

EUROPEAN COURT ISSUES ENCOURAGING RULING ON INTELLECTUAL PROPERTY

by
Howard Fogt and Sophie Lignier

On August 13, 2003, the European Commission withdrew its 2001 decision¹ that had required a copyright owner, IMS Health (“IMS”), to license their intellectual property right (“IPR”) to its competitors. The Commission had required such compulsory licensing of the copyright in order to terminate, in the Commission’s view, IMS’s abuse of dominant position in the German market for data services on sales of prescription pharmaceutical products. The Commission’s decision in the IMS case provoked great controversy. Read broadly, it seemed to authorize the wide-spread use of compulsory licensing as a tool to promote competition. As such, it was viewed as undercutting the value of IPR.

On appeal, the European Court of First Instance (“CFI”) and the European Court of Justice (“ECJ”) ruled that, while compulsory licensing of IPR is permissible under European law in limited circumstances, the Commission had erred in ordering compulsory licensing under the facts of the IMS case.² Thus, the IMS case appears to go a long way toward resolving what had been seen as a serious conflict between European-wide competition rules and the monopoly grant of IPR conferred by national member state law.

IMS is a leading company which collects data on pharmaceutical sales and prescriptions. It owned a copyrighted geographical model of analysis based on national administrative and postal divisions in Germany. Using this model, IMS was able to track sales of prescription pharmaceutical products. According to the European Commission, the copyrighted model gave IMS a dominant position in the German market for such data services. Based on the refusal of IMS to grant a license to use of its copyrighted model, the Commission concluded that IMS had abused its dominant position contrary to Article 82 of the EC Treaty. To remedy this, the Commission required IMS to license, on a non-discriminatory basis, to anyone seeking to compete with IMS. To justify its actions, the Commission relied on several earlier, much-criticized European Court of Justice decisions,³ which had permitted the compulsory licensing of IPR, albeit under very unusual circumstances.

IMS appealed the Commission decision to the European Court of First Instance (“CFI”) challenging the compulsory licensing remedy. While the case was on appeal, a German court ruled that potential IMS competitors could use the underlying administrative and postal data that was central to the IMS model to create their own system of analysis. Accordingly, the CFI suspended the decision on the grounds that there

¹Commission Decision of 3 July 2001 (Case COMP D3/38.044 – *NDC Health/IMS Health: Interim measures*) and Commission press release of 13 August 2003 – IP/03/1159.

²Order of the President of the Court of First Instance of 26 October 2001, *IMS Health v. Commission* in Case T-184/01 R, ECR 2001 II-03193; Order of the President of the Court of 11 April 2002, *NDC Health v IMS Health and Commission* in Case C-481/01, ECR 2002 I-03401.

³*RTE and ITP v Commission*, (“*Magill*”) of 6 April 1995 in Joined Cases C-241/91 P and C-242/91 P-, ECR 1995 I-00743; *Tierce Ladbroke v Commission* of 12 June 1994 in Case T-504/93, ECR 1997 II-0923.

were, in fact, actual and potential substitutes for the copyrighted model, that access to IMS's IPR was not indispensable and, as a result, that compulsory licensing was not required.

Basic intellectual property principles give the IP rights holder the sole and exclusive authority to use the subject matter of the IP right. If a copyright holder (or any other IPR) is obliged to share the exclusivity of the protected property right with its competitors, this would deprive the IPR of its substance. According to the CFI in IMS, such a result would reduce the IPR to a purely economic right to receive royalties, dilute its essence and would be inconsistent with the explicit protection of IPR in the EC Treaty and the European Charter of Fundamental Rights. For the CFI, IPR are fundamental property rights and the Commission's legal power to restrict the full exercise of such fundamental rights, even to promote the competition goals of the EC Treaty, is extremely limited.

In that regard, the CFI recognized *Magill* had said that, in the absence of "exceptional circumstances," a refusal to grant a license, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute an abuse of a dominant position. The ECJ had stated in *Magill* that such exceptional circumstances exist when the exercise of an IPR prevents entry of a new product into the relevant market for which there was potential consumer demand. According to *Magill*, the IPR holder may not, in these circumstances, be permitted to retain solely for itself "indispensable raw materials" without which market entry and competition would be impossible. Similarly, in the *Tierce Ladbrooke* case, the ECJ ruled an abuse of a dominant position could be cured by compulsory licensing when an IPR holder refuses to grant a license that is essential for the exercise of the activity in question, in that there is no real or potential substitute.⁴

However, according to the opinion of Advocate General Tizzano delivered on October 2, 2003⁵ even under such circumstances, compulsory licensing may only be required where the refusal to grant a license prevents the emergence of products or services presenting new characteristics, i.e. different from those already offered by the IPR holder, and meeting specific consumers' needs not satisfied by the existing products or services already on the market. Accordingly, EC law does not consider as abusive the refusal to grant a license that is essential to operate on the relevant market to competitors willing to offer, at most, new variations of the same products or services.

In its ruling, the CFI refrained from adopting such a strict interpretation of the notion of exceptional circumstances and considering that competitors could develop their own substitutes for the copyrighted IMS model, it concluded that the conditions for compulsory licensing were not met in the IMS case.

The CFI IMS decision, confirmed by the European Court, should be read as reassuring for intellectual property rights owners. Indeed, intellectual property rights are granted for a limited period and it is necessary to balance the interest in free competition with incentives for research, development and creativity. Thus, CFI suggested that the *Magill* decision should be confined to its facts, particularly given the conclusions reached by Advocate General Jacobs in *Bronner*⁶ who considered that *Magill* was a case with very special circumstances, which "swing the balance in favour of an obligation to license." This is in line with the recent Opinion of AG Tizzano in *IMS II*,⁷ which, if confirmed by the Court, imposes strict conditions on compulsory licensing, thus putting even greater limits to its use. Therefore, contrary to the apparent view of the European Commission, market access should not automatically be granted simply to foster competition. As underlined by Advocate General Jacobs in *Bronner*, the refusal to license an intellectual property right must be combined with some other factor, anti-competitive behavior or intent. Again, a pure refusal to license IPR cannot itself amount to an abuse.

⁴In 2002, the English Court of Appeals ruled that a unilateral refusal to license IPR may violate the antitrust laws if the IPR constitutes an "essential facility." *Intel Corp. v. Via Technologies*, 2002 Ch. Div'1 Ct. 1905, 4 C.M.L.R. 58 (2002).

⁵Opinion of Advocate General Antonio Tizzano in Case C-418/01, *IMS v NDC*, concerning a parallel action for copyright infringement brought before the German courts, again involving IMS and its protected model ("*IMS II*" case).

⁶Case C-7/97, *Oscar Bronner v Mediaprint* – Opinion of AG Jacobs, ECR 1998 I-7791.

⁷*Supra* note 5.