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IMS and Microsoft Judged in the Cold Light of *IMS**James Killick**

This article analyses the three major recent cases dealing with the boundary between EC competition law and intellectual property rights: the Commission's interim measures decision in the *IMS* case, the European Court of Justice's later judgment in *IMS* and, finally, the Commission's decision in the *Microsoft* case. The article starts by analysing the key legal and factual elements in each of these three precedents. It then examines whether the Commission's approach in its *IMS* and *Microsoft* decisions is consistent with that of the European Court of Justice in its *IMS* judgment. The analysis shows that the Commission's approach in both Decisions differs from that laid down by the Court. In particular, the Commission has adopted a less demanding standard as regards the conditions under which compulsory licensing of intellectual property may be ordered. The article explores a number of other topics in passing, such as the role of the trustee in giving effect to the compulsory licensing ordered by the Commission in the *IMS* and *Microsoft* decisions and the relevance of standardisation in both cases. The article also examines the approach taken in relation to objective justification in the *Microsoft* Decision and concludes that it raises serious questions as regards predictability and legal certainty.

A. INTRODUCTION

In July 2001 the Commission adopted an interim measures decision ordering *IMS* to grant a compulsory licence of its intellectual property (the '*IMS* Decision'). It is easy to forget three years later how controversial that decision was at that time. Indeed, given the inevitable focus on the European Court of Justice's recent decision in *IMS* on a preliminary reference (the '*IMS* Judgment') it would be all too easy to forget the *IMS* Decision altogether.

This article will examine the Commission's approach in its *IMS* Decision in the light of the ECJ's *IMS* Judgment. It will explore the relevance of standardisation in both *IMS* cases. It will then turn to *Microsoft* and examine this Decision in the light of the *IMS* Judgment, and conclude with some observations on parallels and differences between the Commission's approaches in its *IMS* Decision and its *Microsoft* decision.

The analysis will show that the Commission's approach in both Decisions differs from that laid down by the Court in its *IMS* Judgment. In particular, the Commission has

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adopted a less demanding standard when it comes to the conditions under which compulsory licensing of intellectual property may be ordered.

B. THE FACTS OF *IMS*

IMS is the world leader in data collection on deliveries by wholesalers of pharmaceuticals and prescription sales. On the German market a geographic format for presenting this data had been jointly developed by IMS and its customers (the pharmaceutical companies) which had become the *de facto* industry standard. This structure consists in a division of Germany into 1860 zones (or so-called ‘bricks’) according to postcodes. When competitors (NDC and, latterly, AyzX) appeared on the German market, IMS relied on copyright to prevent them using the industry standard 1860 brick structure.

The starting point for both the *IMS* Decision and the *IMS* Judgment was an interlocutory order by the Landgericht in Frankfurt in late 2000 which prohibited NDC from using the 3000 brick structure that it was then using or any other brick structure derived from the 1860 brick structure. This order was granted on the basis that the 1860 brick structure was a protected database, which might be protected by copyright. This order had the effect of preventing NDC from competing on the German market.

NDC responded in two ways.

- First, it asked IMS for a licence and when such request was refused it made a complaint to the Commission claiming that the refusal to license was an abuse of IMS’ dominant position. The Commission conducted an urgent inquiry and on 3rd July 2001 issued an interim measures decision ordering IMS to license its brick structure (the ‘*IMS* Decision’).¹
- Second, it continued its legal battle with IMS in the German courts, where several copyright infringement proceedings and appeals took place. The Frankfurt Landgericht made a reference to the ECJ in July 2001, which led to the judgment of 29 April 2004 in Case C-418/01 (the ‘*IMS* Judgment’).

For completeness, it should be noted that the Commission withdrew the *IMS* Decision in August 2003² based on the fact that a German appeal court had held that NDC could not be barred from developing a rival brick structure based on administrative divisions (postcode boundaries) in Germany even if it might be similar to the 1860 brick structure and might be deemed to be derived from it. NDC was therefore able to market data reported using a brick structure that would meet customers’ needs.³

¹ Commission Decision 2002/165/EC, Case COMP D3/38.044, *NDC Health/IMS Health*, OJ 2002, L59/18. IMS subsequently appealed to the Court of First Instance in Case T-184/01R and the Commission’s interim measures decision was suspended by the President of the CFI on 26 October 2001 (whose order was upheld on appeal by the President of the ECJ on 11 April 2002 in Case C-481/01 P(R)).

² The Decision was at that time still suspended by the order of the President of the Court of First Instance of 26 October 2001 in Case T-184/01R, the appeal to the President of the ECJ having been rejected.

³ Commission Decision 2003/741/EC, OJ 2003, L268/69. AyzZ, the other competitor, had by then left the market.

C. THE *IMS* JUDGMENT

The European Court of Justice ruled on the preliminary reference case on April 29 this year. While the judgment clarifies the applicable legal standard for compulsory licensing, it does leave one key question unanswered, which is left to the referring German court to resolve.

After examining the case law (*Volvo v Veng*⁴ and *Magill*⁵) dealing with whether refusal to grant a licence was an abuse under Article 82, and reiterating the way the Court in *Bronner*⁶ summarised *Magill*, the Court set out the legal standard as follows:

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 consumers demand, that it is unjustified and such as to exclude any competition on a secondary market.⁷

The Court thereby defines a four-part test for when a refusal to license is an abuse:

1. The product or service protected by copyright must be *indispensable* for carrying on a particular business.
2. The refusal *prevents the emergence of a new product for which there is potential consumer demand*.
3. The refusal is *not objectively justified*.
4. The refusal is such as to *exclude all competition on the secondary market*.

The Court then gives further guidance on 3 of the 4 criteria.

1. Indispensability

On indispensability, the Court restated its *Bronner* judgment and confirmed that the test is whether there are:

products or services which constitute alternative solutions, even if they are less advantageous, and whether there are technical, legal or economic obstacles capable of making it impossible or at least unreasonably difficult for any undertaking

⁴ Case 238/87 *Volvo v Veng* [1988] ECR 6211.

⁵ Case C-241/91 *RTE and ITP v Commission* [1995] ECR I-743.

⁶ Case C-7/97 *Bronner* [1998] ECR I-7791. The *Bronner* Court summarised *Magill* at paragraph 40 as follows: “In *Magill*, the Court found such exceptional circumstances in the fact that the refusal in question concerned a product (information on the weekly schedules of certain television channels) the supply of which was indispensable for carrying on the business in question (the publishing of a general television guide), in that, without that information, the person wishing to produce such a guide would find it impossible to publish it and offer it for sale (paragraph 53), the fact that such refusal prevented the appearance of a new product for which there was a potential consumer demand (paragraph 54), the fact that it was not justified by objective considerations (paragraph 55), and that it was likely to exclude all competition in the secondary market of television guides (paragraph 56).”

⁷ Case C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] 4 CMLR 28, para 38.

seeking to operate in the market to create, possibly in cooperation with other operators, the alternative products or services.⁸

The test is not fulfilled if there are “alternative solutions, even if they are less advantageous”. Nor would it be fulfilled unless there are obstacles making it “impossible or at least unreasonably difficult” for others to create alternatives. The Court also clarifies that when assessing indispensability:

it must be established, at the very least, that the creation of those products or services is not economically viable for production on a scale comparable to that of the undertaking which controls the existing product or service.⁹

2. Preventing the emergence of a new product for which there is potential consumer demand

On emergence of a new product, the Court is clear that duplication (ie offering the same product or “cloning”) of the rightholder’s product is not enough to satisfy this criterion. The party requesting the licence must intend to produce new goods or services not offered by the owner of the right:

in the balancing of the interest in protection of copyright 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 licence prevents the development of the secondary market to the detriment of consumers.

Therefore, the refusal by an undertaking in a dominant position to allow access to a product protected by copyright, where that product is indispensable for operating on a secondary market, may be regarded as abusive only where the undertaking which requested the licence does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the copyright, 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.¹⁰

This Court’s approach confirms that this criterion, previously identified in *Magill*, but not emphasised in *Bronner*¹¹, is an essential element of the test.

It is also important not to forget that there must be “unmet consumer demand” for the new product. In *Magill* it was clear that consumers wanted a comprehensive weekly TV

⁸ Para 28.

⁹ Para 28.

¹⁰ Paras 48-49.

¹¹ Indeed, this criterion is not mentioned in para 41 of *Bronner*, which reads as follows: “Therefore, even if that case-law on the exercise of an intellectual property right were applicable to the exercise of any property right whatever, it would still be necessary, for the *Magill* judgment to be effectively relied upon in order to plead the existence of an abuse within the meaning of Article 86 of the Treaty in a situation such as that which forms the subject-matter of the first question, not only that the refusal of the service comprised in home delivery be likely to eliminate all competition in the daily newspaper market on the part of the person requesting the service and that such refusal be incapable of being objectively justified, but also that the service in itself be indispensable to carrying on that person’s business, inasmuch as there is no actual or potential substitute in existence for that home-delivery scheme.”

guide – which was available in most other Member States – rather than having to buy separate guides from the BBC, ITV and RTE.

The Court did not give any guidance to the national court on how it should answer the question of whether there was a new product in this case as a matter of fact. It was probably not in a position to do so as the parties submitted mutually contradictory factual assertions to the Court. While both IMS and NDC provide the same underlying service – pharmaceutical sales data – NDC argued that its product was of a different quality and nature to that offered by IMS because *inter alia* of its advanced features.

3. Objective Justification

The Court does not add anything on objective justification, save to say that this is for the national Court to decide.¹²

4. Exclusion of all competition on a secondary market

Finally, as regards the criterion of excluding all competition on a secondary market, the Court limits itself to considering whether there need be two separate products being marketed. The Court finds that it is not necessary that the upstream product is itself being marketed. It was sufficient:

that a potential market or even a hypothetical market can be identified. Such is the case where the products or services are indispensable in order to carry on a particular business and whether there is an actual demand for them on the part of the undertakings which seek to carry on the business for which they are indispensable.¹³

The Court holds that it is “determinative” that “two different stages of production may be identified and that they are interconnected, the upstream product is indispensable in as much as for supply of the downstream product.”¹⁴ The Court also confirms that the test is whether the refusal to licence is “such as to exclude any competition on a secondary market”.¹⁵

The Court does not actually give any guidance as to whether there is a secondary market in this case. This question is left to the national court, which must consider whether “the 1860 brick structure constitutes, upstream, an indispensable factor in the downstream supply of German regional sales data for pharmaceutical markets” and the refusal to license is capable of excluding all competition.¹⁶

The absence of clear guidance from the European Court on the secondary market issue is unfortunate as the Court was in possession of all the facts necessary to answer the question. Particularly as there is a difficult line to be drawn here – if the Court accepts a hypothetical market for the intellectual property itself, then the criterion of a secondary

¹² Para 51.

¹³ Para 44.

¹⁴ Para 45.

¹⁵ Para 38.

¹⁶ Para 47.

market would become meaningless, as it would be met in all or almost all cases. The secondary market would simply be the hypothetical one for the licensing of the intellectual property right that is the subject of the compulsory licence.

D. THE *IMS* DECISION

Jumping back to 2001, we revisit the Commission's interim measures decision. The legal analysis applied in that Decision is considered first, followed by a comparison with the ECJ's *IMS* Judgment. Finally, there is a discussion about the policy reasons that led the Commission to intervene in the case as well as the relevance of industry standards.

1. The legal analysis in the *IMS* Decision

The Commission's legal analysis¹⁷ is grounded in the language of essential facilities. After citing *Commercial Solvents*¹⁸, *Volvo v Veng* and *Magill*, the Commission then relies on paragraph 131 of *Ladbroke*¹⁹ to state that:

a refusal to license may constitute an abuse not only when this refusal prevents the introduction of a new product but also when the product or service in question is essential for the exercise of the activity in question.

After citing *Bronner* regarding whether access to a product or service is essential, the Commission concludes that the applicable test is whether:

- the refusal to access the facility is likely to eliminate all competition in the relevant market;
- such refusal is not capable of being objectively justified; and
- the facility itself is indispensable to carrying on business, inasmuch as there is no actual or potential substitute in existence for that facility.²⁰

On the facts, the Commission found that there was no real or practical possibility for companies wishing to offer pharmaceutical sales data in Germany to employ another structure. The Commission therefore considered that the refusal of access was likely to eliminate all competition. The structure was indispensable for the competitors to carry on their business, as there were no actual or potential substitutes.

Much of the Commission's conclusion on this point was founded on the fact that the German courts were (at that stage) preventing NDC from using any other brick structure based on postcodes because such structures constituted a derivative work. This prevented NDC from offering its services to the customers in the industry standard format that they both desired and required (at least in the immediate term).

¹⁷ Paras 63-73.

¹⁸ Cases 6/73 & 7/73 *ICI & Commercial Solvents v Commission* [1974] ECR 223.

¹⁹ In *Ladbroke*, the Court gave reasons why the plaintiff did not need access to the facility. The corollary of this finding was mistakenly deemed to be that whenever access would be necessary to do business then a compulsory licence should follow.

²⁰ Para 70.

The Commission considered the impact on intellectual property rights more generally. It concluded that its Decision was compatible with TRIPS as the compulsory licence was “a special case, which is clearly defined and narrow in scope”.²¹ It responded to IMS’ claims that innovation would suffer by noting the particular facts of the case:

A dominant company has negotiated over a long period with its customer industry, which are now dependent on it, so as to produce a structure which it subsequently claims is its intellectual property, and refuses to license this structure to competitors so that no competing products based on this product can be produced. These circumstances, which give rise to an abuse of Article 82, are extremely specific.²²

The Commission’s interim measures decision required IMS to embark on the process of negotiating a fee-generating license over the copyright on its brick structure. If the negotiations failed, an expert was to determine the terms and conditions of the licence.

2. The legal analysis of the *IMS* Decision judged in the light of the *IMS* Judgment

The legal theories in the *IMS* Decision are quite different from the legal standard laid down by the ECJ on April 29.²³ The Commission’s decision omits to consider two of the four criteria laid down in the ECJ’s *IMS* Judgment, namely;

- the need for the refusal to prevent the emergence of a new product for which there is unmet consumer demand; and
- the need for the refusal to license to eliminate competition on a secondary market.

However, while the Commission’s Decision may not have analysed all the criteria in the applicable legal standard, there may have been evidence to support findings that these criteria would have been fulfilled. In particular, given the way in which the *IMS* judgment interpreted the need for a secondary market, the brick structure may constitute upstream an indispensable factor in the downstream supply of pharmaceutical sales data. This is something that will become clear when the German litigation reaches its conclusion.

3. General remarks on the Commission’s approach in the *IMS* Decision

(a) The case was one that the Commission had to take seriously

The facts of the case had many similarities with *Magill*. The conduct of IMS, seeking to retain its absolute monopoly on the provision of the services in question, was not particularly attractive from a competition policy perspective. This was a case where the Commission had good grounds to consider intervening.

²¹ Paras 206-209.

²² Para 211

²³ A fact noted by the President of the Court of First Instance in the *IMS* interim measures judgment, who voiced doubts about the Commission’s non-cumulative interpretation of the conditions regarded as constituting “exceptional circumstances” in *Magill* - Order of 26 October 2001 in Case T-184/01R at paras 100-106.

- The brick structure had largely been created by IMS' customers, the pharmaceutical companies, which were heavily involved in drawing up the relevant map.
- IMS gave the rights to the 1860 structure away to other companies with which it was not in competition (as did the broadcasters in *Magill*).
- IMS brought its copyright infringement action to block a new entrant to the market, like the broadcasters in *Magill*.
- Similarly to the TV listings in *Magill*, the subject matter of the right, namely a grouping of German postcodes, is somewhat "difficult to justify in terms of rewarding or providing an incentive for creative effort" (in the words of Advocate General Jacobs in *Bronner*²⁴).
- Finally, IMS was unpopular with its customers – the pharmaceutical industry – for its high prices and old-fashioned means of delivery for its services. Members of the industry were critical of IMS' behaviour in their replies to Commission requests for information.

Given the number of policy reasons for the Commission to intervene, the further question worth considering is whether it approached the case from the wrong perspective.

(b) The relevance of industry standards in *IMS*

Did the Commission approach this case from the wrong direction? Rather than looking at the case from the perspective of essential facilities, would it not have been better to start the analysis from the basis that the brick structure was originally an open industry standard and argue that IMS was claiming intellectual property rights over that standard for the abusive purpose of excluding competition by preventing its competitors from using the standard?

It is submitted the real core of the case was really about IMS' appropriation of what was until then thought to be an open standard (agreed between IMS and the industry and based on postal codes) than about a refusal to license. The refusal to license only occurred late on in the day as NDC asked for a licence only after it was on the receiving end of IMS' court action. The real problem was IMS' use of intellectual property to prevent NDC making use of the industry standard brick structure (or any derivative structure) and thereby preventing NDC from competing.

The Commission gives a tantalising glimpse of what the case might have looked like had it approached the facts from this angle. At paragraph 211 of the Decision, where the Commission describes why the compulsory licence would not have a negative effect on innovation and deter investment in intellectual property, the Commission outlines an alternative theory of the case:

The Commission fully recognises the essential role played by intellectual property rights in promoting innovation and competition. Nevertheless, as IMS admits and

²⁴ Para 63 of his Opinion.

as the Court established in the *Magill* judgment (paragraph 50), read in conjunction with the *Ladbroke* and *Bronner* cases, Community law can apply to the exercise of that right in ‘exceptional circumstances’. Such exceptional circumstances exist in this case. A dominant company has negotiated over a long period with its customer industry, which are now dependent on it, so as to produce a structure which it subsequently claims is its intellectual property, and refuses to license this structure to competitors so that no competing products based on this product can be produced.²⁵

The alternative theory would have been that the appropriation of open standards constituted an exceptional circumstance under *Magill*. Unfortunately the Commission never expanded on this point and it did not base the compulsory licence on this line of reasoning. Standardisation is only mentioned as an afterthought when the Commission justifies why the Decision would not have an adverse effect on intellectual property protection in general.

From a policy perspective, there are good reasons why Article 82 should have a role to play in standard-setting cases, where a company claims copyright over a structure jointly developed with the client industry, which has become the *de facto* industry standard and upon which customers depend. Obviously, there would have to be circumstances showing abusive conduct. This could be the case where the standard was initially open, not protected by intellectual property rights, but where subsequently intellectual property rights were invoked by one of the companies that developed the standard in circumstances that were deemed abusive. In such a case, Article 81 might not be applicable to the initial discussions, because the standard created is open and available to all. So it is therefore important that Article 82 could be applicable if an individual company seeks to rely on an intellectual property right to close the standard and exclude all competitors.

This sort of approach can be seen in the Commission’s approach to the *ETSI Interim IPR Policy*.²⁶ This case concerned ETSI’s rules which aimed at preventing a particular company from hijacking a standard. They provided that ETSI members were obliged to inform ETSI in a timely manner of intellectual property rights they become aware of in a given standard being developed. If the member was unwilling to grant a licence, ETSI would seek a viable alternative technology that was not blocked by that intellectual property right, and if no viable technology is found, work on that standard would cease. Members were required to explain in writing the reasons for refusing to license the intellectual property right in question, and this explanation would be sent *inter alia* to the Commission. The Commission approved ETSI’s Interim licensing policy on the basis that there was no restriction of competition. It approved ETSI’s efforts to prevent one company from hijacking a standard.

The US FTC adopted a similar approach to standard setting in the *Dell* case²⁷, which concerned VESA, a voluntary standard setting organisation composed of major

²⁵ At para 211.

²⁶ OJ 1995, C76/5, 25th Report on Competition Policy (1995), pp131-132.

²⁷ *Dell Computer Co*, C-3658 (20 May 1996) (consent order) (Commissioner Azcuenaga dissenting).

computer software and hardware manufacturers. Agreement on a particular standard was founded on representations by the participants that no firm held intellectual property rights that might block others from developing towards the standard, or that any rights that might impinge on the standard would be licensed at a reasonable rate. With these representations, the VESA participants came up with a new product that was commercially successful. However, Dell then alleged that the new standard infringed on one of its patents. Dell made its claim only after the standard began to achieve success, and its claim for royalties gave it effective control of the standard.

The Federal Trade Commission investigated the matter and charged Dell with unfair competition in violation of section 5 of the Federal Trade Commission Act. Dell's belated assertion of patent ownership in this case enabled it to exercise market power with anti-competitive effect. The FTC specifically alleged that industry acceptance of the new standard was delayed, and that uncertainty about the acceptance of the design standard raised the cost of implementing the new design. Dell entered into a consent order, which required that it refrain from enforcing its patent against any computer manufacturer using the new design in its products. In addition, Dell was prohibited from comparable behaviour in its future standard setting involvements.

In *Dell*, many competitors had come together to agree a standard, which they all expected to be able to use freely. At the time everyone contributed his expertise, it was expected that everyone would be able to use the standard without restriction. The standard would be an open one. Dell's subsequent invocation of its patent effectively gave it control of the standard, despite the fact that Dell was only one of many participants in the standard setting and had not contributed the crucial know-how to the process.

This is not dissimilar to the situation in *IMS*. It is the sort of conduct that ought to be able to be covered by Article 82 if the facts are clear enough. It is submitted that the Commission missed an opportunity by not developing this line of argument further in *IMS*.

(c) The role of the expert

Finally, a few words on the role of the expert: the *IMS* Decision gives the expert the task of determining the licence fee and conditions, yet gives no guidance on how that task is to be accomplished, except to say that "the expert will make a determination on the basis of transparent and objective criteria". This is quite remarkable - the Commission orders a compulsory licence of the intellectual property rights, yet fails to give any guidance on the terms of that license. In essence, the Commission hands over a crucial part its decision making power to a third party.

E. THE COMMISSION DECISION IN *MICROSOFT*

1. Description of Decision and legal standard applied

The Commission adopted a Decision on 24 March 2004²⁸ in which found Microsoft guilty of abusing its dominant position in the market for client PC operating systems by failing to supply “interoperability information” to Sun Microsystems. “Interoperability information” is defined in the Decision as:

the complete and accurate specifications for all Protocols implemented in Windows Work Group Server Operating Systems and that are used by Windows Work Group Servers to deliver file and print services and group and user administration services ... to Windows Work Group Networks.²⁹

The Commission ordered that Microsoft should create the necessary specifications, “make them available to any undertaking having an interest in developing and distributing work group server operating systems” and “allow the use of the interoperability information by such undertakings”.³⁰

(a) This is a compulsory licence case

While some parts of the Decision doubt the existence of intellectual property rights, the Decision expressly imposes a compulsory licence. Article 5(a) of the Decision forces Microsoft to “allow the use” of the specifications. This would not have been necessary if there were no intellectual property rights at stake. Indeed the Decision expressly states that a compulsory licence is contemplated:

to the extent that this Decision might require Microsoft to refrain from fully enforcing any of its intellectual property rights, this would be justified by the need to put an end to the abuse.³¹

The specifications that Microsoft is ordered to create, make available and allow the use of will be long, complex documents. They are akin to a blueprint of a chemical plant – very valuable even if the competitor still has work to do to actually build its competing chemical plant. Microsoft’s stated position is that the Decision involves a compulsory licence of its patent, copyright and trade secret rights.

While it therefore appears clear that the Decision follows on from *Magill* and *IMS* in imposing a compulsory licence of intellectual property rights, there is a difference between Microsoft and those two cases – the value of the information that the Commission has ordered to be disclosed. The specifications that to be disclosed will represent the fruit of much more significant intellectual effort by Microsoft than the map of Germany in *IMS* or the TV listings in *Magill*. There is a further difference with *IMS*: the value of the intellectual property *IMS* refused to license is largely the fact that

²⁸ Commission Decision relating to a proceeding under Article 82 of the EC Treaty (Case COMP/C-3/37.792 *Microsoft*), C(2004)900 final.

²⁹ Art 1(1).

³⁰ Art 5.

³¹ Para 1004.

it locks in customers rather than its inherent innovation; while Microsoft's intellectual property, which results from extensive R&D, is valuable because it solves complex technical challenges.

(b) The legal test applied for the compulsory licence

Unlike the *IMS* Decision, the *Microsoft* decision nowhere clearly states the legal standard being applied. For this reason, a close analysis of what the Decision says is necessary.³²

The Commission's legal analysis starts by quoting *Commercial Solvents* and *Télémarketing*.³³

In *Commercial Solvents*, the Court of Justice found that ICI (a subsidiary of Commercial Solvents Corp.) had engaged in a refusal to supply contrary to Article 82 of the Treaty. The Court concluded that "an undertaking which has a dominant position in the market in raw materials and which, with the object of reserving such raw material for manufacturing its own derivatives, refuses to supply a customer, which is itself a manufacturer of these derivatives, and therefore risks eliminating all competition on the part of this customer, is abusing its dominant position within the meaning of Article 86 [now Article 82]".

In *Télémarketing*, the judgment in *Commercial Solvents* was held to also apply "to the case of an undertaking holding a dominant position on the market in a *service* which is indispensable for the activities of another undertaking on another market." The Court of Justice stated that "an abuse within the meaning of Article 86 [now Article 82] is committed where, without any objective necessity, an undertaking holding a dominant position on a particular market reserves to itself [...] an ancillary activity which might be carried out by another undertaking as part of its activities on a neighbouring but separate market, with the possibility of eliminating all competition from such undertaking."³⁴

The Decision then turns to *Magill* to support the proposition that "intellectual property rights are not in a different category to property rights as such".

The Court of Justice stated that "the refusal by the owner of an exclusive right [copyright] 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." It pointed out, however, that "the exercise of an exclusive right by the proprietor may, *in exceptional circumstances*, involve abusive conduct" thereby clarifying that intellectual property rights are not in a different category to property rights as such.³⁵

The Commission goes on to identify three sets of exceptional circumstances in *Magill*:

First, the Court of Justice underlined that the dominant undertakings' refusal prevented the appearance of a new product which the dominant undertakings did

³² Paras 548-558.

³³ Case 311/84, *Télémarketing*, [1985] ECR 3261.

³⁴ Paras 548-49

³⁵ Para 550.

not offer and for which there was a potential consumer demand. As such, the refusal was inconsistent in particular with Article 82(b) of the Treaty, which provides that abuse as prohibited by Article 82 of the Treaty may consist in “limiting production, markets or technical development to the prejudice of consumers”. Second, along the lines of *Commercial Solvents*, the Court of Justice pointed out that the conduct in question enabled the dominant undertakings to reserve “to themselves the secondary market of weekly television guides by excluding all competition on that market”. Third, the refusal was not objectively justified.³⁶

It then quotes *Ladbroke* on essential facilities:

In *Tiercé Ladbroke*, the Court of First Instance stated that the refusal to supply could fall within the prohibition laid down in Article 82 of the Treaty where it “concerned a product or service which was either essential for the exercise of the activity in question, in that there was no real or potential substitute, or was a new product whose introduction might be prevented, despite specific, constant and regular potential demand on the part of consumers”.³⁷

Then this line of analysis then somewhat unexpectedly stops. The Commission summarises the outcome of *Bronner*, notes Microsoft’s interpretation of *Bronner*, but never says what the Commission itself thinks *Bronner* means.

In *Bronner*, a preliminary ruling on the basis of Article 234 of the Treaty, access to a nation-wide home-delivery scheme for newspapers was at stake. The Court of Justice concluded that there was in that specific case no obligation to deal pursuant to Article 82 of the Treaty, finding that access to the scheme was not indispensable for Bronner to stay in the newspaper market.

Microsoft interprets *Bronner* as requiring the Commission to show that (i) supply of the information is essential to carry on business; (ii) the refusal is likely to eliminate all competition; and (iii) the refusal is not objectively justified. Microsoft argues that the Commission cannot prove any of these three elements. Contrary to what Microsoft asserts, it will be established below that this Decision is consistent with *Bronner*.³⁸

The Decision’s failure to address *Bronner* is a significant omission since this was the most recent case on point when the Decision was adopted. The closest the Decision comes to analysing it is in footnote 670³⁹ (at the end of the paragraph 554, quoted above); but this merely responds to Microsoft’s arguments without actually saying what the applicable test is.

³⁶ Para 551.

³⁷ Para 552.

³⁸ Paras 553-554.

³⁹ “Indeed, disclosure of interface information by Microsoft is indispensable for competitors in the work group server operating system market to carry on business. Microsoft’s behaviour of progressively diminishing such disclosures risks eliminating competition in the market and cannot be objectively justified.”

The Commission then changes tack. It ends the analysis of the *Magill* line of caselaw and states that:

On 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.⁴⁰

In other words, the Commission does not consider that there is one single test based on the *Magill* judgment that determines whether a failure to license intellectual property rights is abusive. It proposes a looser test: the refusal to license can be an abuse whenever there are “exceptional circumstances”. The Commission then examines others cases as giving further examples of exceptional circumstances.

It notes that a disruption of previous supply was found abusive in *Commercial Solvents* and *Telemarketing* and says:

While not a necessary condition for finding an abuse of a dominant position - there had been no previous supply relationships in *Magill* or *Bronner* - the disruption of previous levels of supply is therefore of interest when assessing instances of refusal to supply.⁴¹

The Commission also quotes from *Volvo v Veng* to give a further example of exceptional circumstances capable of constituting an abuse:

the exercise of a holder’s exclusive right might be prohibited by Article 82 of the Treaty if it involves “certain abusive conduct 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.”⁴²

The Commission’s conclusion on the applicable legal standard is:

The case-law of the European Courts therefore suggests 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.⁴³

On one level this is nothing more than common sense and a statement with which no one could object to – the Commission must consider all the circumstances of the case and take its decision based on such a comprehensive analysis.

However, on another level it is troubling: the Commission puts forward no test by which dominant companies can judge their actions and decide whether they are obliged to license their intellectual property rights. The lack of clarity is made worse by the way

⁴⁰ Para 555.

⁴¹ Para 556.

⁴² Para 557.

⁴³ Para 558.

the Commission's legal analysis peters out after its discussion of *Ladbroke*. This is far from the clear four-stage test set out in *Magill* and in the *IMS* Judgment.

The Commission's summary of the facts contains reference to three exceptional circumstances:⁴⁴ (a) "Microsoft's refusal to supply risks eliminating competition in the relevant market for work group server operating systems"; (b) "that this is due to the fact that the refused input is indispensable to carry on business in that market"; and (c) "Microsoft's refusal has a negative impact on technical development to the prejudice of consumers". In addition the Commission refers to Microsoft's "disruption of previous levels of supply".⁴⁵

So while the Commission does analyse some of the criteria set by *Magill*, the Commission does not base its Decision directly on the four-stage *Magill/IMS* test. Its approach is a looser and less predictable one.

(c) Intellectual property and objective justification

There is one other part of the Commission's decision that deserves scrutiny – its approach to objective justification and intellectual property rights.

The Commission makes the general statement that:

The central function of intellectual property rights is to protect the moral rights in a right-holder's work and ensure a reward for the creative effort. But it is also an essential objective of intellectual property law that creativity should be stimulated for the general public good. A refusal by an undertaking to grant a licence may, under exceptional circumstances, be contrary to the general public good by constituting an abuse of a dominant position with harmful effects on innovation and on consumers.⁴⁶

The Commission finds that in view of the exceptional circumstances, Microsoft's refusal to supply cannot be objectively justified merely by the fact that it is a refusal to licence intellectual property.⁴⁷ The Commission then applies a balancing test initially described as balancing Microsoft's incentives to innovate against these exceptional circumstances:

It is therefore necessary to assess whether Microsoft's arguments regarding its incentives to innovate outweigh these exceptional circumstances.⁴⁸

However, the Commission actually balances the negative impact of an order to supply on Microsoft's incentives to innovate against the positive impact of such an order on

⁴⁴ Para 712, which summarises the findings in section 5.3.1.2.

⁴⁵ Decision, Section 5.3.1.1.3.2, paras 578-584.

⁴⁶ Para 711.

⁴⁷ Para 712. The exceptional circumstances are identified as: (a) "Microsoft's refusal to supply risks eliminating competition in the relevant market for work group server operating systems" (b) "that this is due to the fact that the refused input is indispensable to carry on business in that market"; and (c) "that Microsoft's refusal has a negative impact on technical development to the prejudice of consumers."

⁴⁸ Para 712.

the level of innovation of the whole industry. The Commission equates this second test with the initial test:

a detailed examination of the scope of the disclosure at stake leads to the conclusion that, on balance, the possible negative impact of an 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). As such, the need to protect Microsoft's incentives to innovate cannot constitute an objective justification that would offset the exceptional circumstances identified.⁴⁹

As will be noted below, this is not a test whose outcome is easily predictable in advance.

2. Microsoft judged in the light of the *IMS* Judgment

The Microsoft decision is inconsistent with the test laid down by the ECJ in *IMS* in a number of respects.

- The most obvious difference is the failure of the Commission to address whether the refusal to license prevented the emergence of a new product for which there is unmet consumer demand. The *Microsoft* Decision does have a short section discussing whether the refusal to supply “limits technical development to the prejudice of consumers”.⁵⁰ However, the approach taken by the Commission is unclear. It would be impossible to predict how this approach would be applied in a future case.
- The Commission's approach to whether the refusal to supply would eliminate competition is different to the test applied in the *IMS* Judgment. The Decision uses the test of “risk of elimination of competition” (at some point in the future) instead of whether the refusal to license was “likely to eliminate all competition” (more imminently).
- On the facts, the Commission appears to have applied a lower standard for indispensability than in the *IMS* Judgment (or *Bronner*).

These will be explored in more detail below, together with a discussion of the Commission's position on objective justification.

(a) Risk of Elimination of Competition

The Commission applies the test of “risk of elimination of competition” based on quotes from the original judgments in *Commercial Solvents* and *Telemarketing*.

5.3.1.2 Risk of elimination of competition

In *Magill*, *Commercial Solvents* and *Télémarketing*, one of the constituent elements of the abuse finding was that the dominant undertakings' behaviour risked eliminating competition. In *Bronner*, the Court of Justice clarified that, for the judgment in

⁴⁹ Para 783.

⁵⁰ Decision, Section 5.3.1.3.1, paras 693-701.

Magill to be relied upon, it was necessary to show that supply is indispensable to carry on business in the market, which means that there is no realistic actual or potential substitute to it.⁵¹

While the Court in *Commercial Solvents* and *Telemarketing* did refer to a risk of elimination of competition, in fact it applied a more stringent test. In both cases, there was more than just a *risk* of elimination of competition; in each, the refusal would have eliminated the complainant, as there was no substitute supplier.

Commercial Solvents was the only supplier of the raw material in Europe (and was endeavouring to eliminate its former customer following the failure of takeover talks) and RTL was the sole commercial (francophone) TV station in Belgium. Refusal by Commercial Solvents and RTL was therefore likely to eliminate *all* competition in the respective markets. In practical terms, the Court applies in these two cases the same test as in *Bronner*, *Ladbroke* and *Magill*. Indeed, in *Bronner*, the Court expressly confirms that the refusal to supply in *Commercial Solvents* and *Telemarketing* was *likely* to eliminate *all* competition. This is a more stringent test than “a risk of eliminating competition”.⁵²

In the *IMS* Judgment, the Court makes clear that the test is “elimination of all competition” and not “risk of elimination of competition”.⁵³ The test used in the operative part of the *IMS* Judgment of “reserving the market to [itself] by eliminating all competition” is a more stringent test than the “risk of elimination of competition” used in the *Microsoft* decision.

While this may appear like a question of semantics, the difference is one of substance. It becomes clear when one looks at the facts constituting the abuse. In *Magill*, the refusal to license prevented Magill from printing the second issue of its TV guide – in other words, this weekly publication died after one edition. All competition was instantly (within a matter of days) eliminated by the refusal to license. In *IMS*, the refusal to license coupled with the injunction obtained by IMS (in the early stages of the German court battle) prevented NDC from providing data in the format that the customers needed. NDC was prevented from competing. Again, the refusal to license had near-instant effects once the Court injunction was in force. In contrast, the refusal

⁵¹ Para 585.

⁵² *Bronner*, [1998] ECR I-7791, para 38: “Although in *Commercial Solvents* and *Télémarketing*, the Court of Justice held the refusal by an undertaking holding a dominant position in a given market to supply an undertaking with which it was in competition in a neighbouring market with raw materials (*Commercial Solvents*, paragraph 25) and services (*Télémarketing*, paragraph 26) respectively, which were indispensable to carrying on the rival's business, to constitute an abuse, it should be noted that the Court did so to the extent that the conduct in question was likely to eliminate all competition on the part of that undertaking”.

⁵³ The Court states various formulations of this test: it recites *Bronner* at para 37: “likely to exclude all competition in the secondary market”; its own test at para 38 is slightly different “such as to exclude any competition on a secondary market”; the heading between paras 39 and 40 says “The third condition, relating to the likelihood of excluding all competition on a secondary market”; para 47 speaks of “capable of excluding all competition”, while the operative part of the judgment says “reserve to the copyright owner the market ... by eliminating all competition on that market”.

to license⁵⁴ in Microsoft's case did not have such an immediate effect. Microsoft continues to face significant competition more than 5 years after the day the Commission found the refusal took place. Indeed, Linux entered the market after the refusal and has grown its market share significantly. These facts indicate that the *Microsoft* decision uses a lower test than the one proposed *Magill* and confirmed by *IMS*.

Moreover, in the *Microsoft* Decision, the Commission presents "strong competitive disadvantage" almost as equivalent to "risk of elimination of competition".⁵⁵

In the following recitals ... it will be established that Microsoft's refusal puts Microsoft's competitors at a strong competitive disadvantage in the work group server operating system market, to an extent where there is a risk of elimination of competition.

Being put at a strong competitive disadvantage is a lower threshold than *Magill* and *IMS*, where the refusal to supply had the immediate effect of forcing *Magill* and *NDC* off the market. The difference is also clear in the footnote accompanying that recital:

The present Decision does not purport to establish that competition is already eliminated in the market for work group server operating systems, or that it would be impossible to achieve even some partial interoperability with Windows client PC and work group server operating system (some partial interoperability is possible, not least due to previous disclosures made by Microsoft and due to the fact that Microsoft's products are backward-compatible). However, it will be demonstrated that the degree of interoperability that can be achieved on the basis of Microsoft's disclosures is insufficient to enable competitors to viably stay in the market.⁵⁶

In sum, the Decision's adopts a different and less strict approach than the *IMS* Judgment and *Magill*. It is based on the finding that the refusal to license leads to a competitive disadvantage to the extent there is a risk of elimination of competition. This is a long-term process likely to extend over the course of a decade or more (even on the Commission's analysis of the facts, which Microsoft contests); it is much less immediate or direct than in *Magill* (or in *IMS*), where the refusal put the competitors off the market in a matter of days.

(b) Indispensability

The Commission's analysis links indispensability with the question of whether competition would be eliminated. It applies the test of whether there are no "realistic actual or potential substitutes" to the requested information.

In *Bronner*, the Court of Justice clarified that, for the judgment in *Magill* to be relied upon, it was necessary to show that supply is indispensable to carry on business in

⁵⁴ Microsoft contests that it ever refused to license Sun since Sun never asked for the information the Commission now orders Microsoft to license – see the Official Journal Notice summarising Microsoft's appeal at OJ 2004, C179/36.

⁵⁵ Para 589.

⁵⁶ Footnote 712.

the market, which means that there is no realistic actual or potential substitute to it.⁵⁷

The Commission assesses indispensability by evaluating the level of interoperability that exists in the market. It admits that it would be possible to achieve some interoperability without the compulsory licence; however, the Commission argues that the degree of interoperability that can be achieved on the basis of Microsoft's current disclosures "is insufficient to enable competitors to viably stay in the market."⁵⁸

The Commission's test is different from that applied by the ECJ in the *IMS* Judgment, where the Court confirmed the test set out in *Bronner* – namely that European law does not require that optimal access to the market be granted; "actual and potential alternatives" include those facilities that exist and are used by competitors even though they may be less advantageous.⁵⁹ The *IMS* Judgment confirmed that it is necessary to examine whether there are "alternative solutions, even if they are less advantageous".⁶⁰ In *Microsoft*, the Commission admits that such alternatives exist but argues that they are so disadvantageous as to not in reality constitute alternatives.

The underlying question about the Commission's analysis is therefore whether it has based its analysis on the correct level of interoperability. The Commission rejects as alternatives open industry standards, add-ons and reverse engineering. It rejects Microsoft's argument that different server OS interoperate perfectly well in practice today in many customers' computer networks. The Commission's approach requires a near-perfect, "native" level of interoperability,⁶¹ even though it admits that interoperability is a matter of degree and recognises that a lower level of interoperability exists.

Overall, the fact that competing server products are able today to interoperate with Microsoft products, and in particular the fact that some of them have increased their market share since the refusal to supply, indicates that the Commission appears to have

⁵⁷ Para 585.

⁵⁸ Commission Decision, footnote 712: "The present Decision does not purport to establish that competition is already eliminated in the market for work group server operating systems, or that it would be impossible to achieve even some partial interoperability with Windows client PC and work group server operating system (some partial interoperability is possible, not least due to previous disclosures made by Microsoft and due to the fact that Microsoft's products are backward-compatible). However, it will be demonstrated that the degree of interoperability that can be achieved on the basis of Microsoft's disclosures is insufficient to enable competitors to viably stay in the market"

⁵⁹ *Bronner*, [1998] ECR I-7791, para 43. In the *Ladbroke* case, Ladbroke argued when challenging the Commission's refusal to act on its complaints about PMU's refusal to give access to live footage that it was not possible to run a betting shop without live pictures. The Court rejected this argument finding that live video pictures were not indispensable, and that their absence would not prevent bookmakers from pursuing their business. In particular, the Court noted that Ladbroke was present on the market and had a significant market position as regards bets on French races. Case T-504/93, [1997] ECR II-923, para 132.

⁶⁰ *IMS* judgment, para 28.

⁶¹ Para 1003: "The objective of this Decision is to ensure that Microsoft's competitors can develop products that interoperate with the Windows domain architecture natively supported in the dominant Windows client PC operating system and hence viably compete with Microsoft's work group server operating system."

applied a higher standard of interoperability and, correspondingly, a lower standard for indispensability than was applied in *IMS* (and *Bronner*).

There are compelling policy arguments which point against granting too easy access to a dominant company's resources. If access is granted too easily, there may be a short-term benefit in terms of an increase in competition. In the long term, however, there would be a decrease in competition as there would be no incentive for a competitor to develop competing facilities⁶² and a chilling effect on investment in R&D and innovation by the dominant undertaking as well.⁶³

(c) Emergence of a new product for which there is unmet customer demand

In *IMS*, the ECJ makes it clear that a rightholder's refusal to license is only an abuse when the undertaking reserves the secondary market to itself, thereby preventing the emergence of a new product. The Court is clear that "duplicating" existing products or services sold by the rightholder is not sufficient; a company that wishes to receive a licence must "intend to offer new goods or services not offered by the owner of the right and for which there is potential consumer demand".⁶⁴ As noted above,⁶⁵ the court in *Bronner* did not expressly mention this condition when setting out the test it considered was applicable;⁶⁶ *IMS* restates the full test set out in *Magill*.

The *Microsoft* Decision does not address this point. The Commission does not demonstrate that, once its request⁶⁷ had been acceded to, Sun would have offered a new product or service for which there was unmet consumer demand. Nor does it show that Sun ever informed Microsoft that it wanted the licence to be able to offer a new product.⁶⁸ To the contrary, the Commission seems to indicate that competing producers of server operating systems need the interface information to compete directly with Microsoft.⁶⁹ In other words, they would offer the same products as currently offered by Microsoft.

⁶² AG Opinion in *Bronner*, [1998] ECR I-7791, para 57.

⁶³ See J Temple Lang, 'The Principle of Essential Facilities in EC Competition Law – the Position since *Bronner*', (2000) 1 J. of Network Inds. 375.

⁶⁴ *IMS* Judgment, para 49.

⁶⁵ See n 11 *supra*.

⁶⁶ As with *Ladbroke*, the Court in *Bronner* gave reasons why the plaintiff did not need access to the facility. It is submitted that it was a mistake to assume that the Court's rejection of three criteria could be read as setting a narrower three-point test as to when a compulsory licence should be granted.

⁶⁷ To the extent that Sun's request actually overlaps with the Commission's remedy.

⁶⁸ There is an important question of legal certainty here. Dominant companies need to understand what their obligations are at the moment they are asked for a licence for particular technology. The Decision never finds that Sun told Microsoft when it asked for the licence that it was going to use the technology to create new products. Microsoft had no reason not to assume that Sun was going to use the technology to offer only a directly competing product. Would the outcome in *Magill* have been different if the request to license had been made without the BBC and RTE knowing that *Magill* wanted to offer a unified weekly guide?

⁶⁹ Decision, para 1003: "The objective of this Decision is to ensure that Microsoft's competitors can develop products that interoperate with the Windows domain architecture natively supported in the dominant Windows client PC operating system and hence viably compete with Microsoft's work group server operating system."

Instead of looking to products for which there is unmet customer demand, the Commission bases its analysis on the fact that the refusal to supply would limit technical development to the prejudice of consumers.

Article 82(b) of the Treaty provides that abuse as prohibited by that Article may consist in limiting technical development to the prejudice of consumers.

Due to the lack of interoperability that competing work group server operating system products can achieve with the Windows domain architecture, an increasing number of consumers are locked into a homogeneous Windows solution at the level of work group server operating systems. This impairs the ability of such customers to benefit from innovative work group server operating system features brought to the market by Microsoft's competitors. In addition, this limits the prospect for such competitors to successfully market their innovation and thereby discourages them from developing new products.

If Microsoft's competitors had access to the interoperability information that Microsoft refuses to supply, they could use the disclosures to make the advanced features of their own products available in the framework of the web of interoperability relationships that underpin the Windows domain architecture.⁷⁰

In *Magill* the new product – the multi-channel TV guide – was known and even appeared for one issue and it was obvious there was unmet consumer demand because such guides were sold in many other Member States. In *Microsoft*, the Commission never identifies any new product, nor does it identify unmet consumer demand. The closest it gets is when it says that competing producers need the interface information to bring “innovative work group server operating system features” to the market⁷¹ and that competitors were being “discouraged from developing new products”.⁷² The Commission does not show they would bring new products to the market, merely that they might be able to improve their existing products. That is a test that would be satisfied in almost every case when valuable intellectual property was disclosed to competitors – there are few instances when the competitors would be unable to use the information to improve their own products.

(d) Conclusion on *Microsoft* and *IMS*

The *Microsoft* decision applies a legal standard on when a compulsory licence should be ordered that differs significantly from the test set out in *Magill* and *IMS*. If upheld on appeal, the Decision would represent a considerable loosening of the circumstances when a compulsory licence will be ordered. This loose test would also introduce a considerable degree of legal uncertainty.

⁷⁰ Paras 693-695.

⁷¹ Decision, paras 694-5.

⁷² Decision, para 694.

3. Objective justification and intellectual property rights

This is an area where neither the Court nor the Commission has given guidance in the past. The *IMS* Judgment simply states that the refusal should not be capable of being justified. The only case in which this was even considered was the *IMS* Decision, where the objective justifications offered by IMS were rejected relatively briefly.

The Commission's approach in *Microsoft* breaks new ground. It balances the negative impact of an order to supply on Microsoft's incentives to innovate against the positive impact of such an order on the level of innovation of the whole industry:

a detailed examination of the scope of the disclosure at stake leads to the conclusion that, on balance, the possible negative impact of an 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). As such, the need to protect Microsoft's incentives to innovate cannot constitute an objective justification that would offset the exceptional circumstances identified.⁷³

Neither formulation of the balancing test is based on any Court precedent, nor any previous Commission decision. There are two reasons why this test is wrong as a matter of principle.

First, it will dramatically reduce legal certainty, a fundamental principle of EC law.⁷⁴ The balancing test is almost impossible for any company to apply it *ex ante*. The Commission gives no guidance on how a company is to assess whether its incentives to innovate outweigh the positive impact of a compulsory licence would have on the market. Even the most creative of economists would struggle to come up with any sensible method of balancing incentives for innovation. The absence of legal certainty is particularly troublesome given the risk of a colossal fine if the company – or its advisers – get this balancing exercise wrong.

Second, intellectual property rights already involve a short- and long-term balancing of incentives to innovate. Intellectual property rights such as patents give a period of exclusivity to encourage and reward the author's inventiveness. They represent a trade off between the short-term disadvantage of exclusivity and the long-term advantage of creativity. They aim to create incentives to innovate and generate long-term benefit for society. The Decision approach appears to second-guess this careful balancing exercise, in particular when it states:

The central function of intellectual property rights is to protect the moral rights in a right-holder's work and ensure a reward for the creative effort. But it is also an essential objective of intellectual property law that creativity should be stimulated

⁷³ Decision, para 783.

⁷⁴ Case C-233/96 *Denmark v Commission* [1998] ECR I-5759, para 38; see also Case 98/78 *Racke* [1979] ECR 69, para 15: "A fundamental principle in the Community legal order requires that a measure adopted by the public authorities shall not be applicable to those concerned before they have the opportunity to make themselves acquainted with it." and Case 70/83 *Kloppenborg* [1984] ECR 1075, para 11: "In that regard, it is necessary to emphasize, as the court has already done on several occasions, that Community legislation must be unequivocal and its application must be predictable for those who are subject to it".

for the general public good. A refusal by an undertaking to grant a licence may, under exceptional circumstances, be contrary to the general public good by constituting an abuse of a dominant position with harmful effects on innovation and on consumers.⁷⁵

This statement – that an abstract notion of “the general public good” should be allowed to override intellectual property rights – raises further issues of legal certainty. Judging if something may be contrary to the “general public good” is even more difficult than balancing incentives to innovate.

4. Further Observations on the *Microsoft* Decision

(a) The standardisation inherent in the remedy

The Decision orders Microsoft to create specifications, to make them available to third parties and allow their use by any interested third parties. The Decision is therefore unlike the two previous compulsory licensing cases – *Magill* and *IMS* – where the only intended beneficiaries of the remedy were the parties which had requested, but been refused, the licence. Here any interested party can benefit from the remedy – including those competitors that never asked for a licence.

This means that the remedy is not so much a compulsory licence; rather it is a form of compulsory standardisation. Microsoft is required to produce detailed specifications explaining how its communications protocols work inside its product to all interested parties. These third parties will use these specifications to ensure that their products can interact in native mode.⁷⁶ What was previously private technology, which Microsoft could change, becomes public technology that Microsoft is obliged to maintain so as to ensure compatibility with its competitors’ products. In other words, Microsoft is forced to set industry standards.

This provides an interesting contrast from the *IMS* Decision. In *IMS*, open standards were created by IMS in conjunction with its clients – the pharmaceutical industry – and intellectual property rights were only invoked by IMS to prevent a competitor that wanted to enter the market from using those industry standards. IMS tried to close an open standard; the Commission’s Decision ordered IMS to reopen the standard. In contrast, Microsoft created its own technology, which the Decision orders to be disclosed to create open industry standards. The critical difference is that the technology to be disclosed in the specifications Microsoft must draw up was created by Microsoft through its own R&D; whereas in *IMS* the brick structure was created by IMS in conjunction with the client industry in the anticipation that it would become the industry standard and without the expectation that intellectual property rights would be claimed.

⁷⁵ Para 711.

⁷⁶ Para 1003: “The objective of this Decision is to ensure that Microsoft’s competitors can develop products that interoperate with the Windows domain architecture natively supported in the dominant Windows client PC operating system and hence viably compete with Microsoft’s work group server operating system. Microsoft should thus allow the use of the disclosed specifications for implementation in work group server operating system products.”

(b) The role of the trustee

It is interesting that in both the *Microsoft* and *IMS* Decisions the Commission gives considerable responsibilities to private parties. In the *IMS* Decision, the expert was given a wide discretion to set the applicable terms and conditions for the compulsory licence, including the level of royalty. In *Microsoft*, the trustee's powers go far beyond just determining the level of royalty.

The *Microsoft* Decision gives very wide powers to the Monitoring Trustee. While its primary responsibility is to issue opinions on Microsoft's compliance with the Decision, the Trustee has the power to investigate the actions taken by Microsoft to comply with the Decision in order to issue such opinions.

The primary responsibility of the Monitoring Trustee should be to issue opinions, upon application by a third party or by the Commission or *sua sponte*, on whether Microsoft has, in a specific instance, failed to comply with this Decision, or on any issue that may be of interest with respect to the effective enforcement of this Decision.⁷⁷

Footnote 1317 goes further and states that: "the Monitoring Trustee should not only be reactive, but should play a proactive role in the monitoring of Microsoft's compliance".

The Decision gives the trustee unprecedented powers. The wording of the Decision (and in particular footnote 1317) seems in effect to be subcontracting the Commission's enforcement powers to a private party. The Trustee is not merely rendering expert guidance to the Commission, but rather is established as an independent source of investigatory and enforcement action. This is unprecedented. It does not appear to be contemplated in the existing procedural Regulations such as Regulation 1/2003.

F. CONCLUSION: THE MICROSOFT AND IMS DECISIONS JUDGED IN THE COLD LIGHT OF THE IMS JUDGMENT

The foregoing analysis has shown that neither the *IMS* Decision nor the *Microsoft* Decision expressly follows the four-stage legal standard laid down by the ECJ in the *IMS* Judgment, in which it confirmed its earlier judgment in *Magill*.

The *IMS* Decision sets forth clearly the test that was being applied, making it obvious that two of the four criteria were not considered – namely the need for the refusal to prevent the emergence of a new product for which there was unmet consumer demand and the need for the refusal to eliminate all competition on the secondary market.

In *Microsoft*, the Commission's analysis is more difficult to pin down. The Decision nowhere states the precise legal test that is being applied. However a detailed examination of the Decision reveals that it applies a lower legal standard than that set out in the *IMS* Judgment in relation to elimination of competition and in relation to new product. It is interesting that these are the same criteria that were not considered in the *IMS* Decision. The *Microsoft* Decision also appears to apply a lower level of

⁷⁷ Para 1045.

indispensability than the *IMS* Judgment. It also gives to considerable problems of legal uncertainty – in particular regarding the test applied to determine whether the refusal was objectively justified.

The analysis has revealed a number of common themes in the *IMS* Decision and the *Microsoft* Decision: both have significant roles for the trustee appointed pursuant to the Decision and both raise interesting (but opposite) issues around industry standardisation. However, the most important area of commonality is in relation to the legal standards that the Commission applied – in this respect both decisions fail to pass muster when viewed in the cold light of the *IMS* Judgment.