REFUSAL TO SUPPLY OR LICENSE

Valentine KORAH [1]

Professor Emeritus of Competition Law
at University College London
Visiting Professor College of Europe at Bruges
and at Fordham Law School

1. INTRODUCTION

At the beginning, the Commission and European Court of Justice (the ECJ) impliedly accepted the Ordo Liberal view that the right to enter a market is part of the rights of an individual, prized for its own sake and not only when it creates more competition for the benefit of consumers [2]. The view of Chicago that the only interest worthy of protection is that of consumers who benefit from efficiencies of all kinds is beginning to gain ground in Europe, but not to the extent that it has in the USA. It is hardly surprising that firms considered dominant should have been treated as owing a duty to newcomers to give them access to assets needed to operate in the market [3].

In this article it is intended to trace the case law of the ECJ and Court of First Instance (CFI) on refusals to supply or license and argue that

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[1] Professor Emeritus of Competition Law at University College London, Visiting Professor College of Europe at Bruges and at Fordham Law School.

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[2] See David GERBER, *Law and Competition in Twentieth Century Europe: Protecting Prometheus*, 232-265 (1998). Between the world wars, the Freiburg School of economists and lawyers were hostile to Nazi ideas and, in pursuit of liberty, advocated the dispersion of both political and economic power. They did not advocate the abolition of intellectual property rights, but considered that patentees should be required to act as if they had no market power, which amounts to almost the same thing as abolishing them.

[3] See generally, Eleanor M. Fox, «What is harm to competition? Exclusionary practices and anticompetitive Effect. (2002)» *Antitrust Law Journal*, 2, 371, 392–406.

such a duty is desirable only in extreme situations, mainly when the market is important, the original investment in the essential facility was made with public funds, or when the incumbent was protected by special or exclusive rights, and when there is a regulator or some other effective mechanism established to settle the fee. From the 1970s until the 1990s, both the Commission and ECJ viewed intellectual property rights with hostility. Such rights were perceived as both barriers to entry and as a method of dividing the common market contrary to the basic principles of the European Communities. Since most intellectual property rights are national[4], it was originally thought possible to divide the common market by exercising rights in another member state against parallel traders until the ECJ developed the doctrine of Community exhaustion in the 1970s. More recently, views have been changing to recognise the importance of incentives to investment, but many minds contribute to the enforcement of EC law and the results are not uniform.

Perhaps the best known recent example of such hostility came in the judgment of the ECJ in *Magill*[5]. The ECJ held that although the right to exclude is the specific subject matter of intellectual property rights, «in special circumstances», the three television stations transmitting in Ireland and Northern Ireland, a separate member state, were required to license the copyright in their listings to Magill, which wanted to publish a comprehensive guide to the programs in competition with the separate guides published by each station. Since then, however, the ECJ and CFI have been less willing to require dominant firms to grant access to third parties.

The Commission's recent decision on interim measures requiring IMS[6] to licence competitors to use its business method raised concern that, despite the judgments given after *Magill*, the Commission had determined to read the precedent broadly. Those interim measures have been suspended by two interim orders of the CFI[7].

2. DECREASING HOSTILITY TOWARDS INTELLECTUAL PROPERTY RIGHTS

In the 1960s and 1970s, the ECJ reduced the scope of intellectual property rights by objecting to absolute territorial protection in *Consten & Grundig*[8] as contrary to article 81 and developing the doctrine of exhaustion, under the principle of the free movement of goods. The integration

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[4] There are design and trade marks applying throughout Benelux, and we now have a Community trademark regulation under which Community marks may be registered, although national marks also continue.

[5] *Radio Telefis Eireann and Others v. Commission* (C-241 & 242/91P), 6 April 1995 [1995] *ECR* I-743, [1995] 4 *CMLR* 718 [1995] 1 *CEC* 400 (ECJ), III.C below.

[6] Interim order of Commission, 3 July 2001, *OJ* 2002, L59/18 [202] 4 *CMLR* 58 [2002] *CEC* 2234.

[7] *IMS Health v. Commission* (T-184/01RI), 10 August 2001 [2002] *CMLR*, 46 *IMS Health v. Commission* (T-184/01R II), 26 October 2001 [2002] *CMLR*, 58.

[8] (56 & 58/64) [1966] *ECR* 229 [1966] *CMLR*, 418, *CMR*, 8046.

of the market trumped the policies of competition and intellectual property.

In the 1980s, however, the ECJ began to look more carefully at the rationale for the various kinds of intellectual property right and recognized the tension between them and the principle of free movement. In *Coditel I* [9], it recognized the legitimate interest of the holder of copyright in performing rights to a film to calculate fees payable by cinemas on the actual or probable number of performances and refused to apply the doctrine of exhaustion to performing rights.

The second *Coditel* judgment [10], upheld the validity of exclusive licenses to different distributors of a film in different member states although as Advocate General Reischl had observed, it would lead to absolute territorial protection: one of the strongest no-noes of EC competition law. The Court looked to the practice of the industry, according to which distributors often helped to finance production, dubbing, and sub-titling of films. The industry obtained fees from the cinemas based on a percentage of the take. Absolute territorial protection was recognised as not contrary to Article 81, provided it did not lead to excessive charges, whatever that may mean.

In *Hag II* [11], the ECJ did not recite its earlier customary assessment of trademark rights as being worthy of little protection [12] and expressly reversed an earlier judgment, arguably for the first time, saying:

> *«13. Trade mark rights are, it should be noted, an essential element in the system of undistorted competition which the Treaty seeks to establish and maintain. Under such a system, an undertaking must be in a position to keep its customers by virtue of the quality of its products and services, something which is possible only if there are distinctive marks which enable customers to identify those products and services. For the trade mark to be able to fulfill this role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality».*

Consequently, when Belgian authorities seized a Belgian mark as part of the reparations to be paid by a German holder to a country that had been victorious in the second world war, the ECJ upheld the use of a parallel German trademark to restrain the import of goods from Belgium.

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[9] *SA Compagnie Générale pour la Diffusion de la Télévision v.Cine Vog Films* (Case 62/79) [1980] ECR, 881 [1981] 2 CMLR 362, CMR 8662.

[10] *Coditel SA v. Ciné Vog Films SA (No. 2)*(Case 262/81) [1982] ECR 3381 [1983] 1 CMLR 49, CMR 8865.

[11] *CNL Sucal v. Hag II.* (Case10/89) [1990] ECR IB3711 [1990] 3 CMLR 571 [1991] 2 CEC 457.

[12] In *Sirena Srl v. Eda Srl.* (Case 14/76), [1971] ECR 69 [1971] CMLR 60, CMR 8101, the ECJ had said:

«The exercise of a trade-mark right is particularly apt to lead to a partitioning of markets, and thus to impair the free movement of goods between States which is essential to the Common Market. Moreover, a trade-mark right is distinguishable in this context from other rights of industrial and commercial property, in as much as the interest protected by the latter are usually more important, and merit a higher degree of protection, than the interests protected by an ordinary trade-mark.»

The need to avoid confusing consumers in Germany, trumped even the fundamental principle of the free movement of goods.

3. REFUSAL TO LICENSE

Refusal to license has been treated by the courts in Luxembourg as infringement of a general obligation imposed by article 82 (formerly article 86) on firms enjoying a dominant position to supply a competitor downstream. Like Article 81, 82 was perceived as protecting competitors as much as consumers, although this is now changing.

A. COMMERCIAL SOLVENTS

Commercial Solvents [13] was the ECJ's first judgment on refusals to supply. The Commission had condemned the refusal by Commercial Solvents to supply Zoja with the raw materials to make ethambutol, an important drug used for the treatment of tuberculosis. Commercial Solvents was the only firm in the world with the know how commercially to make the raw material. Zoja was one of only two firms in the common market producing ethambutol in competition with a joint venture, Istituto, in which Commercial Solvents had a half interest, and American Cyanamid.

On appeal the ECJ upheld the Commission's decision. It said:

> *«25 ...an undertaking being in a dominant position as regards the production of raw material and therefore able to control the supply to manufacturers of derivatives cannot, just because it decides to start manufacture of these derivatives in competition with its former customers act in such a way as to eliminate their competition which, in the case in question, would have amounted to eliminating one of the principal manufacturers of ethambutol in the Common market.»*

It implied that Commercial Solvents would strengthen its market power downstream by eliminating a competitor and reserving that market to itself [14].

It is not clear from the judgment confirming the Commission's order to supply Zoja whether the ECJ was protecting a small firm [15] that wanted to make ethambutol, or those paying for the treatment of tubercular patients. Judge Pescatore, then President of the ECJ, said extra judicially that the Court had protected a small firm—the protection of competitors—rather than free competition for the benefit of consumers. This

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[13] *Istituto Chemioterapico Italiano SpA and Commercial Solvents Corp. v. Commission* (6 & 7/73) [1974] *ECR* 223 [1974] 1 *CMLR* 309, *CMR* 8209.

[14] Although it would compete with American Cyanamid and two smaller suppliers.

[15] The interests of small and medium-sized firms are mentioned in the preamble to the Treaty.

desire to protect certain types of competitors may help to account for the formerly wide scope of the European duty to supply.

Although the facts might have been perceived in the United States as raising an issue of essential facilities, the Court's language was far broader. A refusal to supply by a firm dominant over the supply of the raw materials that excluded a competitor from a neighbouring concentrated market was treated as the abuse of its dominant position.

The judgment did not impose unlimited obligations to supply on dominant firms. The Court followed Advocate General Warner in focussing on the pharmaceutical market downstream. From this, some have inferred that the duty to supply arises only if there are two separate markets, but the question did not arise in that case. Usually the refusal protects the position of the dominant firm in a market downstream, but not necessarily.

Zoja had been a former customer, so it would be difficult to argue that it was not fit to handle a trade marked product.

B. VOLVO

The obligation to supply was not extended automatically to an obligation to grant licenses. The rationale of design protection was accepted in *Volvo AB v. Erik Veng (U.K.) Ltd.* [16]. The ECJ ruled that the right to exclude was the

> *«substance of the exclusive [design] right, and that a refusal to grant such a license cannot in itself constitute an abuse of a dominant position.»*

It went on, however, to give three examples that had been suggested by counsel when a refusal to licence might be abusive: a refusal to license might be abusive if coupled with (1) an arbitrary refusal to supply spare parts to independent repairers, (2) overcharging for spare parts, or 3) ceasing to produce spare parts for a particular model when there were many vehicles of that model still on the road. These qualifications, which no one in the case had an incentive to challenge, came back to haunt us in *Magill* [17].

C. MAGILL

In *Magill*, the Commission adopted decisions against the three undertakings that transmitted television programs that could be picked up in the Republic of Ireland and in Northern Ireland (part of the UK, a se-

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[16] (238/87) [1988] ECR 6211 [1989] 4 CMLR 122, CMR 14498. An almost identical judgment was given at the same time *Renault Maxicar* 53/87 [1988] ECR 6039 [1990] 4 CMLR 265 [1990] 1 CEC 267.

[17] *Id., supra* note 5.

parate member state). Each of them published its own very profitable weekly television guide for the following week. Each also granted a copyright license free of charge to daily papers, but only for one day ahead (2 or 3 at weekends and holidays). Newspapers were also permitted to publish weekly highlights. When Magill published a single issue, intended to become weekly, of a comprehensive guide to the programs of all three stations, the latter each obtained an injunction against copyright infringement and refused licenses.

One may ask how there was copyright in a list [18]. There was neither artistic endeavor nor 'sweat of the brow' involved in compiling the listings. The television companies required no inducement to prepare them. The BBC might have lost part of its license fee income had its ratings declined, and the others would have lost advertising revenue if consumers did not watch the programs [19].

In response to a complaint by Magill, the Commission found that the three television stations had abused a dominant position and ordered them to stop. This was confirmed by the CFI [20].

On appeal, the ECJ confirmed [21] that «mere ownership of an intellectual property right cannot confer [a dominant] position». It added at para. 47, however, that the television companies held a de facto monopoly over the information about programs needed by Magill. They were the only source.

The ECJ went on to confirm the finding that the dominant position had been abused. It referred to the special circumstances of the case, but did not specify precisely what circumstances were exceptional. It seemed to take as a finding of fact that it had no jurisdiction to challenge that there were no substitutes [22]. It stated that the television stations were the only sources of the basic information [23] and continued:

> *«54. 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 programmes, which the appellants did not offer and for which there was a potential consumer demand. Such refusal constitutes an abuse under heading (b) of the second paragraph of Article 82 of the Treaty.»*

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[18] *Cf. Feist Publ'n, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991). *See also* Advocate General Jacobs' opinion in *Oscar Bronner*, para. 63, quoted at III.B.1 below.

[19] The UK Copyright Designs and Patents Act 1988 now provides for a compulsory license in such a situation. I doubt whether any of the civil law member states would have granted copyright to the listings.

[20] The CFI is a court attached to the ECJ in Luxembourg, and hears appeals from the Commission. It does not rehear the case, but has jurisdiction of judicial review, subject to appeal to the ECJ on questions of law only. Radio Telefis Eireann and Independent Television Publications v. Commission (TB69, 70, 76B77 & 91/89) [1991] *ECR* IIB485 *et seq.*, [1991] 4 *CMLR* 586 *et seq.* [1991] 2 *CEC* 114, 147, 174.

[21] *Id.* at para. 46.

[22] *Id.* at para. 52.

[23] *Id.* at para. 53.

there was no justification for the stations reserving to themselves the secondary market of weekly TV guides, by excluding all competition on that market. I read the special circumstances mentioned in para. 54 as being cumulative, but one later judgment of the CFI [24] has suggested that they are alternatives. This may not matter greatly, as the list appears not to be exclusive.

The ECJ did not refer to there being two markets. It accepted that each tv station was dominant over the information and that it was needed by a firm compiling a comprehensive guide. It might have been said that there was no market downstream because each tv station had prevented one from arising. The court is to be commended. Economists refer to markets as mechanisms whereby actual *or potential* transactions can take place. The issue arose in Australia in *Queensland Wire* [25]. The incumbent sole maker of star pickets, much used for rural fencing, made the Y Bar needed for their production by a subsidiary [26] and refused to supply Y bar to a competitor in the supply of star pickets, save at a price that made their production unprofitable. The Full Federal Court [27] held that since there were no transactions in the intermediate product, there was no market and that section 46 had not been infringed. BHP had not taken advantage of its dominant position to eliminate a competitor from a market.' Academic experts were so concerned that establishing a total monopoly should be treated less harshly, than establishing a lesser degree of market power that one flew to Canberra to persuade the competition authority to appeal and, in a landmark judgment, the High Court [28] held that the conduct infringed section 46.

The judgment in *Magill* gave rise to heated debate. There was concern that the holder of an improvement patent might be able to require a licence under the basic patent. The special circumstances' spelled out by the ECJ seemed to be satisfied. The patentee of the improvement would want to sell a new product, for which there might well be potential consumer demand and which the holder of the basic patent could not supply without infringing its improvement patent. Nor would the holder of the improvement patent be able to supply without a license to exploit the basic patent.

Doubtless, the situation might be solved by the grant of cross licenses, with a royalty one way or the other depending on the valuation of the

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[24] *Tiercé Ladbroke v. Commission*, T-504/93, June 12 1997 [1997] *ECR* II-923 [1997] 5 CMLR 309, [1997] *CEC* 812, para. 131.

[25] *Queensland Wire Industries Pty Ltd v. Broken Hill Proprietary Ld and Another* (1988) 83 *ALR* 577; comment Korah, «Access to Essential Facilities under the Commerce Act in the light of experience in Australia, the European Union and the United States» (2000) 32 *Victoria University of Wellington Law Review* 231, 233 *et seq*., Frances HANKS and Philip WILLIAMS, «Implications of the Decision of the High court in *Queensland Wire*» (1990) 17 *Melbourne ULR* 437.

[26] As the operator of the only rolling mill in Australia, BHP enjoyed vast economies of scope. The only competition came from overseas and the freight for a heavy product of low value was a high proportion of total cost...

[27] On appeal from J. PINCUS, who had absolved the conduct because it was not reprehensible.

[28] The Australian Supreme court.

two licences as negotiated by the parties. If, however, the holder of an improvement patent was entitled to a licence, it would be able to negotiate more favorable terms. Whether there is a duty to license must be determined.

Uunduly strong property rights

The only difference between the above example and Magill is that the listing seemed unworthy of copyright protection. The tv stations needed to publish their programmes if the BBC were to retain its licensing fees or the others their advertising revenues: they needed no incentive to prepare the listings. The investment that led to a basic patent may have been huge and made only in the expectation of an exclusive right if successful technically and commercially. Paragraph 55 of the judgment in Magill is not clear, but the ECJ may have been indicating that copyright in a list is not justifiable.

Economists cannot tell us how strong protection of intellectual property rights should be. Whatever the law dictates, there may be insufficient inducements to investment in research and development. If patent protection is too strong, the incentives to derivative research and development are insufficient. A license under the basic patent will have to be negotiated and any reward will have to be shared with its holder. The holder of the basic patent may not be under competitive pressure to improve the technology. If protection is less strong and the holder of an improvement patent is entitled to a compulsory license, the incentive to invest in the basic technology may be insufficient.

Economists have discussed whether it would be better to grant wide patents for a short time, or narrow patents for ever [29].

The Federal Trade Commission held most interesting hearings in the Fall of 1995 [30]. The results were described in a staff paper *Anticipating the 21st Century: Competition Policy in the New High-Tech, Global Marketplace*. Eminent lawyers, economists, and professors from business schools in the United States thought that application of the essential facilities doctrine might sometimes be desirable.

John Barton [31] questioned the desirability of the tendency of the United States to grant very wide patents, giving as actual examples those for «all transgenic rice» and for «all human genetic therapy in which

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[29] Much of the literature is cited and summarized in Nancy GALLINI & Michael TREBILCOCK, *Intellectual Property Rights and Competition Policy: A Framework for Analysis of Economic and Legal Issues* (OECD Competition Policy Roundtable No. 18, 1997), available at *http://www.oecd.org//daf/clp/Roundtables/ipr00.htm*. A rather shorter version is to be found in *Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy* (Robert D. ANDERSON and Nancy T. GALLINI, eds. 2, 2 (1998).

[30] The transcript is available on the Internet at *http://www.ftc.gov/opp/global.htm*.

[31] George Osborne Professor of Law at Stanford University, at the hearing on 11.29.95, sum-

the actual genetic transformation of the cells is done outside the human body». I doubt whether such patents would be granted by the European Patent Office.

Unduly wide patents are likely to be a serious problem when major new technology is first introduced, and patent officials do not realize the breadth of the patents they grant [32]. Moreover, the possibility of obtaining interim relief, from which appeals are infrequent, may enable the holders of dubious or invalid patents to restrain competition. This may be a greater problem in the United States than in Europe [33] because of the greater breadth of patents granted in the U.S.

Professor Barton's concerns emphasize the need for antitrust authorities to be consulted whenever there are legislative moves to extend the scope of intellectual property rights. When the extension is judicial, there seems to be no simple method of raising the monopoly issues, if the parties choose not to do so. Some might suggest the increased use of *amici curiae* briefs by the antitrust authorities at both Community and national levels.

If research and development are to be encouraged, it is important that the availability of rights be knowable before the decision is made to invest. An obligation to license important patents may reduce the incentive to conduct basic research, while its uncertain application makes it a poor way of encouraging important derivative research and development.

D. THE SCOPE OF MAGILL HAS BEEN NARROWLY CONSTRUED

The EC Commission has taken the doctrine of essential facilities far, especially in the areas of transport and telecommunications, where the original investment in Europe was often made with government money or by firms with exclusive rights granted by government, the profits of which were not tightly constrained by competition. Without focusing on this consideration, the Commission has treated a refusal to give third parties access to an essential facility as abuse of a dominant position, contrary to article 82 [34].

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marized in FTC *Enforcement Hearings Turn to Intellectual Property Enforcement Issues*, 69 *Antitrust & Trade Reg. Rep. (BNA)* 670, 671 (1995). Professor BARTON also addressed the OECD, *supra* note 29.

[32] Although where the social value of investment on fundamental research exceeds that in developing applications (commercialising) then patents should be broadened. See eg. Robert COOTER and Thomas ULEN, *Law and Economic 3d ed.* at 131 (Addison Wesley Longman 2000).

[33] The issue is addressed in Valentine Korah, 5 *Int'l Intellectual Prop. Right L. & Pol'y* (forthcoming).

[34] Many examples are cited by Advocate General JACOBS in *Oscar Bronner* discussed below, at para. 44 of his opinion.

Another settlement was agreed in *La Poste/SWIFT + GUF*, 1998 *O.J.* (L 335) 3 , 27th Ann. Rep. on Competition Policy 68 (1998). The Commission sent a statement of objections under Article 82 based on the refusal by the Society for Worldwide International Financial Telecommunications to accept La Poste as a member. The Commission has accepted an undertaking from SWIFT specifying

Recently, however, both Community courts accept the view that *Magill* was exceptional and that compulsory licenses will seldom be compelled under the competition rules. There have been four judgments narrowing the scope of the precedent in *Magill*: *Oscar Bronner* [35] by the ECJ and three by the CFI , *Tiercé Ladbroke v. Commission* [36], *ITT Promedia N.V. Commission* [37] and *European Night Services and another v. Commission* [38].

a) *Tiercé Ladbroke*

In *Tiercé Ladbroke* [39], the CFI construed *Magill* narrowly when holding that there was no duty on PMI, which licensed the copyright of 12 race-course operators in France [40] to license live film of French horse races to a firm that was already the leading provider of betting services in Belgium (paras. 130 & 132). It had defined the relevant market over which the race course operators were dominant as betting services on horse races (paras. 103, 104 & 107) although an argument might have been made out that it was broader and included television coverage of sport. Judgments on appeal from a refusal to pursue a complaint further tend to be less satisfactory than those on appeal from a decision on the merits.

The CFI also held at para. 124 that the copyright holders had not exploited the Belgian market in betting services themselves or through another licensee. Consequently, it was not discriminatory to refuse a licence to Ladbroke and impliedly confirmed that it was not an abuse. This analysis seems to me to be most unfortunate [41]. The refusal to license may not be discriminatory, but it is worse for those wanting to place bets to have no betting shop able to provide live film of the races than to have only some. There may be no discrimination against competitors of Ladbroke, but the main objective of article 82 is to protect consumers

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the conditions for admission to domestic payment systems. SWIFT has not admitted that it enjoyed a dominant position, nor that it had abused such a position. Payment systems are networks, where the more firms or individuals are connected, the greater the incentive for new people to join. There is, therefore, a huge first mover advantage that may lead to a natural monopoly. Where that is true, a requirement to permit access on reasonable terms may be appropriate.

The Commission also intervened to ensure that airport operators provide facilities for firms other than the incumbent to deliver services on the ramp. However, in its decision in *Flughafen Frankfurt/Main* (98/190/EC), 14 January 1998, 1998 *OJ* (L 72) 30 [1998] 4 *CMLR* 779 [1998] *CEC* 2126, it did not require access to operate a luggage handling conveyor belt because of efficiencies in having only one. It is proceeding slowly so as not to create too much chaos in crowded spaces. See also *Aeroports de Paris* (C- 82/01 P) 24 October 2002.

[35] *Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungsund Zeitschriftenverlag GmbH & Co. KG and Other* (C-7/97), [1998] *ECR* I-7817 [1999] 4 *CMLR* 112, [1999] CEC 53.

[36] *Tiercé Ladbroke v. Commission*, T504/93, [1997] *ECR* II 923 [1997] 5 *CMLR* 309.

[37] T-111/96 [1998] *ECR* II-2937 [1998] 5 *CMLR* 491.

[38] T-374, 375,384 & 388/94 [1998] *ECR* II-3141, [1998] 5 *CMLR* 718.

[39] *Tiercé Ladbroke v. Commission*, T504/93, [1997] *ECR* II 923 [1997] 5 *CMLR* 309. The CFI paid no attention to the horizontal aspects of the case which do not seem to have been argued.

[40] The CFI paid no attention to the horizontal aspects of the arrangements which do not seem to have been argued.

[41] See my discussion of the Australian case about Ybar, text to note 25 above.

rather than competitors. I welcome the narrow definition of what constitutes an essential facility, but the fact that no other betting shops in Belgium were licensed makes the refusal to license more abusive to consumers, than if some betting shops were licensed. The fact that Tiercé Ladbroke was able to sell its betting services without the benefit of the live film may well have shown that the live film was not essential. It does not seem to have been argued that betting with tv pictures of the races might be a new product as distinct from betting without the pictures.

The judgment of the CFI may, however, have broadened *Magill* in one respect. At paragraph 131, it suggested that there might be a duty to supply *either* where access was essential because there were no substitutes, *or* where the introduction of a new product for which there was constant and regular demand might be prevented. In my view the conditions set out in para. 54 of *Magill* for requiring a licence in special circumstances were cumulative and not alternative: the Court used the conjunction «and» to connect them. Nevertheless, the examples in *Magill* may not be exhaustive. Para, 131 was not necessary to the decision in *Tiercé Ladbroke*.

b) *ITT Promedia*

In *ITT Promedia NV v. Commission* [42], the CFI treated narrowly the obligation of a dominant firm, Belgacom, to provide access to the names and addresses of telephone subscribers to a firm, P, which wanted to publish a commercial telephone directory for Belgium in competition with Belgacom. P. complained to the Commission and sued Belgacom for infringing article 82. Belgacom entered a defence and the CFI confirmed the Commission's view that Belgacom could legally assert what it might reasonably consider were its rights, even if they turned out to be less extensive.

Subsequently, Belgian law was amended to permit other firms to publish directories, and the Commission has closed proceedings when Belgacom reduced the charges it made for the subscriber information. ITT will be allowed to recover the costs it incurs in the collection, treatment, and provision of the subscriber data, plus a reasonable profit. The press release does not say what costs qualify or how the profit is to be determined.

Belgacom had obtained most of the information about customers when it enjoyed exclusive rights over voice telephony in Belgium. Incentives to the original investment are less important to nationalized industries, but after Belgacom has been deprived of its exclusive rights for some years, the question will arise whether it should remain obliged to give access to its subscriber base. The directives liberalizing telecommu-

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[42] Supported by Belgacom, T-111/96. [1998] *ECR* II-2937 [1998] 5 *CMLR* 491, para. 113.

nications, a service provided mainly by nationalized industries, requiring unbundled access for multiple firms to the local loop, have not been based on article 82[43].

c) *European Night Services* (ENS)

The judgment of the CFI about a joint venture was based on article 81 not 82[44]. The investment to develop a network of very fast trains that would travel long distances overnight through the Channel tunnel had resulted not in intellectual property rights but physical assets. Nevertheless, the issues of essential facilities were treated as similar. Cases like *Magill* were based on a general duty to deal, not only to license. In *ENS* the CFI made it clear that a proper market analysis is required both to establish market power and that competition is restricted. It quashed the decision on many grounds. Amongst other points, it objected to the Commission granting an exemption only if ENS licensed others to use the paths under the English channel, high speed locomotives and specially trained crews to operate them.

The CFI said that the Commission's decision contained no analysis demonstrating that the locomotives were necessary or essential.[45] It was not established that competitors could not buy them from manufacturers or rent them, as alleged by ENS. The joint venture had no exclusive rights to acquire or sell trains. At para. 216, the Court refused to accept the Commission's allegation that such possibilities were purely theoretical, since only the parties had such locomotives. Others might acquire them. It made similar points about the specialised crew and observed that an independent manager was entitled to grant paths through the channel tunnel to third parties. Thus the CFI found that the Commission's decision should be quashed for insufficient reasoning.

The CFI did not take the easy step of confining the doctrine of essential facilities to cases where the incumbent has a high share of a well defined market. It emphasised the need for a realistic analysis of the economic context of a transaction under both article 81(1) and (3). It stressed the size and risk of the original investments and need for a sufficient return to induce it. It added that a facility is essential only if there are no substitutes. The advantage of taking a free ride on the investment of the incumbent is not enough, Anyone alleging that a facility is essential

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[43] Directive 90/388/EC has since been frequently amended, and finally repealed as part of the Commission Directive 2002/77/EC of 16 September 2002 «on competition in the markets for electronic communications networks and services», part of a new package of Directives enacted pursuant to 86(3) that will establish a framework for the regulation of electronic communications networks, services and associated facilities throughout the EU, which are designed to be implemented in all Member States by 25th July 2003.

[44] Cited note 38 above.

[45] At para. 215.

must establish that fact. This protects the firm that makes the original investment.

d) *Oscar Bronner*

In *Oscar Bronner*[46], Mediaprint refused to distribute the papers of a smaller specialist firm, which alleged that the only national wide home delivery service in Austria was an essential facility. The Austrian court sought a preliminary ruling about the interpretation of article 82.

(i) Advocate General Jacobs' opinion

Advocate General Jacobs used very general language in narrowing the obligation of a dominant firm to grant access. He observed (para. 35) that the ECJ had not used the term 'essential facility' in its case law, but had held in many cases that for a dominant firm to cut off supplies to an existing customer[47] amounted to an abuse. In *Volvo AB v. Erik Veng (U.K.) Ltd.*[48], however, the ECJ had decided that the exclusive right was the very subject matter of copyright and there was no duty to license repairers to produce spare parts, although it might be an abuse to refuse a license and at the same time to reduce supply in any of three specified ways.

AG Jacobs observed (para 215) that in *Tiercé Ladbroke v. Commission*[49], the CFI had distinguished *Magill* on the ground that a license to show the live films of horse races was not essential to a provider of betting services. The refusal by the association of French race courses to supply the applicant could not fall within the prohibition laid down by Article 82 unless it concerned a product or service which was either essential for the exercise of the activity in question in that there was no real or potential substitute, or was a new product whose introduction might be prevented, despite specific, constant and regular potential demand on the part of consumers.

The Advocate General added that in many cases, the Commission has considered instances of refusals to supply as abusive and that the doctrine of essential facilities played a large part in its thinking (para. 44). He added that commentators have seen the judgments of the ECJ in *Télémarketing*[50] and *Magill* as an endorsement of the essential facilities doctrine.

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[46] *Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungsund Zeitschriftenverlag GmbH & Co. KG and Other* (C-7/97), [1998] *ECR* I-7817 [1999] 4 *CMLR* 112, [1999] *CEC* 53.

[47] Occasionally also someone who was not an existing customer.

[48] (238/87), 5 October 1988 [1988] *ECR* 6211 [1989] 4 *CMLR* 122, *CMR* 14498, 3. B above.

[49] *Ladbroke, supra* note 25, appeal withdrawn. The case is reviewed in Valentine KORAH, 5 *Int'l Intellectual Prop. Right L. and Pol'y* (forthcoming) and in [1998] *ECLR* 169.

[50] Centre Belge d'Études du Marché-Télémarketing SA (CBEM) v. Compagnie Luxembourgeoise de Télédiffusion (311/84), [1985] ECR 3261 [1986] 2 CMLR 558, *CMR* 14246.

Mr. Jacobs went on to consider the narrowness of U.S. case law on the doctrine.

> «47. *The US essential facilities doctrine has developed to require a company with monopoly power to contract with a competitor where five conditions are met.*
>
> *First, an essential facility is controlled by a monopolist. A facility will be regarded as essential when access to it is indispensable in order to compete on the market with the company that controls it. The following have for example been held to be essential facilities: railroad bridges serving the town of St. Louis; a local telecommunications network.*
>
> *Secondly a competitor is unable practically or reasonably to duplicate the essential facility. It is not sufficient that duplication would be difficult or expensive, but absolute impossibility is not required.*
>
> *Thirdly, the use of the facility is denied to a competitor. That condition would appear to include the refusal to contract on reasonable terms.*
>
> *Fourthly, it is feasible for the facility to be provided.*
>
> *Fifthly, there is no legitimate business reason for refusing access to the facility. A company in a dominant position which controls an essential facility can justify the refusal to enter a contract for legitimate technical or commercial reasons. It may also be possible to justify a refusal on grounds of efficiency»* (I have divided a single paragraph into 6 and omitted the citations).

Against that background, the Advocate General made a number of general points:

(1) The laws of member states generally recognize the right to choose with whom one deals, and to freely dispose of one's property (para. 56);

(2) The justification of intervention under competition laws requires a careful balancing between conflicting considerations including: (i) the need for incentives to the creation of the original facility and (ii) the need for incentives to duplicate the facility with the immediate increase in supply if access be granted (para. 57); and

(3) The role of competition law is to protect consumers rather than particular competitors.

> «58. *Thirdly,... it is important not to lose sight of the fact that the primary purpose of Article 82 is to prevent distortion of competition—and in particular to safeguard the interests of consumers—rather than to protect the position of particular competitors. It may therefore, for example, be unsatisfactory, in a case in which a competitor demands access to a raw material in order to be able to compete with the dominant undertaking on a downstream market in a final product, to focus solely on the latter's market power on the upstream market and conclude that its conduct in reserving to itself the downstream market is automatically an abuse. Such conduct will not have an adverse impact on consumers unless the dominant undertaking's final product is sufficiently insulated from competition to give it market power...»*

This is a most welcome statement, that is coming to be more widely accepted in Europe only in the last decade.

Mr. Jacobs continued:

> *«61. It is on the other hand clear that refusal of access may in some cases entail elimination or substantial reduction of competition to the detriment of consumers in both the short and long term. That will be so where access to a facility is a precondition for competition on a related market for goods or services for which there is a limited degree of interchangeability.*
>
> *62. In assessing such conflicting interests particular care is required where the goods or services or facilities to which access is demanded represent the fruit of substantial investment. That may be true in particular in relation to refusal to license intellectual property rights. Where such exclusive rights are granted for a limited period, that in itself involves a balancing of the interest in free competition with that of providing an incentive for research and development and for creativity. It is therefore with good reason that the Court has held that the refusal to license does not of itself, in the absence of other factors, constitute an abuse* [51].
>
> *63. The ruling in Magill can in my view be explained by the special circumstances of that case which swung the balance in favour of an obligation to license.*
>
> *First, the existing product, namely individual weekly guides for each station, were inadequate, particularly when compared with the guides available to viewers in other countries. The exercise of the copyright therefore prevented a much needed new product from coming on to the market.*
>
> *Secondly, the provision of copyright protection for programmes listings was difficult to justify in terms of rewarding or providing an incentive for creative effort* [52].
>
> *Thirdly, since the useful life of programme guides is relatively short, the exercise of the copyright provided a permanent barrier to the entry of the new product on the market. It may incidentally be noted that the national rules on intellectual property themselves impose limits in certain circumstances through rules on compulsory licensing.»* (I have divided a single paragraph into 4).

This opinion is in marked contrast to the frequent unwillingness in judgments of the ECJ to analyse theoretically, but rather to rule on results.

Mr. Jacobs went on to say at para. 64 that when Community law intervenes to require access, full compensation should be obtainable, not only for the capital invested but also for a normal return having regard to the risk of the investment.

The Advocate General concluded that Bronner had numerous ways of distributing its papers. Mediaprint's refusal to do so did not lead to a bottleneck downstream. There was therefore no duty to supply. Bronner's case for access was particularly weak, so this conclusion was always

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[51] He cited *Volvo v. Veng.* (238/87), 5 October 1988 [1988] *ECR* 6211 [1989] 4 *CMLR* 122, *CMR* 14498.

[52] This may imply that the court should consider whether the intellectual property right in question is justifiable on a case by case basis. In my view this would be unfortunate. The time to question the grant of a right is when it is being created by legislation. Control case by case ex post through competition law would erode the incentive to investment provided by intellectual property rights (3. C above).

likely, but the language of the opinion is far wider, and may mark the way to future decisions.

Mr. Jacobs added at para. 64 that the cost of duplicating the facility might provide a sufficient reason for intervention, especially when the facility had been developed with public funds. That would often be the case for a public monopoly which has recently been deregulated. Two of the three objections to intervention might not apply strongly in such circumstances: nationalized undertakings are less dependent on financial incentives for investment. Often there will be a regulator who would be in a better position continuously to regulate the compensation to be paid to the monopolist upstream.

The Advocate General added that the requirement to supply leads the Community and national authorities into detailed regulation of Community markets. The doctrine should not be applied on a wide scale: intervention would be unworkable and anticompetitive.

(ii) The judgment in Oscar Bronner

The judgment of the ECJ was far shorter but followed the main lines of Mr. Jacobs's opinion without considering U.S. law. It observed that in *Commercial Solvents* and *Télémarketing* the ECJ had treated a refusal to supply as abusive only where it «was likely to eliminate all competition on the part of that undertaking.»

The Court also construed Magill narrowly. It said that Magill was an exceptional case and ruled that even if it applied to property rights other than intellectual property rights, to find an abuse Oscar Bronner would have to establish in the Austrian court:

(1) that the refusal would be likely to eliminate all competition in the daily newspaper market by Oscar Bronner;
(2) that the refusal could not be objectively justified; and
(3) that the service be indispensable to carrying on Oscar Bronner's business, in that there was no actual or potential substitute.

The Court ruled (para. 42) that that was certainly not the case. There are other ways of delivering newspapers even if they are less satisfactory. Moreover, no obstacles—technical, legal or economic—appeared to make it unreasonably difficult for some publisher to set up a second national delivery service, either alone or in combination with others. It is not enough to establish that it is not economically viable for Bronner to do so because of the small circulation of the particular newspaper. This limits the essential facilities further: it suggests that once there are two firms with such a facility, the doctrine ceases to apply. The Court did not give a reason: perhaps in that event the defendant may no longer enjoy a dominant position, or where there are two facilities, it may be more likely that one or other may open access, since it will not be giving up a monopoly [53].

Comment. The Advocate General spelled out the underlying economic considerations, the reasons for rarely requiring access to an asset which is the fruit of substantial investment: the need for incentives to the original investment (para. 64) and the reduction in the incentive to duplicate the essential facility where this is practicable (paras. 56-62). At the end of his opinion he also raised the issue of fixing adequate compensation for providing access against the incumbent's desires.

His view that the objective of competition law is to protect consumers rather than particular competitors is welcome. It leads to a far narrower scope for compulsory supply or licensing under the essential facilities doctrine. He also mentioned (para. 42) that the obligations imposed by article 82 on very dominant firms may be greater than on those that are not quite so dominant [54]. He insisted that supply be essential to enter the market downstream.

The ECJ in Oscar Bronner did not articulate the underlying economic considerations: it did not expressly state that competition should help consumers rather than competitors, nor did it identify the objections to a wide doctrine of essential facilities. It did, however, read the case law very carefully, and showed how limited it is. The ECJ expressly stated that Magill was an exceptional case. Its conclusions followed those of the Advocate General, and must lend weight to his analysis of the underlying economic considerations.

The ECJ, however, did not define what is meant by an essential facility: the test seems to require only that the facility be essential, with no other conditions being required. While the court is restrictive in identifying a facility as essential, requiring access seems to follow automatically from the identification.

It is worth noting that although Mediaprint did commercialise its delivery system to those who agreed to buy in the printing from it, the ECJ first analysed the issues as if it was reserved for in-house use. In other words there was no actual market for its national house to house delivery system [55].

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[53] The directives liberalising telecommunications services have required the incumbent to permit unbundled access to the local loop for anyone technically qualified to use it without harm to the system. This directive, however, was not adopted under article 82 but under article 86.

The ECJ has accepted under article 82 a concept of collective dominance, the abuse of which is illegal and may be punished by fines. *See Compagnie Maritime Belge v. Commission* (C-395/96P) [2000] *ECR* I-1365, [2000] 4 *CMLR* 1076. What amounts to the abuse of such a position has not yet been worked out, but where two undertakings share an essential facility, or each own a facility to which third parties need access, they might be held to be collectively dominant and required to grant access. It may be argued, however, that the special responsibility of a singly dominant firm is more extensive than that of two or three collectively dominant firms.

[54] As did Advocate General FENNELLY in para. 132 and the Court at para. 119 of *Compagnie Maritime Belge*.

[55] See 3. C. above.

E. IMS HEALTH

The Commission invoked the essential facilities doctrine in a controversial decision, *IMS Health* [56], imposing interim measures that required a licence of a business method that a German court had held enjoyed copyright protection.

IMS is the largest supplier in the world of information on sales and the prescription of pharmaceutical products. The data are used by pharmaceutical companies to allocate sales territories, develop incentive schemes for sales representatives and to inform their sales force about changes in the market, market shares, comparisons with earlier periods and so forth. According to the Commission IMS enjoys a dominant position in providing such information in Germany.

IMS divided the German territory into 1860 zones, called bricks', largely based on postal code areas. In each zone there were at least 4 pharmacies. This segmentation of the market enabled IMS to give its clients sales data broken down into useful, small geographic areas, while avoiding the identification of sales through individual pharmacies (para. 14). German data privacy protection law requires at least three pharmacies to be included in every zone and 4 or 5 are required to keep the structure stable.

The pharmaceutical companies which were familiar with patterns of trade commented on the maps prepared by IMS, but IMS contributed considerable work itself (paras. 76-84) not only when it first established the system, but also in modifying it subsequently, for instance by sub-dividing bricks and adding zones on the reunification of Germany.

Until 1999, IMS was the only firm providing regional data in Germany. Then two firms, NDC and AzyX, entered the market and tried to base the slightly different information they supplied (paras. 16 & 47-48) on different zones, but discussions with customers showed that this would not be marketable since it would not correspond to the territorial divisions already in use.

The new entrants started using IMS' brick system until sued successfully for infringement of copyright under legislation giving effect in Germany to the data protection directive [57] and IMS obtained an injunction (para. 20). Whether such use infringes copyright is contested and was under appeal [58].

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[56] *OJ* 2002 L59/18 [2002] 4 *CMLR* 58 [2002] *CEC* 2234, para. 194. The superior regional Court at Frankfurt am Main has since held that there is copyright, but that it is not held solely by IMS. Consequently, IMS cannot grant a licence without the cooperation of the joint holders.

[57] Dir. 96/9. *OJ* 1996, L77/20.

[58] Commission's decision, paras. 28-31. The Superior Regional Court at Frankfurt am Main has since held that there is copyright, but that it is not solely held by IMS, who therefore may not unilaterally license it.

a) *The Commission's decision*

Nevertheless, pursuant to the Commission's interim decision. IMS is not required to license its sales data, only the geographical basis on which it is arranged. The Commission decided that the new comers cannot compete in the market without using that basis, which has become a *de facto* industry standard (paras. 37-42).

The Commission's decision states (paras. 39 & 43) that it need not definitively establish infringement of article 82-it may order interim relief if there is a prima facie case that there was an infringement. It considered there was a prima facie case (para. 43). It found that IMS enjoyed a quasi monopoly over the German market for regional sales data services (para. 58). Defining the market by reference to a hypothetical monopolist raising price by 5 or 10 per 100[59] leads to very narrow markets. The Commission is confining the market to distribution-indeed, to one of four kinds of data in Germany (paras. 57-62). IMS enjoyed, however, a huge first mover advantage.

The Commission added that the refusal of access to the brick structure is likely to eliminate all competition in the relevant market (para. 70) and is not objectively justified (paras. 167-174). The use of the structure is essential as it has become de facto an industry standard (paras. 86-91) and there is no substitute now that the pharmaceutical companies are locked into it paras. 92-123.

The Commission ordered interim measures requiring a licence (paras. 214-end). It accepted the criteria laid down by the ECJ in *Camera Care v. Commission*[60] and certified that the complainants had made out a *prima facie* case, relief was urgently required and the refusal to licence would cause serious and irreparable damage to the complainants (paras. 188-194) and intolerable damage to the public interest (Para. 191).

The Commission referred to the substantial investments made by NDC (para. 191) one of the new entrants, but not to investment by IMS. It was also concerned that in the absence of licences the other competitors would leave the market before the German injunction could be reversed and that no one else would want to enter. IMS would be left as the only supplier and this would «cause intolerable damage to the public interest». (para. 195).

The Commission considered that IMS' legitimate interests would not be prejudiced since it would be able to charge fees for its licences (para. 200). It did not, however, specify the criteria for settling the licence

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[59] See Commission's notice on the relevant market *OJ* 1997, C372/3 [1998] 4 *CMLR* 177, paras. 15-19 and paras. 45-56 of the Commission's decision.

Since IMS was the only supplier of prescription data services, however, IMS would have had an even higher share of a broader market.

[60] (792/79R) [1980] *ECR* 119 [1980] 1 *CMLR* 334, *CMR* 8645.

fees. Should they reflect the monopoly profit on the expectation of which IMS' original investment was made and which data protection was designed to protect, or should they be based on IMS costs [61]? If the latter, I hope that a margin is allowed for risk, as the CFI implied in *European Night Services* [62]. If this is all IMS is allowed to charge it will, however, clearly be prejudiced.

Instead of determining the criteria, at para. 215, the Commission required the parties to settle the royalties and, if they failed to agree within two weeks, they should select experts to settle them on the basis of (unspecified) non-discriminatory, «transparent and objective criteria» within two weeks of appointment. As might have been expected, they failed to agree.

b) *Interim order of the President of the CFI*

The Commission's interim decision is giving rise to controversy on many points and the President of the CFI made an interim order that the duty to license be suspended [63], confirmed after an oral hearing until the appeal from the Commission's interim decision is determined by the CFI on its merits [64].

In his second order, the President of the CFI expressly assumed that the copyright was valid, and his order is to be appraised on that basis. He accepted the view of the ECJ in *Camera Care* that the Commission has power to adopt an interim decision when 1) there is a *prima facie* case, 2) the matter is urgent and 3) there is risk of serious and irreparable harm. He observed that the second and third conditions amount to the same thing (paras. 53 and 54). Both a *prima facie* case and urgency must be established.

The President accepted earlier case law holding that the Commission's power to adopt interim decisions was as extensive as its power to adopt final orders (paras. 60-68).

> *«93. It follows that the mere fact that the interpretation of Article 82* EC *adopted in the contested decision appears to be relatively novel does not*

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[61] The fees of the experts are to be shared by the parties. So, it seems that IMS is not to recover even the full costs of granting the licence.

[62] (T-374, 375 and 384/94) [1998] *ECR* II-3141, [1998] 5 *CMLR* 718 [1998] *CEC* 995.

[63] *IMS Health Inc. v. Commission* (T-180/01R) 10 August 2001 [2002] 4 *CMLR* 46.

[64] *IMS Health Inc. v. Commission* (T-184/01 R II) 26 October 2002 [2002] 4 *CMLR* 58.

The President's final order on suspension was appealed to the President of the ECJ who has jurisdiction only on points of law, He said that the President of the CFI enjoyed wide discretion when granting interim relief (para 63) and rejected the appeal. At para. 80 - 86 he stated that prejudice to customers other than consumers downstream may be a legitimate concern under article 82 in order that efficiency is pursued at all stages of production and not only at those stages closer to final consumption. President Vesterdorf's point regarding the unlikelihood of the prejudice suffered by the pharmaceutical companies causing major prejudice to consumers of their products seemed to marginalise the issue. It did not, however, affect the outcome. *IMS Health Inc. v. Commission*, C-481/01 P (R) 11 April 2002, [2002] 5 *CMLR* 44.

> *in itself, affect the assessment to be made of the prima facie case requirement. The applicant must still demonstrate the existence of a serious dispute or at least reasonable doubts regarding the validity of the Commission's interim assessment of the competition rules».*

The Commission has only to establish a prima *facie case* of an infringement (paras. 60-67), but the appellant before the CFI, similarly, has only to establish a *prima facie* case, not a particularly strong one against a remedy that is only provisional: it need not establish manifest error. It suffices for the applicant to establish serious doubts whether the decision was correct (paras. 68-75 and 88-94).

The President considered that IMS had raised serious doubts about the validity of the interim decision. After considering *Magill* (paras. 94-100) and the other case law (paras. 103-106) carefully, the President considered that there was at least a serious doubt whether there was a duty to license when the holder of an intellectual property right was itself offering much the same product as the complainant requesting a licence (para. 101)[65]. In para. 54 of *Magill*, which was referred to by Advocate General and the Court in *Bronner*, the ECJ referred to three circumstances that made the circumstances of the case special: 1) the refusal prevented the appearance of a new product, 2) which the appellants did not offer and 3) for which there was continuing consumer demand. The President thought there was at least a serious dispute whether the circumstances were sufficiently special to require access. The issue should not be decided by an interim order of the President but left to the CFI's final decision on the merits of the Commission's interim decision (para. 105). The applicant had made out a *prima facie* case for relief. Consequently it was necessary to consider urgency

The President stated that it is for the party pleading serious and irreparable damage to establish its existence (para. 116). The Commission's decision was only interim, so the CFI had to consider whether the damage caused to IMS by the Commission's interim relief would outweigh the benefits of immediately putting the decision into operation and whether the measures were conservatory (para. 116). If the Commission's decision were quashed by the CFI, the President questioned whether IMS would obtain adequate redress by suing for breach of copyright in a German court if it had been forced to grant a licence. He also doubted whether IMS would be able to sue the Commission, in the light of its broad discretion. Financial problems were, however, seldom incapable of redress later. The President was more concerned by the possible inability of IMS to win back its clients once they had become used to its rivals' information services (paras. 122-129). He concluded (para. 132) that there was a real and tangible risk that execution of the contested decision could cause serious and irreparable harm to IMS. He had, therefore, to consider the balance of interest between the parties and the public interest.

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[65] He contrasted para 131 of *Ladbroke cite supra* note 46 with para. 41 of the judgment in *Bronner cite supra* note 45.

When doing so, however, the President of the CFI considered that the respect for intellectual property rights reflected in Article 30[66] of the Treaty (para. 143) and the clear public interest served by the ability of IMS to

> *«enforce and profit from the specific subject-matter of its copyright in the 1860 brick structure, the inherently exceptional nature of the power to adopt interim measures would normally require that conduct whose termination or amendment is targeted by such measures fall clearly within the scope of the Treaty competition rules (para. 144)».*

He went on to refer to Jacobs AG's view that the primary purpose of Article 82 is to safeguard the interest of consumers rather than particular competitor (para. 145) and confirmed the suspension of the obligation to grant a licence. He seems to consider that competitors should not be automatically protected against a refusal to license, unless it harms consumers downstream. He considered that the risk of NDC and AzyX leaving the market was no greater than the risk the Commission had dismissed of IMS suffering irreparable harm (paras. 146-149).

The President had stated at para. 100 that there were important differences from the circumstances in *Magill*. The legality of the far reaching remedy depended on the meaning of «exceptional circumstances». Moreover, there was a concern that the Commission's measures may not have been merely conservatory (para. 117).

c) *Comments on the order*

The Commission's interim decision to compel licensing raises several questions, not all of them addressed by the President.

First, it seems that NDC and AzyX were able to remain in the market after the injunction was granted by the German court. Was access so essential?

Secondly, President Vesterdorf did not address the point[67] that there are two new entrants to the market requesting compulsory licences and the Commission is requiring both to be licensed. This is understandable, since it would be difficult to decide which of two new entrants should be ensured a licence: the Commission should not discriminate. The question arises whether, once one licence has been given, the IP holder still has an essential facility. This line of argument would yield the surprising result that the owner of an essential facility could exercise its right to chose whether and whom to license by giving access (possibly on restrictive

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[66] Quantitative restraints on trade between member states may be justified on grounds of intellectual property rights.

[67] It was not argued and the CFI has jurisdiction to consider only those questions of substance that are argued..

terms) to one competitor, perhaps the weakest, and then not be obliged to give access to anyone else. If, however, the competition authority had to intervene, it might require access for several or all other firms. If the Commission were to do so, would the owner of the facility be entitled to grant a licence to one firm, and then ask for annulment of the Commission's order to license all the firms who wanted one?

A connected point is that treating an industry standard as an essential facility gives rise to anomalies. The appropriate remedy for monopolising a standard is compulsory licensing for everyone who wants a licence, while the essential facilities doctrine would provide access only for one firm unless the concept of abuse is extended.

Thirdly, if competition law is intended to protect consumers rather than competitors as is accepted by President Vesterdorf [68] one might argue that the pharmaceutical companies should have protected themselves from a monopoly in supplying the information by contract when negotiating with IMS to devise its brick structure and required it to license any competitor that might wish to enter the market. Their failure to do so may indicate that IMS would not have taken the trouble to devise the brick structure without the expectation of the exclusive right to use it [69].

Competition law should not lightly be used to mend bad bargains or incentives to investment will be undermined. In this case, however, the Community data protection directive was not in force when the original bricks were decided upon. So, unless German national law already protected the maps, it may be excessive to expect even well advised pharmaceutical producers to envisage the advent of an exclusive right.

Fourthly, the Commission established that the brick structure was essential to new entrants by asking their customers, the pharmaceutical companies. We are not told the terms of these questionnaires, but IMS is complaining that replies were received from only 85 out of 110 firms on a matter on which they might be expected to have an interest.

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[68] Para. 145. The President of the ECJ did not accept the reasoning of the President Vesterdorf without reservation in so far as it might be understood as excluding protection of competing undertakings from the aims pursued by Article 82, even though such interests cannot be separated from the maintenance of an effective competition structure. It is thought that does not detract from Judge Vesterdorf's view that the protection of consumers is the primary objective of article 82. Consumers may well be interested in the continuation in the market of the two new competitors.

The Commission has often been more concerned than the United States agencies and courts about the exclusion of a competitor from a market. It states that its care is for consumers rather than for competitors, but attributes more importance to the number of existing competitors than is done in the United States, which attaches more importance to the need for appropriate incentives to investment.

[69] The decision does not state whether there was a change in the law protecting data bases. The data protection directive was adopted after the original bricks were selected. I do not know the position under German national law. If there was no protection when the bulk of the investment was made by IMS, it would be expecting a lot to rule that the pharmaceutical companies should have protected themselves from exclusive rights that did not yet exist. Compare the judgment of the US Supreme Court in *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451, 119 L.Ed.2d 265, 112 S.Ct. 2072 (1992).

More serious, when a firm is asked whether it would switch suppliers if the structure with which it is familiar cannot be used by the new entrant, the obvious answer is «no». Not having to switch to different bricks would avoid at least temporary disruption. The President of the CFI (para. 128) accepted that there might be a change of mind[70]. Moreover, the firms may be answering honestly, but are not taking responsible decisions about their reactions to refusal to grant a licence.

Fifthly, the Commission's interim decision on the merits may extend the law further than *Magill*[71] in that the refusal to license the tv listings prevented the appearance of any comprehensive guides. IMS was providing a service similar, although not identical, to that the complainants proposed to offer. I have suggested (III C) that the circumstances in para. 54 of *Magill* were cumulative, although not necessarily exhaustive. Should the law be extended in an interim decision imposing such a far reaching remedy? Interim decisions are not often appealed and may remain in effect and strengthen the case law. The President took the novelty of the decision into account when considering the balance of interest rather than when considering whether the Commission had made out a prima facie case. The product supplied by the complainant in *Bronner* was, however, not said to be new. Should one infer that there is no requirement of novelty since *Bronner*.

A seventh and very important point, also not addressed by President Vesterdorf since he suspended the duty to supply, was the method of determining the appropriate compensation for the licence. Should it be based on the monopoly value on the basis of which the original investment was made or on some version of cost multiplied by risk? An obligation to supply an asset inevitably restricts its monopoly value and lessens the incentive to acquire the asset, yet access on terms that reflect the monopoly value would do little for consumers or competitors. How much more than cost multiplied by risk is necessary sufficiently to induce further risky innovations?

One of the reasons expressed by Advocate General Jacobs in *Oscar Bronner* for seldom applying any doctrine of essential facilities was the difficulty of deciding on the compensation to be paid for access. Should the Commission require access without specifying the criteria on the basis of which the licence fees should be set?

On the other hand, IMS clearly enjoyed a first mover advantage and received help from its pharmaceutical clients to devise its brick system. There is empirical evidence as well that the first firm to develop a standard may enjoy an advantage in its use beyond the first mover advantage, which could then help it to exclude competitors for many years[72]. An outsider

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[70] *Id.* para. 128.

[71] Text to note 31 *supra*, confirmed in *Bronner*, para 40.

[72] FLANAGIN, MONGE, FULK, «The Value of Formative Investment in Organizational Federations,» (2000) 27 *Human Communication Research 69-93.*

to the litigation cannot tell whether access is really necessary. Markets are often more volatile than can be proved in advance. The Commission alleged that the zones amounted to a *de facto* industry standard and implied that that might be sufficient to make the circumstances special within the meaning of the judgment in *Magill*. Whether IMS was informed of this argument only after it had answered the statement of objections is contested.

Eighthly, it is doubtful as a matter of policy whether the kind of information in the zonal system should be protected by an intellectual property right. The value of the brick system lay not so much in the initial work by IMS as in the fact that it had become an industry standard. The value had been greatly enhanced by industry practice, and valuation may depend on distinguishing the demand for the invention from the demand for the standard.[73] Were exclusive rights needed to induce the original investment?

There is growing concern on both sides of the Atlantic that unduly wide intellectual property rights are being granted by legislation, by patent examiners (especially when new technology takes off and they do not realise how wide the rights being claimed are) and by specialist judges (III.C.1 above).

This raises the question whether competition law should be used *ad hoc* to qualify intellectual property rights that are framed too broadly. The function of copyright is to induce artistic and other investment. The inducement operates only if the investor expects the copyright to be enforceable. In my view, competition advocacy is more desirable when the extent of new intellectual property rights is being debated in the legislative process than *ad hoc*, after business has relied on the incentive. This is too wide a topic to be pursued in this paper.

A ninth point is that if niche markets are selected as relevant, many facilities will be found to be essential. In *Oscar Bronner*, Advocate General Jacobs warned against a wide concept of essential facilities. It would reduce the incentive to the original investment, to duplicating it and require regulation over the price to be paid for access. The ECJ largely followed his opinion, but did not clearly articulate what amounts to an essential facility. The Commission's final decision in *IMS* and any possible appeal from it are awaited avidly.

In favour of the Commission's decision, it should be said that IMS clearly enjoyed a first mover advantage and was helped by its pharmaceutical clients to devise a zonal system. An outsider cannot tell whether access is really necessary. The Commission alleged that the zones amounted to a de facto industry standard and implied that that might sufficient

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[73] See the comments of Mark Patterson of Fordham Law School at the conference on International Intellectual Law and Policy. A more detailed version was published on the web site of the Department of Justice, antitrust Division. Mark R. PATTERSON, «Inventions, Industry Standards and Intellectual Property» *http://www.ftc.gov/opp/intellect/detailsandparticipants.htm*.

to make the circumstances special within the meaning of the judgment in *Magill.*

Moreover, it seems to be impossible to create an alternative structure that produces bricks small enough to be useful without infringing the German data privacy law, because by cross referencing one can end up with bricks containing fewer than three pharmacies.

d) *Developments subsequent to* IMS

Since the orders of the Presidents of both Courts, the injunction against copyright infringement from the German court has been quashed [74]. The Regional Court in Frankfurt decided that the copyright was not held by IMS. Under German law copyright can be held only by natural persons, not by companies (Reasons For Decision, section 1C). Those employees of the pharmaceutical companies who had participated in the working group had helped to define the bricks and were co-authors along with the employees of IMS (1B). Since IMS was not a natural person it was not a copyright holder and could not sue for its infringement.

Since German law requires all co-owners to agree to the institution of copyright proceedings, even if IMS were entitled to the copyright held by its employees, it would not be entitled to the rights held by the employees of the pharmaceutical companies; so it could not sue for copyright infringement.

Moreover, all co-owners are required to consent to a licence. The Regional Court did not have to decide who were the co-authors. If they were the pharmaceutical companies, they would, presumably, consent to licences, but if the holders were their employees and those of IMS, it might be difficult to comply with the Commission's order to grant a licence. It is arguable, however, that the abuse consisted not only of refusing a licence, but also of suing for the infringement of copyright or the rules for fair competition. The Commission's decision uses both expressions.

Under the German law of unfair competition [75], however, as a party directly injured, IMS was entitled to a cease and desist order in relation to direct appropriation or a slavish imitation (p.18). Its rights were narrower than for copyright infringement.

This may be a good result. The Regional Court attributed the joint copyright to the work of the pharmaceutical companies' employees in defining the bricks, and not to their activities in turning them into an industry standard, but this did not affect the result.

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[74] Pharma Intranet Information AG v. IMS Health GmbH & Co., FFM Superior Regional Court, 11 U 67/2000. I am working from an unofficial translation, so I cite to heading numbers in the judgment.

[75] 1 UWG.

Meanwhile, a reference has been made to the ECJ on the validity of the data protection directive [76] in the light of which the German law should be interpreted [77]. This is not part of the proceedings in the CFI to annul the Commission's interim decision. That is based only on article 82. Nevertheless, proceedings in the CFI have been suspended until the ECJ rules on the validity of the directive.

The hearing in the CFI on the substance of the appeal from the Commission's interim decision was on April 6, 2003.

4. CONCLUSION ON DUTY TO LICENSE OR SUPPLY

Both the CFI and the ECJ have been interpreting the doctrine of essential facilities narrowly by stressing the need for the firm controlling the facility to expect to earn sufficient remuneration to induce investment that may be risky. Until 1998, few cases under the competition rules mentioned the need to compensate for successful risks [78]. Many lawyers have welcomed the focus of both courts on the needs of consumers rather than on any particular competitor.

In *Magill*, the intellectual property rights were wider than are usually accepted in Europe or, indeed, elsewhere. But I doubt whether competition law should trump dubious IPRs. In *Oscar Bronner*, Advocate General Jacobs suggested [79] that this may be the reason why a compulsory license was effectively granted, although this was not repeated in the judgment. The rights in IMS, however, were granted pursuant to a Community directive and overriding it might be sensitive.

The judgment in Magill has been narrowly construed in the four recent judgments (III.D. 1-4 above), and Jacobs A.G. has stressed that the interests of consumers should be protected rather than those of particular competitors. The CFI's interim order in IMS casts grave doubt on the Commission's former wide use of the doctrine.

In my view, the Commission's interim decision may have been wrong. The competition rules should not trump intellectual property rights, which can induce investment only if expected to be enforceable.

Nevertheless, I believe that the essential facilities doctrine does and should have a continued role, especially in the context of regulatory control, when a regulator with considerably more information and economic expertise than a court can determine the compensation to be charged

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[76] C-418/01, Reference for a Preliminary Ruling by the Landgericht Frankfurt am Main by Order of That Court of 12 July 2001 in the Case of IMS Health GmbH & Co OHG v. NDC Health GmbH & Co. 2002 *OJ* (C3) 16.

[77] *Bristol-Myers Squib v. Paranova*, C-427, 429 and 436/93 [1996] *ECR* I-3475 [1997] 1 *CMLR* 1151 [1996] *CEC* 716, paras. 25.

[78] In *ENS* the CFI referred to the risk of the joint venture which seems not to have been very successful. After the decision, the parties abrogated all the routes, switching to one other.

[79] Para. 63.

for access. Many nationalised industries have been privatised and their exclusive rights terminated, but they often enjoy the benefit of investments made at public expense or when they were protected from competition by a licensing requirement. As Jacobs AG observed in *Bronner* (para. 66), it may be particularly difficult to compete with such a firm.

The incentive to the original investment is more important when it is made in the private sector, and access should be required only in extreme circumstances when the incumbent has a stranglehold on an important market. As public sector undertakings are privatised and lose their exclusive rights, they may continue to invest and incentives may again become more important. The Commission should not take unduly narrow markets and require access.

It is also important that before imposing such a drastic remedy, the Commission should establish the facts by clear and cogent evidence. Answers to questionnaires to customers may not be reliable, although more so than answers by competitors.

I am concerned that when, under Regulation 1/2003 [80], national courts and competition authorities take a larger part in the enforcement of Community law, access to facilities called «essential» may be required too lightly. Markets are surprisingly dynamic and new entrants find ways round many apparent bottlenecks. The argument *ex post* that the market in question will be more competitive if access is required is so obvious that it may be hard to persuade institutions that have come to deal with competition problems only recently not to intervene in order to preserve incentives to investment. It is better to have supply by a monopolist than no facility.

The question has been raised whether there need be two separate markets: the primary market over which the incumbent enjoys a dominant position and a secondary one downstream where the newcomer wants to compete with it, but which it tries to reserve to itself. This is frequently the situation when a complainant seeks access. Robert Pitofsky, Donna Patterson and Jonathan Hooks [81] argue, however, that under U.S. law there is no requirement that the plaintiff alleging denial of access to an essential facility demonstrate the existence of two separate product markets. It suffices that the plaintiff prove that a facility indispensable for competition in a relevant product market is incapable of duplication and held by a monopolist. It is the fact of being a competitor or potential competitor that gives the newcomer the right to access rather than its contractual relationship with the dominant firm. See III C above, where I suggested that a market includes a mechanism for potential as well as actual transactions. Denial of access to the market downstream should not preclude an obligation to supply when it would otherwise apply. The key concept is that of a monopolist reserving the secondary market to itself.

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[80] *OJ* 2003, L1/1.

[81] «The Essential Facilities Doctrine under U.S. Antitrust Law,» 2002, *Antitrust L.J.* 443, 458-461.

The parties may be competitors in the same market (or would be competitors if access were given) as in *Magill* or *Telemarketing*. In *Tierce Ladbroke* PMU and the operators of the French race courses did not compete downstream in providing betting services, but this was not the reason given for not requiring access.

The Commission had adopted many decisions under article 82 (formerly article 86) coupled with article 86 (formerly article 90), requiring those to whom a member state has granted special or exclusive rights to grant access. Such firms often have a strongly dominant position which is likely to have been gained at taxpayers' or customers' expense. The incentive to make the original investment may be less important [82]. Moreover, often there is a regulator which would be better informed than a court to set the compensation.

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[82] The directives that are liberalizing telecommunications and require unbundled access by any qualified undertaking to the local loop, now combined in 2002/19/EC (Access and Interconnection Directive), are an important example, although adopted under article 86 rather than under article 82.

[illegible]

The Commission had adopted many decisions under article 82 (formerly article 86) coupled with article 86 (formerly article 90), [illegible] those to whom a member state has granted special or exclusive rights to grant access. Such firms often have a naturally dominant position which is likely to have been gained at taxpayers' or customers' expense. The incentive to make the original investment may be less important.[85] Moreover, often there is a regulator which would be better informed than a court to set the compensation.

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