

**COMPULSORY LICENSING OF IP RIGHTS: HAS EC COMPETITION LAW ARRIVED AT A CLEAR AND RATIONAL ANALYSIS FOLLOWING THE *IMS* JUDGMENT AND THE *MICROSOFT* DECISION?**

It has been said, “it is not easy to marry the innovation bride and competition groom and ... that such a marriage will unavoidably lead to divorce.”<sup>1</sup> Competition law and Intellectual Property Rights (IPRs) have now, after a long engagement, married and it is the state of that marriage which forms the subject matter of this essay. It will be argued that whilst the *IMS* judgment is not as clear as would be desirable, it does seem to comprise a rational analysis and if it is purposively interpreted will reassure undertakings that only in rare circumstances will they be required to compulsorily license their IPRs. The *Microsoft* Decision, however, is neither clear nor rational and indicates that the EC institutions do not have a consistent approach. As such it cannot be said that EC competition law has arrived at a clear and rational analysis for the compulsory licensing of IPRs. The final word will be the judgment resulting from Microsoft’s appeal and the court’s analysis there is most likely to utilise the *IMS* approach.

**ESSENTIAL FACILITIES**

A European competition law doctrine of essential facilities has developed in respect of certain types of infrastructure, whereby if a facility controlled by a dominant undertaking is indispensable in order to operate in a particular market then access to that facility will be mandatory in respect of, for example, tunnels<sup>2</sup> and ports<sup>3</sup>, in the interests of maintaining or developing competition. Preventing access may be an abuse under Article 82 (previously 86) of the EC Treaty<sup>4</sup>:

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<sup>1</sup> Commission Evaluation Report on Technology Transfer. Dec 2001. Paragraph 27. [http://europa.eu.int/comm/competition/antitrust/technology\\_transfer/en.pdf](http://europa.eu.int/comm/competition/antitrust/technology_transfer/en.pdf)

<sup>2</sup> Joined cases T-374/94, T-375/94, T-384/94, T-388/94, *European Night Servs. Ltd v Commission*, 1998 E.C.R. I-3141.

<sup>3</sup> [1992] 5 CMLR 255 *Sealink*; see also Opinion of Advocate General Tizzano para 58, 2 October 2003, Case C-418/01 *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG*.

<sup>4</sup> Consolidated Treaty Establishing The European Community, Dec. 24, 2002, O.J. (C 325) 65 (2002). [http://europa.eu.int/eur-lex/lex/en/treaties/dat/12002E/pdf/12002E\\_EN.pdf](http://europa.eu.int/eur-lex/lex/en/treaties/dat/12002E/pdf/12002E_EN.pdf)

*Article 82*

Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between member states.

Such abuse may, in particular, consist in:

- (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
- (b) limiting production, markets or technical development to the prejudice of consumers;
- (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.<sup>5</sup>

The development of the doctrine can be seen from early cases about supplying previous customers with raw materials, as in the case of *Commercial Solvents*<sup>6</sup> where the ECJ held that an undertaking with a dominant position in respect of raw materials may not refuse to supply raw materials to a downstream competitor with the intention of reserving the derivative market for itself, at the risk of eliminating all competition from that competitor. This was expanded to operations on other markets not necessarily derivative, as in *Telemarketing*<sup>7</sup> where it was held that abuse will be found if without ‘objective necessity’ an undertaking reserves to itself ancillary activities in a neighbouring but separate market.

The application of European competition law to IPRs is more problematic as, in the absence of complete harmonisation across Europe, IPRs are largely the jurisdiction of national courts. The primacy of national property rights is enshrined in Article 295 of the EC Treaty: “This Treaty shall in no way prejudice the rules in Member States

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<sup>5</sup> Not an exhaustive list: Case C-6/72 *Europemballage Corp. and Continental Can Co. Inc. v Commission*. [1973] CMLR 199.

<sup>6</sup> Cases 6 and 7/73 *ICI SpA and Commercial Solvents v Commission* [1974] E.C.R. 223.

<sup>7</sup> Case 311/84, *Centre Belge d’Etudes du Marche-Telemarketing (CBEM) v CLT SA* [1985] E.C.R. 3261.

governing the system of property ownership”. In order to reconcile Member States’ sole competence over systems of property ownership with competition policy the European Court of Justice (ECJ) has distinguished between the existence of IPRs and their exercise.

The ECJ indicated in the case of *Volvo v Veng*<sup>8</sup> that neither the existence nor the ordinary exercise of the IPR will be an abuse of Article 82, thus, without more, a refusal to license the IPR cannot be an abuse of Article 82:

“the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right. It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a licence cannot in itself constitute an abuse of a dominant position.”<sup>9</sup>

An explanation of what could constitute the extra aspects of behaviour sufficient to amount to abuse under Article 82 were given in *Volvo v Veng* as being behaviour by a dominant undertaking:

“such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation”.<sup>10</sup>

## EXCEPTIONAL CIRCUMSTANCES

Some years later, the ECJ, in a case known as *Magill*<sup>11</sup>, expanded on the circumstances in which the exercise of IPRs would be an abuse of Article 82. The

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<sup>8</sup> Case 238/87. *AB Volvo v Erik Veng (UK) Ltd*. 5 October 1988. E.C.R. 1988, 06211. A case of a car manufacturer refusing to license the design of door panels to competitors.

<sup>9</sup> *Ibid*, paragraph 8.

<sup>10</sup> *Ibid*, paragraph 9.

<sup>11</sup> C-241 & 241/91 P; *RTE and ITP v Commission* [1995] ECR I-743.

case concerned television listings in Ireland and the UK. Broadcasters in those countries would provide television programme schedules free of charge to newspapers under a licence that provided for the daily<sup>12</sup> publication of listings; at the same time each of the broadcasters produced for sale a weekly television guide for their own programmes. Magill TV Guide Ltd attempted to publish a comprehensive weekly television guide covering all broadcasters' programmes but the broadcasters obtained injunctions to prevent this by asserting their copyright in the weekly listings. A complaint was made to the European Commission that the broadcasters were abusing their dominant positions and a decision was made in favour of Magill that third parties should be supplied with the listings in advance, on request, and that any royalties should be reasonable. The broadcasters appealed to the CFI but their appeal was dismissed.

The matter finally came before the ECJ where the court stated that “[s]o far as dominant position is concerned, it is to be remembered at the outset that mere ownership of an intellectual property right cannot confer such a position.”<sup>13</sup> And, confirming *Volvo v Veng*, that “refusal to grant a licence, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute abuse of a dominant position”.<sup>14</sup> The court went on to say that “it is also clear from [the *Volvo v Veng*] judgment (paragraph 9) that the exercise of an exclusive right by the proprietor may, in **exceptional circumstances**, involve abusive conduct”<sup>15</sup> [emphasis added]. The court then proceeded to expound the reasons why the broadcasters were abusing their dominance in *Magill*, these were briefly:

- The information was indispensable, in that there was no alternative;<sup>16</sup>
- Withholding it prevented the appearance of a new product for which there was consumer demand;<sup>17</sup>
- Refusal to supply it was not justified;<sup>18</sup> and

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<sup>12</sup> The licence also allowed weekly ‘highlight’ listings and ‘next-day’ listings if the next day was a bank holiday.

<sup>13</sup> Paragraph 46.

<sup>14</sup> Paragraph 49.

<sup>15</sup> Paragraph 50.

<sup>16</sup> Paragraph 53.

<sup>17</sup> Paragraph 54.

<sup>18</sup> Paragraph 55.

- The broadcasters reserved to themselves the secondary market of weekly television guides by excluding all competition on that market.<sup>19</sup>

It was not clear whether the conditions laid out in *Magill* were simply examples of those conditions sufficient to constitute abuse or whether they were necessary conditions that would have to be fulfilled for a finding of abuse. As the court relied on the ‘exceptional circumstances’ described in *Volvo v Veng* it is not hard to see why many thought that the conditions in *Magill* were simply further examples of behaviour that sufficed for a finding of abuse. It has been seen as an expansion of the ‘arbitrary refusal to supply’ condition suggested in *Volvo v Veng*<sup>20</sup> and it has been said that “either preventing the emergence of a new product objectively needed by consumers or reserving a second complementary market to the dominant companies would be enough (in the absence of a specific justification for the refusal) to make the refusal to licence contrary to Article [82]”<sup>21</sup>.

In the case of *Ladbroke*<sup>22</sup> the Court of First Instance (CFI) remarked, obiter, that the *Magill* finding of abuse due to the broadcasters preventing the emergence of a new product was not one of a list of cumulative requirements, but was merely one (sufficient) example in a non-exhaustive list. The UK Court of Appeal (*Intel v Via*<sup>23</sup> in 2002) also interpreted the European case law in this way.

The ECJ case of *Bronner*<sup>24</sup> was, primarily, decided on the ground of indispensability, being a case concerned with whether a small newspaper enterprise should have access to a delivery network that had been set up by a larger company, where it was held that the network was not indispensable. *Bronner* sought to summarise *Magill* and did so at paragraph 40 of the judgment. In so doing, however, a number of qualifications crept into the interpretation. There the *Magill* requirement that the refusal be “not justified”

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<sup>19</sup> Paragraph 56.

<sup>20</sup> Turney, James. *Defining the Limits of the EU Essential Facilities Doctrine on Intellectual Property Rights: The Primacy of Securing Optimal Innovation*. NorthWestern Journal of Technology and Intellectual Property. Spring 2005. Volume 3, No.2, page 187.

<sup>21</sup> Temple Lang. (1996) *European Community Antitrust Law – Innovation Markets and High-Technology Industries*, Fordham Corporate Law Institute (ed. Hawk), 519 at 530.

<sup>22</sup> Case T-504/93, *Tierce Ladbroke SA v Commission* [1997] 5 CMLR 309; E.C.R. II-923, para 115.

<sup>23</sup> *Intel Corp v Via Technologies Inc and another* (Court of Appeal) [2002] EWCA Civ 1905, para 48.

<sup>24</sup> Case C-7/97. *Oscar Bronner GmbH & Co. KG v Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG, Mediaprint Zeitungsvertriebsgesellschaft mbH & Co. KG and Mediaprint Anzeigengesellschaft mbH & Co. KG*. E.C.R. 1998 Page I-07791.

became “not justified by **objective** considerations” [emphasis added] a phrase that does not appear in *Magill* nor in either of the CFI judgments underlying *Magill* (although there appears in the CFI judgments the phrase ‘objectively verifiable considerations’<sup>25</sup>; this phraseology is different because it, arguably, goes to the existence of the considerations rather than the merits). The *Magill* finding of abuse in the fact that the broadcasters had “reserved to themselves the secondary market of weekly television guides by excluding all competition on that market” became, in *Bronner*, a test of “**likely** to exclude all competition in the secondary market” [emphasis added] and thus introduces an element of probability into the test. ‘Objectivity’ and ‘likelihood’ are terms found in pure (i.e. non IPR) essential facilities cases (‘objective necessity’ being used in *Telemarketing*<sup>26</sup> and ‘risk [of] eliminating all competition’ appearing in *Commercial Solvents*<sup>27</sup>). Note also that *Bronner* did not apply the requirement of ‘new product’ to the facts of that case as it did not concern IPRs.

### THE TEST IN *IMS*

The *IMS*<sup>28</sup> case concerned a ‘brick’ structure used by IMS to analyse German regional sales for pharmaceuticals, it was a format for presenting studies of sales of pharmaceuticals for geographical areas in order to anonymise pharmacies in those areas. There were two ‘bricks’, known as the 1860 brick and the 2847 brick. The brick structures were developed in collaboration with those who were to be the recipients of the data and over time became the *de facto* industry standard. When NDC attempted to enter the market they found that consumers were reluctant to use anything that was not highly similar to the brick structures they were used to. When NDC began using similar structures (consisting of 1860 and 3000 bricks) IMS sought an injunction to prevent this based on their copyright in the bricks.

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<sup>25</sup> At paragraph 47 of the *RTE* judgment: Case T-69/89. *Radio Telefis Eireann v Commission of the European Communities*. Judgment of the Court of First Instance (Second Chamber) of 10 July 1991. E.C.R. 1991 Page II-00485. And at paragraph 30 of the *ITP* judgment: Case T-76/89. *Independent Television Publications Ltd v Commission of the European Communities*. Judgment of the Court of First Instance (Second Chamber) of 10 July 1991. E.C.R. 1991 Page II-575.

<sup>26</sup> Paragraph 27.

<sup>27</sup> Paragraph 25.

<sup>28</sup> C-418/01, *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG*. E.C.R. 2004 Page I-05039; [2004] 4 CMLR 28.

Proceedings were begun in Germany and an injunction was granted against NDC. Shortly after this a complaint to the Commission was made by NDC. A Commission interim-measures Decision<sup>29</sup> was given in favour of NDC on the basis of there being ‘exceptional circumstances’; the operation of that Decision was suspended<sup>30</sup> pending an annulment action by IMS (it should be noted that the Decision was later withdrawn). The parallel German proceedings resulted in an Article 234 reference being made to the ECJ from the Landgericht Frankfurt am Main.

In giving judgment the ECJ stated:

“It is clear from that case-law that, in 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.”<sup>31</sup>

The *IMS* judgment thus makes it explicitly clear that the *Magill* conditions are cumulative. The court elaborated somewhat on these exceptional circumstances but in some cases their scope remains controversial.<sup>32</sup> The court’s findings can be summarised:

- **Indispensability:** for a product or service to be deemed indispensable there must be no alternative solutions and alternatives must be unreasonably difficult (at the very least not economically viable) to create.<sup>33</sup>
- **Prevented the appearance of a new product:** where the undertaking, which requested the licence, does not intend to limit itself essentially to duplicating the goods or services already offered by the rights holder but intends to

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<sup>29</sup> Commission Decision 2002/165/EC.

<sup>30</sup> Case T-184/01 *IMS Health v Commission* [2001] ECR II-3193.

<sup>31</sup> C-418/01, *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG*, paragraph 38.

<sup>32</sup> Davies, Isabel; Lebrun, Bruno and Stargard, Andreas. *Seeking the Right Balance to Maintain a Free Market*. 2005. <http://www.howrey.com/docs/seekingtherightbalance.pdf>

<sup>33</sup> Paragraph 28.

produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand.<sup>34</sup>

- **Not justified:** As the court notes ‘no specific observations have been made [as to the interpretation of this condition]’ and ‘it is for the national court to examine, if appropriate, in light of the facts before it’.<sup>35</sup>
- **Such as to exclude all competition on secondary market:** There need be no existing primary market as such (a potential market or even hypothetical market will do), in meeting the test it is sufficient that two different stages of production be identified and the upstream product be indispensable for supply of the downstream product.<sup>36</sup>

## CLEAR AND RATIONAL ANALYSIS?

According to Killick<sup>37</sup> the *IMS* judgment “clarifies the applicable legal standard for compulsory licensing” and, whilst this is true in some respects, it does not fully clarify certain issues. What is clear is that IPRs can be subject to competition law but that mere refusal to licence is not an abuse (*Volvo v Veng* and *Magill*). Only in ‘exceptional circumstances’ will a compulsory licence be necessary and it should not be forgotten that a primary threshold of dominance of the undertaking and indispensability of the product must first be overcome.

*IMS* confirmed that the *Magill* conditions are cumulative, however, the *Magill* conditions are described as being sufficient (not necessary) and so the court has left open the possibility of other (uncertain) conditions also being sufficient for a finding of abuse.

The requirement for indispensability is fairly well understood and can be regarded as a settled and certain test in *IMS*. A product is indispensable if there are no alternatives

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<sup>34</sup> Paragraph 49.

<sup>35</sup> Paragraph 51.

<sup>36</sup> Paragraph 44 and 45.

<sup>37</sup> Killick, James. *IMS and Microsoft Judged in the Cold Light of IMS*. The Competition Law Review Volume 1 Issue 2 December 2004. pg 23 – 47, at page 25.

and it would be “impossible or at least unreasonably difficult” for alternatives to be created. In terms of understanding what is unreasonably difficult the court says that “it must be established, at the very least, that the creation of those products or services is not economically viable for production on a [comparable] scale”.<sup>38</sup>

The determination of whether a product is new is a matter for the national court. Very little guidance is given on this condition and that in itself raises uncertainties, in particular, for those operating on a pan-European basis and subject to the jurisdiction of different national courts. Ridyard<sup>39</sup> notes that it would be easy to make a trivial change to a protected product in order to make a ‘new’ product. Indeed, in *Magill* the condition appears to have been fulfilled by the addition of pictures, reviews and commentary. The *IMS* formulation of the ‘new product’ requirement goes somewhat further than the *Magill* test, in that it focuses on the intention of the undertaking requesting the licence<sup>40</sup>. It is not clear how such intention is to be ascertained or proved and whether intention alone, which does not in fact, result in a new product will suffice. The new product also requires potential consumer demand and it is also not clear how this test is to be implemented.

Determining whether a refusal to licence is objectively justified (the addition of word ‘objective’ probably adds nothing to the test as mere subjective reasons would not be allowed to circumvent wider policy issues) is also a question for national courts. Hogan<sup>41</sup> suggests that, whilst in the USA business justifications suffice, in a European essential facilities doctrine only lack of capacity suffices to meet this test. This cannot be the case with licences for IPRs as there are no physical capacity constraints with IPRs; alternative justifications for refusal might be ensuring quality control<sup>42</sup> or a fair return on investment<sup>43</sup>. Some of these justifications may be overcome by suitable licence terms but the ECJ offers no guidance on this (for example, it is unclear whether a reasonable royalty for a licence would be the ‘monopoly’ price or the ‘competitive’ price).

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<sup>38</sup> *IMS*, paragraph 28.

<sup>39</sup> Ridyard, Derek. *Compulsory Access Under EC Competition Law – A New Doctrine of “Convenient Facilities” and the Case for Price Regulation*. [2004] ECLR 669, at 670.

<sup>40</sup> *IMS*, paragraph 49.

<sup>41</sup> Page 6.

<sup>42</sup> Turney, paragraph 50.

<sup>43</sup> Ridyard, page 670.

The exact test for ‘excluding all competition’ is uncertain<sup>44</sup>. However, the *IMS* test is generally formulated as ‘likely to eliminate all competition’, which is suggestive of a pre-emptive test whereby behaviour that has not yet eliminated competition but may do so can be an abuse. This is also to be compared with ‘risk of elimination of competition’<sup>45</sup>, which appears in essential facility cases and is arguably a lower probability threshold for abuse. Killick suggests that these two tests reflect different temporal thresholds, the ‘risk’ test being a longer-term consideration than ‘likelihood’.

In terms of the relevant market, the court’s finding that identification of a hypothetical or potential upstream market will enable the two-market analysis to be conducted raises the question of whether the upstream market may include the market for the IPR itself. Whilst Hogan says that “[a]n essential facility is not to be considered a market in itself”<sup>46</sup> it is apparent that the doctrine in relation to IPRs has moved away from a ‘pure’ essential facilities doctrine<sup>47</sup>. Market definition is of vital importance in abuse of dominance cases, as a narrow definition will make the IPR holder *per se* dominant. The court in *Magill* said that “mere ownership of an intellectual property right cannot confer [a dominant] position”<sup>48</sup>, which suggests that the market cannot be defined as the IPR, however, uncertainty persists as there are suggestions that Advocate General Tizzano<sup>49</sup> thinks otherwise.

The ECJ tends to show a consistent line of reasoning in approaching the ‘exceptional circumstances’ test<sup>50</sup>, which, it could be argued, makes the *IMS* decision rational. However, this doesn’t address the wider rationale for such a doctrine. Considerations of rationality cannot refer purely to logic as legal rules do not exist for their own sake – they must interface with the real world and to that extent rationality represents notions of fairness, the extent to which legal rules pursue policy objectives and are consistent with existing legal rules or policy objectives.

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<sup>44</sup> Killick, footnote 53.

<sup>45</sup> *Commercial Solvents*.

<sup>46</sup> Page 8.

<sup>47</sup> See A.G. Tizzano’s opinion, paragraph 58.

<sup>48</sup> Paragraph 46.

<sup>49</sup> Paragraph 60.

<sup>50</sup> See, in particular A.G. Tizzano’s Opinion cited at footnote 5 above.

The difference between the ‘essential facilities’ doctrine and the ‘exceptional circumstances’ doctrine is important because the rationality of competition law in its general response to abuses under Article 82 is not at issue here. The analysis to be considered is that of applying Article 82 to IPRs and any special considerations that pertain in doing so. *Magill* has been characterised as a market-leveraging approach rather than pure essential facilities<sup>51</sup>. Market leveraging requires two separate but connected markets whereas “an essential facilities doctrine, properly defined, does not require the existence of two distinct but related markets”<sup>52</sup>. Hogan believes that *Magill* could have been characterised as pure essential facilities as the weekly listings were a true essential facility and could not be innovated around, thus it was not that competitors would be rewarded for a failure to innovate by being granted a licence.

There is no obvious reason why IPRs should be exempt from competition regimes except insofar as IPRs are intended to limit competition in a very defined way (monopoly rights for a specific product for a limited time). IPRs are property rights like others but they exist in a different public policy milieu; they are granted as a reward for innovation (or more precisely as a reward for disclosing innovation) and thus result from (and are subject to) policy considerations about creating incentives for innovation.

As such, competition considerations would need to be effected without unduly affecting the *raison d’être* for IPRs or be of such importance that they override IPRs. In this respect the ‘exceptional circumstances’ doctrine tends to avoid eroding the substance of the IPR itself and instead erodes ‘peripheral’ rights, being control over a secondary market. In addition, the ‘new product’ requirement (not a feature of the ‘essential facilities’ doctrine) aligns with innovation policies (despite Ridyard’s view<sup>53</sup> that there is no economic foundation for the new product requirement) it is clear that the ECJ will not derogate from an IPR unless there is an innovation gain elsewhere. This is a rational approach.

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<sup>51</sup> Hogan, John. *Magill Revisited*. Irish Student Law Review (2000). Volume 8. [http://www.islr.ie/Reviews/2000/magill\\_revisited.php](http://www.islr.ie/Reviews/2000/magill_revisited.php)

<sup>52</sup> *Ibid*, page 3.

<sup>53</sup> Page 670.

## **THE PROBLEM WITH *MICROSOFT***

The *Microsoft* Decision<sup>54</sup> was made by the European Commission very shortly before the *IMS* judgment. It was in response to a complaint by Sun Microsystems that Microsoft was abusing its dominant position in the market for client PC operating systems by refusing to supply interoperability information for Windows Work Group Servers. The Commission found that Microsoft had abused its position and required it to make available and allow the use of the relevant interoperability specification – a compulsory licence of IPRs.

The Decision's treatment of *Magill* is to some extent consistent with *IMS* as it does not consider that the *Magill* conditions are exhaustive, however, more importantly, it is not clear whether the Commission considers the conditions to be cumulative or not. It is suggested that, given the wide-ranging consideration of case law in the Decision and the conclusion reached that “the Commission must analyse the entirety of the circumstances surrounding a specific instance of a refusal to supply and must take its Decision based on the results of such a comprehensive examination”<sup>55</sup>, it is likely that the Commission considers them to be mere examples of abusive behaviour. Such a test is “looser and less predictable”<sup>56</sup> than the *Magill* test.

The Commission do not unequivocally state the test that they apply in determining abuse, though there is some indication that they apply the essential facilities doctrine (rather than the exceptional circumstances doctrine) to Microsoft as there is no consideration of the ‘new product’ requirement. On the facts it is not clear that Sun intended to offer a new product to consumers, it is likely that they were to offer the same products as those offered by Microsoft and compete on the same secondary market.<sup>57</sup>

The Commission do have regard for innovation more generally when they state that competitors are being discouraged from developing new products as consumers are

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<sup>54</sup> Commission Decision, 24 March 2004 (Case COMP/C-3/37.792 *Microsoft*), C(2004)900 final.

<sup>55</sup> Paragraph 558.

<sup>56</sup> Killick, page 37.

<sup>57</sup> Paragraph 1003.

“locked into a homogenous Windows solution”<sup>58</sup> but this is not a test that requires Sun Microsystems to show they intended to offer a new product. It is a test of ‘industry standard’ and the problem with this is that an industry standard may be created as a legitimate reward for innovation. The Commission also purport to conduct a balancing exercise in respect of innovation where they balance the reduced incentive to innovate for Microsoft in being forced to grant a licence with the increased innovation across the industry in general<sup>59</sup>. This is a misguided test because by providing the indispensable input it is clear that innovation *may* be increased but, if at the same time the protection for innovation is degraded, incentives to disclose such innovation will be reduced. Further, because it is highly possible that competition measures apply to trade secrets (not a traditional IPR) there is a real danger of actually reducing innovation rather than simply reducing disclosure.

It is not obvious that Microsoft’s interoperability information was indispensable as there was, in fact, a certain amount of competition on the work group server market. Clearly, if the market is defined as Windows work group servers then Microsoft are *per se* dominant but this is an issue of market definition, which, if taken to such a position, would dangerously erode the substance of the IPR. In passing, it is worth noting that some commentators believe the exceptional circumstances doctrine developed the way it did due to the dubious nature of the IPRs claimed<sup>60</sup> – in contrast with *Magill* or *IMS*, Microsoft developed an industry standard through vast investment, without open collaboration, and which has provided real value to consumers. Ridyard analyses the Commission’s approach as being a “convenient facilities” doctrine: “an asset without access to which it would be jolly inconvenient for rivals because they would need to offer customers a better product in order to overcome the advantages of the incumbent”<sup>61</sup>. As such, the threshold for competitor’s requirements is set too low and the legitimacy of a ‘closed’ industry standard not given enough credence.

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<sup>58</sup> Paragraph 694.

<sup>59</sup> This is despite the stated test being to balance the reduced incentive to innovate against the exceptional circumstances, paragraph 712 and 783.

<sup>60</sup> Turney, paragraph 13.

<sup>61</sup> Paragraph 670.

In terms of eliminating competition the Commission utilised a ‘risk of elimination’ test rather than the ‘likely to eliminate’ test of *IMS*. As mentioned above Killick believes this is a temporal distinction and this is because the ‘strong competitive disadvantage such as to risk elimination’<sup>62</sup> explanation of the Commission clearly has in mind competitive pressures pushing competitors out of the market over time.

The Commission Decision in *Microsoft* contributes a new level of uncertainty based partly on its attempted micromanagement of competition on a case-by-case basis. As Turney says “it is tempting to treat the essential facilities dilemma on a case-by-case basis. However, this uncertainty is particularly problematic for market participants and does nothing to ensure the coherence of a competition regime”<sup>63</sup>. As described above, the Commission also increases uncertainty in other areas by promulgating a doctrine largely unsupported by rationality.

## CONCLUSION

There has been a divergence in approach between the Commission and the ECJ, which gives rise to a tension of uncertainty in European competition law in relation to Intellectual Property Rights. Future Commission Decisions will surely attempt to follow *IMS* but *IMS* is not without its own uncertainty for those undertakings attempting to implement strategies that maximise innovation without being required to license the innovation away. Despite this, the general approach in *IMS* is rational and much clearer than previous decisions (note the confusion over whether the *Magill* conditions were cumulative or not) and it provides a fundamental basis for the CFI to decide the upcoming *Microsoft* appeal.

The Commission crashed the wedding and it remains to be seen whether the *Microsoft* appeal judgment is the child of innovation and competition or if it represents the *decree nisi* for the marriage.

[Word Count: 4,968 including footnotes]

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<sup>62</sup> Paragraph 589.

<sup>63</sup> Paragraph 24.