supply Competitors and Access to Essential Facilities*, pp. 483.

³⁰¹ Capobianco, *The essential facilities doctrine: similarities and differences between the American and the European approach*, p. 557.

intellectual property right, that same right can make the undertaking dominant and by being dominant the undertaking gets some “special obligations” not to distort competition, so it must share its main market with competitors. One can not avoid feeling some kind of Moment 22 in that kind of reasoning. However, it does not feel satisfying if an undertaking can reserve a large portion of the Community market for itself for a significant period of time either. It is hard to tell if it is a deliberate principle that a secondary market has to be included, or if this is just a coincidence in the cases that has been brought before the ECJ. It does, however, seem likely that the demand of two markets is a deliberate and an absolute element in the establishment of an essential facility, if one compare with, for example, the same development in the United States. The question of whether or not EC Competition law demands two markets in order for the essential facilities doctrine to apply will probably be the answer to the *IMS Health* case, since the other merits of the case seem to be in favour of NDC.

5.3.3 Other Factors

After analyzing the elements that seem to be of importance in the case law similar to the *IMS Health* case, I can not avoid wondering if there are any other factors that could influence the outcome of this case. One such factor could perhaps be found in the fact that there are two parallel legal systems, which creates two separate litigations, were the outcome in one can in some way influence the other. As stated above, the Database Directive gives copyright protection to a database if it is the product of a large investment according to the *sui generis rule*. The German legislation giving effect to the Database Directive was also the reason why IMS got a copyright to the “1860 brick structure” in the first place.³⁰² One has to wonder, though, if it really was the intention of the Member States that a 33 year old³⁰³ industry standard should be given copyright protection or if the German legislator or courts have missed something.

The Database Directive does have a provision that could be negative for IMS and that is the recital 47 and Article 13 of the Database Directive, which states that the *sui generis rule* can be limited in order to protect competition. I do not know how Germany has implemented these provisions, but it seems like IMS’ copyright protection can be reduced by them. One reason for such a reduction could be that the “1860 brick structure” could be found an industry standard, and as such not the property

³⁰² This judgement was, as stated above, recently dismissed by the Frankfurt Court of Appeals, but the highest German court has not yet delivered its opinion in the matter, so it remains to be seen whether or not IMS gets copyright to the structure or not.

³⁰³ The current structure was developed in the 1990’s, but the Commission and some commentators mean that there are not so many differences between the original structure, which the “working group” started developing 1969 and the current one.

of IMS, but rather the whole industry. If the members of an industry gather to agree on a standard, which will be used in the future commercial activities, the members usually do not intend that one of the participants should gain an intellectual property protection to the common standard. The Commission has drafted some Guidelines on horizontal Agreements³⁰⁴, which states that industry standards should not limit innovation, participation in standard setting should be open to all and standards which exclude actual or potential competitors are contrary to Article 81.

The Federal Trade Commission in the United States has pointed in the same direction in the *Dell Computer*³⁰⁵ case, concerning computer standardisations. The FTC alleged that Dell used an unfair method of competition when they invited others to participate in setting an industry standard and then, when the standard was widely used, alleging that they owned a patent right to the standard. This situation is quite similar to the *IMS Health* case, since the pharmaceutical companies mean that the “1860 brick structure” is an industry standard, a standard that IMS could never have developed without the help of the industry. IMS and the “working group” started developing a structure in 1969, but IMS never claimed copyright in the structure, not until the spring of 2000, when NDC entered the market.³⁰⁶

NDC was the first real threat to IMS, which might explain the sudden eager to protect the structure from infringement. The fact that the pharmaceutical companies seem to have been unaware of the fact that IMS thought of itself as the owner of the structure implies that IMS have used an unfair method of competition in the development of the structure. Furthermore, if the “1860 brick structure” is in fact an industry standard and the Commission Guidelines should be complied, that would mean that NDC and other competitors on the market not only should be allowed to use the standard, they should also be invited to the “working group’s” sessions. One problem, though, is who should decide whether or not a system or product constitutes an industry standard, should it be the EC Commission, some national authority or perhaps the industry itself?

The factors discussed in this section are not merely factors that affect the outcome of the EC Competition *IMS Health* case, but also some implications on the German infringement suit. The reason for bringing them to the reader’s attention is that if the Highest Court in Germany was to uphold the judgement of the Frankfurt Court of Appeals, the *IMS Health* case would not have to be resolved in the European Community Courts,

³⁰⁴ Commission Notice on Guidelines on the applicability of Article 81 of the EC Treaty to horizontal cooperation agreements.

³⁰⁵ *Dell Computer Co.*, C-3658

³⁰⁶ Fine, *NDC/IMS: A Logical Application of Essential Facilities Doctrine*, pp. 464.

since IMS could not hinder its competitors from using the structure if they had no copyright to it. That would be a simple solution to the case, but an unsatisfying solution for EC Competition Law, since no further answers to the use of compulsory licensing would be given.

6 Final Remarks

The interface between competition law and intellectual property protection law is, and probably always will be, a complex area of law. Unfortunately, in a legal systems based on case law, it is hard to know exactly what details in the case that have made the court come to a specific conclusion. Later judges, scholars and other actors on the market can only guess what the court meant and how they will judge in similar cases later on. This kind of uncertainty makes the market a risky place to do business on, which is not good for economic growth.

To sum up my conclusions on the present status of compulsory licensing I have found that the International Treaties on the subject give some limited possibilities for the participating states to legislate on compulsory licensing. Since both the Member States of the European Union and the United States are parties of these Conventions the remedy is not widely used in either continent and similar principles are used in the assessment of whether or not compulsory licensing should be ordered. The American courts are, however, a little bit more restrictive than their European colleagues.

Compulsory licensing is assessed under Article 82 EC within the European Union and an undertaking is not considered dominant on the mere fact that it holds an intellectual property right according to that provision. It depends, for example, on how the market is defined, which in turn depends on the number of substitutes on the market. Only a refusal that is considered an abuse of a dominant position and that affect trade between Member States can be deemed unlawful under Article 82 EC and it is only if the elements of Article 82 are fulfilled that an undertaking can be ordered to grant a license to a competitor against its will.

The European case law on compulsory licensing shows that this remedy is used restrictively, just as the case law from the US courts show. In the *Volvo* case the ECJ ruled that the right for a holder of an intellectual property right to refuse to license that right is within the specific subject-matter of the exclusive right. A refusal to license could, however, if an additional factor was present, constitute abuse within the meaning of Article 82. In the *Magill* case the ECJ found that some “exceptional circumstances” was present, which led the Court to the conclusion that the broadcasting companies abused their position. These “exceptional circumstances” was that the companies, by their refusal, hindered the emergence of a new product for which there was a potential consumer demand, since the information on their TV listings was indispensable in order to compete in the market. By their conduct, the broadcasting companies also reserved a secondary market for themselves and they could not show any objective justifications for their

refusals. The Court ordered the companies to grant a license to their copyright protected TV listings.

In *Tiercé Ladbrook* the CFI found that the French horse racecourses was in their full right to refuse to license the sound and picture for the races, since they were not present in the Belgian market and the sound and picture was not indispensable in order for Ladbroke to carry out their business. Finally, the outcome of the *IMS Health* case remains to be seen, but in my opinion, it seems to be in line with present case law that ECJ finds that IMS' refusal to license the "1860 brick structure" is in fact an abuse of their dominant position, since the "exceptional circumstances" in *Magill* are not cumulative and it is therefore not, in my view, an absolute demand that the refusal hinders the emergence of a new product. Furthermore, the "1860 brick structure" is in fact indispensable in order to sell pharmaceutical sales data in Germany. The ECJ could, however, come to the opposite conclusion in the *IMS Health* case, if they find it compulsory that the undertaking, by its conduct, reserves for itself a secondary market.

Like it or not there is no perfectly right answer to whether a compulsory license should be granted to competitors or not. There are only less bad answers...

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