Essential Facilities Doctrine and Intellectual Property Rights: Approaches under the Competition Law

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I hereby declare that the work submitted is mine and that where I have made use of another’s work, I have attributed the source(s) according to the Regulations set in the Student’s Handbook.

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Abstract

The essential facilities doctrine is a theory first developed in US, according to which an undertaking can demand access to a facility controlled by another undertaking under reasonable terms, if this facility is essential for access of the requesting undertaking to a specific market. The essential facilities doctrine in EU Law is applied under article 102 TFEU, as a special case of refusal to supply. With regards to IP rights which provide their owner with the power of exclusivity, the application of the doctrine first requires the resolution of conflicts between Competition Law and IP Law. Furthermore, special attention should be paid to the economic considerations behind this legal conflict. These issues are analyzed in the light of landmark cases of EU Courts. First in *Oscar Bronner Case*, although not related with IP rights, European Court of Justice (ECJ) determined the general conditions for the application of the doctrine. The requested facility should be indispensable, the refusal to supply by the dominant undertaking should eliminate competition in the relevant market and must not be objectively justified. In *Magill Case*, which was the first case before EU Courts concerning the application of the doctrine on IP rights, the Court applied the *Bronner* conditions and introduced the condition according to which the refusal to license should impede the appearance of a "new product". Afterwards, in *IMS Case*, the doctrine was applied on a copyright protected structure and *Magill* exceptional circumstances test was further interpreted. Last but not least, in *Microsoft Case*, the Court of First Instance (CFI) considered the refusal of Microsoft to supply IP protected information concerning the interoperability of workgroup servers as abusive and introduced a new dynamic in the interpretation of the doctrine’s conditions, significantly on the notion of elimination of competition and of new product. The dissertation ends with an overall assessment of the state of law followed by remarks on the application of the doctrine.

Keywords: essential facilities doctrine, Competition Law, refusal to license, Intellectual Property Law

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Preface

The interaction between Competition Law with Intellectual Property Law constitutes a significant subject which has widely occupied legal scholars and jurisprudence, especially in Europe. This interaction comprises a variety of issues such as the conversation regarding the supremacy of EU law against national law, the economic considerations which are laid behind the legal conflict and the conditions under which such conflict may be resolved. The application of the essential facilities doctrine on IP rights constitutes a part of this open-ended discussion. This subject came to my attention through the lectures of prof. Pavlos Masouros who presented it in detail. The controversial issues arising from this topic and its interdisciplinary character were the sparkles of my enthusiasm to conduct this research. Prof. Masouros accepted my proposal for this dissertation and encouraged me to approach the subject in the light of landmark case law of EU Courts, which formulated and interpreted the relevant conditions.
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First of all, I would like to express my deepest appreciation to my supervisor Prof. Pavlos Masouros for his instructive guidance, his remarks and suggestions on the analysis of the subject and his endorsement and persistent help throughout the course of my research.

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Last but not least, I thank my family for the encouragement, the understanding and their constant support throughout my postgraduate studies.
### Abbreviations

<table>
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<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>AG</td>
<td>Advocate General</td>
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<td>CFI</td>
<td>Court of First Instance</td>
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<td>ECJ</td>
<td>European Court of Justice</td>
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<td>ECR</td>
<td>European Court Reports</td>
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<td>EU</td>
<td>European Union</td>
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<td>IP</td>
<td>Intellectual Property</td>
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<td>OJ</td>
<td>Official Journal</td>
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<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
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Introduction

Research background
The general background of this dissertation concerns the correlation between Competition Law and IP Law. The primary objective of EU Competition Law is to establish the appropriate function of the market by preventing distortion of competition and market failure. Article 101 and 102 TFEU constitute the basic pillars which determine the limits of the undertakings’ practices that can harm or distort market conditions. IP Law, which is mostly regulated at national level, creates exclusive rights which protect the intellectual effort, creativity and innovation of its owners.

Explanation of the title
The subject of the dissertation concerns the application of the essential facilities doctrine on IP rights in the light of EU Competition Law. In several markets, there are structures which are considered indispensable inputs for every undertaking wishing to compete herein. Their possession is a *sine qua non* condition for market entrance. Under the essential facilities doctrine, a legal theory emerged from US Antitrust Law, a necessary infrastructure should be accessible on reasonable terms to every competitor so as to be avoided the monopolization of the market. The subject of the current dissertation presents in a concise way various theoretical and jurisprudential approaches concerning the conditions under which the essential facilities doctrine could be applied where the requested product or service is protected with IP rights.

Aims and objectives
The primary objective of this dissertation is to analyze the thoughts of EU Courts on the resolution of cases concerning the essential facilities doctrine on IP rights and to systematically organize these views in order to provide a complete presentation of the relevant subject. Furthermore, the dissertation aims to comment and investigate the jurisprudence in order to come up with a critical assessment of the state of law. Finally it aims to correspond to the practical need of undertakings so as to be provided with a clear explanation and guidance on this matter and to be assisted in order to avoid abusive practices.
**Interest of the topic**

The essential facilities doctrine on IP rights presents a wide and interdisciplinary interest. It is situated in the cornerstone of correlation between Competition and IP Law and emerged as an amalgam of these two sectors. The scientific interest of the subject extends also to Economics, because the legal conflict was built up on the economic consideration on whether economic welfare is best pursued through the prevalence of dynamic efficiency or static efficiencies. IP law protects dynamic efficiency, while Competition law safeguards static efficiencies. Consequently, the relevant subject does not reflect a mere interaction of legal sectors, but demonstrates the high degree of interdependence between Law and Economics.

**Research questions and methodology**

The dissertation is based on the presumption that IP rights could be considered as essential facilities for specific markets. The first research question which attempts to answer is under what conditions the essential facilities doctrine is applicable on IP rights. Secondly, it aims to shed light to the content of these conditions and to comment on their interpretation by EU Courts. Finally, it endeavors, through a critical assessment of the state of law, to propose further ameliorations in order to resolve these legal conflicts more effectively.

The methodology that was followed could be distinguished in two parts. The first part concerns a theoretical overview of the relevant legal and economical considerations which are related with the application of the doctrine on IP right, while in the second part, landmark decisions of EU Courts are presented. The elaboration of these decisions is illustrated with reference to their factual background and then to the Court’s findings accompanied by comments and observations of legal scholars.

**Limitations**

The analysis of the dissertation is concentrated on the application of the essential facilities doctrine on IP rights in the view of EU Courts, analyzing the relevant jurisprudence. Due to space constraints, it does not extend to a deeper analysis of the Commission's jurisprudence or to a comparative research vis-à-vis the resolution of this matter in the national legal orders of EU Member States, both considered
significant and interesting topics for further research. The dissertation does not cover also the interaction between Intellectual Property and Competition Law under article 101 TFEU and is restricted to the analysis of refusal to supply cases under article 102 TFEU.

Structure
The subject is developed in two wide chapters. In the first chapter, reference is made to the theoretical background of the essential facilities doctrine and to its interaction with IP law. The chapter starts with a brief reference to the history and evolution of the doctrine in US. Then, it continues with the determination of its legal fundament in EU, article 102 TFEU and briefly refers to the general conditions on refusal to supply.

Afterwards it refers to the notion of IP rights and presents the various theories developed to resolve the interaction between Competition Law and IP Law. The final part of the chapter amounts in the enumeration of the conditions of essential facilities doctrine on IP rights which are concluded taking into account the economic considerations arising in these cases.

The second chapter is devoted to the analysis of landmark decisions of EU Courts (CFI and ECJ) which applied the doctrine and developed the interpretation of its conditions. First, reference is made to Oscar Bronner Case, which although not related with IP rights, its findings are important for the tailoring of the doctrine in EU Law. Then it is presented Magill Case related with refusal to license of copyrighted information of weekly TV program by three TV stations. Afterwards, IMS Case, situated in the pharmaceutical industry, concerned the application of the doctrine on IP protected structure and applied the exceptional circumstances test formed in Magill. Last but not least, Microsoft Case, drew the attention for its pioneering interpretation of the conditions for the application of the doctrine on IP rights.

Finally the dissertation closes with conclusions, drawn from the analysis of the subject, containing an overall assessment of the situation in EU Law on the aftermath of these decisions and further thoughts regarding the more appropriate application of the doctrine in the future.
Chapter 1: The legal foundation of essential facilities doctrine and its correlation with IP law

1.1. The First Steps and the Evolution of Essential Facilities Doctrine in US

The roots of the essential facilities doctrine are traced in US. Making an overview of US jurisprudence, it is observed that US Supreme Court, contrary to lower courts, was reluctant to explicitly apply the doctrine. However, it has issued important rulings which applied the doctrine implicitly¹.

In Terminal Railroad Association², Terminal Railroad Association controlled all railroad terminal facilities leading to St. Louis, Missouri. The Court ordered the reform of association’s charter in order to accept the membership of any railroad company, so as to provide “the use of the terminal facilities by any other railroad not electing to become a joint owner” and to abolish restrictions concerning the exploitation of this facility³. The Court’s ruling and the remedy ordered, both reflect, according to supporters of the doctrine that the control of a facility which is essential for other competing undertakings, creates for the controlling undertaking an obligation to deal with competitors on reasonable terms. To the same direction, the Supreme Court in Associated Press⁴ addressed the news network ‘Associate Press’ to allow membership of rival newspapers, because such access was considered essential in order to effectively compete with the existing members⁵. Further, the Supreme Court in Otter Tail⁶ ruled on the refusal of Otter Tail Power Co to sell electric power to a municipally owned undertaking. Specifically it stated that “Otter Tail’s refusals to sell at wholesale or to wheel were solely to prevent municipal power systems from eroding its monopolistic position”⁷. More recent decisions, such as Aspen Skiing⁸ and Trinko⁹,

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² United States v. Terminal Railroad Ass’n, 224 U.S. 383 (1912).
³ Ibid. para 411.
⁵ Ibid, paras 17-19.
⁷ Ibid. para 378.
despite the fact that they implicitly applied the doctrine, they firmly stated their objections\(^\text{10}\) concerning its application and even its existence\(^\text{11}\).

Contrary to the Supreme Court, US lower courts were more willing to recognize and apply the doctrine. One of the first decisions that clearly cited the doctrine was *Hecht v. Pro-Football Inc.*\(^\text{12}\) mentioning that “where facilities cannot practicably be duplicated by would-be competitors, those in possession of them must allow them to be shared on fair terms”\(^\text{13}\). Later on, several decisions have recognized the doctrine\(^\text{14}\), with the most significant the decision in *MCI*\(^\text{15}\) which “sets forth four elements necessary to establish liability under the essential facilities doctrine: (1) control of the essential facility by a monopolist; (2) a competitor’s inability practically or reasonably to duplicate the essential facility; (3) the denial of the use of the facility to a competitor; and (4) the feasibility of providing the facility”\(^\text{16}\).

The divergence between the Supreme Court and lower courts has been induced by the question and criticism of prominent legal scholars over the doctrine\(^\text{17}\). Specifically, it has been supported that the doctrine lacks theoretical foundation and precise ratio. Additionally, it has been questioned the grade of improvement of consumer welfare by the application of the doctrine and its impact on innovation\(^\text{18}\). On the other hand, its proponents found their view by underlining the common features of the decisions

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\(^{10}\) Ibid., The Court referring also to Aspen Skiing Case, stated that: “We have never recognized such a doctrine and we find no need either to recognize it or to repudiate it here”.


\(^{12}\) Hecht v. Pro-Football Inc., 570 F.2d 982 (D.C. Cir. 1977).

\(^{13}\) Ibid., para 992.

\(^{14}\) See Twin Laboratories, Inc. v. Weider Health & Fitness, 900 F.2d 566 (2d Cir.1990), paras 11-14, Olympia Equipment Leasing v. Western Union Telephone Co., 797 F.2d 370 (7th Cir.1986), paras 17-18.

\(^{15}\) MCI Communications Corporation and MCI Telecommunications Corporation v. American Telephone and Telegraph Company, 708 F.2d 1081 (7th Cir. 1983).

\(^{16}\) Ibid., para 192.


applying the doctrine (implicitly or explicitly), such as that they all involved natural monopolies, which were necessary for the whole or part of the society\textsuperscript{19}.

This historic recursion on the development of the essential facilities doctrine amounted in the foggy background of US Law\textsuperscript{20}. Every time US Courts recognized the doctrine, they treated it as an exceptional antitrust case of refusal to deal\textsuperscript{21}. In the same way the doctrine has been applied in Europe. The analysis will go on with a reference on the legal foundation of the doctrine in Europe, article 102 TFEU, which sets the conditions on whether a prohibition of refusal to supply constitutes an abuse of dominant position.

1.2 Refusal to supply under article 102 TFEU: The legal background of the doctrine’s application in EU

Article 102 TFEU constitutes the second important pillar of EU Competition Law: the prohibition of abusive acts of dominant undertakings. An undertaking is dominant when it has “a position of economic strength […] which enables it to prevent effective competition being maintained on the relevant market by affording it the power to behave to an appreciable extent independently of its competitors, its customers and ultimately of the consumers”\textsuperscript{22}. The provision does not prohibit the possession but the abuse of dominant position\textsuperscript{23}. Although the definition of “abuse” forms a complicated problem, article 102 TFEU enumerates a non-exhaustive list of abusive practices in order to provide relevant guidance\textsuperscript{24}. The common characteristic of every act that constitutes an abuse of dominant position is its anticompetitive effect and its consequent harm on consumers\textsuperscript{25}.

\begin{flushleft}\textsuperscript{19} Ibid., p. 567.\end{flushleft}


\begin{flushleft}\textsuperscript{21} McCurdy G. V. S., supra note 17, pp. 472-473.\end{flushleft}

\begin{flushleft}\textsuperscript{22} Case C-85/76 Hoffmann-La Roche & Co. AG v Commission of the European Communities, [1979] ECR 00461, para 38.\end{flushleft}

\begin{flushleft}\textsuperscript{23} Communication from the Commission- Guidance on the Commission’s enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, OJ C 45/7, 2009, para 1.\end{flushleft}

\begin{flushleft}\textsuperscript{24} Whish R. and Bailey D., Competition Law, Oxford University Press, 2012, p. 197.\end{flushleft}

In the market economy, two general rules are recognized, namely, the rule of contracting freedom, in the sense of choosing freely the contracting party and the terms of contract\textsuperscript{26}, and the freedom of disposal of property to the desirable way. These freedoms are enjoyed by dominant undertakings as well, and their restriction required an assessment of their impact on dynamic and static economy\textsuperscript{27}. Consequently, a duty to deal under article 102 TFEU should be considered as an exceptional situation. Such a duty should be imposed only after serious consideration of its impact on investment and innovation of dominant undertakings and of its encouragement to competitors aiming to exploit the dominant undertaking’s efforts, both leading to consumer harm\textsuperscript{28}.

An abusive “refusal to supply” under article 102 TFEU, is the objection of a dominant undertaking which controls an input of an upstream market\textsuperscript{29}, to grant this input to a third party and to impede its entrance in the downstream market\textsuperscript{30}. This facility can be a product or a service, an infrastructure, information or powers stemming from an IP right\textsuperscript{31}. Even though there’s no general consensus\textsuperscript{32}, the following conditions should at least be fulfilled so that article 102 TFEU to be applicable in refusal to supply cases: a) the refusal to supply of a product or service in an upstream market, b) the dominance of the undertaking in the downstream market, c) the refusal harms or distorts competition on the downstream market, d) the refused facility is essential for effective competition in the downstream market, e) lack of objective justification of refusal\textsuperscript{33}.

Considering the connection between the essential facilities doctrine and article 102 TFEU, their strong correlation is obvious. They are not two different rules, but the

\textsuperscript{27} Case C-7/97, Oscar Bronner GmbH & Co. KG v Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, Mediaprint Zeitungsvertriebsgesellschaft mbH & Co. KG and Mediaprint Anzeigengesellschaft mbH & Co. KG (\textit{Oscar Bronner}), [1998] ECR I-07791, paras 56-57.
\textsuperscript{28} Communication from the Commission, supra note 23, para 75.
\textsuperscript{29} Upstream market is the market whose inputs are considered indispensable for the entrance into another (downstream) market.
\textsuperscript{30} Downstream is the market whose product or service requires access to an upstream product. A competitor shall enter the market and compete effectively only if he possessed the upstream product or service. See Faul J. and Nikpay A., supra note 26, p. 464, note 689.
\textsuperscript{31} Communication from the Commission, supra note 23, para 78.
\textsuperscript{32} Commission requires as an additional condition the harmful effect on consumers. See Communication from the Commission, supra note 23, para 81.
essential facilities doctrine can be seen as a part of abusive conducts, under article 102 TFEU\textsuperscript{34}. In the below analysis, the essential facilities doctrine is broadly interpreted and is not constraint to utility or transports infrastructure\textsuperscript{35}.

### 1.3 The relationship between IP Law with Competition Law and its status in Europe

After the analysis of article 102 TFEU, it is necessary to present the notion of IP rights and to examine the relationship between IP Law and Competition Law in EU.

First of all, IP rights are characterized by immateriality. Their protective scope covers the creative intellectual human production in the sectors of industry, science, literature and arts. They do not protect the physical property but they do protect the creativity or innovation that is enshrined in a specific product. However, IP rights share a common feature with physical property, the power of the owner to exclude everyone else from their use and commercial exploitation (exclusivity of IP rights)\textsuperscript{36}.

The basic IP rights are: copyrights which protect creative “literary, artistic and scientific works”, patents which protect inventions with novelty and applicable in the industrial sector and trademarks which protect the distinctive function of a sign in the commercial activity of an undertaking\textsuperscript{37}.

Although the efforts of harmonization in the sector of IP have commenced since the 19\textsuperscript{th} century\textsuperscript{38}, nowadays, the biggest part of IP is retained in the regulation of national law\textsuperscript{39}.

The application of essential facilities doctrine under article 102 TFEU on refusal to license cases, provokes a fierce discussion concerning the question about how the

\textsuperscript{34} Ibid., p. 408.
\textsuperscript{35} The doctrine until Magill Case was mostly applied on transport infrastructures. See Joined cases T-374/94, T-375/94, T-384/94 and T-388/94, European Night Services Ltd (ENS), Eurostar (UK) Ltd, formerly European Passenger Services Ltd (EPS), Union internationale des chemins de fer (UIC), NV Nederlandse Spoorwegen (NS) and Société nationale des chemins de fer français (SNCF) v Commission of the European Communities (European Night Services), [1998] ECR II-03141.
\textsuperscript{37} Ibid., p. 3.
conflict between EU-regulated Competition Law and national-regulated IP Law can be resolved.

The two sectors of law appear to pursue different policies: IP Law creates “statutory monopolies” and gives to the owners of IP rights the power of exclusivity, while Competition Law tends to reduce monopolistic markets and phenomena of exclusion of market participants. However, a deeper analysis demonstrates that IP rights and Competition Law pursue, in broad terms, the same economic policy which is the promotion of “economic welfare”, but they carry out their objective in different means. IP Law bolsters the improvement of dynamic efficiency, while Competition Law improves static efficiencies. Following a “more economic approach” for the resolution of these conflicts, the preponderance of either sector of law is based on an economic assessment, under which it is evaluated in the specific case whether the common economic policy is best pursued though dynamic efficiency or static efficiencies. Another theory based on economic criteria, is the theory of “essential function” of IP rights, under which it is examined whether IP rights go beyond their economic scope (dynamic efficiency).

40 It should be stressed that the term “monopoly” has a different meaning in the context of IP and Competition Law. In IP Law it describes the extend of the power of exclusion of the right owner, while in Competition Law the notion of monopoly describes the extent of market power. So, IP rights create a market monopoly only when these two notions coincide. See Squitieri M., ‘Refusal to license under European Union Competition Law after Microsoft’, Journal of International Business Law, vol. 11 no. 1, 2012, pp. 77-78.

41 The term “efficiency” in economics, means the production or the rendering of a service in the best way at a minimum cost. Dynamic efficiency is related with innovation and research. According to it, welfare is optimized within “a time frame” in which new products and services will be created. Dynamic efficiency prefers to sacrifice some short term advantages such as minimization of costs for the benefits that would be offered to the society in the future. Schilling M. A., ‘Towards Dynamic Efficiency: Innovation and its Implications for Antitrust’, The Antitrust Bulletin, vol. 60 no 3, 2015, pp. 191-192.

42 Static efficiency contains productive and allocative efficiency. Productive efficiency refers to production and distribution at the lowest costs. Allocative efficiency known also as distributive efficiency refers to the distribution of goods to the markets in which they are more valuable. Ibid., p. 192.

43 The deficiency of this concept is that the short term impact of static efficiencies will appear to be more important, giving most of times prevalence to Competition Law. See Kallaugher J., ‘Existence, Exercise, and Exceptional Circumstances: The limited scope for a more economic approach to IP issues under article 102 TFEU’ in Anderman S. and Ezrachi A. (eds), Intellectual Property and Competition Law—New Frontiers, Oxford University Press, 2013, p. 117.

44 The application of the essential function theory of IP rights was considered in Case T-70/89 British Broadcasting Corporation and BBC Enterprises Ltd v Commission of the European Communities, [1991] ECR II-00535, para 58. The Court mentioned that “…the copyright is no longer exercised in a manner which corresponds to its essential function […] which is to protect the moral rights in the work and ensure a reward for the creative effort, while respecting the aims of, in particular, Article 86. […] In that case, the primacy of Community law, particularly as regards principles as fundamental as those of the
proposed the assessment of anticompetitive intent, but this view was criticized on the merits that intent is a criterion inconsistent with the standardized character of the IP system.\textsuperscript{45} In cases of collision between EU Competition Law and IP Law, EU Courts have adopted a more formalistic way to resolve these conflicts by distinguishing the existence of an IP right, defined under national law, from its exercise. According to the “exercise-existence dichotomy”, EU Competition Law can intervene only in the exercise of IP rights.\textsuperscript{46} A further development of this view is the “specific subject matter” theory. This one lays on a distinction in the forms of exercise between the fundamental powers (the ‘core’) of IP rights and other conduct that may be regarded as a mere exercise of the right. Only in the latter case Competition Law can intercede.\textsuperscript{47}

Despite the dominance of the existence-exercise dichotomy in the jurisprudential practice of EU Courts, a reconsideration of this practice has been discussed in the basic cases\textsuperscript{48} which applied the essential facilities doctrine on IP rights. EU Courts introduced an \textit{in concreto} approach based on the detection of exceptional circumstances in the specific case which render applicable article 102 TFEU.\textsuperscript{49}

1.4 The conditions of the essential facilities doctrine application on IP rights and the economic perspective of the issue

As mentioned above, IP Law and Competition Law observe the same economic policy: economic (or consumer) welfare. However, IP Law pursues this objective based on dynamic efficiency which would benefit consumers in the distant future while Competition Law promotes static efficiencies whose effects are instantly obvious. The free movement of goods and freedom of competition, prevails over any use of a rule of national intellectual property law in a manner contrary to those principles.”

\textsuperscript{45} Kallaugher J., ‘Existence, Exercise, and Exceptional Circumstances: The limited scope for a more economic approach to IP issues under article 102 TFEU’ in Anderman S. and Ezrachi A. (eds), supra note 43, p. 131.


\textsuperscript{48} For further elaboration on this matter see section 2.2.4, p. 22.

\textsuperscript{49} Kallaugher J., ‘Existence, Exercise, and Exceptional Circumstances: The limited scope for a more economic approach to IP issues under article 102 TFEU’ in Anderman S. and Ezrachi A. (eds), supra note 43, pp. 128-129.
economics behind these two sectors of law play a major role in the application of the essential facilities doctrine on IP rights.

On the one hand, the exclusivity conferred by IP rights enhances the incentives for innovation. The power of exclusivity constitutes the reward of society for the investments, the effort and the time spent by an undertaking in order to produce a new product. The crucial role of exclusivity is obvious, taking into account that the majority of inventive efforts do not succeed to reach the high threshold, necessary for protection under IP Law. In the absence of this protection, there would be no incentive to innovate because the new product would be accessible to everyone for commercial exploitation. Despite consumer’s profit from the low cost of a shared product in short term, the negative impact in innovation will harm consumer in long term. Economic researches testify the benefits of the society from the creation of new products. The general idea behind IP rights is to reinforce dynamic efficiency against static efficiencies, in order to establish an economic incentive for investments.

On the other hand, compulsory licensing’s impact on welfare is twofold: it decreases the incentives for innovation in the long term, but in the near future it augments competition by decreasing the “deadweight loss of market power” and offers consumer lower costs due to the existence of competition in the market. The higher rate of exclusivity and market power conferred by the IP right, the wider will be the positive impact on consumers by the compulsory licensing. Additionally, a significant advantage of compulsory licensing is that sharing an innovative product with competitors will lead in its further amelioration or in the creation of new products.

The determination of which one of the aforementioned effects would best attain consumer welfare is a tough question to be answered. The conclusion of this economic battle results in the formulation of four cumulative conditions (adopted by landmark cases of EU Courts) which render compulsory licensing an obligatory order under article 102 TFEU. These conditions are:

- The indispensability of the IP right in order to compete in the relevant market.

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• The exclusion of all competition in the downstream market, because of the refusal.
• The prevention of appearance of a new product with substantial consumer demand.
• The lack of objective justification of the refusal to license\textsuperscript{53}.

The aforementioned economic assessment, regarding compulsory licensing, is conducted under the auspice of the “new product” criterion. Static efficiencies prevail on dynamic efficiency when due to compulsory licensing an undertaking can offer to consumers something new, and this compulsory licensing leaves unaffected existing products and does not undermine subsequent innovative activity\textsuperscript{54}.

All in all, if these conditions are fulfilled, the essential facilities doctrine is applied on IP rights, meaning that the dominant undertaking is obliged to license its IP rights to the competitor under reasonable terms. The following chapter is dedicated to the reference on landmark EU Courts jurisprudence related with the application of the doctrine on IP rights and analyzes the interpretation followed by EU Courts in the course of time.

\textsuperscript{53} Ibid., p. 421.  
\textsuperscript{54} Monti G., supra note 51, pp. 228-229.
Chapter 2: The analysis of EU case Law

2.1 Oscar Bronner Case: The introduction of the indispensability test

2.1.1 Factual background and the conditions of the doctrine’s application

_Oscar Bronner_, although it is not related with IP rights, is a case of vital importance because it was the first decision of the ECJ to clarify the conditions for the doctrine’s application. Oscar Bronner was a publishing company which published and distributed a daily newspaper, with limited market share in the Austrian daily newspaper market. Mediaprint was also a publishing company of newspapers which was dominant in the market of daily newspapers in Austria (downstream market) and had established on its own a national delivery scheme of newspapers (upstream market) in order to deliver them to its subscribers in the morning. Oscar Bronner pursued judicially an order against Mediaprint in order to share its delivery scheme and distribute Bronner’s newspaper, under a reasonable fee. Oscar Bronner based its claims on the fact that Mediaprint’s refusal to supply constituted an abuse of dominant position in the downstream market. The Austrian competent court referred the case to the ECJ for a preliminary ruling concerning whether the Mediaprint’s conduct could be considered as an abusive refusal to supply under article 102 TFEU.

The Court in its ruling determined the conditions which should be fulfilled for the application of the essential facilities doctrine under article 102 TFEU:

- The refusal of the facility should “eliminate all competition” in the relevant market “on the part of the person requesting” it.
- There’s no objective justification for this refusal.
- The facility is “indispensable” to carry out that business, in such a degree that “there is no actual or potential substitute” of the facility.

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56 Case C-7/97, Oscar Bronner, supra note 27, para 4.
57 Ibid., paras 6-7.
58 Ibid., para 8.
59 Ibid., para 11.
60 Ibid., para 41.
2.1.2 The elaboration of indispensability test

The Court held that a requested facility is indispensable if there are no alternative methods to conduct the same business\(^{61}\) and if there are “technical, legal or even economic obstacles capable of making it impossible, or even unreasonably difficult” to anyone, alone or in cooperation, to establish such a facility\(^{62}\). Both the Court and AG Jacobs observed that the plaintiff had the burden to prove that the creation of the requested facility is not “economically viable”\(^{63}\).

The indispensability test as elaborated by the Court was twofold: the facility should not be substitutable and any undertaking in the market should not be in the economic position to duplicate the requested facility or its alternative\(^{64}\).

With regards to the substitutability of the facility, the Court required that there should be no equal method to conduct the same business. If there were other methods available, even “less advantageous” from the requested one, then the facility would not be indispensable. The Court was not constraint in this reference but concluded that in this case there were alternatives for Mediaprint’s competitors\(^{65}\). This statement raised a very serious question concerning the Court’s power to determine the existence of these alternatives in the procedure of preliminary ruling.

The legal assessment of a case of abuse of dominance presupposes the definition of the relevant market and the existence of dominance in that market\(^{66}\). According to consistently held jurisprudence, the relevant market is composed by the ensemble of products which are “with respect to their characteristics [...] interchangeable”\(^{67}\). However, in the procedure of preliminary ruling this assessment is left to the discretion of national court which asks for the ruling\(^{68}\).

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\(^{61}\) Ibid., para 43.
\(^{62}\) Ibid., para 44.
\(^{63}\) Ibid., paras 45-46, Case C-7/97, Oscar Bronner, Opinion of AG Jacobs, supra note 55, para 66.
\(^{64}\) An alternative approach has been proposed by Eilmansberger. He supported that the indispensability test should fulfill three conditions: a) the necessity to offer a specific product, b) the necessity that this product would not compete with other products and c) the lack of duplicability. For further analysis see Eilmansberger T., ‘IP and Antitrust in the European Union’, South-Western Journal of Law and Trade in the Americas, vol. 13, 2007, pp.274-277.
\(^{65}\) Case C-7/97, Oscar Bronner, supra note 27, para 43.
\(^{66}\) Case C-7/97, Oscar Bronner, supra note 27, para 32.
\(^{68}\) Case C-7/97, Oscar Bronner, supra note 27, para 34.
In the present case, it was observed that the examination of availability of substitutes coincided with the interchangeability test, which is a part of relevant market’s determination. In other words, the examination of indispensability for the doctrine’s application constituted a part of the assessment of whether the specific undertaking has a dominant position. The Court seemed to proceed in a “qualitative judgment” which was out of its competence, and restricted the freedom of the national court. Nevertheless, it was presented the view that these two tests were different and the one conducted at the level of the indispensability test was broader than the one conducted for the determination of abuse of dominance. In its conclusion, the Court found that there were other methods available for the distribution of newspapers but it didn’t examine in substance whether these methods constituted a realistic alternative.

With regards to the duplicability test, primarily, it would be exceptional rare that the duplication of a facility is totally impossible. Most of times, the duplicability of the facility is a matter of economic assessment. The Court pointed out that economic weakness of the requesting undertaking for such duplication was not sufficient to characterize a facility as indispensable. A facility would be indispensable when any undertaking in the market was not capable of duplicating it.

Specifically, with the statement that “any” undertaking should be incapable of duplication, the Court provoked a vivid discussion among legal scholars. If the Court was referred to any undertaking having an equivalent market power with the dominant undertaking, then this constitutes a limitation of abuse, because only these undertakings would be able to invoke an abuse. If it was implied that the indispensability test examines any undertaking which potentially is expected to

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69 If there are substitutable methods to conduct the same business this means that the relevant market should be expanded in order to cover these methods as well.
73 Case C-7/97, Oscar Bronner, supra note 27, para 45, Case C-7/97, Oscar Bronner, Opinion of AG Jacobs, supra note 55, para 66 which states “That might be so particularly in cases in which the creation of the facility took place under noncompetitive conditions, for example, partly through public funding.”.
74 Case C-7/97, Oscar Bronner, supra note 27, para 44.
provide a substitute, then this examination would interfere to the definition of the relevant market. In general, this phrasing appeared to eliminate the doctrine’s application solely to “natural” or “inevitable monopoles”, i.e. in markets where the dominant undertaking exclusively exploits a facility and the other undertakings cannot act in the market without suffering from loss. However, this view derogated from precedent jurisprudence in refusal to supply cases. It was also criticized because it excluded the doctrine’s application from markets of limited competition and it oversaw the case where the requesting competitor would be never in the position of possessing the same market shares with the dominant undertaking. On the other hand, the Court’s view may be justified on the basis that the dominant undertaking would not be in such position if the facility has been already shared with others. It can be further justified as an expression of the Court’s fears to apply narrowly the doctrine so as to limit negative consequences on dynamic economy.

All in all, one can consider that a more appropriate indispensability criterion should focus on the risk entailed on undertakings’ innovative investments by the application of the doctrine. In situations of diminished risk and estimated efficiency improvement, the doctrine should be anyway applicable.

2.1.3 Elimination of competition and objective justification

The second condition for the doctrine’s application is that the result of a refusal to supply should be, according to the Court, “the elimination of competition” of the requesting undertaking and not of every possible competitor in the market. So, it was sufficient for the Court that market access is impeded for a particular and not for any undertaking craving to access the relevant market. The condition of elimination of

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75 Stothers C., 2001, supra note 71, pp. 258-259.
76 Bergman M. A., supra note 72, p 61.
79 Bergman M. A., supra note 72, pp. 61-62.
81 Bergman M. A., supra note 72, pp. 62-63.
82 Absolute elimination of competition seemed the view of the Court in cases of the doctrine’s application on IP rights. See section 2.2.5, p. 24 for Magill Case and section 2.3.3, p. 28 for IMS Case.
competition should be construed together with the indispensability test, because it would be extremely difficult to find a situation where the requested product is not indispensable, but significantly affects competition. Nonetheless, the exclusion of competition only for the requested party undermined that the doctrine should be applied in favor of competition and not of competitors, because its scope is to allow entrance of efficient rivals in the market. Regarding the third condition of objective justification, unfortunately neither the Court nor the AG Jacobs did elaborate on its meaning.

2.1.4 General overview of the case

The Court in Oscar Bronner recognized the threat on incentives to innovate by the extended application of the essential facilities doctrine and implicitly classified consumer welfare as a primary scope of Competition Law. The Court followed the method of interpretation of existing jurisprudence and did not deepen its analysis with economic considerations. Oscar Bronner ruling reflects a shift from absolute economic freedom, by analyzing the conditions under which a dominant undertaking should supply an equally efficient competitor with its necessary input. Although the doctrine was not applicable in the examined factual background, the Court expressed its concerns to avoid elimination of efficient competitors from the market. The determination of the conditions of indispensability test and elimination of competition, despite it narrowed the scope and application of the doctrine, it promoted legal certainty and predictability. From the side of competitors, the decision should be understood as an indication in order to be cautious when pursuing a legal order to get a “free ride” from an undertaking’s facility. Summarizing, Oscar Bronner appears to affirm the “skepticism” of previous Commission’s rulings on the doctrine’s broad application, acting in parallel as a “corrective measure” of previous jurisprudence.

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85 Although AG Jacobs explicitly referred to the primary scope of consumer welfare in Case C-7/97, Oscar Bronner, Opinion of AG Jacobs, supra note 55, para 58.
86 Korah V., 2002, supra note 80, p. 820.
87 Monti G., supra note 51, p. 226.
2.2. Magill Case: The appearance of the exceptional circumstances test

2.2.1 Factual background

Three TV stations broadcasting in Ireland and Northern Ireland, BBC, ITP and RTE were copyright owners of their own TV listings. Each one published its own weekly program guide and allowed to third magazines and newspapers to publish only the daily or the weekend program. The Irish publisher Magill TV had made available a comprehensive weekly TV program guide, containing information for all TV stations’ program. The three TV stations pursued an injunction before Irish Courts based on their copyright infringement. Magill complaint to Commission that this injunction constituted an abuse of dominance of the three TV stations which refused to supply their IP right for the creation of a new product. The Commission ordered the compulsory licensing of the program listings by the three TV stations. The CFI, retained the Commission’s Decision and two of the three TV stations appealed before the ECJ, which dismissed the appeal and upheld the existence of abuse of dominance under article 102 TFEU.

2.2.2 The definition of the relevant market

In Magill the determination of the relevant market was very narrow: the appellants’ weekly programs listings and the magazines in which they were published. This market was separate from the market of broadcasting services and constituted a part of the general market of television programs’ information. The latter was not the relevant market in this case, because disclosure of information solely for the daily TV program would not allow the publication of a comprehensive weekly TV guide.

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91 Ibid., paras 8-9.
92 Ibid., para 10.
93 Ibid., para 11.
94 Ibid., para 12.
95 Ibid., paras 14-15.
96 Ibid., para 78.
Criticism of the complexity on such a detailed division of markets was not absent⁹⁸. A supportive element to this market's determination was the commercial success of weekly comprehensive television guides in other countries, which “demonstrates the existence of a specific constant and regular potential demand on the part of the viewers” for these programs⁹⁹. CFI adopted this view without any addition by the ECJ. Nevertheless, it was supported that such a relevant market is not existent because a weekly TV program was not published before Magill’s initiative. The Court did not address this matter, but such a relevant market could be established on the basis of “potential consumer demand” and lack of interchangeability¹⁰⁰ between daily and weekly TV program listings¹⁰¹. It would be unequal to impose an obligation to deal when the dominant undertaking markets the requested product and not to impose when the product is not marketed, taking into account that the latter situation is even “worse” for consumers¹⁰².

2.2.3 The existence of dominant position

The Court stated that “mere ownership of an intellectual property right cannot confer” a dominant position¹⁰³. This means that ownership of an IP right does not necessarily lead to the monopolization of a market, but only grants the power of exclusivity to its owner¹⁰⁴.

The Court added in the next paragraph that the “only source” of program’s listings were the TV stations. This means that each TV station enjoyed a de facto monopoly and had the power to block the entry of a competitor in the market of weekly TV

¹⁰⁰ Reindl finds problematic this definition of the relevant market mentioning that it is based on consumer conduct in other countries and considers that the use of the copyright exclusivity by the three stations to distort competition on the weekly TV guide market might imply the existence of interchangeability between daily and weekly guides.
¹⁰³ Joined Cases C-241/91 P and C-242/91 P, Magill, supra note 39, para 46.
¹⁰⁴ Monti G., supra note 51, p. 227.
A publisher of a weekly TV guide was dependent on the conduct of TV stations for the acquisition of the information needed, in order to produce a comprehensive guide.

The Court’s assumption was considered problematic because the information over which there was a de facto monopoly is the same information protected by copyright. It has been supported that the Court was reluctant to state that this case was an exceptional situation in which ownership of an IP right created the undertaking’s dominant position.

Both CFI and ECJ concluded the existence of a dominant position of the three TV stations. However, none of the stations separately was dominant in the market. On the one hand, the Court seemed to adopt that there was a joint dominance of the three TV stations due to the monopoly of each TV station with regard to its respective program. On the other hand, the lack of cooperation between the three undertakings and the fact that one’s refusal could lead to an insuperable barrier for market access, match more to the conclusion of individual dominance. Ultimately, it is remarkable that Magill involved “a somewhat curious hybrid between individual and joint dominance” which restricted access to relevant market due to the “identity of interest and bargaining power between the three undertakings”.

2.2.4 The relationship between Competition Law and IP Law

Another important issue which has occupied the Court is the relationship between Competition Law and IP Law. ECJ mentioned that IP is rooted in national law and the mere refusal to license does not constitute an abuse of dominance. Further, the Court relinquished the existence/exercise dichotomy, which was applied by the CFI as

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105 Joined Cases C-241/91 P and C-242/91 P, Magill, supra note 39, para 47.
109 For a brief presentation of the theories to dissolve the conflict between Competition Law and Intellectual Property Law see section 1.3, p. 9.
110 Joined Cases C-241/91 P and C-242/91 P, Magill, supra note 39, para 49.
well\textsuperscript{111}, and adopted a new circumstance-based approach, known as “exceptional circumstances” test\textsuperscript{112}.

The Court’s initiative should be welcomed, since a rigid application of the existence exercise dichotomy appeared incompatible with the nature of IP rights. First and foremost, the creation of existence/exercise dichotomy seemed to be unfounded in TFEU. In \textit{Consten & Grundig}\textsuperscript{113} the dichotomy was firstly established on a misinterpretation of article 345 TFEU (ex 222 of the Treaty of Rome) which provides that “The Treaties shall in no way prejudice the rules in Member States governing the system of property ownership”. The history of this article reveals that it was not related with IP, but it was a provision which established the freedom of Member States to determine private and public property of undertakings. Consequently it cannot be a legal fundament of this theory\textsuperscript{114}.

Additionally, its establishment on the free movement rules would be equally uncompromised with IP rights. Article 36 TFEU legitimizes derogations from free movement rules on the ground of “protection of industrial and commercial property”. However, the provision came back to the rule of free movement and prohibits a derogative measure if it constitutes an “arbitrary discrimination or a disguised restriction” in intra-community trade. Taking into consideration that IP rights affect by their nature the conditions of competition in the relevant market, it would be extremely difficult to discriminate whether or not a refusal to license is, in the meaning of article 36 TFEU, a disguised restriction of competition\textsuperscript{115}.

The Court ruling departed from formalistic doctrines to a more case to case analysis for the resolution of conflicts between the two sectors of law. It is observed from its phrasing that it adopts a view closer to the theory of essential function of IP rights and elaborated on this with the exceptional circumstances test.

Last but not least, another significant feature of the ruling is that it applied Competition Law in order to correct failures of the IP system. The copyright protection

\textsuperscript{111} Case T-69/89, \textit{Magill}, supra note 99, para 44.
\textsuperscript{112} Joined Cases C-241/91 P and C-242/91 P, \textit{Magill}, supra note 39, para 50.
\textsuperscript{115} Baches Opi S., supra note 89, p. 456.
for TV listings was profoundly disputed and the Court seemed to apply Competition Law as a way to limit copyright’s scope of protection in TV program listings at a reasonable level\(^{116}\).

2.2.5 The establishment of the exceptional circumstances test

The exceptional circumstances test was not only invoked as a way to resolve the interaction of these sectors of law, but it prescribed the conditions under which the essential facilities doctrine (and consequently article 102 TFEU) was applicable on IP rights.

The Court first applied the indispensability test in a similar way as in *Oscar Bronner*\(^{117}\), stating that there was “no actual or potential substitute for a weekly television guide” (lack of substitutability)\(^{118}\) and that the three TV stations were “the only sources” of necessary information for the publication of comprehensive weekly TV program guides (lack of duplicability)\(^{119}\). Nonetheless, the Court required for the application of the essential facilities doctrine the presence of three “exceptional circumstances”: Firstly, the result of refusal to license should be the prevention of “the appearance of a new product”, not previously offered and “for which there was a potential consumer demand”\(^{120}\). Secondly, the refusal should amounts in elimination of competition of the relevant market.\(^{121}\) Thirdly, the refusal could not be objectively justified\(^{122}\).

Concerning the condition of new product, it has been supported that such a condition should not be a general prerequisite for the application of the essential facilities on IP rights\(^{123}\). If this view was correct, then the doctrine would be applied in cases where the requesting undertaking would be a direct competitor of the dominant undertaking and would market the same product by exploiting this “free-ride” of the facility\(^{124}\).

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\(^{117}\) It should be noted that *Magill Case* was precedent from *Oscar Bronner Case*.


\(^{119}\) Ibid., para 53.

\(^{120}\) Ibid., para 54.

\(^{121}\) Ibid., 56.

\(^{122}\) Ibid., 55.

\(^{123}\) Eilmansberger supports that there is no need of preferential treatment of IP rights in the application of the essential facilities doctrine. See Eilmansberger T., supra note 64, pp. 268-272.

Another question that arises from the elliptic Court’s wording is whether the new product should be placed in a separate or in the same product market of the dominant undertaking. It has been supported that the “two separate markets” requirement would impose very high threshold to the doctrine’s application and would threaten the whole application of the doctrine. Turney supports that it is sufficient for the plaintiff to prove the creation of a distinct product and not the product’s placement at a separate market\textsuperscript{125}. In contrary, Temple Lang considers more appropriate that the new product should not compete with the existing one protected with the IP right, because such a situation constitutes a justification of “interference in the specific subject matter of the copyright”\textsuperscript{126}.

The condition of the “new product” highlights the abusive character of the undertaking’s conduct to exclusively retain a statutory monopoly. When it comes to IP rights, ECJ puts an additional requirement to the indispensability test of Oscar Bronner: that the IP right owner fails to correspond to consumer demand in the downstream market\textsuperscript{127}.

Concerning the elimination of competition condition, in Oscar Bronner the Court required for the application of the essential facilities doctrine, the exclusion of a specific undertaking from competition in the relevant market. In Magill it adopted previous jurisprudence by requiring that the elimination of competition in the downstream market should be absolute, concerning any undertaking and not only the plaintiff. This meant that the dominant undertaking should monopolize the downstream market\textsuperscript{128}. Finally, the Court neither in Magill provided specific guidance concerning the last condition of objective justification.

2.2.6 General overview of the case
The Court in Magill did not explicitly apply the essential facilities doctrine on IP rights but it appeared to insinuate its application with reference to the exceptional

\textsuperscript{125} Ibid., pp. 188-189.
\textsuperscript{127} Venit J., ‘Article 82 EC: Exceptional Circumstances The IP/Antitrust Interface After IMS’ in Ehlermann C. D. and Atanasiu I. (eds), supra note 102, p. 621.
\textsuperscript{128} Korah V., 2006, supra note 78, p. 140, Faul J. and Nikpay A., supra note 26, p. 471.
circumstances test\textsuperscript{129}, despite the criticism to the doctrine’s extension on IP rights\textsuperscript{130}. The application of the “exceptional circumstances test” first of all constituted the Court’s departure from the existence/exercise dichotomy in the resolution of conflicts between IP Law and Competition Law\textsuperscript{131}. Unfortunately, the Court did not elaborate on the exact content of these circumstances and created a degree of uncertainty to dominant undertakings with regard to their investments in innovation\textsuperscript{132}. This attitude of the ECJ could be interpreted as "an unwillingness to confine itself doctrinally"\textsuperscript{133}, though it created more problems than solutions. The enumeration of the exceptional circumstances appeared to be cumulative, although the Court had not specified it\textsuperscript{134}. In this context, the indispensability test together with the exceptional circumstances, depict the conditions of the essential facilities doctrine on IP rights. The addition of the “new product” condition limited the doctrine’s application on IP rights and required a proof that consumers would benefit more from the sharing of the IP right and from the establishment of competitive conditions in the market than from the retention of innovation in the hands of the dominant undertaking\textsuperscript{135}. In general, the circumstance-based approach adopted in Magill allows a substantial application of the doctrine, with respect to the nature of IP rights\textsuperscript{136}. However, the Court did not elaborate on what happens in cases of really valuable IP rights and whether the dominant undertaking markets or plans to market the requested IP right\textsuperscript{137}. Finally, the Court acted not only as an enforcing mechanism of competition but as “corrector” of the national IP system’s failures.

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\textsuperscript{129} Whish R. and Bailey D., supra, note 24, p. 798.
\textsuperscript{132} Baches Opi S., supra note 89, p. 454.
\textsuperscript{133} Ibid., p. 458.
\textsuperscript{134} Venit J., ‘Article 82 EC: Exceptional Circumstances The IP/Antitrust Interface After IMS’ in Ehlermann C. D. and Atanasiu I. (eds), supra note 102, p. 621.
\textsuperscript{135} Monti G., supra note 51, p. 223.
\textsuperscript{137} Baches Opi S., supra note 89, p. 463.
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2.3 IMS Health Case: Further light on the exceptional circumstances test

2.3.1 Factual background

IMS Health was a dominant undertaking in Germany and marketed regional sales information to pharmaceutical laboratories. IMS performed this task using a specific structure under which Germany was separated in 1860 parts ("bricks")\textsuperscript{138}. The fact that the structure was formed with customer’s contribution and was provided freely to doctors, testifies that such a structure was a market standard\textsuperscript{139}. NDC Health was a competing undertaking in the same market. Due to customer’s resistance in an alternative structure, NDC decided to use a structure similar to 1860 bricks structure\textsuperscript{140}. In the first phase of the case, IMS proceeded before national courts in order to stop NDC’s actions, due to copyright protection of the structure\textsuperscript{141}. Then, NDC filed a complaint before the Commission, claiming that the refusal of IMS to license the IP right constituted an abusive conduct. Commission ordered compulsory licensing of the structure in the form of interim measures\textsuperscript{142}. After the dismissal of IMS’s appeal against this order, the Commission withdrew the interim measures, due to the lack of an emergency situation\textsuperscript{143}.

In the second phase of the case, IMS went before national courts pursuing to prohibit to NDC from using the 1860 brick structure\textsuperscript{144}. The national court referred three questions for preliminary ruling before the ECJ concerning: a) the conditions under which a refusal to license is abusive, b) the extent and the role of customer’s participation to the creation of the structure and c) the costs of customers in order to adopt a new structure\textsuperscript{145}. As observed in \textit{Oscar Bronner}, the Court in the procedure of preliminary ruling gives an interpretational guidance on EU Law leaving the application of its outcome on national courts\textsuperscript{146}.

\textsuperscript{138} Case C-418/01, IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG (IMS), [2004] ECR I-05039, paras 3-4.
\textsuperscript{139} Ibid., paras 5-6.
\textsuperscript{140} Ibid., paras 7-8.
\textsuperscript{141} Ibid., para 10.
\textsuperscript{142} Ibid., paras 11-12.
\textsuperscript{143} Ibid., paras 13-15.
\textsuperscript{144} Ibid., para 16.
\textsuperscript{145} Ibid., para 17.
\textsuperscript{146} Ibid., para 18.
2.3.2 The cumulative approach

The Court clarified the vacuum of *Magill*, by providing that the conditions\textsuperscript{147} of the exceptional circumstances test are “cumulative”\textsuperscript{148}. It upheld that its interference in the economic and contractual freedom of undertakings should be restricted only in cases where all circumstances lead to a serious anticompetitive result. So, the cumulative approach guarantees the gravity of the anticompetitive impact. Criticism on this viewpoint is not absent on the grounds that the Court in *Oscar Bronner* referred to *Magill* criteria neglecting the new product requirement and in *Landbroke*\textsuperscript{149} it regarded the new product criterion as an alternative and not a prerequisite\textsuperscript{150}. However, the importance of this criterion has been already mentioned and it has been stressed that it constitutes the legal basis for the Court to assess economically whether static efficiencies prevail on dynamic\textsuperscript{151}. So, at least in the context of IP rights it is better to be considered as a requirement and not as an alternative.

2.3.3 The concept of “separate markets” and elimination of competition

In refusal to supply cases the Court is required to distinguish between an upstream market and a downstream market\textsuperscript{152}. In *IMS* the Court made this distinction based on the difference between “stages of production” and on market “interconnection”, in a way that inputs of the former are indispensable for access to the latter\textsuperscript{153}. It further considered that the upstream market is not needed to be actual but it can be “a potential market or even hypothetical market”\textsuperscript{154}.

\textsuperscript{147} The four conditions for the doctrine’s application on IP rights: indispensability of the product, elimination of competition by the refusal, lack of objective justification, prevention of appearance of a new product.
\textsuperscript{151} See section 1.3, p. 9 and section 2.2.5, p. 24.\textsuperscript{152} This is the traditional view. It is supported a more elliptic view that there’s no need of two separate markets determination, because the upstream market is usually of minor economic importance or it is inexistent or undistinguishable and as a result it would be unreasonable to find an abuse in market which is artificial and does not exist in substance. Hatzopoulos V., supra note 70, pp. 26-27.
\textsuperscript{153} Case C-418/01, *IMS*, supra note 138, para 45.
\textsuperscript{154} ibid., para 44.
In IMS the market distinction has been conducted on the basis of IP rights. The downstream market was the market on which rests the innovation of the IP right (supply of pharmaceutical data) and the upstream market covered the application of the specific IP right (the copyrighted structure used for the transfer of these data). The reference to potential or hypothetical upstream market stressed that it was irrelevant the separate marketing of the input. The vital element was its essential character for market access. In the context of IP rights, it would be always possible to envision a potential market in the IP itself. However, such an approach could be questioned on the merits that the subject of protection of IP right is the mean to compete and not a separate market. Further it could easily lead to the conclusion of abuse when the right holder merely seeks to exploit the IP right protected product.

In IMS, it was not clear the Court’s position on the relevant market concept. Some authors regard the ruling to have maintained the distinction of two separate markets, others interpret it as a departure from the “two separate markets” concept to the mere existence of different productive stages and consumer demand for them.

Whatever may be the explanation of the ruling, it can be concluded that the Court at least lowered the threshold for the distinction of separate markets. This new approach facilitated the fulfillment of the condition of elimination of competition: the easier is the distinction between two the markets, the easier would be the conclusion of elimination of competition. At first sight such an extensive interpretation seemed to enable any competitor of the dominant undertaking to access its IP right and compete with it in the downstream market. Nonetheless, the Court counterbalanced this negative impact through the stricter application of the “new product” condition.

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158 Turney J., supra note 124, p. 193.
159 Ibid., p. 193.
160 Hatzopoulos V., supra note 70, p. 28.
161 Temple Lang stresses the need of limiting principles regarding the interpretation of “potential market”. He supports that the distinction in production stages should be clear and “identifiable”. The main consideration, according to his view, is to examine the economic rationality for the establishment of
2.3.4 The indispensability test and the role of customers’ conduct in its formulation

In the application of the indispensability test the Court reaffirmed the criteria applied in *Oscar Bronner*163. In *IMS*, two additional situations had to be considered: the degree of customers’ participation in the creation of the structure and the costs they have to undertake in order to use a new one.

The indispensability test in *Oscar Bronner* seems that it did not provide enough space for the assessment of these situations. AG Tizzano introduced their assessment through the duplicability test, noting that they constitute “financial obstacles” which would make the duplication of an alternative structure very onerous to the competitor164. He concluded that the economical overburden of customers to adapt their attitude in a new structure would lead to its failure. As a result, access to the existing structure would be essential165. The Court was in accordance with the opinion of the AG Tizzano but used a broader language and stated that the participation of pharmaceutical laboratories (customers) in the development of the relevant structure created their dependence on the structure. Consequently, an alternative product would not be economically viable due to this dependence166.

It has been argued that a deficiency of the exceptional circumstances test is that it does not cover situations of external market failure, i.e. situations of external market circumstances such as standardization cases or lock in and network effects167. In these instances, despite the fact that duplication of an alternative facility is possible, these external factors render it in practice obsolete or very onerous for the producer-undertaking. The Court in *IMS*, having to deal with an instance of external market failure, resolved the matter by the extension of the indispensability criterion168.

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163 Case C-418/01, *IMS*, supra note 138, para 28.
165 Ibid., paras 85-86.
166 Case C-418/01, *IMS*, supra note 138, para 29.
168 Otherwise the relevant case would not have passed the indispensability test in its strict application. If the test was strictly applied to the new structure then the 1860 brick structure would be considered
To sum up, the Court considered that the IP right of the 1860 brick structure has been standardized in the relevant market rendering the creation of an effective alternative impossible.\textsuperscript{169}

2.3.5 The “new product” requirement
Both the Court and the AG Tizzano\textsuperscript{170} observed that this condition hosts the economic balance between static and dynamic efficiency. The refusal to license is abusive when the requested undertaking “does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the intellectual property right, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand”\textsuperscript{171}. The Court had to assess two sub-conditions: the novelty of the input and the existence of potential consumer demand. The second requirement seems easier to be fulfilled, because an undertaking would not market an input without being demanded by consumers. For the novelty sub-criterion the opinion of consumers is determinative as well, and the Court did not elaborate further in its meaning. Consequently, it is proposed its restrictive interpretation\textsuperscript{172}. Additionally, the Court in \textit{IMS} introduced the element of plaintiff’s “intention” not to market the same product with the dominant undertaking. However, this element implies that compulsory licensing is permissible even when the plaintiff aims to market something new, despite its expressed intent to compete in the same market with the proprietor of the IP right\textsuperscript{173}.

In \textit{IMS} the narrowing of two-market requirement was balanced by the retention of the “new product” condition, despite the fact that emphasis to the latter presents a level of uncertainty. Nevertheless, one may interpret this emphasis to the contrary, i.e. that the plaintiff should not interfere to the market controlled by dominant undertaking but to a distinctive one. When two separate markets are distinguished, the new

\textsuperscript{169} Houdijk J., supra note 155, p. 479.
\textsuperscript{170} Case C-418/01, \textit{IMS}, supra note 138, para 48, Case C-418/01, \textit{IMS}, Opinion of AG Tizzano, supra note 164, para 62.
\textsuperscript{171} Case C-418/01, \textit{IMS}, supra note 138, para 49.
\textsuperscript{172} Venit J., ‘Article 82 EC: Exceptional Circumstances The IP/Antitrust Interface After IMS’ in Ehlermann C. D. and Atanasiu I. (eds), supra note 102, p. 626.
\textsuperscript{173} Houdijk J., supra note 155, pp. 480-481.
product is a minimum guarantee that the product marketed by the plaintiff would be at least “differentiated” from the existent one. In this context, it is obvious the pro-dynamic efficiency function of this condition with parallel respect to economic freedom of dominant undertaking.

Another objection which has been raised concerning the new product condition is that it is not in conformity with the nature of copyrights. While copyright ensures the economic exploitation of an input based on its creativity, patents and technical intellectual property are based on the novelty and the inventive character of the input. Additionally, in most legal systems compulsory licensing is known only in the latter group of rights. Consequently, the application of the new product criterion and simultaneously the restriction of “elimination of competition” condition in IMS may be negatively assessed. Nonetheless, such a criticism should not cover Magill and IMS cases, taking into account that the protection of TV listings or sales database with copyright was ambivalent.

Concerning the determination of the degree of novelty required, the recourse on economic criteria is not only advisable but necessary, in order to define the framework of the “new product” condition. As suggested by Aldhorn, Evans and Padilla a new product “is one that satisfies potential demand by meeting the needs of consumers in ways that existing products do not”. The appearance of this product leads to the expansion of the market by including consumers, who could not be satisfied in the past. It establishes in the same relevant market of the existing products a “new option.

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174 Hatzopoulos V., supra note 70, p. 31.
175 Monti G., supra note 51, p. 229.
176 It is important to mention that EU Database Directive, which regulates the protection of databases with copyrights, contained in its initial draft a compulsory licensing provision. This provision was replaced by the existing article 9 which provided for limited grounds under which Member States could deviate from database protection. See Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, [1996] O J L 077, pp. 20-28, Czapracka K., supra note 116, pp. 51-52.
177 Meinberg H., supra note 150, pp. 402-403.
178 Drexl J., ‘Abuse of Dominance in Licensing and Refusal to License: A ‘More Economic Approach’ to Competition by Imitation and to Competition by Substitution’ in Ehlermann C.D. and Atanasiu I. (eds.), supra note 102, p. 651. Drexl underlies that, in general, situations of inherent regulatory failures of the IP system, in the notion of establishment of unreasonably broad protection on IP rights, could not be effectively resolved by the application of essential facility doctrine on IP rights, especially at a EU level, taking into account the problem of conflict between national and EU law.
not just variations” of the product supplied. In this case, market’s expansion should be considerable\textsuperscript{179}.

2.3.6 General overview of the case
The IMS ruling although it upheld a reserved view on compulsory licensing, it presented the cumulative conditions under which the essential facilities doctrine is applicable on IP rights\textsuperscript{180}. The Court took a broader view in the Oscar Bronner test of indispensability, and gave special gravity to the condition of new product. The decision in IMS reflects in substance a departure from “two market leveraging” to “two product tests” and pointed out the high degree of plaintiff’s dependence on the protected IP right\textsuperscript{181}. All in all, one can conclude two significant remarks concerning the application of the essential facilities doctrine: Firstly, even though it is not clear if two separate markets are needed, at least the Court seemed to widen the notion of separate markets in order to cover even subtle differences in the productive stages. Secondly, the Court showed its respect to IP Law but prohibited practices of dominant undertakings which would impede the appearance of new products and services\textsuperscript{182}.

2.4 Microsoft Case: A new dynamic on the doctrine conditions
2.4.1 Factual background
Microsoft was dominant in the market of client PC operating systems and in work group operating systems. Several software companies complained before the Commission, that among others, Microsoft’s refusal to disclose interoperability information constituted an abuse of its dominant position which eliminated access of these undertakings to the downstream market. Interoperability information was


\textsuperscript{181} Venit J., ‘Article 82 EC: Exceptional Circumstances The IP/Antitrust Interface After IMS’ in Ehlermann C. D. and Atanasiu I. (eds), supra note 102, p. 627.

protected by IP right (trade secret) and was the essential information needed to these undertakings in order to compete in the same market with Microsoft. Commission recognized by its decision the abusive conduct of Microsoft and the latter appealed Commission’s decision before the CFI\textsuperscript{183}.

2.4.2 The cumulative approach and the definition of the relevant market

A remarkable point of the Microsoft’s ruling is the confirmation of the cumulative approach firmly established in IMS. However, the phrase “in particular” the “exceptional circumstances” under which the essential facilities doctrine is applicable, may imply that other circumstances might be possible to exist and provoke the same effect\textsuperscript{184}.

Before the analysis of the specific conditions, reference should be made to the definition of the relevant market. The CFI required for the application of article 102 TFEU the existence of two separate markets. It distinguished the upstream market which was the market of the work group server operating systems and the downstream market which was the client PC operating system\textsuperscript{185}.

It is supported that such a broad determination of the downstream market was not in line with previous jurisprudence. In \textit{Magill} and IMS, the Court defined the relevant market on the basis of the plaintiff’s claims. Although this broader definition ensured that it was in reality impossible for the requesting undertaking to acquire the upstream product\textsuperscript{186}, it seems to be problematic for two reasons: firstly, the Court could not define the exact degree of interoperability needed for access and secondly, the broader definition included operators who were not in need of interoperability information for client PC operating systems. Due to the second reason the Court adopted a more flexible approach regarding the conditions of indispensability and elimination of competition\textsuperscript{187}.

\begin{flushright}
\textsuperscript{183} See Case T-201/04, Microsoft Corp. v Commission of the European Communities (Microsoft), [2007] ECR II-03601.
\textsuperscript{184} Ibid., paras 331-334.
\textsuperscript{185} Ibid., paras 334, 559.
\textsuperscript{186} If the requesting undertaking cannot access in a wide market it is sure that it cannot access to a stricter defined market.
\end{flushright}
2.4.3 Indispensability and elimination of competition
The CFI established the indispensability of interoperability information by highlighting its important role for access in the relevant market and by pointing out that its lack would lead even to a gradual elimination of competition\textsuperscript{188}. It was supported that the conclusion of indispensability in a market where other undertakings, such as Linux, can, to some extent, interoperate with Windows client operating system, was the first negative point of the broad market definition\textsuperscript{189}. It is true that CFI lowered the threshold of Oscar Bronner indispensability test, under which the existence of “even less advantageous” and economically viable alternatives, would not allow to consider a product as indispensable. CFI took the view that interoperability information is indispensable because it was the only solution for competitors to reach an equal position with the dominant undertaking\textsuperscript{190}. Furthermore, the ruling reflects a departure from the formalistic and technical indispensability test to a more economic approach. Such an approach may reduce the level of legal certainty with regard to the conditions of the doctrine’s application and it is doubtful if it could be applied correctly due to the limited competence of EU authorities in factual assessment. Its vagueness, would also lead to an easier conclusion of abuse in these cases\textsuperscript{191}. However, the positive aspect of the approach of CFI was that it considered the indispensability test in order to establish “competition in the market” and not “competition for the market”\textsuperscript{192}.

\textsuperscript{188} Case T-201/04, Microsoft, supra note 183, paras 381, 428.
\textsuperscript{189} Hou L., supra note 187, pp. 465-466.
\textsuperscript{192} The establishment of “competition for the market” though it demands high threshold for innovation once an undertaking has reached this threshold it enjoys the reward of dominance in the relevant market. On the other hand, “competition in the market” requires lower threshold of innovation and subsequently lower rents, but undertakings do not acquire the whole market through innovation but they strive to augment their market power. Larouche P., ‘The European Microsoft Case at the Crossroads of Competition Policy and Innovation’, Antitrust Law Journal, vol. 75 no. 3, 2009, pp. 610-611, available from: http://socrates.berkeley.edu/~scotch/DigitalAntitrust/Larouche.pdf (accessed on 5 January 2016), Andreangeli A., supra note 190, p. 594.
The CFI analyzed indispensability of interoperability information in connection with elimination of competition. In this context two significant remarks should be highlighted. Firstly, article 102 TFEU should be applied even when there is a “risk” of elimination of competition in the relevant market, because the provision aims to safeguard undistorted competition level in the market. Secondly, CFI mentioned that refusal should eliminate “effective competition” in the market because the “marginal presence” of undertakings is not adequate to establish an undistorted competition level\textsuperscript{193}.

The element of “risk” of elimination was in line with the objective to preserve undistorted competition pursued under article 102 TFEU. This phrase emphasized the preventive role of Competition Law and clarified that it is possible to interfere even when there is possibility of market distortion\textsuperscript{194}. The condition of foreclosure of “effective competition” expanded the doctrine’s application in cases where the existing competitors “are marginalized or substantially weakened” in a way that they do not exercise competitive pressure on the dominant undertaking\textsuperscript{195}. It was supported that the new approach of effective competition, was the second modification of the CFI due to the wide market definition, because elimination of whole competition in the market was not fulfilled\textsuperscript{196}. Temple Lang criticized this approach mentioning that an input is truly essential only when all competition is excluded\textsuperscript{197}. Nevertheless, this extension has led to an important step forward: CFI adopted a substantial notion of competition which does not mean the mere existence of more undertakings acting in the same market, but the presence of effective competitors which exercise market pressure to the dominant undertaking\textsuperscript{198}. In this way it can be avoided the tolerance or maintenance of friendly or small competitors, who would allow the dominant undertaking to invoke that not all competition is eliminated\textsuperscript{199}.

\textsuperscript{193} Case T-201/04, Microsoft, supra note 183, paras 561-563.
\textsuperscript{194} Squitieri M., supra note 40, pp. 74-75, Andreangeli A., supra note 190, p. 593.
\textsuperscript{195} Faul J. and Nikpay A., supra note 26, p. 471.
\textsuperscript{196} Hou L., supra note 187, pp. 466-468.
\textsuperscript{197} Temple Lang J., 2011, supra note 161, pp. 111-112.
\textsuperscript{198} Vesterdorf B., supra note 191, p. 8.
\textsuperscript{199} O’ Donoghue R. and Padilla J. A., supra note 33, p. 444.
2.4.4 The reform of “new product” requirement
The CFI adopted an alternative approach vis-à-vis the condition of new product. It stated that the prevention of appearance of a new product is not the sole indication of “consumer prejudice”. It noted that under article 102(b) TFEU, “prejudice of consumers” was not only provoked by the reduction of production but by “limitation of technical development” as well. It concluded that article 102 TFEU covered both direct and indirect prejudice of consumers.\textsuperscript{200}

This novel interpretation\textsuperscript{201} meant that refusal to license is abusive not only in cases of prevention of new product appearance but also when it impeded the technological improvement of an existing one. The CFI’s view can be explained because Windows present the characteristic of a de facto monopoly in the market due to consumers’ wide acceptance. Although protected with an IP right, interoperability information was necessary for competition in the market of client PC operating systems. Without access to that information, full interoperability could not be achieved\textsuperscript{202} and Microsoft would leverage the upstream market thought its dominant position in the downstream market. Consequently, total interoperability was in favor of consumer interests, because such information has become a de facto standard in the market.\textsuperscript{203}

The high standards of new product condition of Magill and IMS would not be reached because, after the disclosure of interoperability information, competitors would not market a distinctive and novel product to consumers. CFI’s approach may be criticized because it foresaw the essential function of IP rights giving the chance to competitors to act in the same market with the dominant undertaking by marketing a similar product. Additionally, the notion of “technical development” is very broad and could allow “free rides” to requesting undertakings which would market the same product slightly improved. This novel approach of the CFI matched better the IT sector, but one can argue that such an approach would lead to a sector-regulated Competition Law. In general, the criticism on Microsoft’s approach is that it went beyond the necessary for

\textsuperscript{200} Case T-201/04, Microsoft, supra note 183, paras 643, 647 and 664.
\textsuperscript{201} CFI adopted a “literal interpretation” of article 102 TFEU. It stressed that the impediments on technological development should be assessed in the same way as the impediments on production in Magill and IMS. Squitieri M., supra note 40, p. 81.
\textsuperscript{202} Linux has achieved only partial interoperability without access to this information.
the doctrine’s application on IP rights, it reduced legal certainty and threatened the IP system’s effectiveness\(^\text{204}\).

Despite the aforementioned criticism, from an economic perspective, one can observe that the new approach of the CFI was more accurate than the new product condition in *Magill* and *IMS*. The interpretation of “new product” in *Microsoft* was based on incentives to innovate. It was argued that a compulsory licensing may augment the innovative efforts of competing undertakings. The effect of the compulsory licensing may be that it would raise incentives of competitors to innovate and would not reduce Microsoft’s incentives. On the other hand, if no compulsory licensing was ordered, then Microsoft would be the only actor in the downstream market and would not have incentives to innovate. So, CFI’s new criterion is based on the positive results of “follow-on innovation” which would favor consumers\(^\text{205}\). CFI considered that access of competitors to interoperability information would not amount in the production of clone-products but in differentiated and technologically innovative ones\(^\text{206}\). All in all, the phrase of Monti “rivalry is the key to efficiency” describes in the most precise way that the establishment of effective competition may improve dynamic efficiency as well\(^\text{207}\).

Examining the matter by both sides, the introduction of technological improvement in the new product test could threaten legal certainty and could made the essential facilities doctrine applicable in cases of slight amelioration of existing products. Although it should be reminded that the notion of “technological development” is a part of the exceptional circumstances test and as such should be narrowly construed in order to avoid unreasonable extensions\(^\text{208}\).

2.4.5 Objective justification and burden of proof

In *Microsoft*, it was the first time that a court at EU level gave some guidance concerning the notion of objective justification for the application of the essential facilities doctrine on IP rights. The CFI mentioned that the mere possession of IP rights

\(^{204}\) Hou L., supra note 187, pp. 468-469, Czapracka K., supra note 116, pp. 59-60.


\(^{206}\) Squitieri M., supra note 40, p. 82, P. Larouche, supra note 192, p. 613.

\(^{207}\) Monti G., supra note 51, p. 231.

\(^{208}\) Vesterdorf B., supra note 191, p. 9.
can constitute an objective justification only if it is accompanied by a significant impact on dynamic efficiency\textsuperscript{209}.

Nonetheless, the CFI gave little guidance and did not shed further light on the notion of objective justification, which remained a “black hole”. Legal scholars assume that an objective justification can be based on “legitimate commercial, technical and efficiency reasons for refusing to license”. This is the case when access to the IP right would impede or seriously harm the dominant undertaking’s business or when access would degrade the quality or the integrity of the relevant market. Exceptional situations in trade and contradiction with public policy may be regarded as objective justifications too. Other grounds for justification may be found when the dominant undertaking proves that it plans to market the new product on its own or when the economic survival of the undertaking rests solely on the requested IP right. Nevertheless, it cannot be characterized an objective justification neither the anticompetitive intent of the dominant undertaking, because every refusal to supply aims to preserve a competitive advantage, nor the lack of prior deal between the dominant undertaking and the plaintiff. It is anticipated by EU courts and authorities to provide a clearer guidance for the application of this condition\textsuperscript{210}.

Unlike the CFI, further guidance concerning the notion of objective justification has been also provided by the DG Competition Commission Discussion Paper 2005, which enumerates grounds such as the distortion of the market conditions by the refusal, the lack of technical knowledge by the requesting undertaking in order to exploit the IP right and the establishment of minimum compensation for investments\textsuperscript{211}.

Another important feature of Microsoft was that the Court clarified the burden of proof for both parties. The plaintiff should prove the necessary facts which establish an abuse of dominance, while the defendant has the burden of proof to support the existence of an objective justification. However, plaintiff has again a chance and a burden to prove that arguments and facts of the defendant could not prevail on the application of article 102 TFEU\textsuperscript{212}. Unfortunately, it was observed that the CFI in

\textsuperscript{209} Case T-201/04, Microsoft, supra note 183, paras 689-690.
\textsuperscript{211}For a more detailed reference see DG Competition Discussion Paper, supra note 148, paras 234-236.
\textsuperscript{212}Case T-201/04, Microsoft, supra note 183, para 688.
Microsoft required from Microsoft a higher threshold of proof concerning the facts that objectively justified its refusal while it considered sufficient the limited and generally described proof which was filed by the Commission in order to support its claim for abusive refusal to license.  

2.4.6 General overview of the case

Microsoft’s approach armed the EU authorities with a new dynamic in the formulation of the essential facilities doctrine. The indispensability requires an economic viability assessment; the new product condition was extended to cover in its scope technological development considerations; the effect of the abusive conduct should be elimination of effective competition and the mere claim of the value and the existence of disincentives to innovate do not constitute an objective justification.  

This expansion of the doctrine’s conditions is not deemed adequate for every market. The Microsoft approach was oriented to be applied in cases of super-dominance or “quasi monopolies” and in cases referring to markets with high entrance standards. The CFI lowered the standards and adopted a broad and lenient approach in the interpretation of the doctrine’s requirements. In Microsoft, the high threshold of access to the IT market was appropriate for the new interpretation. CFI assessed the market conditions and tailored the doctrine accordingly. Compulsory licensing is treated in these cases as a necessary element to guarantee access for competitors who would further develop this technology and innovate. So, the economic features behind Microsoft led to this interpretation. From this observation it can be concluded that the higher the entrance threshold in the market, the wider would be the interpretation of the doctrine’s conditions. However, the drawback of Microsoft is that the CFI did not mention if the new approach was applicable in general or only for specific markets, creating in this way legal uncertainty amongst undertakings.

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213 Czapacka K., supra note 116, pp. 61-62.
216 The reflections of Microsoft are obvious in the formulation of EU legislation concerning the IP protection of computer programs. See Article 6 of Directive 2009/24/EC of the European Parliament and of the Council of 23 April, 2009, on the Legal Protection of Computer Programs, [2009] OJ L 211, pp. 16-22. Under this provision the establishment of interoperability constitutes a ground which prevails on IP protection and permits access to the IP protected program by the requesting undertaking under strict conditions and solely in order to achieve interoperability.
217 Graef I., supra note 190, pp. 9 and 20.
Conclusions

After the analysis of the theoretical background and the jurisprudential practice of EU Courts in the application of the essential facilities doctrine on IP rights, it is necessary to proceed to an overall assessment of the state of law in order to extract guiding directions on the doctrine’s application and to elaborate on further improvements.

Before the assessment of EU Law, further clarifications should be made considering the economics behind the law. The doctrine reflects the conflict of efficiencies in economics and the question of which efficiency should prevail for the promotion of general economic welfare. It may be supported that dynamic efficiency should be safeguarded until its protection leads to grave market damages. This means that IP rights should be protected to the extent that they do not seriously harm the market structure or consumer interests.

In the field of law, the first significant remark is the tailoring of the exceptional circumstances test, as a mean of EU Courts to balance the interaction between Competition Law and IP Law. Moreover, EU Courts, through this test, intervene as indirect and corrective regulators to the failures of the national-based IP system.

Although, the conditions for the doctrine’s application were uniformly applied, they were given different interpretations in each judgment. In *Magill* and *IMS* the conditions for the doctrine’s application were in principle narrowly drafted, while *Microsoft* presented a more flexible and economic based approach of the doctrine.

The prerequisite for the application of the doctrine on IP rights is the definition of the relevant market(s). The traditional view to distinguish between two separate markets does not seem convincing. EU Courts appear to require in the newest decisions the more flexible criterion of the distinction between two different productive stages, interconnected in a way that the first deemed necessary for access to the other.

Concerning the indispensability of the IP right, all the aforementioned decisions adopted as basis the *Oscar Bronner* approach. The extension of the indispensability test in *IMS*, in order to cover external factors should be welcomed. However, the approach of *Microsoft*, which concluded the existence of indispensability whenever the competitor could not reach the standards of the dominant undertaking, it is
doubtful if it could be generally applied, due to the high level of triggering into IP rights’ exclusivity.

Contrary to the indispensability test, Microsoft seems to indicate the best way to interpret elimination of competition. Microsoft relinquished the absolute foreclosure of competition required by Magill and IMS and applied the doctrine in cases of “risks” of elimination of “effective competition”. In other words, it promoted a substantial examination of market conditions and considered that the doctrine should be applicable in cases with real competitive distortions.

Regarding the central condition related with IP rights, the new product condition, EU Courts analysis was very concise. In Magill and IMS there was no elaboration on its notion. It was only stated that the new product should not be a clone of an existent one. It can be supported that the new product in these cases had the notion that the plaintiff should market something new and distinctive which satisfies consumer needs in a way that existing products could not, and due to its circulation it is estimated the expansion of consumers in the relevant market. In Microsoft, the CFI recognized an alternative approach by lowering the threshold of novelty. It required that the refusal to license should not impede “technological development”. Although this notion reflects the avoidance of consumer prejudice, it is too vague to be generally accepted and goes beyond the scope of the doctrine leading to absolute disregard of IP rights.

Last but not least, the condition of objective justification remained a notion not unraveled by EU Courts. It may be supported that these justifications would relate mostly with risks on the economic soundness of the dominant undertaking and with public policy considerations (See Appendix Table 1 for a comparative table on the interpretation of the conditions of the doctrine).

Despite the general overview, it can be observed from the analyzed decisions that the stricter or broader application of the doctrine depends on the structure of the relevant market. In situations where market access is easier the application of the doctrine should be closer to the analysis of Magill and IMS, while in situations of high threshold of market access or network effects, the doctrine should be broadly construed as in Microsoft. However, this situation does not establish legal certainty for dominant undertakings.
Consequently, the application of the doctrine on IP rights which resolves situations of market leveraging due to the exercise of IP rights, is a significant but not the most effective solution. The difficulties of the doctrine’s application, taking into account the evidence required for its invoking, should be dealt with legislative initiatives. The first aim is the achievement of harmonization of IP Law at EU level. In this way, EU legislator would define the proper scope of IP protection and would avoid conflicts between national and EU law in cases of interaction of IP Law and Competition Law. Also, a modification of IP Law should enhance the powers of IP authorities in order to assess the market structure and the possibilities of anticompetitive effects before granting the relevant right. Finally, in markets with special characteristics, the doctrine would be applied more effectively, through legislative or regulatory intervention.

In conclusion, Competition Law, through the application of the essential facilities doctrine on IP rights, can intervene to avoid failures of the IP system which distort market conditions. However, EU authorities should apply the doctrine with great responsibility by assessing the economic considerations behind the rule of law and by establishing consistency in the application of the doctrine, to the extent possible.

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Official Documents and Legislation


Material from the Web


### Appendix

Table 1: Comparative table of the EU Case law on the essential facilities doctrine on IP rights

<table>
<thead>
<tr>
<th>Relevant market</th>
<th>Oscar Bronner</th>
<th>Magill</th>
<th>IMS</th>
<th>Microsoft</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Distinction between upstream and downstream market (traditional view).</td>
<td>- Potential or hypothetical relevant market based on consumer demand and not in the existence of an actual market (elliptic view).</td>
<td>- Distinction in productive stages and interconnection of these stages - Potential or hypothetical upstream market.</td>
<td>- Upheld IMS.</td>
</tr>
<tr>
<td>Dominance</td>
<td>-*</td>
<td>- Dominance was identified in the context of IP rights' exclusivity.</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Indispensability</td>
<td>- Substitutability test: no other alternatives, even less advantageous</td>
<td>- Upheld Oscar Bronner.</td>
<td>- Extended Oscar Bronner in order to cover situations of external market failure.</td>
<td>- Consideration of the needs of requesting undertaking in order to reach an equal level with the dominant undertaking.</td>
</tr>
<tr>
<td></td>
<td>- Duplicability test: impossible or unfeasible the duplication of the facility or its alternative by any undertaking.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elimination of competition</td>
<td>Elimination for the requesting undertaking.</td>
<td>Elimination of all competition.</td>
<td>Upheld Magill.</td>
<td>Risk of elimination of effective competition.</td>
</tr>
<tr>
<td>New product</td>
<td>-</td>
<td>- No imitation of existing products.</td>
<td>- Intention not to market the same. - Novelty of product and potential consumer demand.</td>
<td>- Barriers to technological development for the creation of innovative products.</td>
</tr>
<tr>
<td>Objective justification</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>- Not sufficient only the IP protection of the requested facility.</td>
</tr>
</tbody>
</table>

*The symbol (-) means that in the relevant case the Court did not elaborate on this condition.*