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REFUSALS TO LICENSE UNDER EUROPEAN UNION COMPETITION LAW AFTER MICROSOFT

Mauro Squitieri*

INTRODUCTION

The restriction on the exercise of intellectual property rights (“IPRs”) through the application of antitrust law has been a long and constantly evolving issue.¹ There is no doubt that IPRs may interfere with rules aimed at safeguarding the free movement of goods and those intended to protect competition. There is a contrast between legislation that grants IPR holders ability to regulate the circulation or use of the protected goods and the fundamental principles of antitrust law. The latter tends to prevent the creation and exploitation of monopolistic powers.

When the exclusivity granted to IPRs owners extends beyond mere legal prerogative, resulting in the creation of a real market power, refusals to license are likely to impose losses on society in terms of efficiency. The inability to access the protected creations frustrates the ambitions of possible follow-on innovators, thus preventing or delaying the emergence of innovative products.

Conversely, the attenuating of the protection conferred by IPRs, in addition to undermining the value of legal certainty, could lead to a reduction of the incentives for companies to invest and innovate. Further, this attenuation lessens the pressure that induces rivals to develop alternative facilities and to pursue competition based upon innovation, rather than the passive, and sometimes parasitic, adherence to the results of others’ efforts. In addition, in the realm of the markets of high technology products, some commentators have expressed doubts about the aptness of the current competition rules to ensure efficient and timely antitrust enforcement, given that they were designed in an earlier period with reference to industries significantly different from those existing today.²

It is not uncommon that ownership of an IPR gives the holder a dominant position, provided that the product and the market tend to coincide. When the ownership of an exclusive right assigns such a dominant position, a refusal to license can lead to the exploitation of customers and the hindrance of competition in different ways, depending upon the nature of

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¹ An extensive literature exists regarding the relationship between antitrust law and intellectual property law. To cite the most recent, focusing in particular upon the European legislation, *see* Paul Nihoul, *The Limitation of Intellectual Property in the Name of Competition*, 32 *FORDHAM INT’L L.J.* 489 (2009); STEVEN D. ANDERMAN ET AL., *THE INTERFACE BETWEEN INTELLECTUAL PROPERTY RIGHTS AND COMPETITION POLICY* (Steven D. Andeman ed., 2007); JONATHAN D. C. TURNER, *INTELLECTUAL PROPERTY AND EU COMPETITION LAW* (2008).

² In particular, the characteristics of the modern economy consist in the rapid obsolescence of products and the extreme dynamism of the high-tech industry, which generate, as a consequence, unstable market shares and changing scenarios, so that any external corrective action is superfluous or untimely and inclined to alter the process of innovation negatively. *See* David J. Teece & Mary Coleman, *The Meaning of Monopoly: Antitrust Analysis in High-Technology Industries*, 43 *ANTITRUST BULL.* 801 (1998); David Balto & Robert Pitofsky, *Antitrust and High-Tech Industries: The New Challenge*, 43 *ANTITRUST BULL.* 583 (1998).

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the abuse. Among these variants, the present work aims at investigating whether non-concerted refusals to share protected resources lessen competition as their object or effect. This study will focus, in particular, on the unilateral refusal to grant licenses to competitors and the solutions devised by European Union ("EU")³ jurisprudence to balance the different interests encompassed in IPRs and competition laws.

After briefly examining the legal context created by the *Magill*⁴ and *IMS*⁵ cases, this work will focus in more detail upon the decision of the European Commission⁶ and the judgment of the Court of First Instance⁷ (the "CFI") in the *Microsoft* case, paying particular attention to the issue of interoperability. Finally, by analyzing the case law described above, this article examines the jurisprudential *iter* that led to a comprehensive discipline of the refusal to license in the context of the EU legal system.

THE JURISPRUDENTIAL CONTEXT

In recent years, the antitrust activity of the EU has increasingly dealt with the controversial relationship between protecting competition and safeguarding IPRs. This debate has been absent from the antitrust literature for nearly half a century, but only in recent years have IPRs taken a prominent place in the economies of many countries. Therefore, the need to solve the controversy has now become more urgent, especially considering the increase in antitrust investigations relating to industries producing information-based products protected by IPRs.

In Europe, the debate was officially opened with the *Magill* and *IMS* cases and was subsequently fomented by the latest *Microsoft* case. These decisions have prominently highlighted the problem of clearly defining the boundaries between two different sets of rights: the right to protect intellectual property ("IP") and the rights stemming from antitrust laws.

The Magill Case

Within the broad discussion of the delicate relationship between antimonopoly rules and the discipline of IP, the *Magill* case marks a significant moment in the jurisprudential development of that issue. It is the first case in which a practice related to a copyright has been sanctioned in terms of abuse of dominant position.⁸

³ Following the entry into force of the Treaty of Lisbon Amending the Treaty on European Union on December 1, 2009 and the Treaty Establishing the European Community, December 13, 2007, 2007 O.J. (C 306) 1 [hereinafter Treaty of Lisbon], the "European Community" was definitively renamed "European Union" and the "Court of First Instance" was given the name of "General Court". As all of the jurisprudence and legislation cited in this paper were formulated before the Treaty of Lisbon entered into force, the present work will mostly refer to the European Community, instead of the European Union, and to the Court of First Instance, instead of the General Court.

⁴ Joined Cases C-241 & C-242/91 P, *Radio Telefis Eireann v. Comm'n of the Eur. Cmty.*, 1995 E.C.R. I-743 [hereinafter *Magill*].

⁵ Case C-418/01, *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG*, 2004 E.C.R. I-5039 [hereinafter *IMS*].

⁶ Commission Decision 2007/53/EC, 4 C.M.L.R. 965 (2005) [hereinafter *Microsoft* Decision].

⁷ Case T-201/04, *Microsoft Corp. v. Comm'n of the Eur. Cmty.*, 2007 E.C.R. II-3601 [hereinafter *Microsoft*], on appeal from *Microsoft* Decision, 4 C.M.L.R. 965 (2005).

⁸ For an analysis of the *Magill* case, see, e.g., Simon M. Taylor, *Copyright versus Right to Compete: The Judgment of the ECJ in Magill*, 1(3) COMP. TELECOMM. L. REV. 99 (1995); H. H. Paul Lugard, *ECJ Upholds*

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This case concerned the refusal of Radio Telefis Eireann (“RTE”), the operator of three Irish television stations, to provide programs of their weekly schedules for radio and television broadcasts to an independent publisher (Magill), for publication in a weekly general guide that, at the time, was a product that did not exist on the market. Since such schedules were protected by copyright, publishing rights were reserved to separate publications owned by RTE itself or granted under a royalty-free license to newspapers, which provided specific terms governing the reproduction of the information.

The existence of a copyright gave RTE a dominant position in the market and the freedom to decide the individuals to whom the stations would license the television schedules and the raw information therein contained. In particular, RTE availed itself of national laws for the protection of copyright in order to prevent Magill from publishing the information on a weekly basis. However, the European Court of Justice, with jurisdiction over the matter,⁹ ruled that the protection of a copyright cannot be exercised in a manner and under circumstances manifestly contrary to the competition rules laid down in Articles 81 and 82 of the Treaty Establishing the European Community (the “EC Treaty”).¹⁰ In this case, the potential demand from consumers for a new product (a journal encompassing all television programs on a weekly basis) and the complete lack of an objective reason for the denial (the same program schedules were offered to newspapers without any charge) formed a reasonable ground for identifying the existence of an abuse of dominant position.¹¹

The *Magill* case can be seen as an application of the “essential facility doctrine,”¹² since the decision can be explained by the particular circumstances of the case, which coin-

Magill: *It Sounds Nice in Theory, But How Does It Work in Practice?*, 6 EUR. BUS. L. REV. 231 (1995); Peter Crowther, *Compulsory Licensing of Intellectual Property Rights*, 20 EUR. L. REV. 521 (1995).

⁹ The *Magill* case went before the European Court of Justice on appeal from Case T-69/89, *Radio Telefis Eireann v. Comm’n of the Eur. Cmty.*, 1991 E.C.R. 1991 II-485, and Case T-76/89, *Independent Television Publications Ltd v. Comm’n of the Eur. Cmty.*, 1991 E.C.R. II-575, before the Court of First Instance, on further appeal from Commission Decision 89/205/EEC, 1989 O.J. (L 78) 43.

¹⁰ Treaty Establishing the European Community, November 10, 1997, 1997 O.J. (C 340) 3 [hereinafter EC Treaty]. Following the entry into force of the Treaty of Lisbon, Art. 81 and Art. 82 of the EC Treaty have been transposed respectively in Art. 101 and Art. 102 of the Treaty on the Functioning of the European Union, May 9, 2008, 354, 2008 O.J. (C 115) 47 [hereinafter the TFEU]. In the present work, it is preferable to refer to the former numbering, as all of the cited jurisprudence and legislation were formulated before the Treaty of Lisbon entered into force. However, any reference to Art. 81 and Art. 82 of the EC Treaty is intended to refer to Art. 101 and Art. 102 of the TFEU respectively. For the same reasons, the present work will mostly refer to the European Community, instead of the European Union, and to the Court of First Instance, instead of the General Court.

¹¹ See *Magill*, 1995 E.C.R. I-743, 822-25.

¹² The “essential facility doctrine” characterizes a particular kind of monopolization claim, whereby a company controlling a qualifying “essential facility” must provide non-discriminatory access to it to its competitors. The doctrine originated in the United States, where the case law set forth four elements necessary to establish liability under the essential facility doctrine: 1) control of the essential facility by a monopolist; 2) a competitor’s inability practically or reasonably to duplicate the essential facility; 3) the denial of the use of the facility to a competitor; and 4) the feasibility of providing the facility. See *Verizon Communications, Inc. v. Trinko*, 124 S. Ct. 872, 881 (2004) (asserting that the Supreme Court never recognized the essential facility doctrine, though it declined “to recognize it or to repudiate it” in this specific case); *MCI v. AT&T*, 708 F.2d 1081, 1132 (7th Cir. 1983); *Hecht v. Pro-Football, Inc.*, 570 F.2d 982, 992-93 (D.C. Cir. 1977). In Europe, the Commission used for the first time the expression “essential facilities” in 1992 (Commission Decision 94/19/EC, 1994 O.J. (L 15) 8 [hereinafter *Sealink*]), although application of the doctrine can be found in earlier decisions (see, e.g. Commission Decision 92/213/EEC, 1992 O.J. (L 96) 34 (*British Midland v. Aer Lingus*)). In *Sealink*, the Commission ruled that:

cide with the requirements that are commonly considered necessary for its application. Firstly, the raw information regarding television schedules constituted a unique resource in the market that Magill could not duplicate independently because of the copyright held by the broadcasting companies. Secondly, such information was essential to enable Magill to operate in the market. Finally, the result was a “new” product, and the exercise of a copyright by RTE was a permanent obstacle to Magill’s entry into the market. Against this background, the Court of Justice stressed that a compulsory license¹³ may be imposed under Article 82 of the EC Treaty only in exceptional circumstances, where, as in this case, IPRs are used by the holder in a way to achieve anticompetitive results that cannot be justified on the basis of the proper function that the law prescribes.¹⁴

The IMS Case

More recently, the European Court of Justice revisited the essential facility doctrine in the *IMS* case, which relied upon the doctrine to justify the imposition of a compulsory license.¹⁵ The *IMS* case, which originated from a copyright infringement at a national level, was treated by the European Commission as a measure amounting to an abuse of dominant position in breach of Article 82 of the EC Treaty.¹⁶ The alleged infringement took place in Germany by the Intercontinental Marketing Services Health Inc. (“IMS Health”), a world leader in providing information on the pharmaceutical and healthcare industry. IMS Health was active in nearly one hundred nations, including Germany, through its subsidiary brand, IMS GmbH & Co. OHG. The claimant was National Data Corporation Health Information Services (“NDC”), a North American company, which also operated in the supply of informa-

An undertaking which occupies a dominant position in the provision of an essential facility and itself uses that facility (i.e. a facility or infrastructure, without access to which competitors cannot provide services to their customers), and which refuses other companies access to that facility without objective justification or grants access to competitors only on terms less [favorable] than those which it gives its own services, infringes Article [82 of the EC Treaty].

Sealink, 1992 O.J. (L 96) 34, ¶ 66.

¹³ A “compulsory license” is a measure limiting IPRs and compels the IPR owner to grant use of its patent, copyright, or other exclusive right to other individual or legal persons, including rivals. On *See, e.g.*, Donna M. Gitter, *The Conflict in the European Community Between Competition Law and Intellectual Property Rights: A Call for Legislative Clarification of the Essential Facilities Doctrine*, 40 AM. BUS. L.J. 217 (2003); Peter Crowther, *Compulsory Licensing of Intellectual Property Rights*, 20 EUR. L. REV. 521 (1995).

¹⁴ *See Magill*, 1995 E.C.R. I-808, ¶¶ 48-58.

¹⁵ *See generally* Indigo Brinker, *Essential Facility Doctrine and Intellectual Property law: Where Does Europe Stand in the Aftermath of “IMS Health” Case?*, 31 Fordham Corp. L. Inst. 137 (2004); Henrik Meinberg, *From Magill to IMS Health: The New Product Requirement and the Diversity of Intellectual Property Rights*, 28(7) EUR. INTELL. PROP. REV. 398 (2006); Christopher Stothers, *IMS Health and its Implications for Compulsory Licensing in Europe*, 26(10) EUR. INTELL. PROP. REV. 467 (2004).

¹⁶ *See* Commission Decision 2002/165/EC, 2002 O.J. (L 59) 18 [hereinafter *IMS Decision*]. Subsequently, by application lodged at the Registry of the Court of First Instance (the “CFI”), IMS Health brought an action seeking the annulment of the decision and the suspension of the operation of the Commission’s Decision (Case T-184/01, 2005 E.C.R. II-817). By an Order of October 26, 2001 in case T-184/01R, the President of the CFI suspended the execution of Commission Decision 2002/165/EC until such time as the CFI had given judgment in the main action. By application lodged at the Court Registry on December 12, 2001 under the reference C-481/01 P(R), NDC Health Corporation appealed the abovementioned order of the President of the CFI. By an Order of April 11, 2002 in case C-481/01P(R), the President of the European Court of Justice dismissed NDC’s appeal.

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tion and specialized in the pharmaceutical and health industry. More recently, NDC began its expansion in Europe.

The case arose out of the provision of data on regional sales of pharmaceutical products in Germany. Here, as in some other countries, such data (used by pharmaceutical companies to set their own sales and to pay sales representatives) was collected by IMS Health according to a predefined segmentation known as “brick structure.” This system, as described by the European Commission, consisted of a grid superimposed on the map of a country containing, *inter alia*, the following data: postal codes, information from national statistical offices (e.g. political boundaries, number of residents), distribution of physicians and pharmacies, maps (topographic and road), and information on regional associations for medical billing.¹⁷

The purpose of this zoning was to allow the supplying of data, broken down on the basis of small functional areas (the “brick”), while, at the same time, preventing the identification of sales to individual pharmacies, which would conflict with the protection of personal data.¹⁸ The brick structure was formed by areas identified through a seven-digit number, of which only the first five numbers, representing the regional and local boundaries, were publicly known, while the last two digits formed a consecutive number which identified the area within a given *Landkreis* or *Stadtkreis*.¹⁹ The brick structure was, therefore, a complex method of organizing a database that was protected by copyright. The structure prevalently used, which encompassed 1,860 areas, was developed by IMS Health, which also held the copyright on this structure.²⁰

For a variety of reasons, this system of data collection became a *de facto* standard in the market. First, it was designed to take maximum account of the needs of its users. In fact, its development was the result of collaboration between IMS Health and the pharmaceutical companies. Due to its large diffusion, the system became difficult to replace because pharmaceutical companies needed to monitor the data over time, and the maintenance of that system became necessary to give meaning to the comparison of data on a chronological basis. In addition, the system also showed network effects because the companies needed to compare their data with those of competitors. IMS Health, therefore, was considered by the European Commission as an undertaking in a dominant position in the German market of data services concerning regional sales in Germany. In this market, IMS Health had only two competitors, and one of them, NDC Health, vainly requested a license of the 1,860 brick structure, considering it a prerequisite for effective competition in the market for regional sales data.

It should be noted that the European Court of Justice intended to emphasize the continuity of its jurisprudence on the point at issue. In fact, the Court presented the decision as an application of the provisions in earlier rulings (*Volvo*²¹, *Bronner*²² and *Magill*) to the specific facts of *IMS*. The Court’s rationale remained unchanged from the previous cases, and was based upon the assumption that the refusal to grant a license, even if coming from a

¹⁷ See *IMS* Decision, 2002 O.J. (L 59) ¶¶ 17-21.

¹⁸ *Id.*

¹⁹ The first two identified the Bundesland, the third the Regierungsbezirk (political boundary), and the other two the *Landkreis* or *Stadtkreis* (metropolitan area). *Id.* ¶19.

²⁰ *IMS* Decision, 2002 O.J. (L 59) ¶¶ 17-21.

²¹ Case 238/87, *AB Volvo v. Erik Veng (UK) Ltd.*, 1988 E.C.R. 6211.

²² Case C-7/97, *Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG*, 1998 E.C.R. I-7791 [hereinafter *Bronner*].

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company in a dominant position, did not in itself constitute an abuse of that dominant position. With that said, this could become an abuse under special circumstances.

Given the abovementioned premises, the Court stated that:

[I]n order for the refusal by an undertaking which owns a copyright to give access to a product or service indispensable for carrying on a particular business to be treated as abusive, it is sufficient that three cumulative conditions be satisfied, namely, that that refusal is preventing the emergence of a new product for which there is a potential consumer demand, that it is unjustified and such as to exclude any competition on a secondary market.²³

Some aspects of this premise require closer analysis. As for the notion of “essential,” it is once again stressed that, although a license under any IPR can be considered an essential facility, the refusal to allow access to it does not *ipso facto* constitute an abuse. For an abuse to occur, the three conditions listed above must be satisfied.

The Court failed to make any specific comments regarding the second of these conditions, namely the lack of a legitimate basis. Rather, the Court emphasized that a justified refusal must be based upon “objective considerations.”²⁴ The broad language suggests that the Court preferred to reserve the possibility of subsequent individual assessments of specific IPRs in order to appraise them in light of other interests of a different nature encompassed in the EC Treaty.

In contrast, the Court articulated with greater clarity its reasoning as to the first and third conditions. In particular, it focused upon the interpretation given by the Commission, which amounted to a strong revitalization of the notion of “secondary market.”²⁵ The Court ruled that “it is sufficient that a potential market or even hypothetical market can be identified,”²⁶ and, for a secondary market to be recognized, “it is determinative that two different stages of production may be identified and that they are interconnected, inasmuch as the upstream product is indispensable for the supply of the downstream product.”²⁷ In this context, it is appropriate to question the level of abstraction of the input market. It appears that the upstream market, in this case, was rather virtual, as IMS Health developed the brick structure for the sole purpose of producing its own sales reports. This situation differs markedly from the *Magill* case, in which the television listings were a derivative product of the broadcasting activities and would have existed even if the broadcasters had not published their own magazines.²⁸ In this regard, the Commission’s decision in *IMS* has been criticized by some commentators.²⁹ According to the Commission’s reasoning, a relevant upstream market

²³ *IMS Health*, 2004 E.C.R. I-5039, ¶ 38.

²⁴ *See id.* ¶51.

²⁵ *See IMS Decision*, 2002 O.J. (L 59) 18, ¶¶ 183-84.

²⁶ *IMS Health*, 2004 E.C.R. I-5039, ¶ 44.

²⁷ *Id.* at 5084. *See also* James S. Venit, *Article 82 EC: Exceptional Circumstances: The IP/Antitrust Interface after IMS Health*, in *EUROPEAN COMPETITION LAW ANNUAL 2005: THE INTERACTION BETWEEN COMPETITION LAW AND INTELLECTUAL PROPERTY LAW* 609, 625 (Clause-Dieter Ehlermann & Isabela Atanaslu eds., Hart Publishing 2005).

²⁸ *See* ALISON JONES & BRENDA SUFRIN, *EC COMPETITION LAW: TEXT, CASES AND MATERIALS* 570 (3d ed., 2007).

²⁹ *See* John Temple Lang, *Anticompetitive Non-Pricing Abuses Under European and National Antitrust Law*, in *INTERNATIONAL ANTITRUST LAW & POLICY: FORDHAM CORP. L. INST.* 235, 303-308 (Barry Hawk ed., 2004).

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would be recognized “even if the input is a competitive advantage of a kind which has never previously been marketed or licensed by any company, and which it would not be economically rational to license to a direct competitor.”³⁰

As for the first condition – the “new product” rule – the Court first formulated, in general terms, a premise whereby,

in the balancing of the interest in protection of the intellectual property right and the economic freedom of its owner against the interest in protection of free competition, the latter can prevail only where refusal to grant a license prevents the development of the secondary market to the detriment of consumers.³¹

Subsequently, the European judge developed this concept, ruling that:

[T]he refusal by an undertaking in a dominant position to allow access to a product protected by an intellectual property right, where that product is indispensable for operating on a secondary market, may be regarded as abusive only where the undertaking which requested the license does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the intellectual property right, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand.³²

THE MICROSOFT CASE

On September 15, 1998, the Vice President of Sun Microsystems Inc., an American manufacturer of servers and server operating systems, asked Microsoft to make them aware of the interoperability information needed to enable their operating system (Solaris) to communicate with the Windows operating system, designed and marketed by Microsoft.³³ The interoperability information consists of the complete specifications for all the protocols implemented in Windows, which are used by the operating system to send files to other servers or printers or to store files in directories.³⁴

Microsoft, by letter dated October 6, 1998, replied that such information was already published and available to any software developer via the Microsoft Developer Network, from which Sun had already purchased 32 licenses. Microsoft stated that a lecture was taking place the following week, during which the issue of interoperability information between operating systems produced by different software companies would be discussed.

On December 10, 1998, Sun filed a claim with the European Commission under Article 3 of EC Regulation 17/1962,³⁵ complaining of Microsoft’s refusal to make them aware of the interoperability information between its server operating system and the Win-

³⁰ See *id.* at 307.

³¹ *IMS Health*, 2004 E.C.R. I-5039, ¶ 48.

³² *Id.* ¶ 49.

³³ *Microsoft*, 2007 E.C.R. II-3601, ¶ 2.

³⁴ *Id.* ¶ 37.

³⁵ Council Regulation 17/62, First Regulation Implementing Articles 81 and 82 of the Treaty, 1962 O.J. (L 13) 204, now substituted by Council Regulation 1/2003, 2003 O.J. (L 1) 1.

dows operating system.³⁶ In August, 2000, the Commission required from Microsoft information on the interoperability of Windows with other operating systems, which Microsoft provided in November of that same year.³⁷

In the meantime, the Commission, on its own initiative, started examining the Windows 2000 operating system installed on personal computers and servers. It also investigated the installation of Media Player³⁸ in the Windows operating system. Afterward, the Commission sent Microsoft a second notice in which it reiterated its previous comments regarding interoperability between operating systems and it required information on the integration between Media Player and the Windows operating system.³⁹

On March 24, 2004, the European Commission adopted a decision establishing that Microsoft infringed Article 82 of the EC Treaty and committed an abuse of dominant position. The Commission imposed a fine of over 497 million Euros.⁴⁰ The Commission sanctioned, *inter alia*,⁴¹ Microsoft's refusal to make public to its competitors some "interoperability information" and to authorize its use for the development and distribution of competing products on the market for work group server operating systems during the period between October, 1998 and March 24, 2004. To remedy its wrongdoing, the Commission required Microsoft to disclose to any company wishing to develop and deploy operating systems for a work group server the "specifications" of its client-server and server-to-server communication protocols.⁴²

In June, 2004, Microsoft sought an annulment before the CFI of the Commission's decision or, alternatively, a substantial reduction of the fine imposed.⁴³ Regarding specifically the refusal to supply information on interoperability, the Court first confirmed that the necessary degree of interoperability taken into account by the Commission was justified⁴⁴ and that there was no inconsistency between that degree and the remedy imposed by the Commission.⁴⁵ It also noted that the Commission defined the interoperability information as relating to a detailed technical description of certain rules of interconnection and interaction between

³⁶ *Microsoft Decision*, 4 C.M.L.R. 965, ¶ 3.

³⁷ *Id.* ¶4.

³⁸ Windows Media Player is a program for playing audio and video designed and developed by Microsoft itself.

³⁹ *Microsoft Decision*, 4 C.M.L.R. 965, ¶5.

⁴⁰ *Id.* ¶1080

⁴¹ The second conduct sanctioned by the Commission concerned the sale of Windows Media Player in conjunction with the Windows operating system for PCs. The Commission believed that this practice breached competition in the market for media players. By way of remedy, the Commission required Microsoft to make available for sale a version of Windows without Windows Media Player.

⁴² To assist the Commission in ensuring that Microsoft complied with the decision, an independent trustee was designated by the Commission, who was chosen from a list provided by Microsoft. His main duty was to monitor the performance of the obligations imposed on Microsoft and to report the Commission on any abuse. The costs associated with the trustee, including his remuneration, should have been borne by Microsoft.

⁴³ Case T-201/04, *Microsoft Corp. v. Comm'n.*, 2007 E.C.R. II-3601. See also David Howarth and Kathryn McMahon, *Windows has Performed an Illegal Operation: The Court of First Instance's Judgment in Microsoft v. Commission*, 29 EUR. COMM'N. L. REV. 117 (2008); J. Langer, *The Court of First Instance's Microsoft Decision: Just an Orthodox Ruling in an On-Orthodox Case*, 35(2) LEGAL ISSUES ECON. INTEGRATION 183 (2008); Robert Moldén, *Mandatory Supply of Interoperability Information: The Microsoft Judgment*, 9 EUR. BUS. ORG. L. REV. 305 (2008); I. Eagles & L. Longdin, *Microsoft's Refusal to Disclose Software Interoperability Information and the Court of First Instance*, 5 EUR. INTELL. PRO. L. REV. 205 (2008).

⁴⁴ See *Microsoft*, 2007 E.C.R. II-3601, ¶¶ 207-42.

⁴⁵ See *id.* ¶¶ 258-60.

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various instances of Windows work group server operating systems and Windows client PC operating systems running on different computers in a Windows work group network.⁴⁶

The Court emphasized that the Commission explicitly insisted on the fact that Microsoft's improper denial concerned only the specifications of certain protocols, not elements of the source code, and that it had no intention of ordering Microsoft to disclose such information to its competitors.⁴⁷ The Court further considered that the Commission's aim was to remove the obstacle that Microsoft had constructed for its competitors by providing an insufficient degree of interoperability with the existing Windows architecture. Removal of this obstacle was necessary to enable Microsoft's rivals to offer work group server operating systems that could differ from the one developed by Microsoft on important parameters. Microsoft argued that the degree of interoperability set by the Commission was aimed at allowing its competitors' server operating system to operate in every respect like a Windows system. The crux of Microsoft's argument, therefore, was that its competitors would be able to clone or reproduce its products.⁴⁸ Ultimately, the Court rejected this argument.

With regard to the refusal to provide information relating to interoperability, the Court recalled that, according to the previously mentioned settled jurisprudence, although undertakings are, in principle, free to choose their trading partners, a refusal to supply that comes from a company in a dominant position may constitute an abuse in certain circumstances.⁴⁹ To be classified as an abuse, an IPR owner's refusal to grant to a third party a license to use a product must meet three conditions: a) the refusal must relate to a product or service indispensable to the exercise of a commercial activity on a neighboring market; b) the refusal must be such as to exclude any effective competition on that market; and c) the refusal must prevent the appearance of a new product for which there is potential consumer demand.⁵⁰ When all of these circumstances exist, the refusal to grant a license can constitute an abuse of dominant position, unless it is objectively justified. In this case, the Court found that the Commission did not commit any error in finding that these circumstances were met. It concluded that the Commission correctly determined that it was necessary, for competing work group server operating systems to be validly marketed, that the latter be able to interoperate with the Windows architecture on an equal footing with Windows operating systems. The absence of such interoperability would have the effect of strengthening the competitive position of Microsoft in the market and threatened to eliminate the competition.⁵¹

The Court also found that the circumstances concerning the emergence of a new product should be evaluated in the context of Article 82(2)(b) of the EC Treaty. It held that the Commission's finding that Microsoft's refusal limited technical development to the detriment of consumers was not clearly erroneous under this provision.⁵²

Finally, the Court rejected Microsoft's argument that its refusal was objectively justified because the technology in question was protected by IPRs. The Court noted that such a justification would render ineffective the principles set by the previous jurisprudence on this

⁴⁶ See *id.* ¶ 206.

⁴⁷ See *id.* ¶¶ 203-04.

⁴⁸ See *id.* ¶¶ 234-42.

⁴⁹ See *id.* ¶¶ 319-36.

⁵⁰ See *id.* ¶ 332.

⁵¹ See *id.* ¶¶ 421-22.

⁵² See *id.* ¶¶ 643-65.

issue.⁵³ Moreover, the Court ruled that Microsoft had not shown that, if forced to disclose information relating to interoperability, Microsoft would suffer a major negative impact upon its incentives to innovate.⁵⁴ The Court confirmed, therefore, the decision concerning the disclosure of interoperability information.

The Question of Interoperability

The CFI examined the issue of interoperability through four basic steps in its decision: a) the “indispensability” of interfaces and protocols for interoperability on the secondary market; b) the presence of a “risk” of elimination of competition on the secondary market; c) the “exceptional circumstances” that allow the refusal to license to be considered a violation of Article 82; and d) the absence of an objective justification for that refusal.

With regard to the first issue, the Court’s decision was based upon the Commission’s remarks, according to which the Windows operating system represents a *de facto* standard for work group servers and that they constitute a separate market.⁵⁵ The Court, therefore, relied upon the application of the essential facility doctrine. The CFI did not detect errors in the reconstruction of the Commission whereby Windows operating system was seen as a necessary passage for the accessibility to the market of work servers, accepting the idea that the information sought was essential to ensure interoperability.⁵⁶ Finally, the CFI confirmed the theory of leveraging: the essential infrastructure in the first market (Windows operating system) was used as a facilitator to gain significant market power in the secondary market for work group servers.⁵⁷

As for the second point, it is worth recalling that, according to the Commission, to find an abuse under Article 82 of the EC Treaty, it is sufficient to prove that the refusal to supply can generate a mere risk of elimination of competition on the secondary market.⁵⁸ In response, Microsoft objected, noting that in cases relating to the use of IPRs, the case law adhered to a more stringent test based on the demonstration of a high probability that all competition is eliminated on the secondary market.⁵⁹ The Court, in agreeing with the Commission, considered these claims to be a mere distinction in terminology. According to the Court, the expressions “risk of elimination of competition” and “likely to eliminate competition” reflected the same idea, namely that:

Article 82 EC does not apply only from the time when there is no more, or practically no more, competition on the market. If the Commission were required to wait until competitors were eliminated from the market, or until their elimination was sufficiently imminent, before being able to take action under Article 82 EC, that would clearly run counter to the objective of that provision, which is to maintain undistorted competition in the common

⁵³ See *id.* ¶¶ 688-90.

⁵⁴ See *id.* ¶ 697.

⁵⁵ See *id.* ¶ 32.

⁵⁶ See *id.* ¶¶ 236-38.

⁵⁷ See *id.* ¶¶ 1344-52.

⁵⁸ See *id.* ¶¶ 560-63.

⁵⁹ See *id.* ¶ 560.

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market and, in particular, to safeguard the competition that still exists on the relevant market.⁶⁰

Upon deeper analysis, the difference between the test of possibility and probability (encompassed respectively in the language “risk” and “likely”) is not purely terminological, but reveals a different standard of proof. Nonetheless, a different outcome would have been unlikely, since the argument of the Court (that the test of Article 82 does not concern proof of the effects, but the existence of conduct that could produce the effects) is consistent with EC settled jurisprudence.⁶¹

With regard to the “exceptional circumstances” that allow consideration of the refusal to license as a violation of Article 82(c), the decisions in *Magill* and *IMS* outlined a “new product” rule, an additional requirement peculiar to cases involving IPRs. The test of exceptional circumstances implies that the entity requesting a license must offer a new product for which there is a potential consumer demand and must also demonstrate that the refusal to license will result in the elimination of all competition in the secondary market. Microsoft relied upon a rigorous analysis based upon the “new product” rule, complaining that competitors simply wanted to replicate the functionality of Windows. In contrast, the Commission continued along the line of its previous arguments by maintaining that the definition of “new product” included a product that is not the mere duplication of existing goods or services, but had to present some significant elements as a result of research and development efforts carried out by the entity requesting the license. The Commission emphasized that the right context for analyzing the refusal to grant a license was Article 82(b), which considers the limitation of technical development to the detriment of consumers to be abusive.⁶² The Commission also reiterated that Microsoft’s refusal to provide the essential information should be considered an impediment of interoperability in the field of information technology and an obstruction to follow-on innovation on the secondary market.⁶³ In addition, the Commission highlighted the fact that, in this case, Microsoft was not merely opposing a refusal to a new entrant (as in *Magill* and *IMS*), but was interrupting an existing line of conduct.⁶⁴

The CFI accepted almost all of the Commission’s arguments. With regard to the new product test, the Court recalled that, in *Magill*, the requirement in question was meant to protect consumers from the harm provoked by hostility to the commercialization of a completely new product, whilst, in *IMS*, harm to consumers resulted from the failure to develop a secondary market. The Court then concluded that the requirement of the new product, as developed in *Magill* and *IMS*, cannot be considered the only parameter to determine whether a refusal to license is likely to cause injury to consumers within the meaning of Article 82(b). The court reasoned so since that provision refers not only to limits imposed to the production and the markets, but to technical developments as well.⁶⁵ Therefore, according to the CFI, the Commission had correctly shown that Microsoft’s refusal had the consequence of preventing rivals from developing their products.

⁶⁰ *Id.* ¶ 561.

⁶¹ *See, e.g.*, Case 85/76, *Hoffmann-La Roche & Co. AG v. Comm’n*, 1979 E.C.R. 461, ¶ 91; Case 322/81, *Nederlandsche Banden Industrie Michelin v. Comm’n*, 1983 E.C.R. 3461, ¶ 70; Case T-203/01, *Manufacture Française des Pneumatiques Michelin v. Comm’n*, 2003 E.C.R. II-4071, ¶ 239.

⁶² *See Microsoft*, 2007 E.C.R. II-3601, ¶ 632.

⁶³ *See id.*

⁶⁴ *See id.* ¶ 308.

⁶⁵ *Id.* ¶¶ 643-65.

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Lastly, the Court rejected Microsoft's argument that requiring it to make a given technology available to its competitors would reduce its incentive to develop the technology. The Court held firmly that such an argument could be advanced only under "objective justification[s]."⁶⁶ The Court also ruled that, once the elements of an abuse are ascertained, it is upon the dominant firm to invoke an objective justification and to support it with arguments and evidence. In this case, the Court found that Microsoft did not meet this burden. According to the judge in *Microsoft*, Microsoft's arguments appeared vague, general, and purely theoretical.⁶⁷ It merely stated that disclosure "would . . . eliminate future incentives to invest in the creation of more intellectual property" without specifying the technologies and products to which it was referring.⁶⁸

The Court held that the Commission's conclusion was based upon founded factual evidence, there was no reason to believe that Microsoft products would have been cloned, and the disclosure of information for interoperability is a widespread practice in the field.⁶⁹ The Court also referred to the recitals of Directive 91/250/EEC,⁷⁰ wherein it is envisaged "the application of the competition rules under Articles [81] and [82] of the Treaty if a dominant supplier refuses to make information available which is necessary for interoperability."⁷¹ Finally, the Court concluded that Microsoft could not "seriously maintain that it was not aware that it was infringing Article 82 EC."⁷²

The jurisprudential approach to the problem of interoperability has been recently codified and transposed into the European legislative framework with Directive 2009/24 on the Legal Protection of Computer Programs⁷³. The Directive acknowledges that the unauthorized reproduction, translation, adaptation or transformation of the form of the code in which a copy of a computer program has been made available constitutes an infringement of the exclusive rights of the author⁷⁴. However, Article 6(1) of the Directive provides for a derogatory regime, whereby "[t]he authorisation of the rightholder shall not be required where reproduction of the code and translation of its form . . . are indispensable to obtain the information necessary to achieve the interoperability of an independently created computer program with other programs." Such an exception is subject to three conditions set out in Article 6(1), namely that: a) those acts are performed by the licensee or by another person having a right to use a copy of a program; b) the information necessary to achieve interoperability has not previously been readily available; and c) those acts are confined to the parts of the original program which are necessary in order to achieve interoperability. A limitation to this derogatory regime is laid down in Article 6(2), which provides that the information obtained through the application of Article 6(1) shall only be used or disclosed to achieve the interoperability of

⁶⁶ See *id.* ¶ 659.

⁶⁷ *Id.* ¶ 697-98.

⁶⁸ *Id.* ¶ 689 (citation omitted).

⁶⁹ See *id.* ¶¶ 700- 702.

⁷⁰ *Microsoft*, 2007 E.C.R. II-3601, ¶ 1313.

⁷¹ Council Directive 91/250/EEC, on the Legal Protection of Computer Programs, 1991 O.J. (L 122) 42, 43.

⁷² *Microsoft*, 2007 E.C.R. II-3601, ¶ 1313.

⁷³ Directive 2009/24/EC of the European Parliament and of the Council of April 23, 2009, on the Legal Protection of Computer Programs, 2009 O.J. (L 111) 16. Directive 2009/24/EC replaces and expressly repeals Directive 91/250/EEC. See *id.* Art. 10.

⁷⁴ See *id.* Recital (15) and Art. 4.

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the independently created computer programs and shall not be employed for the development, production or marketing of substantially similar computer programs.⁷⁵

**THE RELATIONSHIP BETWEEN INTELLECTUAL PROPERTY RIGHTS
AND ARTICLE 82 EC TREATY IN THE LIGHT OF
THE RECENT JURISPRUDENCE**

Generally, the theme of the relationship between IPRs and antitrust laws is featured by the opposition of two theoretical approaches.⁷⁶ Under the first orientation, the contrast between the monopoly of IPRs and the protection of competition would only be superficial, or would occur only in the short term. In the long term, in fact, exclusive rights would benefit the competition, both by encouraging production and allowing the movement of the protected goods.⁷⁷

According to the second orientation, there is an intrinsic tension between the two sets of rules. While both are ultimately aimed at increasing the general welfare, they do so in conflicting ways, and thus create a difficult to solve trade-off. This tension is summarized by the following dilemma: “[I]s it better to have less innovation widely exploited or to limit the present exploitation in exchange for greater innovation in the future?”⁷⁸

European case law appears, in principle, to move toward a middle position. As noted, “while competition law may ultimately trump IP law, the approach of the [European Court of Justice] is one of seeking to maintain the integrity of the two regimes.”⁷⁹ From this perspective stems the assumption, often recalled by the Court, that an IPR does not *per se* confer market power.⁸⁰

Indeed, the notion of monopoly used in IP law (according to the common definition of property rights as limited monopolies) does not coincide with that of monopoly used in competition law (or, rather, of dominance or market power). For the two concepts to overlap, it is necessary that the relevant market coincides with the product protected by IPRs. Therefore, the sphere of the *jus excludendi* conferred by IPRs must coincide with the sphere of

⁷⁵ This point markedly echoes Microsoft’s argument regarding the unlawfulness of competitors’ behaviors intended to clone or reproduce its products. The Court dismissed this argument on the basis of a lack of evidence. See *Microsoft*, 2007 E.C.R. II-3601, ¶¶ 234-42.

⁷⁶ See, e.g., See, e.g., Daniel Kanter, *IP and Compulsory Licensing on Both Sides of the Atlantic – an Appropriate Antitrust Remedy or a Cutback on Innovation?*, 27(7) EUR. COMPETITION L. REV. 351 (2006); Imelda Maher, *The Interface of EC Competition Law and Intellectual Property Rights: the Essential and the Creative*, in 7 CAMBRIDGE YEARBOOK OF EUROPEAN LEGAL STUDIES 189 (John Bell & Claire Kilpatrick eds., 2005); Cyril Ritter, *Refusal to Deal and “Essential Facilities”: Does Intellectual Property Require Special Deference Compared to Tangible Property?*, 28 WORLD COMPETITION 281 (2005).

⁷⁷ The movement of the protected goods would be otherwise impossible in the absence of a definition of the original ownership. See William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325, 348 (1989).

⁷⁸ Francesco Denozza, *Consumer Transaction Costs at the Intersection of Antitrust and Intellectual Property*, in SIENA MEMOS AND PAPERS ON LAW AND ECONOMICS 2, 3 (2003), available at http://www.unisi.it/lawand_economics/simple/017_Denozza.pdf.

⁷⁹ Maher, *supra* note 76, at 193.

⁸⁰ See, e.g., Case 24/67 Parke, Davis & Co. v. Probell, 1968 E.C.R. 55; Opinion of Advocate General Mischo, Case 238/87, AB Volvo v. Erik Veng (UK) Ltd., 1988 E.C.R. 6211. See also Alexandros Stratakis, *Comparative Analysis of the US and EU Approach and Enforcement of the Essential Facilities Doctrine*, 27(8) EUR. COMPETITION L. REV. 434 (2006).

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market power. If, on the contrary, that “good” is part of a wider market, and there exist substitutes to an appreciable extent, the right does not confer any monopoly power in the sense that this term is given in competition law.⁸¹ Furthermore, dominance in the relevant market does not fall, as such, under the prohibition of Article 82 of the EC Treaty, but rather its “abuse” is to be forbidden.⁸² In *Magill*, the Court of Justice reiterated this principle with regard to the exercise of IPRs, coining the exceptional circumstances formula, which has been strongly followed in subsequent jurisprudence.⁸³ The exercise of a right conferred by law does not normally constitute an abuse of dominant position. Indeed, one can say that the fact that a particular conduct falls within the powers that the law itself reserves to the IPR holder can represent a presumption of legality. However, such presumption, as said, can be rebutted in “exceptional cases.”⁸⁴

The *Magill* case is subject to two possible interpretations. The first is in terms of “peculiarity,” meaning that the judgment has been driven by the presence of atypical facts and therefore not easily replicable. This belief is well expressed in the Opinion of Advocate General Jacobs in *Bronner*.⁸⁵ Under the second interpretation, the *Magill* judgment is the result of an ordinary application of Article 82 of the EC Treaty. In this perspective, the principle affirmed by the Court would not have been dictated by the peculiarities of the case, but instead would fit in a precise jurisprudential orientation, concerning the anticompetitive conduct of refusing to supply, of which the case at issue represents a simple application in the field of IP.

In the *IMS* case, the applicant appealed to the CFI to annul the decision and for its precautionary suspension. The request for suspension was upheld, and the order of the president of the CFI rejected the Commission’s arguments. First, the Commission’s decision would have departed from previous case law in holding that the denial of a license entailed a breach of Article 82 even if it did not prevent “the appearance of a new product on a market separate from that on which the undertaking in question [was] dominant.”⁸⁶ Also, “the public interest invoked by the Commission in the contested decision relates, in substance, primarily

⁸¹ See Hedvig K.S. Schmidt, *Article 82’s “Exceptional Circumstances” that Restrict Intellectual Property Rights*, 23(5) EUR. COMPETITION L. REV. 210 (2002); ALISON JONES & BRENDA SUFRIN, *EC COMPETITION LAW: TEXT, CASES AND MATERIALS* 763 (2d ed., Oxford University Press 2004). See also Opinion of Advocate General Poiares Maduro, Case C-109/03, *KPN Telecom BV v. Onafhankelijke Post en Telecommunicatie Autoriteit (OPTA)*, 2004 E.C.R. I-11273; Opinion of Advocate General Jacobs, Case C-7/97, *Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG*, 1998 E.C.R. I-7791.

⁸² On the concept of abusive conduct, see Case 85/76, *Hoffmann-La Roche & Co. AG v. Comm’n*, 1979 E.C.R. 461, ¶¶ 88-91.

⁸³ See *Magill*, 1995 E.C.R. I-743, ¶ 50. See also Case T-198/98, *Micro Leader Bus. V. Comm’n*, 1999 E.C.R. II-3989, ¶56.

⁸⁴ *Magill*, 1995 E.C.R. I-743, ¶50.

⁸⁵ See *Bronner*, 1998 E.C.R. I-7791. The Advocate general stated that “[t]he ruling in *Magill* can in my view be explained by the special circumstances of that case which swung the balance in favor of an obligation to license. First, the existing products, 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 program listings was difficult to justify in terms of rewarding or providing an incentive for creative effort. Thirdly, since the useful life of program guides is relatively short, the exercise of the copyright provided a permanent barrier to the entry of the new product on the market.” *Id.* ¶ 63.

⁸⁶ Order of the President of the Court of First Instance, Case C-481/01 P (R), *NDC Health GmbH & Co. KG and NDC Health Corporation v. Comm’n of the Eur. Cmty. and IMS Health Inc.*, 2002 E.C.R. I-3401, ¶ 105.

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to the interests of the applicant's competitors."⁸⁷ Therefore, according to the CFI President Vesterdorf:

It cannot . . . be excluded that the balance of interests effected in the contested decision by the Commission, which seems to equate the interests of NDC . . . with the interests of competition . . . ignores the primary purpose of Article 82 EC, which is to prevent the distortion of competition, and especially to safeguard the interests of consumers, rather than to protect the position of particular competitors.⁸⁸

President Vesterdorf accepted, in practice, the thesis of *Magill* as being unique: the national databases did not represent an obstacle for product innovation in the downstream market. On the other hand, there was no unsatisfied need on the part of consumers. The unsatisfied need was instead on the part of competitors, but these are not usually protected by antitrust laws.⁸⁹

The conclusion presented by Advocate General Tizzano in the *IMS* case had a particular role in the CFI's decision in the *Microsoft* case. The Advocate General, in fact, underlined the importance of the interests of consumers to the development of the industry through the diversification of products.⁹⁰ It is indeed the promotion of these consumer interests that would allow the court to identify a general rule, which the judge failed to proclaim explicitly in *Magill*: if the legal system assigned to the protection of IP an incentive to innovate, it would be contradictory to think that this role should be pursued at the expense of the general interest in the development of different and better products. While claiming to agree with the conclusions of the Advocate General, the Court diverged with regard to this crucial point. Although the Advocate General referred to "goods or services of a different nature which, although in competition with those of the owner of the right, answer specific consumer requirements not satisfied by existing goods or services," the Court stated that the refusal may be considered abusive only when the undertaking which requested the license has the intention "to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand."⁹¹

⁸⁷ *Id.* ¶ 145.

⁸⁸ *Id.*

⁸⁹ It must be noted, however, that a large debate arose in the recent years about the real goals of competition law in Europe, with particular reference to the role of competitors and the protection provided them by competition laws. *Ex multis*, see Eleanor M. Fox, *We Protect Competition, You Protect Competitors*, 26 *WORLD COMPETITION* 149 (2003).

⁹⁰ Opinion of Advocate General Tizzano, Case C-418/01, *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG*, 2004 E.C.R. I-5039. In this Opinion, the Advocate General had the occasion to express his idea whereby:

[T]he refusal to grant a license may be deemed abusive only if the requesting undertaking does not wish to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the intellectual property right but intends to produce goods or services of a different nature which, although in competition with those of the owner of the right, answer specific consumer requirements not satisfied by existing goods or services.

Id. ¶ 62.

⁹¹ *IMS Health*, 2004 E.C.R. at ¶ 49.

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The Court did not refer to products or services with different characteristics compared to the existing ones, but to new products *per se*, in the sense that they were never offered to consumers. Moreover, in the context of IPRs, the refusal to allow access to an essential resource becomes relevant for purposes of antitrust law only if the firm that requests the access intends to open a new product market. It must be underlined that this particular feature seems to run against legal certainty, as the legality of the IP owner's behavior is assessed on the basis of the requesting firm's conduct after the license is provided. Obviously, the IP owner cannot be aware of the requesting firm's true intent before the license is conferred. A natural solution to this question would be to grant a license that encompasses a condition whereby the information provided under the license agreement are used exclusively to open a new product market.

Magill thus remains, according to the *IMS* judgment, a special case, and therefore is not likely to provide principles of ordinary application. Rather, as pointed out by Advocate General Jacobs in his opinion a few months after the *IMS* ruling, "some exceptional harm to competition must be shown" in order to recognize an obligation to deal on the part of a company whose dominance stems from the ownership of IPRs.⁹²

However, in the *Microsoft* Decision,⁹³ the Commission maintained a different approach, concurring with the interpretation that *Magill* does not constitute a special case. After having classified the *Magill* case in the framework of previous rulings (namely *Commercial Solvents*,⁹⁴ *Telemarketing*,⁹⁵ *Volvo*,⁹⁶ *Ladbroke*,⁹⁷ and *Bronner*⁹⁸), the Commission observed that:

[O]n a general note, there is no persuasiveness to an approach that would advocate the existence of an exhaustive checklist of exceptional circumstances and would have the Commission disregard *a limine* other circumstances of exceptional character that may deserve to be taken into account when assessing a refusal to supply.⁹⁹

In addition, the Commission noted that:

There is no reason why a refusal to supply an undertaking that has an interest in entering the market should be treated differently to a refusal to supply a company that is already present in the market. In *Magill*, for instance, the company to which supply was refused was not competing in the market that was being monopolized – precisely because such supply had been refused.¹⁰⁰

⁹² Opinion of Advocate General Jacobs, Case C-53/03, *Synetairismos Farmakopoion Aitolias & Akarnanias (Syfait) v. GlaxoSmithKline Plc.*, 2005 E.C.R. I-4609, ¶ 66.

⁹³ Case COMP/C-3/37.792, *Microsoft*, 4 C.M.L.R. 965 (2005).

⁹⁴ Joined Cases 6 & 7/73, *Istituto Chemioterapico Italiano SpA and Commercial Solvents Corporation v. Comm'n*, 1974 E.C.R. 225.

⁹⁵ Case 311/84, *Centre belge d'études de marché - Télémarketing (CBEM) SA v. Compagnie luxembourgeoise de télédiffusion SA and Information publicité Benelux SA*, 1985 E.C.R. 3270.

⁹⁶ Case 238/87, *AB Volvo v. Erik Veng (UK) Ltd.*, 1988 E.C.R. 6232.

⁹⁷ Case T-504/93, *Tiercé Ladbroke SA v. Comm'n*, 1997 E.C.R. II-927.

⁹⁸ *Bronner*, 1998 E.C.R. I-7791.

⁹⁹ *Microsoft* Decision, 4 C.M.L.R. 965 (2005), ¶ 555.

¹⁰⁰ *Id.* ¶ 562.

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Hence, according to the Commission, *Magill* represents an ordinary case of application of Article 82 of the EC Treaty.

In view of *IMS*, therefore, the decision made by the Commission in the *Microsoft* case seemed destined to be annulled, because consumers already had a server operating system fully compatible with personal computer operating systems, those made by Microsoft itself. At this point, the Commission intervened with the Discussion Paper on the Application of Article 82 of the Treaty to Exclusionary Abuses (the “Discussion Paper”), published in December, 2005. The Discussion Paper classified the cases of anticompetitive refusal to supply.¹⁰¹ The first situation envisaged in the Discussion Paper concerns the termination of an existing supply relationship. Once dominance is found, in the presence of restrictive effects deriving from the refusal and in the lack of an objective justification, the conduct falls within the prohibition of Article 82.¹⁰² The second situation pertains to the refusal to start supplying an input. In such a case, in addition to the conditions set up for the previous hypothesis, it is also necessary that the input at issue be indispensable to carry on normal economic activity in the downstream market.¹⁰³

The third situation concerns the refusal to license IPRs. Abusive conduct possibly exists when the conditions described above are all fulfilled, and when the refusal to grant a license prevents the development of the market, for which the license is an indispensable input, to the detriment of consumers. Citing the *IMS* ruling, the Commission, following the usual formula, explained that this can happen only when the undertaking requesting the license intends to produce new goods or services, which the IPR holder does not offer and for which there is a potential consumer demand. However, the Commission also tried to formulate two adjustments. First, the Commission in its Discussion Paper provided that, when the license is for a “follow-on innovation,” the refusal may be unlawful even if the license is not sought to incorporate the technology directly in clearly identifiable new products and services.¹⁰⁴ Secondly, where the refusal relates to “information necessary for interoperability between one market and another” and has a leverage effect whereby the firm is trying to extend its dominance from one market to another, the Commission deemed that it might be inappropriate to apply “the same high standard for intervention.”¹⁰⁵

It should be pointed out that the Commission, although via a nonbinding document, appears to have eroded the principle expressed by the Court in the *IMS* case. This appears to be an attempt to avoid the permanence of rules that could have led the Commission itself to be unsuccessful in the *Microsoft* case. In *Microsoft*, the CFI chose a different path based upon a particularly strong criterion of interpretation: the literal interpretation. In paragraph 647 of the opinion, the Court noted that the abusive practices specifically provided for in Article 82(b) of the EC Treaty encompass, in addition to the limitation of the production and markets, the limitation of technological development. As the Court observed, the “new product” rule in *Magill* and *IMS* was formulated with reference to cases in which the first two kinds of abuses covered by the law were involved, not the third one (as in *Microsoft*).

¹⁰¹ *DG Competition Discussion Paper on the Application of Article 82 of the Treaty to Exclusionary Abuses*, available at <http://ec.europa.eu/competition/antitrust/art82/discpaper2005.pdf>, at 60.

¹⁰² See *id.* ¶ 9.2.1.

¹⁰³ See *id.* ¶ 9.2.2.

¹⁰⁴ See *id.* ¶ 9.2.2.6.

¹⁰⁵ *Id.* ¶ 9.2.3.

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Microsoft's refusal to supply was qualified as abusive because it limits the development of the industry to the detriment of consumers, creating a lock-in effect, and preventing companies from developing innovative products to compete with Microsoft operating systems. It is also interesting to note that the Court carefully considered the question of what Microsoft's competitors wished to do once the information relating to interoperability was obtained, in particular examining if there was a risk that they merely intended to clone Microsoft operating systems. Indeed, a crucial factor in the decision was the outcome of that consideration. This led to the observation that Microsoft's competitors would likely offer different products, providing innovative features that were considered important by consumers in terms of safety, reliability, ease of use and speed performance.¹⁰⁶ In light of these circumstances, it is also possible to explain the apparent contradictory sentence at the end of paragraph 665, where the Court concluded its analysis by stating that "the circumstance relating to the appearance of a new product is present in this case."¹⁰⁷ The adjective "new," in fact, is to be intended in terms of innovative technology rather than in terms of a novel product.

Therefore, it is illegitimate for an undertaking in a dominant position to refuse to grant an input protected by IPRs when this prevents the marketing of a new product or of a technologically innovative product that can replace an existing one. Although, in this latter case, innovative products are positioned in direct competition with those already offered by the dominant firm, the existing products are destined to be replaced in the consumers' preferences because of their superior quality in terms of technology.

As already mentioned, the significance of the fact that this situation could jeopardize investments in research and development of the dominant undertaking, discouraging its further innovation in the future, can be evaluated as an objective justification for refusing the license. However, according to the Court, such a justification can constitute a valid argument only on the basis of what has been specifically alleged and proved at trial, while vague, general and purely theoretical arguments cannot be considered. Such an orientation seems to show a general position about the relationship between competition law and IP law, and appears to be in agreement with the theory of the fundamental tension between the two sets of rules.

It is interesting to note that, one year before the *Microsoft* ruling, the Grand Chamber of the Court of Justice ruled out any profile of tension between IP law and another set of rules, which also have a constitutional importance in EC law, namely those relating to fundamental rights.¹⁰⁸ Therefore, the supreme judicial body of the EC seems oriented to a position in favor of IPRs and inclined to avoid their limitation by rules and principles of other areas of the

¹⁰⁶ See *Microsoft*, 2007 E.C.R. II-3601, ¶¶ 649-58. In reaching these crucial conclusions the Court relied upon the conduct that Microsoft's competitors adopted in the past, when they had access to certain information concerning Microsoft's products. See *id.* ¶ 654. The Court relied, in particular, on two examples that the Commission provided in its decision: "PC NetLink" and "NDS for NT," involving, respectively, Sun Microsystems Inc. and Novell Inc. In both cases, the innovative features and added value that competitors' products brought to Windows work group networks were evident. See *Microsoft* Decision, 4 C.M.L.R. 965 (2005), ¶ 696.

¹⁰⁷ *Id.* ¶ 665.

¹⁰⁸ See Case C-479/04, *Laserdisken ApS v. Kulturministeriet*, 2006 E.C.R. I-8113. On this occasion, the Court held that, even if the prohibition of the so-called international exhaustion led to a restriction on the freedom to receive information that is protected by Art. 10 of the Convention for the Protection of Human Rights, this limitation would be justified by a pressing social need, which consisted in the necessity to protect intellectual property rights, which are part of a more general right to property. See *id.* ¶ 65.

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law. This leads to some caution about the possibility that the principles expressed by the CFI in *Microsoft* will be consolidated in EU jurisprudence.

CONCLUSIONS

The Court of Justice acknowledged, in principle, the legitimacy of the refusal to grant a license as a characteristic expression of the right of exclusion enjoyed by IPR holders. Essentially, the Court has attempted to reach a balance between different interests, reconciling the exigency of control over IPRs and the protection of competition. The Court has done this through the “exceptional circumstances” formula to justify, in limited cases, the imposition of contract obligations.

As specified by the Court of Justice in *Bronner*, the requirements for the exclusion of competition in the secondary market (given the indispensability of the resource to which access is sought) and the lack of an objective justification follow case law on essential facilities. However, the new product requirement constitutes an additional element, which reflects the attempt to preserve the incentive function of the IP system and allow impositions on IPR holders to support further progress and innovation. In other words, in balancing the need to protect IPRs and the interest in maintaining or promoting a competitive market structure, the latter can prevail not only when the refusal does not merely prevent rivals from commercially exploiting the protected product to compete with IPR holders, but when losses in terms of efficiency and preventing or delaying the development of goods or services would result. To reconcile IP and antitrust law, the Court of Justice resorted to the common feature of the two disciplines: the desire to promote progress and innovation. This represents an objective pursued, in one system, by providing for the expectation to earn monopoly profits upon the achievement of an innovation and, in the other, by encouraging the firms persistently to innovate themselves in order not to succumb to competitive pressure.

Following the decision of the CFI in the *Microsoft* case, it seems that the test of exceptional circumstances has been expanded in its parameters with respect to how the criterion of the new product was set in *IMS*. In accordance with the language used in paragraph 664 of the *Microsoft* judgment, Article 82 covers not only conduct that can directly cause damages to consumers, but also conduct which would indirectly produce the same result by preventing the creation of effective competition. In addition, the new product requirement does not necessarily entail the supply of an original creation on the market. In fact, the marketing of a product in competition with existing ones, but with different and improved technological features, can also satisfy the condition at issue.

On this question, it must be noted that part of the doctrine is inclined to look beyond the boundaries of the exceptional circumstances listed in the *Magill* and *IMS* decisions.¹⁰⁹ In particular, according to a doctrinaire approach, the use of antitrust laws to compel a license to a dominant firm could be the most effective way to remedy a situation of nearly impenetrable closure of the market caused by the overlap of the protection offered by the IP system. Such market closure would preclude the commercial exploitation of the protected goods or services by the competing operators. In line with this doctrine, competition rules would also mitigate

¹⁰⁹ See generally Burton Ong, *Building Brick Barricades and Other Barriers to Entry: Abusing a Dominant Position By Refusing to License Intellectual Property Rights*, 26 EUR. COMPETITION L. REV. 215 (2005) (arguing that there are a variety of ways in which intellectual property rights may be abused quite apart from the factual scenario in *Magill*).

the negative consequences of network effects, which hinder the introduction and spread of alternative products¹¹⁰ However, while some authors defend the role of competition rules as an effective tool to protect the competitiveness of markets, another part of the doctrine expressed doubts about the opportunity to intervene with the instruments of antitrust law to suppress the mere refusal to license, propounding a presumption of legality where IPRs are involved¹¹¹ or suggesting to explore alternative scenarios, such as the use of tools and institutions which are endogenous to the IP system.¹¹²

¹¹⁰ GUSTAVO GHIDINI, *INTELLECTUAL PROPERTY AND COMPETITION LAW: THE INNOVATION NEXUS* 103 (2006).

¹¹¹ HERBERT HOVENKAMP, MARK D. JANIS, MARK A. LEMLEY & CHRISTOPHER R. LESLIE, *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* § 13.3f (2011 & Supp. 2010).

¹¹² See Burton Ong, *Anti-competitive Refusals to Grant Copyright Licences: Reflections on the IMS Saga*, 26 *EUR. INTELL. PROP. REV.* 505, 507-08 (2004).