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Does the *Microsoft* Case offer a New Paradigm for the 'Exceptional Circumstances' Test and Compulsory Copyright Licenses under EC Competition Law?

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This article examines the *Microsoft* case in the light of existing judicial authority to consider the scope for a remedy of a compulsory licence under Article 82 of the Treaty. Both the *IMS* and *Microsoft* cases turn on a competition law theory of abusive 'leverage' by a dominant IP owner in a dependent 'aftermarket', indicating that an 'aftermarket' scenario figures prominently in the 'exceptional cases' in which competition law under the Treaty is prepared to limit the exercise of copyright. However, whereas the treatment of the Commission's decision in *IMS* by the Community Courts tends to confirm the importance of key elements of the paradigm created by the *Magill* judgment for the 'exceptional circumstances' test under Article 82, the *Microsoft* case seems to require a new paradigm for that category. The article argues that the *Microsoft* facts include a circumstance, not present in *Magill*, which could significantly change the calculus in the 'exceptional circumstances' test and expand it to a new category. Following *Commercial Solvents*, and subsequent ECJ decisions, if a dominant firm with a monopoly product who has been dealing with a contractor in an aftermarket suddenly chooses to vertically integrate its operations and introduce its own product on that market, it may have an obligation to continue to 'supply', i.e. license or inform its existing customers (now competitors) in the downstream market, unless it can offer an objective justification for that refusal. A similar obligation may therefore be applied to an IP protected product under Article 82.

INTRODUCTION

Under EC law it has been left largely to EC competition law to strike a balance between the prohibitions of Article 82 and the exercise of intellectual property rights (IPRs) at points of conflict. IP owners with extensive market power have not had much success with the argument that even where their conduct amounts to an abuse of a dominant position, they may freely refuse to licence interface information to competitors simply because that right is conferred upon them by copyright law.[1] In the case law of the European Court of Justice it seems clear that EC competition law gives a full immunity

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1 See Case C-241 & 242/91P *RTE and Others v Commission* [1995] ECR I-743; See too, Anderman, S, 'EC Competition Law and Intellectual Property Rights in the New Economy' (2002) Antitrust Bulletin, Summer-Fall, 285; Korah, V, 'The Interface between Intellectual Property and Antitrust: the European Experience' (2002) 69 Antitrust Law Journal 801

only to the determination of the conditions and procedures of the *grant* of the IPR by the Member states of the EU.[2] When it comes to the dividing line between permitted and prohibited *exercise* of IPRs by their owners, the ECJ has tended to give rather equivocal reassurances to IPR owners. Thus the Court of Justice has stated that the Treaty rules will not interfere with the 'normal exercise' of IPR rights including actions to enforce an exclusive right to make or sell an IP protected product[3] or refusing to grant a licence, even if it is the act of an undertaking holding a dominant position.[4] To be abusive, some 'additional factor' is required in addition to the elimination of competition from other manufacturers in respect of the protected product since that corresponds to the substance of the protected right.[5]

Yet these statements by the Court do not provide a basis for asserting that the 'normal rights' to exercise IPRs are defined by reference to a core of irreducible minimum rights based on the function or subject matter of the IPR irrespective of the prohibitions in Articles 81 and 82.[6] For it has also been held by the Court that the exercise of an exclusive IP right will be regarded as unlawful when it is linked in some way to a commercial practice which is itself unlawful under Articles 81 and 82 or is used as an 'instrument of abuse' of a dominant position. In such a case it cannot be saved by the fact that it is lawful under IP law.[7]

In the landmark case of *Magill,*[8] the Court of Justice offered a new formulation of the 'safe haven' for the exercise of IPRs within the concept of abuse in Article 82; it stated that it was only in 'exceptional circumstances' that a refusal to licence copyright information could be held to be contrary to Article 82 of the Treaty and its owners be subject to a remedy of a compulsory licence.[9] As we shall see, the 'exceptional circumstances' test as articulated in the *Magill* case creates a paradigm that gives considerable recognition to the special qualities of IPRs as regulated by their own legislation and as promoters of innovation.

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2 Case 241 & 242/91P *RTE and Others v Commission* [1995] ECR I-743, para 49

3 Thus, in *Maxicar*, the Court stated that "the mere fact of securing the benefit of an exclusive right granted by law, the effect of which is to enable the manufacture and sale of protected products by unauthorised third parties to be prevented, cannot be regarded as an abusive method of eliminating competition", Case 53/87 *CICRA et Maxicar v Renault* [1988] ECR 6039.

4 Thus, in its recent *IMS* judgment, the ECJ stated:
"According to settled case-law, the exclusive right of reproduction forms part of the owner's rights, so that the refusal to grant a licence, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute an abuse of a dominant position … ", Case C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] 4 CMLR 28.

5 Case 238/87 *Volvo v Veng (UK) Ltd* [1988] ECR 6211, para 15.

6 See eg Govaere, I, *The Use and abuse of Intellectual Property Rights in EC Law,* London, Sweet & Maxwell, London, 1996, at p 104.

7 Case 85/76 *Hoffman-La Roche* [1979] ECR 461

8 Cases C-241 & 242/91P *RTE, BBC and ITV v Commission* [1995] ECR I-743

9 See eg Anderman, S*, EC Competition Law and Intellectual Property Rights: The Regulation of Innovation*, 1998, Clarendon Press, Oxford; Schmidt, H, 'Article 82's "Exceptional Circumstances" that Restrict Intellectual Property Rights' [2002] ECLR 210.

However, the precise boundaries of this 'exceptional circumstances' test seem far from well established as evidenced by the recent cases of the European Commission against *IMS*[10] and *Microsoft*.[11] Both cases turn on a competition law theory of abusive 'leverage' by a dominant IP owner in a dependent 'aftermarket',[12] indicating that an 'aftermarket' scenario figures prominently in the 'exceptional cases' in which competition law under the Treaty is prepared to limit the exercise of copyright. However, whereas the treatment of the Commission's decision in *IMS* by the Community Courts tends to confirm the importance of key elements of the paradigm created by the *Magill* judgment for the 'exceptional circumstances' test under Article 82, the *Microsoft* case seems to require a new paradigm for that category. The purpose of this paper is to examine the *Microsoft* case in the light of the existing judicial authority to consider the scope for the European Commission to order a remedy of a compulsory licence under Article 82 of the Treaty.

THE 'EXCEPTIONAL CIRCUMSTANCES' TEST IN CONTEXT

As mentioned, the "exceptional circumstances" test of competition "abuse" allows extensive scope for the legitimate exercise of IPRs by their owner, carefully circumscribing the occasions when the owner of IPRs enjoying a real economic monopoly can be charged with abuse by judicial authority In the first place, the test presupposes that the IP owner possesses a considerable degree of market power, one where the IP protected product virtually amounts to a de facto monopoly. Where an owner of an IPR operates in a market which has a number of competitors, it is not in the frame for a compulsory licence under Article 82.

Secondly, even when an IP protected product reaches the status of a de facto monopoly and falls within the scope of Article 82, the mere achievement of that status is not itself viewed as abusive under EU law. A firm that has achieved a de facto monopoly by virtue of its investment in R&D and IP protection is normally entitled to continue to compete by exercising its exclusionary rights even in 'aftermarkets'. To find a refusal to supply or licence abusive, something more must be shown by the competition authorities to allow the imputation of an abusive motive to the IP owner's conduct other than a refusal to supply or licence as such.

On the other hand, the possession of extensive market power does raise a possibility of abuse. Under Article 82 therefore a dominant firm is deemed to have a 'special responsibility' not to prevent or erode the already weak levels of competition on markets by conduct which is abusive because it is not 'competition on the merits'.[13] The existing case law indicates that the special responsibilities of a dominant firm do not normally include a duty to licence an IPR. An early source of judicial authority for

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[10] Case COMP D/338.044 *NDC Health/IMS Health:* Interim Measures. July 3, 2001

[11] Case COMP/C-3/37.792 *Microsoft,* C(2004)900 final

[12] For an insightful comparison of the European *Microsoft* decision with the US *Microsoft* cases, see Peritz, R, 'Re-Thinking *US v Microsoft* in Light of the EC Case', New York Law School Centre for Information Technology, 2004.

[13] See Case 322/81 *Michelin v Commission* [1983] ECR 3461 at 3511; see too Case 85/76 *Hoffman La Roche v Commission* [1979] ECR 461 at 541.

this proposition is the judgment of the ECJ in *Volvo (UK) Ltd v Veng AB,*[14] a case involving an infringement action by Volvo against a dealer who attempted to import panels for Volvo cars which infringed Volvo's design right. On appeal on the question of the competition defence to such an infringement action, the Court of Justice emphatically supported the exclusive right of Volvo to manufacture and sell its design protected panels because the exclusive right and the refusal to licence another to make or sell was the substance of the design right.[15] However, the Court went on to add that in an 'aftermarket' dependent on Volvo's monopoly over the IP protected panels, in this case the maintenance market for Volvo vehicles, Volvo had [under Article 82 of the Treaty] certain positive obligations to continue to supply parties operating in that market alongside Volvo's own maintenance operation, including independent maintenance firms who serviced Volvo cars.[16]

In other words, the owner of a de facto monopoly continues to enjoy its rights to protect its IPR from copying and from being compelled to licence another firm to reproduce the monopoly product *itself*. In a dependent 'secondary market'; however, the IPR holder does not have as complete a dominion over the exercise of its IPRs. In fact, owing to its status as a de facto monopoly in the primary market, and its indispensability as an input in the secondary market, Article 82 may limit the autonomy of the dominant firm to use its IPR to exclude competitors from that 'aftermarket', even if it is not dominant on that aftermarket. *Volvo* implied that the fact the dominant product is IP protected *by itself* does not provide a justification for refusing to *supply* a product, such as spare parts, to competitors in 'aftermarkets'.

This was later confirmed in the *Magill* case.[17] An Irish publisher named Magill was a publisher of a comprehensive weekly TV guide combining the contents of the three individual weekly TV guides sold separately by the respective TV companies. After losing a copyright infringement action at the national level, it successfully made a complaint to the Commission on the grounds that the TV companies' refusal to licence the program listings was abusive conduct under Article 82 and won an order for a compulsory licence of the listings material from the TV companies to produce the guide. The case, a *cause celebre*,[18] went to the Court of First Instance which affirmed the Commission's order. On further appeal to the ECJ, the TV companies were supported in their arguments by the IPO representing software makers internationally. The appeal resulted in a lengthy opinion by the Advocate General recommending reversal. The

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[14] Case 238/87, [1988] ECR 6211.

[15] Para 8.

[16] Para 9.

[17] Cases C-241 & 242/91P, [1995] ECR I-743.

[18] See, eg, Greaves, R, '*Magill* Est Arrive … *RTE and ITP v Commission of the European Communities*' [1995] ECLR 244; Reindl, A, 'The Magic of *Magill*: TV Program Guides as a Limit of Copyright Law' [1993] IIC 60; Schmidt, H, 'Article 82's "Exceptional Circumstances" that Restrict Intellectual Property Rights' [2002] ECLR 210; Strothers, C, 'Refusal to supply as Abuse of a Dominant Position: Essential Facilities in the European Union' [2001] ECLR 256; Vinge, T, 'The Final Word on *Magill*' [1995] 6 EIPR 297; Anderman, S, *EC Competition Law and Intellectual Property Rights: The Regulation of Innovation*, Clarenden Press, Oxford, 1998; and, Temple Lang, J, 'Defining Legitimate Competition: Companies Duties to Supply Competitors and Access to Essential Facilities' [1994] Fordham Corp Law Inst 245.

ECJ however decided that the order for a compulsory licence should stand. The Court held that four main circumstances of the case offered an example of the 'exceptional circumstances' in which a refusal to licence may be an abuse:

> First, that the owner of a copyright protected product was the owner of a *de facto monopoly* which was also an *indispensable input* to an "after market," thus placing him or her in a position to prevent effective competition in that market. In *Magill*, the TV companies had a de facto monopoly over the TV programme listings by virtue of their scheduling of TV programmes and where a license of the listings was an indispensable input for the comprehensive TV guide.[19]

Secondly, that the firm seeking a licence was offering a *new product* for which there was demonstrable and *unsatisfied consumer demand*. In *Magill*, the Commission was able to show that the comprehensive TV guide was new and different in kind from the individual guides offered by each of the TV companies and that there was evidence of 'specific, constant and regular demand' for that product.[20]

Thirdly, where the owners of the IP protected product were not themselves supplying such a product to consumers[21] and by their conduct were using their monopoly in one market to reserve that second market for themselves by excluding competition on that market.[22]

Fourthly, that the owner of the IPR had no objective justification for its refusal to licence. In *Magill,* the litigation strategy of the IPO seemed to mandate an argument that the exclusivity provided by the copyright was itself the objective justification for the refusal to licence but this was rejected by the ECJ.[23]

In such circumstances, an IP owner's insistence on reserving the 'aftermarket' for itself could amount to an abuse even where the owner of the IP protected product had no previous contractual dealing with the new entrant. The Court in *Magill* cited as authority for its judgment Article 82(b) which declares it to be an abuse by dominant firms to limit 'production, markets or *technical development* to the prejudice of consumers'.[24] It also looked to *Commercial Solvents* for authority.

Like many attempts to draw a line between two conflicting claims, the exceptional circumstances test in *Magill* proved to be highly controversial but it was also seen as somewhat opaque in its reasoning by both competition lawyers and IP specialists. For example, how important was it that the IP in question was in information that was

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19 Cases C-241 & 242/91P, [1995] ECR I-743 para 47

20 *Ibid,* paras 53 & 54. This requirement was later summed up by Advocate General Jacobs in the *Oscar Bronner* case as 'the exercise of the copyright prevented a *much needed new product* from coming on to the market' (para 63) He also commented on the fact that the existing guides provided by the TV companies were inadequate, particularly when compared with the guides available to viewers in other countries (para 63).

21 [1995] ECR I-743, para. 54.

22 *Ibid* para 56.

23 *Ibid* para 55.

24 Emphasis added.

copyright only in the UK and Ireland? Were the conditions cumulative or not? What were possible objective justifications for refusal to supply?

In the subsequent case law, the ECJ seemed to make it a point to reiterate that a refusal to license by a dominant firm would only be abusive in the strict conditions of the 'exceptional circumstances' test as articulated in *Magill*. Thus, in *Oscar Bronner v Mediapoint*[25] the ECJ emphasised the importance of a proper test of dominance, stressing the need for it to incorporate the further characteristics that the dominant product was both a monopoly and *indispensable* to competition in the 'aftermarket'.[26]

In its decision on *IMS*,[27] the Commission seemed to misread the essential requirements of the 'exceptional circumstances' test in the *Magill* paradigm by assuming that if an IP protected product was an industrial standard and its owner refused to offer access to competitors in a dependent product market, those circumstances by themselves were sufficient to justify an order of a compulsory license. On appeal,[28] the President of the Court of First Instance emphasized that the Commission had mistakenly proceeded on the supposition that 'the prevention of the emergence of a new product for which there is potential consumer demand is not an indispensable condition of the "exceptional circumstances" developed by the Court of Justice in *Magill*'.[29] The failure of the Commission could be viewed as a mistakenly crude application of essential facilities reasoning to IPRs.

During the period that the Court of First Instance was giving its interim decisions, the Frankfurt Regional Court dealing with the *IMS* case, separately referred a series of questions to the European Court of Justice.[30] The Court of Justice held that the three main conditions of *Magill* 'exceptional circumstances' test were cumulative, ie in order for a refusal to licence new entrants to a market dependent upon an

25 Case C-7/97 *Oscar Bronner GMbH & Co KG v Mediaprint* [1998] ECR I-7791. In *Oscar Bronner* the ECJ held that where a newspaper proprietor asked for access to another proprietor's home delivery service, a finding of abusive refusal of access using *Magill* as a precedent for the limits to the exercise of any property right, including an intellectual property right, could not be made unless (i) the refusal of the service in the home delivery market would be likely to eliminate all competition in that market on the part of the person requesting the service (ii) there was no objective justification for the refusal and (iii) that there was the service in itself was indispensable to carrying on that person's business, inasmuch as there is no actual or potential substitute in existence for the home delivery scheme The lack of substitutes had to be strictly proved and the test of indispensability was not be confused with mere economic non-viability owing to the small size of the competitor. Cf Forester, I, 'Compulsory licensing of intellectual property rights in Europe: A rare case of aberrant intellectual property rights', Paper presented FTC/DOJ Hearings on Competition and Intellectual Property Law and Policy in the Knowledge Based Economy: Comparative Law Topics, May 22 2002, 15; See also Bergman, M, 'The *Bronner* case – A Turning Point for the Essential Facilities doctrine?' [2000] ECLR 59.

26 See paras 41 & 45.

27 Commission Decision 2003/174/EC, Case COMP D/338.044 *NDC Health/IMS Health,* OJ 2003, L268/69.

28 Interim order of the CFI: Case T-184/01R *IMS Health v Commission* [2001] ECR II-2349; Final Order of the CFI; Case T-184/01R *IMS Health v Commission* [2001] ECR II-3193. The appeal against the suspension of the Commission's compulsory licence was dismissed by the President of the ECJ on 11 April 2002.

29 Para 91

30 Case C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] 4 CMLR 28.

indispensable IP protected input, to be abusive, the refusal must meet three conditions:

(i) the undertaking which requests the licence intends to offer, on the market for the supply of data in question, new products or services not offered by the copyright owner and for which there is potential consumer demand;

(ii) the refusal is not justified by objective considerations;

(iii) the refusal is such as to reserve to the copyright owner the market for the supply of data on sales of pharmaceutical products in the Member State concerned by eliminating all competition on that market.

This interpretation of the 'exceptional circumstances' test based on *Volvo* and *Magill* offers one type of reconciliation between competition law and intellectual property rights based on their mutual interest in innovation by stressing that the 'exceptional circumstances' for a compulsory licence for new entrants to a market include cases of new products with potential consumer demand but not 'clones' or 'me too' products. This test still leaves a number of issues to be resolved in future litigation: how different must a new product be from the one offered by the owner of the industrial standard? Must there be a showing that the new product was developed by the new entrant to the point that it simply requires the indispensable component supplied by the IPR owner? How strong must the potential unmet demand be to qualify a new entrant to a compulsory license? Furthermore, how important is the extent of the investment by the IP owner? What weight should be given to the fact that the incumbent IP owner claims that they intend quite soon to offer a similar product themselves. This could not be a blanket justification for a refusal to licence since that may result in a deterrent to new innovation. A careful reading of the exceptional circumstances test for *new entrants* to a market suggests that even the new product requirement alone implies a balancing test that can shift with different circumstances as long as certain essential preconditions are met.

In *IMS*, however, the Court of Justice also seemed to make it a point to indicate that although the *Magill* conditions were cumulative, they did not offer an exhaustive definition of the test of 'exceptional circumstances'; it carefully referred to *Magill* as a case in which the Court held that 'such exceptional circumstances were present in the case … '.[31] The Court also held 'that it is clear from the case law … that "it is sufficient" (rather than "it is necessary") to satisfy the three *Magill* criteria in order to show an abusive refusal to license'.[32] That proposition would seem to follow from the purpose of Article 82(b) which is to prohibit as abusive conduct by dominant firms where such conduct limits *technical development of markets* to the detriment of consumers. Limiting technical development is a wider concept than the particular factual circumstances and conditions of the *Magill* case. Hence, both the language of Article

31 Para 36. See analysis by Kallaugher, J, 'Recent Developments under Article 82', talk given to IBC Conference London 30 April 2004

32 Para 38.

82(b) and the ECJ judgment in *IMS* offer good grounds for concluding that other types of abuse can also fall within the category of 'exceptional circumstances'.

THE EUROPEAN *MICROSOFT* CASE AND 'EXCEPTIONAL CIRCUMSTANCES'

The facts of the Commission's decision in *Microsoft*[33] offer an example of other types of conduct by an IP owner that can qualify as abusive under the 'exceptional circumstances' test. How should Article 82 apply to cases of exclusionary conduct by a dominant firm when it uses its control over interface information to disrupt its supply of such information or uses its copyright to refuse to license an *existing* contractor/competitor in the secondary market with whom it has been dealing in respect of earlier versions of its product with a view to evicting them from the market? What relevance is it to Article 82 and the 'exceptional circumstances' test that the existing competitor is itself an innovator in the product market, such as Sun Microsystems and its Solaris server in the low end workgroup server operating system market? What relevance is it to Article 82 and the 'exceptional circumstances' test that Microsoft was found to have encouraged interoperability by providing open interface information as a business strategy to grow to dominance only to move to a commercial strategy of closing up systems once dominance was achieved. Finally, what justifications has Microsoft offered for its actions?

In 2000 and 2001, the European Commission[34] investigated Microsoft after a complaint by Sun Microsystems, one of Microsoft's most important competitors in the work group server market. Sun complained that Microsoft was leveraging its Windows 2000 and Microsoft's Office Suite monopoly to obtain a further monopoly for Microsoft's workgroup server operating system in the workgroup OS market. Sun stated that Microsoft provided inadequate information about interface codes for Sun to equip its servers to interoperate smoothly with Microsoft's 'integrated' package of Windows 2000, Office Suite and workgroup server operating system because it refused to disclose how the integration between Windows and Office Suite and its server operating system worked. This refusal had the effect of preventing Sun from offering certain services to Windows based users of its non-Microsoft workgroup server. The Commission in a decision, issued on 24 March 2004, found that Microsoft had abused its near monopoly in the Windows operating system by deliberately restricting interoperability between the Windows OS and non-Microsoft work group servers such as those operated by Sun Microsystems.[35]

The remedy imposed by the Commission for the refusal to supply interface information was to require Microsoft to divulge all necessary interface information to allow non-MS workgroup server OS to achieve full interoperability with Windows PCs and MS workgroup servers within 120 days. This was to enable rival vendors to compete on a

[33] Case T-201/04R *Microsoft v Commission*, Order of the President of the Court of First Instance 26 July 2004.

[34] Case COMP/C-3/37.792. The Statement of Objections also alleged that Microsoft may have acted illegally by incorporating its new Multi Media Utility Media Player into its Windows PC operating system. See Anderman, S, 'Microsoft in Europe' in Hansen, H, *International Intellectual Property Law and Policy*, Yonkers, NY, Juris Publications, 2002.

[35] See Press Release Conclusion of Microsoft investigation, IP/04/38224, March 2004.

level playing field in the work group server operating system market. Insofar as this information is copyright protected, the Commission indicated that it would require a compulsory copyright licence to be given to competitors in the workgroup server market, but Microsoft would be entitled to reasonable remuneration. The Commission also required Microsoft to update the disclosed information each time it brings to the market new versions of its relevant products. The Commission also indicated that it planned to appoint a Monitoring Trustee to oversee that Microsoft's interface disclosure are complete and accurate.[36] It was noteworthy that the remedy was not restricted to the complainant.

The Refusal to Continue to Supply Full Interface Information

The Commission's finding that Microsoft had abused its near monopoly in the Windows operating system by deliberately restricting interoperability between the Windows OS and Sun Microsystems work group server operating systems began by correctly concluding that the case law suggested that there was no exhaustive checklist of exceptional circumstances and they were entitled to take into account 'other circumstances of exceptional character when assessing a refusal to supply'.[37] It then went to conclude that it was necessary to analyse the 'entirety of the circumstances' and take a 'decision based on the results of a comprehensive investigation'.[38] In choosing to adopt a formula labelled at one point 'entirety' and at another 'the totality of the circumstances' to describe its test and thus not confronting the task of fitting these within the four corners of the 'exceptional circumstances' test, it may have underestimated the arguments in favour of a conclusion that the factual nexus of the *Microsoft* case offered a new paradigm which could and should be fitted into an 'exceptional circumstances' framework. The purpose of this paper is to explore the nature of that new paradigm.

There was little doubt that Microsoft met the threshold test of a monopoly which was an indispensable input to a secondary product.[39] There was little doubt as well that Sun Microsystems was offering an innovative product for which there was substantial and demonstrable demand. The Sun Solaris work group server OS was not a clone of the Microsoft server; it actually preceded it in the market. The Commission could therefore legitimately impute to Microsoft the exclusionary motive of using its control over the PCOS market to evict an *innovating* competitor, ie conduct which amounted to an abuse of 'technological' leveraging of its dominance.[40] If a dominant firm with a monopoly of a IP protected product which is an indispensable input, chose to 'compete on the merits', it would have to continue to licence the relevant interface information to its innovating competitors and compete in that secondary market. For a dominant firm

36 *Id.*

37 *Microsoft,* para 555.

38 *Ibid*, para 558.

39 Judging from the statement of objections and the recent Press Release, the Commission revealed its acceptance of the network effects analysis of barriers to entry in high technology markets that had influenced the US Justice Department and Federal Trade Commission in the US Microsoft case

40 Cf Peritz, *op cit*, n 8

with a de facto monopoly which is an indispensable input to other products to be allowed to use its power in any other way would have a 'chilling effect' on innovation by competitors in the dependent aftermarket and limit technical development in that market, conduct which is characterised as an abuse by Article 82(b). Without access to interface information, competitors in the work group server market would be gradually deprived of their opportunity to develop servers with new or added functionality that Microsoft does not offer to the consumer.[41]

Yet it is important to see that embedded in the *Microsoft* facts is a further circumstance, not present in *Magill*, which could significantly change the calculus in the 'exceptional circumstances' test. Following the authority of the reasoning of *Commercial Solvents*, and subsequent ECJ decisions,[42] if a dominant firm with a *de facto* monopoly of a product has been engaged in a course of dealing with a contractor in an aftermarket and suddenly chooses directly to compete with it by vertically integrating its operations and introducing its own product on that market, it has an obligation to continue to 'supply', ie license or inform its existing customers (now competitors) in the downstream market, unless it can offer an objective justification for that refusal. To fail to do so would mean that the dominant firm was not 'competing on the merits' in an already weakened market. By initially opting for an 'open' system as a strategy to grow and achieve dominance, the owner of an IP protected industrial standard has created expectations and under EC competition law would have difficulties refusing to continue to supply downstream contractors under Article 82(b) and possibly 82(c) for discriminating between its own subsidiary and competitors, particularly where there are no capacity restraints. In such a case, an owner of an industrial standard can be found to be acting abusively by refusing to continue to supply information or to license a firm with which it has been dealing where its motive is self evidently one of using its dominance to *evicting* that competitor from the market.

In other words, the 'exceptional circumstances' in which a compulsory copyright licence can be awarded by a competition authority should include refusals to supply interface code information or license *existing* innovative downstream operators with predatory intent. In such cases, the Commission would be relying on the authority of Article 82(b) but with a theory that in the IT sector, Article 82(b) can be infringed when a company such as Microsoft with an industrial standard, limits technical development by refusing to continue to share interface information and thereby prevents competitors on related markets from developing their interoperable systems. If Microsoft had opted for a closed system in the way say of Apple Mac initially, the circumstances may be different because the company would have achieved its dominance on the basis of originally integrated products and it would normally have been entitled to continue to compete on that basis. In such a situation, they might have had a defence of objective justification for refusing to supply interface information.

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[41] See Dolmans, M, and Levy, N, 'EC Commission v Microsoft: Win, Lose or Tie?' Brussels, Cleary, Gottlieb, Steen & Hamilton.

[42] See, for example, Case 311/84 *Centre Belge d'Etudes de Marche (CBEM) v Telemarketing* [1985] ECR 3261.

However, having built up its dominant position on the basis of interoperating with downstream applications makers, it seems arguable that Microsoft cannot freely resort to a policy of 'closing up' interoperability by withholding interface information once it establishes its Windows OS as an industrial standard. That type of commercial strategy would be viewed as predatory under Article 82 rather than 'competition on the merits' and even if the interface information were copyright protected, the Commission would be entitled to order a resumption of the supply of such information. The compulsory licence of the possibly copyright protected interface information would be essentially to ensure the resumption of that supply.

THE RELATION BETWEEN THE CONCEPT OF ABUSE AND REMEDIES

Once the Commission finds that there has been an infringement of Article 82, it has the power, in addition to levying a fine up to 10% of the worldwide turnover of the undertaking committing the abuse, to require that undertaking to bring that infringement to an end.[43] In *Magill* the remedy chosen by the Commission was a compulsory licence on terms which were 'reasonable and non-discriminatory'. Its choice of this remedy was compelled by the need to remedy the abuse. An order to supply the information in the TV programme listings by itself would not have allowed its lawful use and therefore would not have ended the infringement. The only way the Commission could ensure that *Magill* could publish the new product in the guide market thus ending the infringement was to require a license to publish along with the supply of the listings.

In the *Microsoft* case the resumption of supply of interface information may require compulsory licensing but this too is simply as a means to the end of resumption of supply of the interface information and ending the infringement of Article 82. In the information technology field the attitude to remedies has been strongly influenced by the imperative of interoperability. In the *IBM* settlement in 1984, the Commission insisted on undertakings by IBM to provide full interface information to all applications makers comparable to that provided to its own subsidiary operating in a downstream market. The purpose of that settlement was to ensure that the dominant firm, particularly where it operated in a downstream market, adhered to the principle of fair and non-discriminatory treatment of competitors in that market. In the later *Microsoft* cases the issues of shaping a competition law remedy to ensure inter-operability became more controversial.

The European Commission's view of remedies in the Microsoft case is that an obligation to bring the infringement of Article 82(b) to an end will require Microsoft to disclose all the interface information necessary to enable Sun and other competitors with work group server operating systems to interoperate with Microsoft operating systems, with Microsoft middleware, and with other Microsoft client and server operating systems. This information must be comparable to that disclosed by Microsoft to its own employees or contractors charged with developing Microsoft's own work group server.

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[43] Article 3 of Council Regulation 17/62.

The required information may take two forms: IP protected information and non-protected information. It may thus include non-copyright information such as Application Program Interfaces and Communications Protocols. It may also extend to copyright protected interface information such as object code, trade secrets and possibly a patent. However, as the Commission indicated, it will not extend to source code information. The attitude of the Commission seems to be that the IP protection is incidental to the remedy as long as there is no obligation upon Microsoft to reveal its source code. Much as in *Magill*, if there is IP protection and an abuse is committed, the IP must not get in the way of an effective remedy. If the information is not covered by copyright than a simple order to disclose combined with a confidentiality obligation would be a sufficient remedy. If the information is protected by copyright, or possibly other intellectual property rights, that itself will not operate to deny the remedy under EC law. If the abuse is committed and the remedy of supply, in this case resumption of supply, can only be accomplished by a compulsory licence, then these are the 'exceptional circumstances' in which judicial authority suggests that a compulsory licence can be ordered. The Commission has stated that it is concerned solely with restoring interoperability by opening up interface information and that it has no desire to use a remedy to force disclosure of source codes to the Windows operating system. Presumably, it will be open to Microsoft to refuse to supply interface codes which reveal source codes.

SOME ADDITIONAL THOUGHTS

In its *IMS* decision, the Commission misinterpreted the *Magill* test of 'exceptional circumstances' in part by treating IPRs as if they were the same as tangible property such as ports or train tracks. It seems likely that the experience at the hands of the Court of First Instance and the European Court of Justice will cause the Commission to be far more cautious when confronted by complaints of refusal to licence IP protected industrial standards by new entrants to a market with similar products to those offered by the IP owner of an 'indispensable' input.

In the *Microsoft* case however, the Commission seems to be on much firmer ground in terms of its conclusions of abusive leverage by an IP owner although its resort to a looser concept of 'totality of the circumstances' shied away from the task of fitting the facts more carefully into the 'exceptional circumstances' test endorsed by the Court of Justice. Presumably, a more robust argument can be made on appeal whether it relies on an innovation limitation theory of Article 82(b) following *Magill* or a theory based on the view of obligations of a dominant firm to existing contractors in a dependent market based on *Commercial Solvents*.

One point that makes its appearance at the margins of the Microsoft case is the argument suggested by Microsoft that Sun's right to reverse engineer through decompilation in Article 6 of the EC Computer Program Directive was relevant to the Article 82(b) complaint. Article 82(b) of the Treaty and Article 6 of the Computer Program Directive are separate and independent laws even if their reach to certain types of conduct may overlap. The EC Computer Program Directive does not only promote interoperability in the form of a limited decompilation right in Article 6 and a reminder of the idea/expression dichotomy in Article 1; Recital 26 of the Directive also states that:

> Whereas the provisions of this Directive are without prejudice to the application of the competition rules under Article 85 (now 81) and 86 (now 82) if a dominant supplier refuses to make information available which is necessary for interoperability as defined in this directive

In the *Microsoft* case, Sun seems to have given evidence to make it plain that the decompilation option was not adequate to meet the need for full interoperabilty in the circumstances, if for no other reason than the reverse engineering process was so complex that it handicapped them in their efforts to provide software compatible with a new version of Windows in sufficient time for the new version of Windows OS. The Commission's view, which is a legitimate interpretation of Article 82, is that Article 82 offers a source of authority which may exist alongside but applies independently of Article 6 of the Computer Programme Directive. It is worth noting, however, that if IP law were to take a form offering a more extensive guarantee of interoperability of interface information for software, then the effect would be that Article 82 would be called upon even more rarely to adjudicate cases of non-supply of interface information.

A second point raised by the *Microsoft* case is why does competition law have the authority to override IPR protections in the EU? Why are firms like Microsoft not justified objectively in refusing to disclose or licence interface information.

In the *Magill* case the Court of Justice established that the mere ownership of an IPR as a property right would not as such offer either an immunity or a defence of justification for a refusal to licence in secondary markets.[44] The Court first observed:

> With regard to the issue of abuse, the arguments of the appellants and IPO wrongly suppose that where the conduct of an undertaking in a dominant position consists of the exercise of a right classified by national law as "copyright", such conduct can never be reviewed in relation to Article [82] of the Treaty.[45]

It later added:

> There was no objective justification for the refusal of the TV companies to licence Magill, either in the activity of television broadcasting or in that of publishing television magazines.[46]

A similar argument for unlimited intellectual property rights was put forward by the Microsoft Corporation in the antitrust case brought against its licensing practices in relation to Windows 98 and web browsers. The US government alleged that Microsoft had engaged in anticompetitive licensing restrictions. Microsoft argued that the

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44 Cases C-241 & 242/91P *RTE & ITP v Commission* [1995] ECR I-743, para 55.

45 *Ibid*, para 51.

46 *Ibid*, para 55.

licensing restrictions were legally justified because it was simply 'exercising the rights of valid copyrights':

> If intellectual property rights have been lawfully acquired, their subsequent exercise cannot give rise to antitrust liability.[47]

The Federal Circuit rejected the argument as bordering upon the frivolous. It quoted precedent to the effect that 'intellectual property rights do not confer a privilege to violate the antitrust laws'.[48]

In the European *Microsoft* case, the Microsoft Corporation produced a variation on the theme that their refusal to supply interface information to Sun was objectively justified owing to their property rights in the information requested. They argued firstly that they were justified in refusing to supply on the grounds that it would eliminate their incentives to innovate.[49] They also complained that providing the interface information to Sun 'would make it relatively easy for competitors to clone new features in the Windows family of operating systems'.[50]

The Commission refuted both contentions on the facts and went on to introduce a balancing test to justification. It started by reminding that it was necessary to take into account the effect on the market if Microsoft's anti-competitive behaviour was allowed to remain unfettered.[51] There was a risk that Microsoft would succeed in eliminating all effective competition in the work group server operating systems market.[52] The Commission then concluded that *on balance* the possible negative impact of the order to supply on Microsoft's incentives to innovate is outweighed by its positive impact on the level of innovation of the whole industry (including Microsoft).[53]

The Commission could legitimately treat the justification test as a balancing exercise under Article 82(b) but it could equally legitimately raise the barriers to justification to a high level because of the serious anti-competitive effect of the conduct. As the Commission put it the refusal to supply would 'have the consequence of stifling innovation in the impacted market and of diminishing consumer's choices by locking them into a homogeneous Microsoft solution. As such it is particularly inconsistent with the provisions of article 82(b) of the Treaty'.[54]

This was effectively an endorsement of a view of innovation which suggests that technical development in the IT industry is best promoted by a number of different firms innovating rather than one. It is consistent with the philosophy underlying the interoperability provisions of the Computer Software Directive.

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47 *Ibid*, para 55.

48 See *United States v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001) 62-63.

49 *Microsoft,* para 709.

50 *Ibid*, para 713.

51 *Ibid,* para 724.

52 *Ibid*, para 725.

53 *Ibid*, para 763

54 *Ibid*, para 782.

Finally, it is useful to ask why the judges on the Court of Justice consider it legitimate for EC competition law to restrict the conduct of the owners of IPRs where their market power equates to that of an industrial standard or a de facto monopoly which is an indispensable input to a secondary market? There are two main reasons for this hierarchical relationship between these two legal regimes in the EC. The first is that competition law has been given a central role in the EC Treaty while intellectual property legislation in the EC has been based mainly on national law.[55] The second is the fact that competition laws are viewed as public law norms whereas the exercise of an intellectual property right is viewed as an exercise of a private property right.

The general view of competition law is that the exercise of any property right, whether one related to intellectual property or tangible property, must be circumscribed to allow the public interest in effective competition on markets to be maintained. Modern competition policy, having arisen as a reaction to the excesses of use of the freedom of contract by large organisations systematically creating monopolies and cartels in unregulated markets, has been designed to impose public law limits on the freedom of contract and the autonomy of private property owners in order to maintain effective competition on, and access to, markets.[56]

Competition law offers only one example of the responsibilities which public law places on private ownership. In general private property is dependent for its existence upon legal institutions and may be seen as a bundle of legally created responsibilities as well as rights.[57] Intellectual property is also a legally created mix of rights and responsibilities with its rights to exploitation dependent upon legal institutions. An owner of tangible private property cannot do entirely as she wills with it where the exercise can cause harm to others. The owner of a Ferrari sports car, despite her property right and the purpose for which she acquired it, cannot lawfully drive it above 20 miles an hour on a road in front of a school entrance if that is the speed limit for that stretch of road.

In the case of intellectual property rights, the claim of intellectual property owners to an untrammelled autonomy to exploit their property is more specifically at odds with the laws that create them. Patents and copyright, with their balance of time limited rights, exceptions and array of responsibilities *inter alia* to disclose information, are more akin to carefully defined leaseholds or licenses as opposed to absolute property rights. IPRs have been explicitly created for utilitarian purposes by legislators in the form of limited exclusive rights and to argue otherwise is to distort the foundations for their creation.[58] In Europe, most if not all patent laws view patents as conferring temporary market exclusivity in return for the commercial investment in the R&D leading to the

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55 Anderman, S, *EC Competition Law and Intellectual Property Rights: The Regulation of Innovation*, Clarendon Press, Oxford, 1998.

56 The modern phase of competition law beginning with the US Sherman Act in the 1890s has to be seen as a reaction to the experience in the USA with widespread trusts creating monopolies and cartel and market sharing arrangements in the decades after the Civil War. See, Peritz, R, Competition Policy in the US, Oxford, OUP, 1998.

57 See, for example, Harris, J, *Property and Justice*, Oxford, Clarendon, 1996; and Rahnasto, I, *Intellectual Property Rights, External Effects and Anti-trust Law*, Oxford, OUP, 2002.

58 See, for example, the language of Article 1 Clause 8 of the US Constitution.

invention and making publicly available the knowledge on which it is based. It is true that some Continental systems of copyright protection, and indeed Article 6bis of the Berne Convention, stress the moral rights to copyright and this on occasion been portrayed as a natural right but this classification does not remove copyright from the rights/responsibilities balance. In any case, moral rights are more concerned with protecting the author's rights to identification as the originator of the work[59] and the right to object to derogatory treatment of the work,[60] rather than making a bid for IPRs to be viewed as absolute rights when they enter the economic arena.

IPRs are more appropriately viewed as a form of 'licence' or leasehold conferred by the state to innovators for a limited period to pursue the ends dictated by the legislation that give them their protected status. This licence has certain checks and balances within it but those exercising the licence are still bound by regulatory legislation such as environmental laws, health and safety laws, product liability and drug safety laws that restrict the free exercise of intellectual property rights in the public interest.[61] It is true that there is an important public interest in the incentive effects of IPRs but this must be reconciled with, and cannot automatically trump, these other public interest concerns. The inherent weakness of the property rights theoreticians in this area of law is that private property is always subject to public law norms. Moreover, their analysis offers little help in the essential task of striking an appropriate balance between the protection of limited exclusive rights to pioneer innovators and the rights of access of information and ideas of follow on innovators,[62] particularly where that task is performed by competition policy.

One implication of this analysis is that when the point is reached that IPR laws are comprehensively EC wide in their grant, EC competition law may well remain a default 'regulator' of the exercise of IPRs.

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59 The right of paternity. See, for example, CDPA s. 77.

60 The right of integrity. See, for example, CDPA s. 80.

61 See, for example, Directive 98/44/EC on the Legal Protection of Biotechnological Inventions, OJ 1998, L213/13, Recital 14.

62 Cf the excellent discussion in: Rahnasto, I, *Intellectual Property Rights, External Effects and Anti-trust Law,* Oxford, OUP, 2002, 49-62.