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IPRs, Competition Rules and Interoperability: Who Has Priority?



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STOCKHOLM NETWORK

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Introduction

Historically, there has always been a tension between intellectual property rights and competition law. Intellectual property rights aim to stimulate long-term innovation/creativity by giving their holder the right to exclude others, typically for a certain period of time. But IP rights also exclude competitors – who are restricted in what they are able to do. So there is a basic tension between intellectual property rights and competition law, which aims at ensuring undistorted and unrestricted competition on the market.

Intellectual property laws around the world tend to be based on a long-term perspective. While it would be possible to make consumers better off in the short term by making intellectual property¹ freely available (because there are benefits and no costs), IP laws recognise that in the long term, making intellectually property freely available will make consumers worse off because innovation will decline.² In contrast, competition law may be more influenced by the short-term benefits that disclosure may bring.

Similarly, IP laws tend to be based on an *ex ante* view of innovation, whereas competition law tends to judge things *ex post*. Once intellectual property has been created, competition in a particular market may be favoured in a narrow, short-term sense if that IP is made widely available (*ex post* disclosure). But if that approach is adopted as a general policy, intellectual property will not be created in the first place because of a lack of incentive – in other words, *ex ante* the ability to exclude and limit dissemination is optimal for the creation of intellectual property.

Where exactly the boundary should lie between competition law and IP law is a much-debated question. It is one of the most interesting areas of discussion for any competition lawyer.

This article will explain how these tensions play out in the IT sector, where there is a further countervailing policy factor, namely the desirability of ensuring interoperability between different systems. The focus of this paper will be the software industry, but the same policy debates are equally valid in other areas of the IT industry.

Interoperability in the IT sector

In the field of information technology (IT), the term interoperability is generally understood to mean the ability of heterogeneous IT networks, applications, or components to exchange and use information (i.e. to ‘talk’ with each other).³ In simple terms, when two computer programs interoperate, the information generated by one can be used by the other.

¹ This paper discusses both IP rights (in a legal sense) and intellectual property more generally as an expression of the subject matter to which these legal rights refer. In other words, the term intellectual property is also used below to refer to the knowledge embodied in the IP rights.

² This can be traced back to what many believe to be the first patent law, enacted by the Venetian Senate in 1474, which recognised the need to provide incentives to innovators: “We have among us men of great genius, apt to invent and discover ingenious devices... Now, if provisions were made for the works and devices discovered by such persons, so that others who may see them could not build them and take the inventor’s honor away, more men would then apply their genius, would discover, and would build devices of great utility to our commonwealth.”

³ This understanding of interoperability in the software industry has been accepted by the U.S. Courts, where Judge Kollar-Kotelly, when crafting the remedy intended to promote interoperability between Microsoft’s PC operating system software and third-party products, defined interoperability as the ability of “two devices or systems ... to ... exchange information and use the information that has been exchanged.” *State of New York, et al. v. Microsoft Corp.*, 224 F. Supp. 2d 76, 227 (D.D.C. 2002), affirmed on appeal in *Massachusetts v. Microsoft Corp.*, 373 F.3d 1199, 1224 (D.C. Cir. 2004).

There are strong policy objectives behind the promotion of interoperability. In the early days of computing, hardware and software would be bought as a bundle from a single company (e.g. IBM or Digital), which ensured interoperability (as the client's entire network would be an IBM or Digital shop). Competition in those days was much more limited than it is today – when heterogeneous computer networks are the norm, and large corporations typically have software and hardware from a variety of different vendors. It is the ability of different software and hardware products to interoperate that leads to the variety of different software solutions available on the market today.

Interoperability is of course a continuum, and more expansive definitions are sometimes advanced. At the extreme, interoperability is defined by some to require that the two programs should be interchangeable. For two programs to be interchangeable they would have to mimic each other in the sense that each program could access and use all of the other's features. That would go too far: interoperability means that two programs can communicate with each other; it does not mean that they should each be able to replicate all of the other's features and functionality.

The different types of IP rights over software

There are three main types of IP protection that are available to the developer of software. The most common form of protection is trade secrecy, followed by copyright. Despite the controversy around software patents, they are actually the least common form of IP protection in the software industry.⁴

The three main IP rights over software

Trade secrecy: a program's software design, engineering and implementation methods will be trade secrets, unless the rightholder chooses to make the information public (e.g. by publishing the source code). Trade secrecy protects against unlawful disclosure of a secret; it does not prevent someone from developing software that achieves the same outcome as a result of his or her own endeavour. In other words, it does not grant the rightholder exclusivity in the same way that patents do.

Copyright: a software program will be protected by copyright. Copyright gives the rightholder protection against literal copying and publication of derivative works and unfair imitation based upon decompilation that reveals how the program is designed, engineered and implemented. Subject to the restriction on decompilation, third parties are not prohibited by copyright from independently developing their own software programs that are similar to the original program.

Patents: a program may contain patented inventions. Patents offer an exclusive right to use the invention for a limited period of time, in exchange for publishing the invention as part of the patent process.

Each of the three rights plays a distinct and parallel role. Generally, a software company will make use of all rights to ensure its software is protected. And sometimes, other IP rights may be involved, such as trademarks, which are (for example) an important element in protecting the Bluetooth standard.

⁴ See, e.g., Martin Campbell-Kelly, *Not All Bad: An Historical Perspective on Software Patents*, 11 Mich. Telecomm. Tech. L. Rev. 191 (2005).

IP and interoperability

What happens when the information needed to achieve interoperability with a particular computer program is protected by intellectual property rights?

In practice, this is not so frequently an issue, as the rightholder will often have strong commercial and legal incentives to enable interoperability by publishing the application programming interfaces (APIs) and implementing industry standards. Copyright does not prevent third parties from interoperating through APIs and industry standards; and the patent situation would have been made clear under the terms that the APIs were published or the industry standard was promulgated.

But what if no API has been published for a particular aspect of a program? There are legitimate reasons why a software vendor might choose not to publish an API or implement an industry standard.

- Publishing an API commits the vendor to keep the API available in future versions of the program, which might not be feasible from a technical perspective. Once an API is published, it limits the future development of the program to which the API relates, which may prevent the vendor from improving its own product.
- Industry standards are consensus-based. For that reason, industry standards may not be at the cutting edge of innovation. A particular vendor may want to adopt a more advanced technique. It may also want to have the freedom to change its approach without having to get the approval of the standards body.

In such cases, the typical approach of a third party wanting to interoperate would be to use reverse engineering or decompilation. Reverse engineering involves the analysis of information flows and network traffic. Decompilation involves using a set of software tools to recreate the original source code from the object code of the program under study.⁵

Neither decompilation nor reverse engineering raise any trade secret issue, as no confidential information has been used. Copyright issues do arise in decompiling as decompiled source code is a derivative work. Similar issues could potentially arise in the case of reverse engineering. But in Europe, the Software Directive contains a safe harbour,

The Software Directive

The aim of the Software Directive was both to stimulate innovation by guaranteeing copyright protection for software and to encourage interoperability. It found a balance between preventing unfair imitation of an innovator's computer program and avoiding unacceptable barriers to interoperability. It contains a compromise which allows a licensee unlimited rights to study and observe a program (reverse engineering) and limited rights to decompile a program in order to investigate its interfaces (articles 5 and 6). The decompilation right is subject to certain very specific conditions (in article 6): the act of decompilation must be limited in scope, i.e. it must be undertaken only to achieve interoperability with an independently created program and must be confined to the parts of the original program that are necessary to achieve interoperability; the information necessary to achieve interoperability must not previously have been readily available to the licensee; the decompiled source code may not be made public; and the information cannot be used to create a computer program substantially similar in expression.

permitting legitimate decompilation and reverse engineering for the purpose of attaining interoperability.⁶

So the copyright and trade secret IP obstacles to interoperability can be generally solved provided that the party wanting to interoperate is prepared to invest the time and effort to decompile and conduct reverse engineering, activities which are commonplace in the industry.

What then about patents? Unlike copyright, there is no harmonised European legislation on patents in the software field. There was a recent attempt to adopt EU-wide legislation to harmonise the rules on software patents – the proposal for a Directive on Computer-Implemented Inventions (CII). However, the European Parliament could not agree on the text of the proposal – notably on the provisions on interoperability (see box below). So there are no specific provisions on patents and interoperability as a matter of EC law. And given the passion of the debate in the Parliament, it looks unlikely that there will be any legislation in this area anytime soon.

The unsuccessful attempt to adopt the CII Directive

The European Commission initially proposed a similar approach to that which exists in the Software Directive. Article 6 of its proposal of February 2002 expressly followed the Software Directive and extended the provisions on decompilation and interoperability to patents. It reasoned that the holder of a patent should not be able to interfere with the freedoms granted under copyright law to software developers.

Interoperability was not initially perceived as a controversial element of the CII proposal. However, during the first reading of the proposal in September 2003, the Parliament effectively undermined the patent protection by adopting an amendment stating that the use of a patented technique to ensure communication between computers was not a patent infringement, whether or not the patent holder had consented and received compensation. This exemption went beyond promoting interoperability and effectively ignored any potential infringement of patent protection and eliminated the need to obtain the patent holder's consent before using a patented technique.

The Parliament adopted the amendment because MEPs were afraid that a software firm which obtained patent protection for a dominant proprietary standard might 'lock in' the market and make it impossible for other programs to interoperate and thus to compete. However, the change would have applied across the board, including to firms not in a dominant position.

The European Council of Ministers did not follow the Parliament's approach and reinstated the exemption in the original proposal. It rejected the Parliament's proposed amendment as contrary to the TRIPS Agreement because it removed protection against patent infringement.

⁶ Directive 91/250/EEC on the legal protection of computer programs by copyright (the 1991 Software Directive). [1991] OJ L 122/42.

The Council proposed to add a recital stating that the Directive was without prejudice to the competition rules, especially if a dominant player tried to block interoperability through patent protection. Opponents of the CII proposal objected arguing that this language would leave a patent holder free to block interoperability as much as it wanted, provided it did not violate antitrust law.

By the time the Council Common Position was adopted in March 2005, public awareness of the issues involved had spread far beyond information technology specialists and intellectual property lawyers. The open source community highlighted what it perceived to be the risks to interoperability in the proposed Directive, and its views found considerable support in the European Parliament. Certain Member States, led by Poland and Denmark, also found the Council text unacceptable, notably with regard to interoperability. Poland considered that while the exceptions in the text were *“sufficient in the context of copyright, Art. 6 of the draft directive does not actually enforce interoperability on a patent holder.”*

The Commission’s views also shifted. It moved from the basically neutral attitude on interoperability of its original proposal to the voluntary promotion of interoperability as *“a mean of fostering innovation and competition”*. It also stated that competition on its own *“cannot solve all potential problems in this [interoperability] area”*.

During the Parliament’s second reading fierce debates took place on whether patents were justified in the IT world. The wide interoperability exemption amendment from the first reading was re-tabled. But compromise discussions did take place. Some MEPs suggested that patented technology should be submitted to standards-making organisations. But this was not accepted as a viable solution by the open source community, as standards would carry licence fees, which the open source community argued would be an unacceptably heavy burden for SMEs and individual programmers.

In addition, some MEPs thought this was a good opportunity to incorporate the TRIPS provisions into EU law, by specifying that an interoperability exemption did not prejudice the legitimate rights of patent holders. Patent supporters objected to what they saw as an attempt to water down the TRIPS provisions. They argued that preventing a patent holder from enforcing his patent was not compatible with TRIPS, particularly Article 27, which prohibits any discrimination of protection between fields of technology. They also pointed out that the interoperability amendments did not incorporate the TRIPS requirement that a proposed licensee must first make *“efforts to obtain authorisation from the rightholder on reasonable commercial terms”*. They added that the rightholder should receive an adequate recompense, determined by a judicial authority and took account of the economic value of the use made of the interoperability facility.

For patent supporters, the main problem was how to prevent situations where a developer requested a licence under the guise of interoperability, but then used the patented information for entirely different purposes. A developer might claim that any invention should be licensed because it was indispensable for achieving interoperability. This would create serious risks unless the licence required the developer actually to use the patented technology/invention for the purpose indicated, i.e. to interoperate with other programs.

Patent supporters also recalled that if competitive forces on their own were not sufficient to promote interoperable products, competition law was there to protect the public interest. The Commission and the European Courts, notably in the *Magill* case, have already accepted that dominant companies may be subject to a compulsory licence of their intellectual property rights (see further below).

Until the eve of the Parliament's vote in second reading, it seemed as though some form of compromise relating to interoperability could win broad support. However, this ultimately was not the case, as the Parliament voted to reject the entire proposal. Ironically, the interoperability issue was not the cause of the proposal's demise, although the strength of the views espoused by some MEPs on both sides of the debate was probably counter-productive. The fatal blow was struck by the inability of Parliament and Council to agree on a definition of what was patentable under the Directive. Because there was no solid parliamentary majority on the other main elements in the proposal, Parliament could not make the Council take its view on patentability into account, and therefore decided that the only solution was to reject the proposal in its entirety. With it died all the solutions to interoperability put forward during the debate.

The interesting debate over interoperability and IP rights in the CII proposal is now a matter of history. But, despite the fears that were raised during the debate, there is interoperability in the marketplace today. Market forces, recourse to common standards, reverse engineering, the Software Directive and the EU competition rules have been effective in enabling undertakings to achieve interoperability.

Thus, the current situation is that the IP issues preventing genuine interoperability are likely to principally relate to patents, not trade secrets and not copyright – provided the entity seeking interoperability is prepared to invest the necessary effort by taking use of the rights granted under the SWD to use decompilation and reverse engineering to achieve interoperability.⁷

And in the current state of EC law – with the CII proposal having failed – if there are circumstances where IP rights are preventing interoperability, then it is competition law that is likely to be invoked.

When does competition law trump IP rights on grounds of interoperability?

So let us turn to the competition cases to examine the circumstances in which competition law considerations will override IP rights to ensure interoperability.

⁷ Though relatively few patents have been granted in Europe to date relating to software.

Given that it is unlikely that there would be an agreement between two independent entities to use IP rights to restrict interoperability, the focus of the competition law arguments in the EU has been Article 82 of the EC Treaty, which prohibits undertakings from abusing a dominant position.⁸

There have been few cases on compulsory licensing of IP rights and even fewer on the specific topic of interoperability, so the best way to assess the current state of the law is by summarising the principal cases to date.

*The IBM Undertaking (1984)*⁹

The IBM case was the first competition case focussed on interoperability – principally hardware interoperability. The Commission argued that IBM held a dominant position for the supply of the central processing unit and the operating system for its most powerful range of computers, the IBM System/370.

The Commission had objected to the fact that IBM did not supply its competitors (manufacturers of ‘plug compatible’ hardware) in sufficient time with the technical information needed to permit their products (which competed with IBM’s own products) to be used with the System/370.¹⁰ This meant that the competitors’ products emerged a significant period after those of IBM, thus enabling IBM to retain leadership in peripherals and other hardware products which attached to the IBM computer.

The case was settled before the Commission adopted a decision, with IBM agreeing to disclose interface information enabling competing companies in the Community to attach both hardware and software products of their design to System/370. IBM also agreed to disclose information to enable competitors to interconnect their systems or networks with its System/370 using IBM’s set of network protocols.

Although there was no formal decision, the case indicated that the Commission considered that dominant companies could be required to supply information necessary to enable interoperability. But because there was a settlement, the precise conditions under which this could be the case were not established – and the principle was not tested in Court.

But two points do clearly emerge from the Undertaking itself. First, the information IBM agreed supply was “the interface information necessary to attach and not ... product design information.”¹¹ And, second, IBM maintained its IP rights over the information it was licensing: it did not waive its patent rights and was entitled to charge a reasonable royalty for the interfaces it was licensing.

*Volvo v Veng (1988)*¹²

This case concerned the design rights on spare parts for Volvo cars. Volvo sued Veng to prevent it from selling Volvo spare parts (the front wings for Volvo 200 cars) in breach of Volvo’s design rights. Veng raised a competition law

⁸ Bearing in mind the criteria set forth by the European Court in the Bayer/Adalat case: *Bundesverband der Arzneimittel-Importeure eV and Commission v Bayer AG* [2004] ECR I-23.

⁹ Bull. EC 10-1984, pp. 96-103.

¹⁰ See Commission XIVth Report on competition policy, p. 78.

¹¹ *IBM Undertaking*, point 2. The fact that the undertaking did not oblige IBM to disclose product design information was subsequently confirmed by *Fin Lomholt* in the Commission’s Competition Policy Newsletter, October 1998.

¹² Case 238/87, *AB Volvo v Erik Veng (UK) Ltd*, [1988] ECR 621 I.

defence. The ECJ held that a refusal to license IP rights was not an abuse of a dominant position as the rightholder would be deprived of the substance of his right if he could not determine whether to license or not.¹³ However, the Court added that in certain exceptional circumstances the exercise of the right to refuse to license could be abusive. The Court gave an example of such exceptional circumstances: “the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation”¹⁴

Volvo v Veng thus established the general principle that a compulsory license of IP could only be ordered in exceptional circumstances. The next case, *Magill*, gave a more concrete indication as to what could constitute exceptional circumstances.

Magill (1995)

*Magill*¹⁵ concerned copyright over TV listings. In Ireland each of the main TV broadcasters used to produce their own TV guide covering their own channel. *Magill* tried to bring out a multi-channel TV Guide covering all TV channels available in Ireland. The broadcasters successfully invoked copyright to prevent him doing so. The ECJ reaffirmed the general principle that a dominant company is not under an obligation to license its IP except in exceptional circumstances. But it found that this was an exceptional case where the refusal to license was an abuse of a dominant position under Article 82.

The exact reasons why this was an abuse was usefully summarised by the ECJ in *Bronner*,¹⁶ which summarised *Magill* as follows:

“In *Magill*, the Court found such exceptional circumstances in the fact that the refusal in question concerned a product (information on the weekly schedules of certain television channels) the supply of which was indispensable for carrying on the business in question (the publishing of a general television guide), in that, without that information, the person wishing to produce such a guide would find it impossible to publish it and offer it for sale (paragraph 53), the fact that such refusal prevented the appearance of a new product for which there was a potential consumer demand (paragraph 54), the fact that it was not justified by objective considerations (paragraph 55), and that it was likely to exclude all competition in the secondary market of television guides (paragraph 56).”

The *Bronner* court thus reiterated the principle set out in *Magill* that the refusal to license had to prevent the appearance of a new product for which there was potential consumer demand by excluding all competition on the secondary market.

*Microsoft (2004)*¹⁷

¹³ Paragraph 8: “It must also be emphasized that the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right. It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a licence cannot in itself constitute an abuse of a dominant position.”

¹⁴ Paragraph 9: “It must however be noted that the exercise of an exclusive right by the proprietor of a registered design in respect of car body panels may be prohibited by Article 86 if it involves, on the part of an undertaking holding a dominant position, certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair.

¹⁵ Case C-241/91 *RTE and ITP v Commission* [1995] ECR I-743.

¹⁶ Case C-7/97 *Bronner* [1998] ECR I-7791, at paragraph 40. *Bronner* does not directly relate to interoperability or IP rights – it was about whether an Austrian newspaper had to allow one of its rivals access to its distribution network. The ECJ held that it did not, notably because the test of indispensability was not met.

¹⁷ Commission Decision of 24 March 2004 in case COMP/C-3/37.792 *Microsoft*, available at: <http://ec.europa.eu/comm/competition/antitrust/cases/decisions/37792/en.pdf>

The Microsoft decision emerged in March 2004. Despite its great length, it has one disappointing feature, namely the absence of a clear statement of the legal standard determining when dominant companies are obliged to license their intellectual property rights. Nor does the decision say whether any special rules apply when interoperability is at stake. Indeed, the decision's conclusion as to the applicable legal standard is as follows: "The case-law of the European Courts therefore suggests that the Commission must analyse the entirety of the circumstances surrounding a specific instance of a refusal to supply and must take its decision based on the results of such a comprehensive examination."¹⁸

The most authoritative guide as to the factors actually taken into account by the Commission in reaching its decision in Microsoft is the following passage of an Order of the President of the Court of First Instance, which describes the exceptional circumstances he understood to have been taken into account by the Commission:¹⁹

The exceptional circumstances in Microsoft

"In the present case, the Commission considered that the exceptional circumstances consisted in the fact that the refusal to supply the interoperability information was directed against Sun Microsystems, formed part of a general pattern of conduct and entailed a reduction in the level of disclosure of information (recitals 560 to 584), that it risked eliminating competition (recitals 585 to 692) and that it had a negative effect on technical development, to the prejudice of consumers (recitals 693 to 708). In the light of those 'exceptional circumstances', the Commission found that Microsoft's arguments did not amount to sufficient objective justification for the refusal to disclose the interoperability information, whether in terms of incentives for Microsoft to innovate (recitals 709 to 763) or of its having no interest in restricting competition (recitals 764 to 778)."

It is notable that the President of the CFI did not discern that any special rules were being applied by the Commission merely because interoperability was said to be at stake.

Further guidance on the applicable legal standard (as well as clarification of the test actually applied by the Commission in this case) is likely to be forthcoming when the Court of First Instance hands down its judgment in Microsoft's appeal against the decision – a judgment which is expected during the course of 2007.

IMS v NDC (2004)

The most recent pronouncement on the topic of compulsory licensing of IP rights is the April 2004 IMS judgment of the European Court of Justice, Europe's highest court.²⁰

IMS is the world leader in data collection on deliveries by wholesalers of pharmaceuticals and prescription sales. On the German market, a geographic format for presenting this data had been jointly developed by IMS and its customers (the pharmaceutical companies) which had become the *de facto* industry standard. This structure

¹⁸ Paragraph 558.

¹⁹ Order of 22 December 2004 in Case T-201/04R, paragraph 203, not yet reported.

²⁰ Case C-418/01, IMS Health v NDC Health, [2004] ECR I-05039.

consisted in a division of Germany into 1860 'bricks' according to postcodes. When competitors appeared on the German market, IMS relied on copyright to prevent them using the industry standard 1860 brick structure.

IMS initially obtained an interlocutory order which had the effect of preventing NDC from competing on the German market.²¹ This order was overturned on appeal.²² But the case on the substance continued: NDC had asked IMS for a licence and, when such request was refused, it argued that the refusal to license was an abuse of IMS' dominant position. The German court referred the key questions of principle to the ECJ, whose judgment was delivered on 29 April 2004.²³

The IMS judgment makes it clear that for a compulsory license to be ordered four cumulative conditions must be satisfied:

"in order for the refusal by an undertaking which owns a copyright to give access to a product or service indispensable for carrying on a particular business to be treated as abusive, it is sufficient that three cumulative conditions be satisfied, namely, that that refusal is preventing the emergence of a new product for which there is a potential consumers demand, that it is unjustified and such as to exclude any competition on a secondary market."²⁴

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

The four part IMS test

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

The Court gave further guidance on the first two points of this test.

On indispensability, the Court confirmed that the test is whether there are products or services which constitute alternative solutions, even if they are less advantageous, and whether there are technical, legal or economic obstacles capable of making it impossible or at least unreasonably difficult for any undertaking seeking to operate in the market to create, possibly in cooperation with other operators, the alternative products or services.²⁵ The Court also clarified that when assessing indispensability it must be established, at the very least, that the creation of those

²¹ IMS obtained an interlocutory order by the Landgericht in Frankfurt in late 2000 which prohibited NDC from using the 3000 brick structure that it was then using or any other brick structure derived from the 1860 brick structure. This order was granted on the basis that the 1860 brick structure was a protected database, which might be protected by copyright.

²² Subsequently a German appeal court held that NDC could not be barred from developing a rival brick structure based on administrative divisions (postcode boundaries) in Germany even if it might be similar to the 1860 brick structure and might be deemed to be derived from it. NDC was therefore able to market data reported using a brick structure that would meet customers' needs.

²³ Judgment in Case Interestingly, as of late 2006, the case in Germany had not yet been finally decided: the German court is still working on applying the legal principles laid down by the ECJ to the facts on the ground.

²⁴ Paragraph 38.

²⁵ Paragraph 28.

products or services is not economically viable for production on a scale comparable to that of the undertaking which controls the existing product or service.²⁶

On emergence of a new product, the Court is clear that duplication (i.e. offering the same product) of the rightholder's product is not enough to satisfy this criterion. The party requesting the licence must intend to produce new goods or services not offered by the owner of the right. In other words, when balancing the interest in protection of copyright and the economic freedom of its owner against the interest in protection of free competition, the latter can prevail only where refusal to grant a licence prevents the development of the secondary market to the detriment of consumers. Therefore, the refusal by a dominant undertaking to allow access to a product protected by copyright, where that product is indispensable for operating on a secondary market, may be regarded as abusive only where the undertaking which requested the licence does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the copyright, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand.²⁷

The IMS case is the most recent court judgment on compulsory licensing. What is perhaps less obvious is that it is also a case about interoperability: the 1860 brick structure was the industry standard and IMS' rivals had to present their data in this format for them to be compatible with historical data and to conform to customers' wishes. So the dispute over the right to use that 1860 brick structure was also a dispute about the right to be interoperable. Moreover, by requiring that the refusal to license prevents the emergence of a new product (fulfilling unmet consumer demand) on a secondary market, the four point IMS test does take account of interoperability concerns.

Article 82 discussion paper

DG Competition's most recent pronouncement on the topic comes in its discussion paper on Article 82. That paper reiterates that the IMS test is applicable when assessing whether a dominant company is obliged to license its IP. It also offers some specific (albeit brief) thoughts on the issue of interoperability:

"A special case arises when an undertaking refuses to supply information in a way that allows it to extend its dominance from one market to another. This is the case for information necessary for interoperability between one market and another. Although there is no general obligation even for dominant companies to ensure interoperability, leveraging market power from one market to another by refusing interoperability information may be an abuse of a dominant position. Even if such information may be considered a trade secret it may not be appropriate to apply to such refusals to supply information the same high standards for intervention as those [applicable to refusals to license IP rights]."²⁸

Where does the law stand now?

The overarching principle is that EC competition law should only override intellectual property rights in exceptional circumstances. And the most recent case which sets out when exceptional circumstances will be present is the IMS case, which currently sets the legal standard for when a compulsory license of intellectual property may be imposed

²⁶ Paragraph 28.

²⁷ Paragraphs 48-49.

²⁸ DG Competition discussion paper on the application of Article 82 of the Treaty to exclusionary abuses, December 2005, paragraphs 241-242. Available at: <http://ec.europa.eu/comm/competition/antitrust/art82/discpaper2005.pdf>

on a dominant company. IMS is also the most relevant precedent when it comes to a compulsory license being sought to promote interoperability, since that case was about information needed for interoperability.

So the current law is that a dominant company will be required to license its IP to a competitor, *inter alia* for ensuring interoperability, when:

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

The overlap between IP and competition law remains of the most fascinating areas of European law – and even more so when interoperability issues also come into play. This area of the law is likely to be further clarified when the CFI issues its judgment in the Microsoft case.

Conclusions

Evidently, the law provides for a careful balancing between the differing policy goals underlying these three topics: the Software Directive contains a careful balance between copyright and interoperability and the IMS test also contains a careful balance between IP on the one hand and competition and interoperability on the other. So the title of this article is perhaps misleading: none of the competing policy goals is dominant – they all have to give way to each other in particular circumstances with a view to ensuring that innovation and competition remain at healthy levels.