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Frank Fine

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European Community Compulsory Licensing Policy: Heresy versus Common Sense

*Frank Fine**

I. INTRODUCTION: THE GLOBAL CONTEXT

There is a growing trend to limit the rights of intellectual property owners when the public interest warrants. Until very recently, this phenomenon has been manifested only at a transnational level.¹ For example, the World Trade Organization, as recently as November 2001, in its Doha Agreement (“Doha”),² enabled certain nations of the Asian and African subcontinents to obtain compulsory licenses to manufacture and distribute domestically certain anti-retroviral drugs by declaring a state of national health emergency. This particular intrusion into patent rights, being limited to developing countries that could not afford to pay for anti-AIDS medication at normal commercial rates, was accomplished with the assent of the multinational pharmaceutical manufacturers which are active in the development and manufacture of such drugs. In the absence of such an international agreement, the public health consequences in the countries affected were too horrific to contemplate. Doha therefore represented an important legal breakthrough: the international community effectively agreed that the protection of intellectual property, even when valuable

*The author is a competition partner at DLA in Brussels, Belgium and was lead counsel to NDC Health in the Brussels proceedings described in this article, as well as co-counsel to NDC in proceedings before the EC Court of First Instance.

¹ See Media Release No. 33, Competition Commission of South Africa, Competition Commission Concludes an Agreement with Pharmaceutical Firm (Dec. 16, 2003)(Indicating that the South African Commission had reached a settlement with GlaxoSmithKline regarding allegations of abuse of dominant position by refusal to license patents in certain anti-retroviral drugs. On the date of this writing, the Commission’s settlement negotiations with Boehringer Ingelheim are still in progress.), available at <http://www.compcom.co.za/resources/Media%20Releases/MediaReleases%202003/Jul/Med%20Rel%2034%200f16%20Dec%202003.asp>.

² Doha Declaration on the TRIPS Agreement and Public Health, Nov. 14, 2001, WT/MIN(01)/DEC/2.

patent rights are involved, may, in extreme circumstances, be outweighed by public health interests. However, Doha raises an intriguing question: if limited intrusions into valuable intellectual property rights may be justified on public health grounds, should not such intrusions into intellectual property also be tolerated, and indeed encouraged, in order to safeguard other public interests, in particular, the maintenance of competition? There is currently a stormy debate on both sides of the Atlantic as to whether compulsory licensing, on antitrust grounds, is an appropriate means of breaking monopolies that owe their existence, to a large extent, to the ownership of valuable intellectual property. The U.S. antitrust enforcers under the Bush Administration seem to be quite uncomfortable with such a development.³ On the other hand, there is a division among U.S. federal courts on the justifiability of compulsory licensing on antitrust grounds,⁴ but there is no indication that the U.S. Supreme Court will settle the matter any time soon. In the European Union, the question is not whether the European Commission ("Commission") and European Courts support the notion of compulsory licensing on antitrust grounds, but rather how far these institutions are willing to go to defend competition against the interests of intellectual property owners.

By the time this article appears in print, the Commission will have taken a number of significant steps to solidify its doctrinal commitment to compulsory licensing. The Commission will probably have established its internal guidelines for dealing with essential facilities cases, including those having intellectual property aspects. It will also probably be in the advanced stages of its investigation against Microsoft, in which the latter has been accused of abusing its dominant position under Article 82 of the EC Treaty by having withheld access to proprietary protocols for making low-end servers compatible with Windows operating systems software. Finally, the Commission should probably have a few additional investigations of this genre in its pipeline. The Commission's decision in *NDC Health/IMS Health*,⁵ which was reached in July 2001 and subsequently suspended in the EC Court of First Instance⁶ and Court of

³ See, e.g., R. Hewitt Pate, Speech before the American Intellectual Property Association on Antitrust and Intellectual Property (Jan. 24, 2003)(decrying the application of the essential facilities doctrine to intellectual property). But see U.S. Department of Justice and Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property (1995), at paras. 2.1-2.2; see also *Intel Corp.*, F.T.C. Dkt. No. 9288 (June 8, 1998) (complaint).

⁴ See generally Robert Pitofsky et al, *The Essential Facilities Doctrine Under U.S. Antitrust Law*, 70 ANTITRUST L.J. 443 (2002).

⁵ 2002 O.J. (L 59) 18.

⁶ See Case 184/01R1, *IMS Health v. Comm'n*, 2001 E.C.R. II-2349 (ex parte order); Case T-184/01R2, *IMS Health v. Comm'n*, 2001 E.C.R. II-3193 (after oral hearing).

Justice,⁷ far from causing the Commission to retreat from the issue of compulsory licensing, instead provided doctrinal justification for the Commission to impose intellectual property licenses in appropriate cases. For preceding reasons, it is an opportune time to comment upon a number of issues, which remain unsettled at the E.U. level in the hope that the Commission will confront these issues directly in the coming months.

II. HERESY VERSUS COMMON SENSE

In the European Union and in the United States, compulsory licensing of intellectual property on antitrust grounds did not develop as an extension of Doha. To the contrary, such licensing in the antitrust context pre-dates Doha. In the European Union, for example, the first case imposing a compulsory license under Article 82 of the EC Treaty (abuse of dominant position) was the *Magill* decision of 1988.⁸ In fact, the case law on compulsory licensing developed from an earlier strain of cases dealing with essential facilities in the traditional sense, that is, when the “facility” in question is physical infrastructure of some kind, such as a bridge or a port. One might posit, given the time honored tendency of policy precedents to broaden in scope, that it was only a matter of time before incorporeal rights were held subject to the same or similar scrutiny as physical infrastructure.

Doha phenomenon is relevant to the issue of compulsory licensing in the antitrust context. The Doha confirmed that intellectual property rights are not sacrosanct and that where, in limited circumstances, the interests of intellectual property owners are outweighed by other public interests, there should be legal scope to accommodate these latter interests.

An interesting question is whether, as Doha might be considered to suggest, intellectual property has become a more potent technological and economic force than it was forty years ago. Just as the compulsory licensing of certain pharmaceutical patents is now necessary in order to save millions of AIDS victims in the developing world, we seem to have entered an era in which intellectual property owners more generally are now able to use their intellectual property rights not only to exclude competitors from entering the market in which the exercise of intellectual property was originally intended, but also to extend their monopoly into neighboring markets. To cite just one example of how the intellectual property playing field has changed, by denying access to “intellectual property protected” (but indispensable) interfaces or protocols, intellectual property owners are able to prevent the products of competitors from being “interoperable” with

⁷ Case 481/01P(R)1, *NDC Health v. IMS Health*, 2002 E.C.R. I-3401.

⁸ *Magill TV Guide*, 1989 OJ (L 78) 43, *aff'd on appeal*; Case T-69/89, *RTE v. Comm'n*, 1991 E.C.R. II-485; Case T-76/89, *ITP v. Comm'n*, 1991 E.C.R. II-575; Case T-70/89, *BBC v. Comm'n*, 1991 E.C.R. II-535, *aff'd on appeal*; Cases C-241 and 242/91P, *RTE v. Comm'n*, 1995 E.C.R. I-743.

other parts of an integrated system which functions on the basis of such interfaces and protocols, thereby making the products of competitors unmarketable. To face this new intellectual property challenge, antitrust regulators have a clear choice: they can reflexively uphold the historical integrity of intellectual property rights over all other contravening (and arguably supervening) interests, with the effect that they are impotent to confront such abusive uses of intellectual property rights by monopolists, or they can adapt their conventional thinking on intellectual property in order to deal with such use of intellectual property rights to achieve market foreclosure.

Seen in this light, the E.U. position on compulsory licensing, far from being heretical, represents a serious, common sense effort to address the complex issue of market foreclosure arising from the assertion of intellectual property rights. The criticism of E.U. policy on compulsory licensing, whether from the United States or other quarters, has been based mostly on perceived fears of intellectual property dilution.⁹ But as a practical matter, the dilution of intellectual property would depend upon the frequency with which the Commission has imposed compulsory licenses, whether it has devised a legal test which is inherently suspect, or whether, in specific cases, it has adhered to rigorous standards in determining whether applicants are entitled to a license or imposed terms which are no more burdensome than necessary to permit the licensee a reasonable market entry. So far there is no evidence of intellectual property dilution by any of the above means.

The issue of intellectual property dilution may also be addressed more fundamentally by posing the question whether *any* antitrust-imposed limits on intellectual property constitute an unwarranted intrusion into the rights of the intellectual property owner. As a matter of EC competition law going back for almost forty years, there is an important distinction made between the "existence" of intellectual property and how it is "exercised."¹⁰ The case law of the European Court has confirmed that, pursuant to Article 295, the Commission may not interfere with determinations as to whether a work is protected intellectual property, but that it may impose limits on how intellectual property rights are exercised when such exercise conflicts with other countervailing interests that are protected by the EC Treaty. Thus, for example, the use of trademarks to partition national markets has been viewed as a violation of Article 81. More on point, it is well established that Article 81 prohibits groups of manufacturers from

⁹ See, e.g., Valentine Korah, *The Interface Between Intellectual Property and Antitrust: The European Experience*, 69 ANTITRUST L.J. 801, 811 (2001); Abbott B. Lipsky, Jr. & J. Gregory Sidak, *Essential Facilities*, 51 STAN. L. REV. 1187, 1219 (1999).

¹⁰ See Case T-76/89, ITP v. Comm'n, 1991 E.C.R. II-575.

adopting “closed” industry standards, even when they are protected.¹¹

In *Magill*,¹² the Court confirmed that the Commission’s use of Article 82, in exceptional circumstances, to compel the sharing of one’s intellectual property rights with others reflects a similar deference to the Treaty over national intellectual property concerns. The Court framed the issue as a balancing of interests: there must be a strong enough antitrust concern to justify intrusions into the exercise of intellectual property rights.¹³ The Court held that the impeded access to essential intellectual property is one of those antitrust concerns.¹⁴ Indeed, in the absence of compulsory licensing under Article 82, there appears to be no effective means of breaking bottleneck monopolies that are perpetuated by the unilateral refusal of access to “essential” intellectual property.

III. THE “BAD COPYRIGHT” RED HERRING

It remains the case that the Commission has not applied Article 82 to compel an intellectual property license of anything more than banal material, the creation of which involved neither originality nor significant investment.¹⁵ In *Magill*, the British Parliament, in the 1956 Copyright Act,¹⁶ conferred on broadcasters an automatic copyright in their daily television listings. Whereas in *IMS*, the Frankfurt Regional Court held that *IMS* owned a valid copyright in an amalgamation of German postal codes known as the 1860 brick structure.¹⁷ If it were the Commission’s enforcement policy to limit licenses to such commonplace material, this would undoubtedly placate some observers, who view the application of essential facilities theory to valuable intellectual property as antithetical to the very essence of intellectual property rights.¹⁸

¹¹ See, e.g., MPEG-2 Licensing Programme, 1998 OJ (C 229) 19 (closed by comfort letter in Press Release IP/98/1155); DVD Patent Licensing Programme, 1999 OJ (C 242) 5 (closed by comfort letter in Press Release IP/00/1135).

¹² Cases C-241-242/91P, RTE v. Comm’n, 1995 ECR I-743.

¹³ *Id.* at para. 50 (the Court’s test of “exceptional circumstances” must be interpreted in this light).

¹⁴ *Id.* at para. 56.

¹⁵ The *Magill* and *IMS* cases are the only two cases in which the Commission, until now, has compelled access to intellectual property. Each case involved material of nominal (if any) originality or intellectual value, over which a national legislature or court had conferred a copyright.

¹⁶ Copyright Act, 1956, 4 & 5 Eliz 2, c.74, repeal (Eng.).

¹⁷ Case 3 O 539/00 (preliminary injunction of October 27, 2000) (confirming injunction of November 16, 2000), *appeal denied*, Case 11 U 66/00 (June 19, 2001); Case 3 O 283/00 (judgment on the merits for *IMS* on October 12, 2000), *rev’d*, Case 11 U 67/00 (Sept. 17, 2002).

¹⁸ See Lipsky & Sidak, *supra* note 9, at 1219; Venit & Kallaugher, *Essential Facilities: A Comparative Law Approach*, 1994 FORDHAM L. INST. 315, 337.

It might well be the case, as one commentator has noted, that *Magill* provided the Commission with the means to impose a compulsory license under Article 82 when the very intellectual property at issue is banal, does not involve any costly investment and, for these reasons, is arguably undeserving of such protection.¹⁹ However, as the same commentator rightly notes, nothing in *Magill* or in the previous non-intellectual property case law on essential facilities, has limited compulsory licensing to such narrow circumstances.²⁰ Similarly, the Commission's interim decision in the *IMS* case is devoid of such an express limitation on the application of Article 82. If the Commission and EC Courts had wished to limit the application of Article 82 in the compulsory licensing setting to banal copyright-protected works, they could have done so explicitly in either or both of these cases. One may more reasonably adduce from these two cases that the Commission, like any other antitrust enforcement agency, prefers to be confronted by a non-controversial factual situation when deciding a watershed case. Similarly, there is nothing to suggest that the Commission has imposed an internal hands-off policy with regard to imposing compulsory licenses when valuable copyrights and patents are involved. The assertion that Article 82 may be used as a pretext for the Commission to attack intellectual property rights lacks any foundation. Any attempt on the part of the Commission to qualify or disinherit intellectual property rights granted by a Member State would constitute an infringement of Article 295 of the EC Treaty, unless the field of intellectual property concerned was the subject of E.U. harmonization. Therefore, in the absence of harmonization, the Commission must assume, for the sake of the proceedings in question, that the intellectual property in question is valid.

Furthermore, once the Commission has presumed the existence of a valid copyright, *Magill* and its progeny would then require that the Commission examine mainly whether the complainant is correct in arguing that access to the material in question is indispensable. In short, the applicable test under Article 82 is clearly "blind" as to the nature of the intellectual property concerned, as well as to the degree of originality, intellectual labor, or financial investment embodied in the respondent's "work." If the Commission discriminated among different classes of intellectual property, or even within a single class, deeming that access to some works may be ordered under Article 82, while others are beyond its

¹⁹ See, e.g., Korah, *supra* note 9, at 813. It will be recalled that the Commission is not authorized, pursuant to Article 295 of the EC Treaty, to interfere with national institutions on questions of property ownership. A limited application of Article 82 to banal works has been viewed as a practical, though imperfect, legal means for the Commission to circumvent questionable national copyright legislation or court rulings, and thereby, to permit the copyright in question to be exploited (albeit not as a work in the public domain) by third parties.

²⁰ *Id.*

scope of application, this would throw into serious question the integrity of the Commission's competition analysis.

Third, if the Commission were seeking, even indirectly, to discredit the copyright determination of the relevant national authority, the outcome of the Commission's case should be that the material in question is in the public domain, rather than a finding that the parties must negotiate terms of access, or failing that, the terms would be imposed by the Commission. It would be incongruous for the Commission, on the one hand, to disparage the validity of the copyright in question, and on the other hand, to claim that the putative copyright owner is entitled to a royalty for the exploitation of the underlying work.

Lastly, commentators who would limit compulsory licensing under Article 82 to cases of doubtful copyright argue, as justification for this limitation, that such a circumscribed application of Article 82 is acceptable because it does not cause dilution of intellectual property. However, this begs the question of whether the application of Article 82 to more valuable intellectual property *is* likely to cause any significant intellectual property dilution. In this respect, it was already discussed earlier that no evidence has been presented, as yet, which indicates that the Commission's application of Article 82 to valuable intellectual property in any form would damage intellectual property.

The acceptance of compulsory licensing under Article 82 to remedy bad copyright determinations might well result in a public service in that it enables the Commission, to some extent, to weaken the copyright owner's grip over material that it should not, in all fairness, be his exclusive right to exploit. However, this tolerated use of Article 82 to achieve an agenda which is not even intended by the case law, and which may unwittingly draw the Commission into an infringement of Article 295, is not helpful for elucidating the relevant issues. A more straightforward antitrust-driven use of Article 82 is not only better suited for achieving the same objective; as noted earlier, it is actually the only legal means, under E.U. law, to compel access to "essential" intellectual property.

IV. ADEQUACY OF SAFEGUARDS

The use of Article 82 to compel intellectual property licenses is inherently just as capable as any other type of infringement of the EC competition rules of being abused by the Commission in terms of the laxity of the legal test employed or the manner in which it is enforced, as well as in the severity of the sanctions imposed (in this case, an intellectual property license, rather than a Commission fine). Due to the sensitivities involved in the compulsory licensing of intellectual property, it is particularly important that adequate safeguards exist to protect against abuse by antitrust enforcers.

A. Indispensability and Alternatives

The central barrier to the abusive grant of access to intellectual property is the legal test employed by the European Court. In the *Bronner* judgment of 1998,²¹ the Court summarized the principles laid down in *Magill*. As the Court noted, in any case involving the exercise of intellectual property rights, it would be necessary for the party seeking access to the intellectual property that it be “indispensable to carrying on that person’s business, inasmuch as there is no actual or potential substitute....”²² Article 82 would not apply where there are no “technical, legal or economic obstacles capable of making it impossible, or even unreasonably difficult...”²³ to use an alternative to the intellectual property in question.

Interestingly, none of the E.U. cases on essential facilities or compulsory licensing of intellectual property has indicated that the license applicant must satisfy an element of causation. But surely something akin to such an element is implied by the requirement of indispensability in the Article 82 “essential facilities” context. In other words, if indeed there is no actual or potential substitute for the “facility” in question, common sense would dictate that the license applicant show a foreseeable or likely effect of some kind on its business where a license is denied. Otherwise, the facility in question is not indispensable in any sense of the word. For example, must the applicant demonstrate that it will go out of business? Or would it suffice for the applicant to show that it will suffer a competitive disadvantage of some kind?

In *Bronner*, the European Court affirmed the judgment in *Magill* by concluding that Article 82, in the IP context, requires the license applicant to prove that access to the intellectual property in question is “indispensable to carrying on that person’s business.”²⁴ The Court in *Bronner* explicitly linked the alleged essential “facility” in that case (Mediaprint’s home delivery system for newspapers) with actual or potential substitutes available to Bronner for use on the relevant market (daily newspapers). Bronner’s case depended upon a showing of indispensability in relation to the latter market. It was not necessary for Bronner to demonstrate that the facility in question was indispensable to all of its activities.

²¹ Case 7/97, *Bronner v. Mediaprint*, 1998 E.C.R. I-7791.

²² *Id.* at para. 41.

²³ *Id.* at para. 44.

²⁴ *Id.* at para. 41. In *Magill*, the refusal of the broadcasters concerned to license their television listings to Magill prevented the company from publishing a comprehensive multi-channel weekly guide. This refusal to publish did not, however, prevent Magill from ceasing all of its publishing activities, and the Commission decision notes specifically that only Magill’s TV guide activities came to an end. *Magill TV Guide*, 1989 OJ (L 78) 43, at para. 5.

Since it is only necessary to create an economic link between the essential intellectual property and particular markets, the refusal to license need only impact the license applicant's operability on those markets. This is where *Bronner* makes perfect sense in stating the refusal to license must "be likely to eliminate all competition [in the relevant market] on the part of the person requesting...."²⁵ More accurately, in the absence of discrimination, the refusal to license must have virtually the same effect on all persons similarly situated. This point of view was also confirmed by *Magill*, in which the Irish publisher Magill was engaged in publishing activities other than weekly TV guides. Neither the Commission nor the EC courts held, as a condition to the application of Article 82, that Magill's entire publishing business needed to fail or that the broadcasters' refusal to license only affect Magill vis-à-vis the publication of weekly TV guides. Rather, the Court found it was crucial that the broadcasters, by denying access to an indispensable raw material (daily TV listings), "reserved to themselves the secondary market of weekly television guides by excluding all competition on that market...."²⁶

In accordance with *Magill* and *Bronner*, one may conclude that the refusal to license, in the absence of additional conduct or discrimination, cannot breach Article 82 unless there is at least likelihood that all competition in the relevant market will be eliminated as the result of the refusal. Does this mean that the license applicant must prove that he will either be prevented from entering the relevant market without access to the essential intellectual property, or, if he is already active in the relevant market, must he prove that he will be forced to withdraw from it? Alternatively, *Magill* and *Bronner* could be construed as providing a test which does not require evidence of an absolute bar to entry (or forced market exit), but rather, a test which could also be fulfilled where the applicant is able to remain active on the relevant market, albeit as a marginal player due to having been placed at a competitive disadvantage vis-à-vis the owner of the essential intellectual property.

A review of EC case law demonstrates that neither the EC courts nor the Commission has required that the refusal to license is capable of infringing Article 82 only when the applicant is foreclosed, in absolute terms, from the relevant market. Indeed, if such a drastic effect were required in essential facilities cases, it would place refusals to license on an unequal footing with other forms of exclusionary abuse under Article 82. To the contrary, as the Commission stated in *Sea Containers v. Stena Sealink*,²⁷ the first Commission decision in which "essential facilities" is specifically referred to, the dominant firm's imposition of a "competitive

²⁵ *Id.*

²⁶ *Id.* at para. 56.

²⁷ *Sea Containers v. Stena Sealink*, 1994 O.J. (L 15) 18.

disadvantage" on a competitor is sufficient for purposes of establishing the harmful effects of the abuse.²⁸ In that case, the Commission referred to *Hoffmann-La Roche*,²⁹ one of the leading cases on refusals to supply, in which the Court, in the context of a refusal to supply, held that the abuse must have "the effect of hindering the maintenance of the degree of competition still existing in the market or the growth of that competition."³⁰

However, it should be noted here that Article 82 might only catch a dominant firm's refusal to license when all of the competitors of the dominant firm are placed at a competitive disadvantage, not simply the license applicant. As Advocate General Jacobs indicated in *Bronner*, the test is an objective one.³¹ The competitive disadvantage created by the dominant firm's withholding of access must therefore be structural in nature. A license applicant would be unable to plead that a denial of access would cause its activities in the market to be "particularly vulnerable,"³² where, for example, the company is lagging behind its competitors in technology or cost efficiencies in manufacturing.

There is a temporal aspect to the above issue. If all competitors are incurring a competitive disadvantage as the result of a denial of access, there is an issue as to how long this disadvantage must last. The above-cited passage from *Hoffmann-La Roche* seems to suggest that the disability is not capable of coming within Article 82 unless it lasts long enough to damage the structure of competition in the relevant market. This is also suggested by both *Magill* and *Bronner*, in which the test of indispensability was made incumbent upon the existence of actual or *potential* substitutes for the "facility" in question. Until now, neither the EC Courts nor the Commission has explicitly read the language of potential substitutes as involving a temporal element, but the Commission appears to recognize that short-term disabilities need to be examined with great caution due to their likely inability to affect the structure of competition. What does matter, therefore, is whether the disability is likely to last long enough to harm competition.

The above approach might be inferred from the *IMS* case, in which the Commission granted an interim license to NDC despite the fact that the 1860 brick structure industry standard, which constituted a mere segmentation of German territory by postal codes, was capable of being replaced by the very German pharmaceutical industry that adopted this standard. What mattered to the Commission was that in the relevant market in which the 1860 brick structure constituted the applicable industry

²⁸ *Id.* at paras. 66-67.

²⁹ Case 85/76, *Hoffmann-La Roche v. Commission*, 1979 E.C.R. 461.

³⁰ *Id.* at para. 30.

³¹ *Bronner*, 1998 E.C.R. I-7791, at para. 51 (Opinion of Advocate General Jacobs).

³² *Id.* at paras. 51, 66.

standard, NDC and other competitors of IMS risked being foreclosed from the German market in regional sales data reports. As the Commission confirmed in its interim decision,³³ there was no sign that the German industry standard was about to change. This would imply that if, in the course of the investigation, the Commission had learned that the German pharmaceutical industry was planning to replace the 1860 brick structure as the industry standard within the next few months (which was not the case), the Commission might well have stayed its investigation. This approach would have been consistent with the *Hoffmann-La Roche* formula as to the nature of the “effects” required to establish an abuse under Article 82.

In fast-moving technology-driven markets, the problem is that today’s essential facilities and intellectual property may be replaced rather quickly. This poses an issue for the Commission, not just for determining the duration of a compulsory license, but more fundamentally, for determining whether such a license is necessary at all in order to prevent damage to the structure of competition. Future potential substitutes, like present ones, therefore, cannot be ignored. Indeed, future alternatives may be critical to the analysis. At the same time, however, the Commission should not be obliged to speculate as to whether next-generation technologies are likely to go on-stream within time to save the competitive environment from significant harm. It is therefore submitted that the relevant benchmark should be whether, at the time of its investigation, the Commission is able to identify, with reasonable specificity, imminent alternatives to today’s essential facilities that are capable of being implemented before damage is done to the structure of competition in the relevant market.

There are two additional elements of the EC legal test that provide safeguards against the abuse of intellectual property by compulsory licensing. First, as discussed earlier, there must be no actual or potential substitute for the “facility” in question.³⁴ From the point of view of the incumbent dominant firm, potential substitution has not only a temporal aspect, but also a supply-side economic element.³⁵ In other words, the issue here is whether there are any technical, legal or economic constraints that make it impossible or unreasonably difficult to use alternative facilities. If such alternative facilities exist and they are available to all competitors of the dominant firm, then it would appear that Article 82 would not be infringed by this firm’s refusal to license. The issue of adequate substitutes was central to the *NDC v. IMS* case, in which the Commission found that while it was “theoretically possible” for NDC and other competitors to implement an alternative to the 1860 brick structure (which would not have resulted in a risk of copyright litigation), there were a number of factors

³³ *NDC Health*, 2002 E.C.R. I-3401, at para. 89.

³⁴ See *Korah*, *supra* note 9, at 813; *Bronner*, 1998 E.C.R. I-7791.

³⁵ *Korah*, *supra* note 9, at 813.

which made this an “unviable economic proposition.”³⁶

(1) With an alternative brick structure, it would have been impossible for the pharmaceutical firm to compare the performance of its drugs with those of its competitors and to reward sales representatives.

(2) A change in brick structure would have disrupted relationships between sales representatives and the doctors that they routinely visited because only the 1860 brick structure would have succeeded in maintaining those relationships.

(3) An alternative brick structure would have compelled the modification of employment agreements between the pharmaceutical companies and their sales representatives, due to the change of the representative’s sales territory.

(4) A change in brick structure would have necessitated the costly modification of existing software used by pharmaceutical companies.

(5) The pharmaceutical companies indicated that the 1860 brick structure was the German industry standard, and that any brick structure failing to conform to this standard was “hardly marketable.”³⁷

(6) The only brick structures that could be used economically by pharmaceutical companies were those based on postal codes, and this placed limits on the design of new alternative brick structures.

(7) There were data protection concerns surrounding the use of an alternative brick structure because by superimposing a second brick structure over the 1860 brick structure, by a process known as triangulation, one might be able to identify purchases of particular drugs by a certain pharmacy.

(8) There were legal uncertainties for pharmaceutical companies in using any alternative brick structure, particularly if it were similar to the 1860 brick structure.

It should be clear from the factors listed above that the elements of indispensability and absence of suitable substitutes bear a resemblance with the paradigm of refusal to supply as established in *Commercial Solvents*,³⁸ the central case relied upon by the Court in *Magill*. In each situation, there is a refusal by a dominant firm to supply, or to provide access to, an input which is deemed essential to the party denied supply (or access), resulting in the elimination of competition.

However, there are important differences between the refusal to supply situation embodied by *Commercial Solvents* and the essential facilities scenario. The *Commercial Solvents* paradigm involves the cutting off of supplies of an essential raw material to an existing customer in a secondary

³⁶ *NDC Health*, 2002 E.C.R. I-3401, at para. 92.

³⁷ *Id.* at para. 128.

³⁸ Case 6/73, *Commercial Solvents Corp. v. Comm’n*, 1974 E.C.R. 223.

market, eliminating competition from the latter in the market for the finished goods, thereby enabling the supplier of the raw material to leverage its dominant position in the raw material into the market for the final product. By contrast, in an essential facilities case, the firm seeking access to the facility in question is prevented from entering the relevant (downstream) market.³⁹ More importantly, in the essential facilities context, market leveraging is not required, whether the essential facility involves infrastructure or intellectual property. In fact, as seen in *Magill*, *Bronner*⁴⁰ and *IMS*, the refusal of access to the “facilities” concerned was (or would have been) intended to preserve the incumbents’ dominant position on the entrenched market relying upon the facility, rather than to facilitate the dominant firm’s entry into a secondary market.⁴¹ For example, in *Magill*, it was plain from the judgment of the European Court that the broadcasters concerned, by refusing to license their daily listings to Magill, were simply seeking to protect the viability of their own-channel guides, which arguably would have come under attack from Magill’s multi-channel guide. There was no evidence whatsoever, at any stage of the Magill saga, which suggested that the broadcasters concerned withheld access from Magill in order to publish a multi-channel guide of their own, whether separately or jointly.

Nevertheless, the critical point is that as in the *Commercial Solvents* scenario, the denial of access to an essential facility by a dominant firm is predicated on actual or potential market foreclosure. In each situation, whether the object of the withholding is raw material or a “facility,” there is no effective alternative, and as a consequence, competition is neutralized. These factors demonstrate that the essential facilities doctrine rests largely on time-honored and tested legal concepts under EC competition law. The legal test applicable to essential facilities would therefore appear to be neither arbitrary nor controversial.

B. New and Improved Products: The Intellectual Property Dimension

A concern of IP owners is whether the application of Article 82 to impose compulsory licenses of intellectual property opens the door to IP dilution by permitting free riders to appropriate the novelty or investment

³⁹ *Bronner*, 1998 E.C.R. I-7791, at para. 48 (opinion of Advocate General Jacobs citing the famous port cases).

⁴⁰ The hypothesis here is that Bronner required access to Mediaprint’s distribution system, which was not in fact the case.

⁴¹ In *Bronner*, the leading newspaper in question, Mediaprint, would have refused access to preserve its position in the daily newspaper market. It would not have refused access to leverage its dominant position into any secondary market. *Bronner*, 1998 E.C.R. I-7791. In *NDC Health*, the motivation of IMS would have been to prevent NDC from gaining access to the market in regional sales data services, which IMS virtually monopolized. *NDC Health*, 2002 E.C.R. I-3401.

embodied in the protected work. In other words, could Commission and Court policy, as expressed in *Magill*, *Bronner* and more recently, in *IMS*, be viewed as undercutting the *Volvo*⁴² and *Renault*⁴³ judgments of 1989?

In both *Volvo* and *Renault*, the Court established that the mere refusal by Renault and Volvo to license their design rights in certain body panels, absent additional conduct, cannot in itself constitute an infringement of Article 82 where the licensee intends simply to reproduce and sell copies of these proprietary body panels on a gray market for these panels.⁴⁴ In other words, the exploitation of these design rights by the complainants would have vitiated the IP rights that Volvo and Renault enjoyed over these particular original replacement parts. Even if the complainants were able to establish that they required a license to these design rights in order to make legal copies of these body panels, Article 82 could not be applied to undermine the very subject matter of intellectual property. There was no balance struck between the interests of intellectual property and competition where the complainants sought to introduce competition on a market that Volvo and Renault, as a matter of intellectual property, has a legal right to monopolize. As Advocate General Mischo noted, the only competition eliminated by the refusal to license was competition from companies "producing imitation parts."⁴⁵ The Commission stated at the hearing that the complainants did not argue (let alone establish) that they operated in a market for independent producers of auto parts, and that they could not compete in this market absent a compulsory license.⁴⁶

The *Volvo-Renault* cases therefore demonstrate that, even before the Commission decided *Magill*, the Court was thinking that in certain cases the interests of competition law may outweigh the interests of IP owners, such as where an IP owner attempts to assert its IP rights in an input facility in order to monopolize a *market* which is not itself within the scope of IP protection. In order to strike a balance between intellectual property and antitrust, as Advocate General Jacobs suggested, a compulsory license "can be justified in terms of competition policy [where] the dominant undertaking has a genuine stranglehold on the related market."⁴⁷ This thinking was applied, for example, in *Magill*, in which the Commission and EC Courts held that the broadcasters' copyrights in daily TV listings did not legally entitle them, under Article 82, to monopolize the U.K. market in TV magazines.⁴⁸ Likewise, in the *IMS* case, the Commission rejected the IMS

⁴² Case 238/87, *Volvo v. Veng*, 1988 E.C.R. 6211.

⁴³ Case 53/87, *CICRA v. Renault*, 1988 E.C.R. 6039.

⁴⁴ See *Volvo*, 1988 E.C.R. 6211, at paras. 7-9.

⁴⁵ *Id.* at para. 60 (Opinion of Advocate General Mischo).

⁴⁶ *Id.* at 6051 (Report for the Hearing).

⁴⁷ See *Bronner*, 1998 E.C.R. I-7791, at para. 65.

⁴⁸ *Magill TV Guide*, 1989 OJ (L 78) 43. This is an implicit result of the conclusion that

argument that its putative copyright in the 1860 brick structure entitled it to monopolize the market in regional sales data services.⁴⁹

In both *Magill* and *IMS*, the Commission and the EC Courts scrupulously avoided any acknowledgment that they were applying the essential facilities doctrine in an intellectual property context. The fact that this omission was deliberate is troubling because it leaves compulsory licensing, as a matter of EC competition policy, in an ambiguous policy framework.⁵⁰ Advocate General Jacobs summed up this ambiguous policy in the *Bronner* case:

It seems to me that intervention of that kind [i.e. compulsory licensing], whether understood as an application of the essential facilities doctrine or, more traditionally, as a response to a refusal to supply goods or services, can be justified in terms of competition policy only in cases in which the dominant undertaking has a genuine stranglehold on the related market.⁵¹

What then discourages the Commission and the EC Courts from bringing compulsory licensing within the framework of essential facilities doctrine? A review of the leading *Magill* judgment of the European Court provides us with a plausible explanation. The Court indicated that mandatory access to intellectual property, pursuant to Article 82, could only be justified in “exceptional circumstances.”⁵² The Court expressly based its test of exceptional circumstances on *Volvo* and *Renault*. The test of

Magill could not be legally prevented, by enforcement of U.K. copyright laws, from becoming the sole competitor of the three broadcasters concerned in the market for weekly TV guides.

⁴⁹ *NDC Health*, 2002 E.C.R. I-3401. In fact, during the investigation *IMS* conceded that, even assuming that it held a valid copyright in the 1860 brick structure, the copyright’s alleged exclusive rights did not entitle it to monopolize the relevant market in regional sales data services.

⁵⁰ However, in a preliminary reference to the European Court by the Frankfurt Regional Court presiding over the *IMS* copyright litigation, Advocate General Tizzano seemed to acknowledge that at least some of the cases involving refusal to license intellectual property may have invoked the essential facilities doctrine. See *NDC Health*, 2002 E.C.R. I-3401 (unpublished opinion of Advocate General Tizzano), at para. 47, available at http://atlas.pharmalicensing.com/features/disp/1067456033_3fa0162198382 (last visited Feb. 2004).

⁵¹ *Bronner*, 1998 E.C.R. I-7791, at para. 65. In the above quotation, Mr. Jacobs makes a reference to “the related market.” Although this remark is made within the context of the compulsory licensing of intellectual property, one finds the same or similar language (such as “secondary” market) in traditional essential facilities cases. Therefore, the two-markets issue should not be viewed as one which distinguishes the compulsory licensing of intellectual property under Article 82 from traditional essential facilities doctrine, assuming for this purpose that the existence of two markets were necessary in these contexts. We will revisit the two-markets point later in this paper.

⁵² *Magill TV Guide*, 1989 OJ (L 78) 43, at para. 50.

exceptional circumstances was a means for the Court to find that the mere refusal to license, in the absence of additional abusive conduct, may constitute an abuse of dominant position for the purposes of Article 82. All of the special circumstances identified in *Magill* fell squarely within the doctrinal parameters of essential facilities, except for one. In Paragraph 54 of its judgment, the Court stated:

The appellants' refusal to provide basic information by relying on national copyright provisions thus prevented the appearance of a new product, a comprehensive weekly guide to television programs, which the appellants did not offer and for which there was potential consumer demand. Such refusal constitutes an abuse under heading (b) of the second paragraph of Article 8[2] of the Treaty.

The above "new product" language found in Paragraph 54 of the Court's judgment, which was also present in the underlying Commission decision in *Magill*, had no precedent in EC competition law. The facts of *Magill* provided grounds for the Commission and the Court to distinguish it from *Volvo* and *Renault*, where the complainants simply sought to exploit protected auto part designs by manufacturing and marketing cheap replacement parts.⁵³ *Magill*, after all, was not intending to use the broadcasters' copyrights simply to market copies of the broadcasters' weekly own-channel guides. This aspect of *Magill* had an obvious consumer interest appeal in it: at the time, the United Kingdom was one of the few Member States in which multi-channel guides did not exist, and this fact could have been attributed to the peculiar workings of the 1956 Copyright Act,⁵⁴ which allowed the broadcasters to assert a copyright over their own daily listings. Without the intervention of competition law, a state-controlled authority would have been necessary to facilitate the compulsory licensing of listings if a weekly multi-channel guide were ever to appear on the British market. The consumer interest aspects of *Magill* were expressly acknowledged by the Court in Paragraph 54 of its judgment.⁵⁵

However, Paragraph 54 of the Court's judgment also posits Article 82(b) as a basis for the broadcasters' infringement, alluding specifically, to the portion of sub-paragraph (b) concerning the limitation of markets.⁵⁶ This suggested that the essential facilities aspects of *Magill* might have

⁵³ See e.g., Case 76/89, ITP v. Commission, 1991 E.C.R. II-575, at para. 59. The CFI analogized *Magill*'s activity to that of "an independent repairer carrying on his business on the derivative market of automobile maintenance and repair."

⁵⁴ See Copyright Act, *supra* note 16.

⁵⁵ *Magill TV Guide*, 1989 OJ (L 78) 43.

⁵⁶ *Id.* This is suggested by the court's language that the refusal to license "prevented the appearance of a new product . . ."

been the predominant feature of the Court's analysis.

This leads to an interesting question: was the "new product" language from *Magill* solely fact driven, or did it amount to a significant element of the Court's legal test for determining when the refusal to license, standing alone, may constitute an infringement of Article 82?⁵⁷ If the former, was the Court's reference to Article 82(b) the real key to the outcome of *Magill*, with the effect that the broadcasters' refusal to license enabled them to monopolize the market in weekly television magazines in which both own-channel and multi-channel guides would have competed?

It should be noted that the "new product" language from *Magill* did not amount to an intervention on the part of the Commission and EC Courts into matters involving the existence or merits of intellectual property, as this would have been prohibited by Article 295 of the Treaty. In fact, in order to apply Article 82 to the refusal to license, in the absence of other abusive conduct, the Commission and EC Courts must at least assume that the party refusing to license owns the intellectual property concerned as a matter of national law. However, there has been a traditional distinction made by the Court between the "existence" and "exercise" of intellectual property rights, with the former being within the exclusive province of the national authorities and the latter being potentially limited under Community law.⁵⁸ According to Court precedents, the exercise of IP rights may be limited by overriding Community interests, such as the free movement of goods.

The problem facing the Commission and EC Courts in *Magill* (and later in *IMS*) was that, purely as a matter of national copyright law, it made no difference whether the party seeking a compulsory license intended to use the input concerned (daily TV listings in *Magill*; the 1860 brick structure in *IMS*) simply to make a slavish copy of what the putative licensor already produced and put onto the market or intended to make a derivative product which differed from the licensor's product to some degree. In either fact situation, as a matter of national copyright law, the party using the copyright would be deemed to have committed an infringement of copyright and would *not* have had authority to reproduce and market a work incorporating the input. This is consistent with requests for a compulsory copyright license under Article 82, in which the Commission and EC Courts have not directly challenged, nor sought to

⁵⁷ Some commentators have posited that the factors listed in *Magill* as evidence of exceptional circumstances also constituted the elements of legal test which might apply in other factual settings. See e.g. Sergio Baches Opi, *The Application of the Essential Facilities Doctrine to Intellectual Property Licensing in the European Union and the United States: Are Intellectual Property Rights Still Sacrosanct?*, 11 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 409, 462 (2001).

⁵⁸ For a review of this traditional thinking, see, e.g. Case 69/89, RTE v. Commission, 1991 ECR II-485, at paras. 67-73.

vitate by indirect means, the findings of any national court on the issue of copyright infringement.

Rather, the “new product” language from *Magill* is a creature of EC competition law. This was the meaning of the Court of First Instance in *Magill*, where, after laying down the new product element in language that was later virtually replicated by the European Court in Paragraph 54 of its judgment, the CFI stated that, “[c]onduct of that type. . .clearly goes beyond what is necessary to fulfill the essential function of the copyright as permitted in Community law.”⁵⁹ The CFI refers in vague terms to “Community law” because there are precedents prior to *Magill* in which the Court has subordinated the interests of national copyright law to Community interests covered by the EC Treaty, such as the Treaty provisions on the free movement of goods. Obviously, however, in *Magill* and *IMS*, the sole and overriding Community interest was competition.

There are three factors that support the view that the predominant issue for the Commission and EC Courts, in deciding whether to impose a compulsory license, is whether the refusal to license will foreclose competition on the relevant market, within the context of Article 82(b):

First, the Commission in *Renault* noted that the complainants in that case had failed to assert that a market existed for the independent manufacture and sale of auto parts, such as presently exists in the United States as represented by such chains as Pep-Boys.⁶⁰ The Commission therefore suggested that the mere copying of Renault body panels may have been justified under Article 82 if a license were necessary to compete in such a derivative “market.”⁶¹ There would have been, additionally, a consumer interest in the development of such a market, in that consumers would have had access to a generic market in body parts that still does not exist in Europe.

Second, the Court in *Magill* held that *Volvo* and *Renault* authorized the application of Article 82 in “exceptional circumstances,” without stating explicitly that the circumstances present in *Magill* were exhaustive.⁶² In other words, the *Magill* test could have been interpreted not only as supporting the Commission’s argument in *Renault*, as to the potential justification for a compulsory license in a market for the independent manufacture of auto parts, despite the absence of a “new product;” it was also plausible that the Court in *Magill* supported compulsory license on the ground that access to the daily TV listings by *Magill* was essential for it to compete on the market in weekly TV magazines, and that the development of this market was foreclosed by the broadcasters’ refusal to permit *Magill*

⁵⁹ *Id.* at para. 73.

⁶⁰ Case 53/87, *CICRA v. Renault*, 1988 E.C.R. 6039

⁶¹ *Id.*

⁶² *Magill TV Guide*, 1989 OJ (L 78) 43.

to market a multi-channel guide. Seen in this light, the essential facilities aspects of the case provided the core rationale for the Court's ruling, and the presence of a "new product" was only an additional factor that weighed in favor of applying of Article 82. In fact, the approaches of the CFI in *Ladbroke*⁶³ and the Court in *Bronner*⁶⁴ were consistent with this reading of *Magill*.⁶⁵ The Commission also read *Magill* in this manner in the *IMS* case, where Article 82 was applied without any consideration whatsoever to whether NDC intended to market a new product.⁶⁶ Indeed, the Commission relied entirely on essential facilities grounds in ordering a license.

Third, the seeds for a market-limitation approach are inherent in the weak definition of what constitutes a "new product" for the purposes of Article 82. We know from *Magill* that a new product, for the purposes of the compulsory licensing of IP rights under Article 82, did not require the applicant's use of the license to enter a product market upon which the licensor was not active.⁶⁷ The relevant market was defined as the market in weekly television magazines, upon which the broadcasters' own-channel guides and *Magill*'s multi-channel guide would have competed.⁶⁸ This vitiated the significance of novelty considerably, because it meant that an improved product would have constituted a "new" product.

However, if Article 82 could be applied to compel IP licenses that constitute essential facilities irrespective of whether the applicant sought to introduce a "new" product, on the ground the refusal to license resulted in a limitation of markets, where would that leave *Volvo-Renault*, which provided an important safeguard for owners of intellectual property? Neither the Commission nor the EC Courts are suggesting that if *Volvo* and *Renault* had been decided today, the applicants should be entitled to a compulsory license on the ground that their access to *Volvo* and *Renault* panel designs is "indispensable" for the production and marketing of these two manufacturers' original body panels.

Advocate General Tizzano grappled with these difficult issues in the preliminary reference to the European Court by the German trial court presiding over the *IMS* copyright litigation against NDC. In his view, the balance between intellectual property and antitrust (and hence the protection of the principles established in *Volvo* and *Renault*) was not struck by permitting a compulsory license to reproduce an identical version of the

⁶³ Case 504/93, *Tiercé Ladbroke v. Commission*, 1997 E.C.R. II-923, at para. 131.

⁶⁴ *Bronner*, 1998 E.C.R. I-7791, at para. 41.

⁶⁵ In support of this view, see Temple Lang, *The Principles of Essential Facilities in European Community Competition Law—The Position Since Bronner*, 1 J. NETWORK INDUSTRIES 375, 376 n.2 (2000).

⁶⁶ *NDC Health*, 2002 E.C.R. I-3401, at para. 70.

⁶⁷ *Magill TV Guide*, 1989 OJ (L 78) 43.

⁶⁸ *Id.*

product marketed by the party refusing to license.⁶⁹ Rather, he posited, Article 82 required that the product of the license applicant have other features or characteristics that, even though the product competed with that of the right holder, responded to the needs of consumers that were not met by the existing product. In short, he opined that the new or improved product factor in *Magill* was not simply a helpful but unnecessary adjunct to the essential facilities core of the Court's reasoning, but rather, constituted a key aspect of the "exceptional circumstances" test.⁷⁰

In this author's view, Advocate General Tizzano has not resolved the IP/antitrust conflict by proposing a test of additional characteristics. As long as the party seeking a compulsory license does not copy the product of the market incumbent (who owns the essential facility),⁷¹ it is the indispensability of access to the input facility on a market which is not the subject of intellectual property, rather than the novelty of the licensee's product, which should determine whether it must be licensed pursuant to Article 82. Novelty is likely to follow from the existence of competition. Whether the novelty is attributable to the market incumbent or to the licensee is actually irrelevant. The role of the Commission should be to create the competitive conditions in which innovation might take place.

Mr. Tizzano's test of additional characteristics, if adopted by the Court, would give rise to a Pandora's box of enforcement difficulties. For example, must the additional characteristics or features involve the manner of functioning of the product, or can they involve improvements in interoperability, medium, formatting, appearance or product safety? What if the improvements are not in the physical manifestation of the product, but rather, inherent in vastly more efficient manufacturing processes, which make the product affordable to a much wider group of consumers? It is not clear how Mr. Tizzano would address these questions, but it is clear that a test based on additional product features could deny consumers the benefits of other improvements that may be entitled to IP protection. The denial of access to an essential facility that is IP-protected, in these contexts, would not only discourage competition but allow the owner of the essential facility to use its intellectual property as a blocking patent or copyright to prevent innovation.

Secondly, a test of additional characteristics leaves the Commission, as grantor of a compulsory license, in an unusual predicament. There can be no discrimination, pursuant to Article 82, when there is a blanket refusal by the owner of the intellectual property to license anyone. Assuming that the

⁶⁹ *NDC Health*, *supra* note 50, at para. 65 (unpublished opinion of Advocate General Tizzano).

⁷⁰ *Id.*

⁷¹ The copying of the incumbent's final product could well amount to a separate intellectual property infringement.

grant of a compulsory license was predicated on the licensee's proof that his product has characteristics not present in the incumbent's product, it would appear that the licensor would not be required to license all subsequent license applicants, but rather, each of those who demonstrate to the licensor that they intend to market a product with additional characteristics. This would place a burden on the licensor to vet the novelty of each and every license applicant. But it is submitted that the licensor would be ill suited to make such licensing decisions. Moreover, despite his good faith, the licensor's wrong determination on the worthiness of the entrant's product could result in actionable discrimination. This prospect would either induce the licensor to provide licenses on request, or induce the licensor to refuse licenses, which could lead to a multiplicity of complaints or lawsuits filed by prospective licensees. Neither scenario is appealing or necessary.

Lastly, Mr. Tizzano's proposed test does not account for the use of an IP-protected essential facility for use in a neighboring market that is not based upon improvements in the IP-protected product. The example offered by the Commission in the *Renault* hearing comes to mind here: if there were a market for the independent manufacture and sale of auto parts, should Volvo and Renault be permitted to exercise their IP rights to prevent such parts specialists from carrying on their business? This is indeed the implication of Mr. Tizzano's Opinion, and if the Court adopted his view, it would provide legal authorization for other automakers to act similarly, thereby foreclosing the viability of this neighboring market.

Clearly, what the Court in *Volvo-Renault* intended to address was the use of Article 82 by free riders. More precisely, these two judgments supported the proposition that Article 82 cannot be applied simply to allow third parties to reproduce what they cannot achieve legally as a matter of IP law. Mr. Tizzano's criterion of additional features will distract the Commission (and from May 2004, the national competition authorities and courts) from the critical question of whether the owner of the essential facility, by asserting its IP rights, is able to control an entire market which is rightfully outside the ambit of its IP protection.

V. THE "TWO MARKET" CONUNDRUM

The issue of whether leveraging from one market to another is necessary in any essential facilities case under Article 82, even when intellectual property is involved, received much of its intellectual currency from the *Magill* Court, which made an association between *Commercial Solvents* and essential facilities in the IP context. The famous language in question is found in Paragraph 56 of the *Magill* judgment:

Third, and finally, as the Court of First Instance also held, the appellants, by their conduct, reserved to themselves the secondary market of weekly

television guides by excluding all competition on that market (see the judgment in Joined Cases 6/73 and 7/73 *Commercial Solvents v. Commission* [1974] ECR 223, paragraph 25) since they denied access to the basic information which is the raw material indispensable for the compilation of such a guide.⁷²

The conundrum arose from the fact that the three broadcasters concerned, the BBC, ITV and RTE, licensed newspapers and certain magazines to publish their daily TV listings, free of charge, for one or two days. This practice was clearly promotional in character, and was apparently intended to entice the newspaper reader to purchase the broadcasters' own-channel weekly TV guides. As the Commission noted, this practice also enabled the three broadcasters to protect their position in respect of their individual weekly TV guides because such limited short-term publishing of lists by the newspapers did not compete with the broadcasters' own-channel weekly guides.⁷³ The "trade" in the daily listings could therefore be analogized to the availability of a 15-second promotional clip of a song which one can play, without charge, in a music store (or on-line site, such as Amazon) before deciding whether to purchase the CD that incorporates the song. In each situation, the TV listings and audio clips are not traded on a market, but rather, they are distributed free of charge in order to promote products into which they are incorporated, i.e. an own-channel weekly TV guide and a full length CD, respectively.

Prior to Magill's request for a license to use the three broadcasters' weekly listings in a comprehensive multi-channel weekly TV guide, there was no market in the daily listings that might be analogized to the raw materials that were the subject matter of *Commercial Solvents*. In this earlier case, *Commercial Solvents* was the dominant manufacturer of nitropropane and aminobutanol, the principal raw materials for the production of ethambutol specialty drugs.⁷⁴ There was a market in these raw materials because they were sold to third party producers of ethambutol, and this accounted for *Commercial Solvent's* market share and market power.⁷⁵ By contrast, until the emergence of Magill as a TV guide publisher, the three broadcasters concerned had no market shares in their own TV listings because the *commercial* use of the listings was limited to incorporation into their own-channel magazines. It is also worth noting that when Magill began publishing its weekly TV guide, it used the broadcasters' daily listings without their permission⁷⁶ and was subject to

⁷² *Magill TV Guide*, 1989 OJ (L 78) 43, at para. 56.

⁷³ *Id.* at para. 23.

⁷⁴ See *Commercial Solvents Corp.*, 1974 E.C.R. 223, at para. 7.

⁷⁵ *Id.*

⁷⁶ *Magill TV Guide*, 1989 OJ (L 78) 43, at para. 5.

copyright infringement proceedings during this time. Therefore, the “market” in daily TV listings—and indeed Magill’s TV guide—operated at best, as a gray market.

Lastly on the issue of market leveraging, as is well known to competition scholars, Commercial Solvents leveraged its dominant position in raw materials for ethambutol by refusing to supply the raw materials to Zoja, himself a customer of Commercial Solvents and a manufacturer of ethambutol.⁷⁷ This act, without more, would have constituted an act of market foreclosure by preventing Zoja from remaining active in the downstream market. Market leveraging arose, however, from Commercial Solvents’ more sinister reason for refusing to supply, which was not simply to eliminate Zoja for its own sake, but rather, to facilitate Commercial Solvents’ entry into the same downstream ethambutol market, thereby enabling Commercial Solvents to leverage its dominant position in the raw materials into the downstream market for the final product.

The idiosyncratic market analysis that the Commission and EC courts provided in *Magill* in respect to the daily TV listings was intended to demonstrate consistency with *Commercial Solvents*. However, the comparison broke down completely on the issue of market leveraging. Unlike *Commercial Solvents*, in which a refusal to supply facilitated entry onto a secondary market by exploitation of an unfair monopoly advantage in the upstream market, in *Magill*, even assuming that there was a market of some kind in daily TV listings, the broadcasters in question were not leveraging their position on that market, or even their positions as monopolist publishers of own-channel guides. Rather, they were using their copyrights in TV listings solely to prevent the commercial extinction of their obsolete own-channel guides. This conduct was more aptly characterized as the foreclosure of a potential competitor, rather than the leveraging of market power from one market to another.

It remains a mystery why the Commission and the EC courts have felt an unswerving need to impose the *Commercial Solvents* paradigm on essential facilities cases.⁷⁸ If one could assume that the EC law of essential facilities evolved from refusal to supply, there are some cases in which the *Commercial Solvents* two-market approach may be suitable, as for example, the current Commission investigation involving Microsoft’s leveraging of its position in desktop servers into the market in workgroup (low-end) servers. However, *Commercial Solvents* provides an awkward, unsuitable means of resolving essential facilities cases in which there is an input-facility that does not function as a market, resulting in a single relevant market that is the object of market foreclosure rather than market leveraging. Other forms of refusal to supply are even less suitable for

⁷⁷ See *Commercial Solvents Corp.*, 1974 E.C.R. 223, at para. 16.

⁷⁸ See *Venit & Kallaugh*, *supra* note 18, at 339.

application to essential facilities situations.⁷⁹

A *Commercial Solvents* line of analysis may therefore be helpful in true two-market essential facilities cases, but it has proved inappropriate and unnecessary for the examination of one-market cases. For the latter, an approach based on simple market foreclosure is necessary.

If one assumed that there was only one relevant market in *Magill*, and that this market was in weekly TV guides (with both own-channel and multi-channel guides competing in this larger market), the case could have been analyzed differently. The broadcasters had exclusive ownership and control of their daily TV listings, an indispensable input for anyone wishing to publish a weekly TV guide. *Magill*, wishing to compete with the incumbent broadcasters in the market for weekly TV guides, which they jointly monopolized, sought access to this input, but was denied access because the broadcasters wished to maintain exclusive control over the market in weekly TV guides. However, as the intent of the U.K. government was not to confer on the broadcasters, pursuant to their copyrighted daily TV listings, a veritable monopoly over the U.K. market in weekly TV guides, a compulsory license was required for any market entrant to publish a magazine that competed with those of the incumbents. A market in the daily TV listings would have been unnecessary, as would any requirement that the newcomer publish a "new product."

The Commission's interim decision in *NDC Health/IMS Health*⁸⁰ took a bold look at *Commercial Solvents* and various cases adopting the two-market approach to essential facilities. On its facts, the *IMS* case was no more capable of being intellectually squeezed into this paradigm than *Magill* was. In *IMS*, as in *Magill*, a market in the 1860 brick structure became possible only after the Commission had ordered *IMS* to license this structure to its competitors, *NDC* and *AzyX*.⁸¹ Even then, a market in the 1860 brick structure never arose because *IMS* obtained the suspension of the Commission's order to license in the Court of First Instance. Consequently, as in *Magill*, it would have been disingenuous on the Commission's part to perpetuate, by application of the historical thinking, that the 1860 brick structure constituted one of several relevant markets.

⁷⁹ One of the landmark Court of Justice judgments involving refusal to supply under Article 82 was Case 27/76, *United Brands v. Commission*, 1978 E.C.R. 207, which involved a refusal to supply bananas by a dominant producer in order to coerce the loyalty of a distributor. There was no raw material or other input which was indispensable to the distributor. Absent coercive action from *United Brands*, the distributor would have been able to obtain his supply of bananas from third parties—in fact, the distributor's seeking of bananas from a third party producer is what caused *United Brands* to discontinue supplies.

⁸⁰ *NDC Health*, 2002 E.C.R. I-3401.

⁸¹ *IMS* went beyond even the three broadcasters in *Magill* by allowing third parties (other than its competitors) to use the 1860 brick structure subject to no licensing conditions whatsoever.

Fortunately, the Commission concluded that the 1860 brick structure constituted an essential facility “input”;⁸² the Commission did not deem it necessary to determine whether the 1860 brick structure constituted a relevant market. The only relevant market was the German market in regional sales data services, in which IMS held a near total monopoly. By asserting a copyright in the 1860 brick structure, which also constituted the industry standard for Germany, IMS intended to preserve its quasi-monopoly in regional sales data services. By imposing a compulsory license on these facts, the Commission concluded that this form of market exclusion was just as capable of falling within the ambit of Article 82 as the leveraging of a dominant position in a raw material into second market for the final product.

Although the Commission weakened the umbilicus between *Commercial Solvents* and the essential facilities doctrine, it appears close to being severed completely. Advocate General Tizzano, in his Opinion in the *IMS* reference from the Frankfurt Regional Court, stated that in *Magill* and *Bronner*, the Court recognized that it had affirmed the existence of markets in daily TV listings and home delivery schemes for newspapers, respectively, even though these products or services were not traded on the market. Seeming to concede that these determinations were based more on historically accepted theoretical constructs rather than on economic reality, Mr. Tizzano acknowledged that:

[W]e must recognize that one cannot dismiss the applicability of the case law on refusing to conclude [a licensing] agreement merely because the undertaking seeking a license to the brick infrastructure intends to operate on the same market as the copyright holder. Specifically, when one considers that the question is based on the assumption that the brick infrastructure for which a license is being sought is indispensable in order to market studies on regional sales of medicinal products in a particular country, one can immediately identify an upstream market for access to the brick infrastructure (in which the copyright holder has a monopoly) and a downstream secondary market for the sale of those studies.⁸³

Mr. Tizzano thereby suggested, “to follow the case law,”⁸⁴ in an essential facilities case, it is permissible to conjure a theoretical “market” in the essential infrastructure, even when it is not a market in fact. It was sufficient, in Mr. Tizzano’s view, that the infrastructure operated as a

⁸² *NDC Health*, 2002 E.C.R. I-3401, at paras. 184-85.

⁸³ *NDC Health*, *supra* note 50 (informal translation from original German text of unpublished opinion of General Tizzano).

⁸⁴ *Id.* at para. 57.

“potential” market. It was no consequence, in his view, whether the firm owning the infrastructure “opts not to market the relevant input performances separately (although real demand exists) but merely to use them on a downstream market so as to limit or exclude competition from that market entirely.”⁸⁵

Between the lines, Mr. Tizzano suggests that in order to remain consistent with the Court’s precedents, it is acceptable in true one-market cases to treat the “market” for the essential infrastructure in the same way that it has been treated by the Court, i.e. as a fictitious market, or, more aptly, to use his terminology, a “potential” market.

The use of this construct by Mr. Tizzano avoids at least one awkward situation: if we assume that in *Magill*, there was no market in daily TV listings and that no broadcaster was active on the market in weekly TV guides of any kind, but that Magill wished to open a wholly new market in such TV guides with his own multi-channel magazine, what would be the relevant market? Could Magill avail himself of Article 82 to compel a license to the broadcasters’ daily TV listings? As regards the relevant market, the fact that no one operates on it should not prevent a “pipeline” market from existing (although the pipeline product would be introduced by the license applicant). As regards the second question, in the absence of a concrete, economic market in the essential facility or in the downstream product, the reservation of the downstream market for the sole exploitation of the owner of the essential facility is just as anti-competitive a situation as when the same owner does in fact use his ownership of the facility to exploit and monopolize the downstream market. A compulsory license should be available in this instance.

The above approach is consistent with the Commission’s guidelines for access in the telecommunications sector. In short, the owner of an essential facility or infrastructure has an obligation under Article 82 to allow access to service providers where there are no feasible alternatives available:

Refusals in this case would therefore limit the development of new markets, or new products on those markets, contrary to Article 8[2](b) Given the pace of technological change in the telecommunications sector, it is possible to envisage situations where companies would seek to offer new products or services which are not in competition with products or services already offered by the dominant access operator, but for which this operator is reluctant to provide access . . . a company may abuse its dominant position if by its actions it prevents the emergence of a new product or service.⁸⁶

⁸⁵ *Id.*

⁸⁶ Commission Notice on the application of competition rules to Access Agreements in

VI. ESSENTIAL EASEMENTS

This paper has shown that the EC legal precedents support the notion that the essential facilities doctrine, including its application to intellectual property, is applicable in both one-market or two-market cases, either to address market foreclosure or leveraging, or both. In either situation, Article 82 is available to prevent situations in which a dominant firm asserts the ownership of the essential facility (or intellectual property) to exclude all competition on the relevant market. With regard to intellectual property, the only qualification is that the market from which a competitor is being excluded must not fall within the very subject matter of the IP right, with the effect that if the intellectual property does not entitle its owner to monopolize a derivative or neighboring market, Article 82 may be applied to prevent the application of IP rights to achieve such a position.

There is another dynamic in the essential facilities scenario that should not be ignored. Article 82 is not intended to provide rights akin to those of real estate easements where right of way is necessary to preserve the value of one's property or business. This is not within the scope of EC competition law. Rather, the dynamic that constellates in the essential facilities context is the denial of access to an essential facility by a dominant firm to prevent market entry by an actual or potential competitor. As the Court indicated in the *Telemarketing* case,⁸⁷ the dominant incumbent firm may, by refusing access to the facility, be reserving an activity either for itself or for another undertaking in the same corporate group. It is submitted that this logic should be extended to prevent the reservation to an essential facility for an independent firm that has close economic links with the owner of the facility.

VII. CONCLUSION

The EC law of essential facilities, and its application to intellectual property, is becoming ingrained in the fabric of EC competition law and enforcement. It is not likely that the clock will be rolled back, or that Commission officials responsible for policy direction will find that the doctrine is extraneous, i.e. that refusal to supply provides sufficient legal cover for the issues presented in essential facilities scenarios. If this paper has shown anything, it is precisely that efforts to force essential facilities into the *Commercial Solvents* paradigm are a recipe for policy confusion and a contorted analysis.

Looking forward, it will be incumbent upon the Commission and the EC Courts to better define the functioning of the essential facilities doctrine, and in particular, how it shall be applied to intellectual property.

the Telecommunications Sector, 1998 O.J. (C 265) 2, at paras. 88-90.

⁸⁷ Case 311/84, CBEM v. CLT, 1985 E.C.R. 3261.

This paper has sought to address some of the shortcomings that now exist in the law as it relates to the compulsory licensing of intellectual property under Article 82.

Some commentators will probably believe that legislation is the medicine needed, and that legislators (and intellectual property regulators) are in a better position to deal with the anti-competitive application of IP rights by removing IP status for undeserving works, shortening the duration of IP protection, carving out exceptions to exclusive rights and dealing more effectively with blocking patents and copyrights. A recent report published by the U.S. Federal Trade Commission would seem to take this view.⁸⁸ However, it is one thing for the legislator to prevent unwarranted market power by granting unwarranted patents, but it is quite another for the antitrust regulator to refuse to act when valid intellectual property is abused by dominant firms. The European Commission has stepped up rather courageously to the task. In the case of the U.S. federal antitrust authorities, the abdication of such issues to the Patent and Trademark Office provides a strong indication of how far the pendulum hanging over intellectual property and antitrust has swung in favor of the former in the current Administration.

Other commentators, including this author, believe, however, that antitrust regulators have an important role to play in this debate. Given the speed of technological advancement, it is arguably asking too much of legislators, without the assistance of the antitrust bar, to predict when IP rights granted in one year may become an impediment to competition and innovation in later years. The debate will no doubt continue, but it is also time for antitrust regulators and legislators to work together to address the concerns that are already upon us.

⁸⁸ FTC, PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 37 (2003). For a view advocating a more robust U.S. antitrust policy, see Pitofsky, *supra* note 4.