Compulsory licensing of IP rights: The latest chapter in the IMS saga

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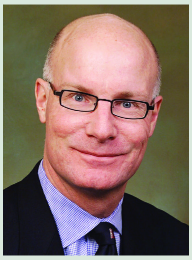
In what circumstances, if any, may a dominant company be forced to license its intellectual property rights to a competitor? This question is perhaps the most vexing to arise out of the intersection of competition and intellectual property laws. The EU competition cases that have dealt with compulsory licensing offer limited guidance, largely because they pull together different strands of case law –refusal to deal cases as well as essential facilities cases –into a colorful, yet confusing tapestry. The *IMS Health* case that is currently pending before the European Court of Justice (ECJ) as a result of a request for a preliminary ruling from a German court offers the ECJ an opportunity to inject some much-needed clarity into the law on compulsory licensing. The European Court of First Instance has stayed a parallel proceeding involving an appeal from a Commission decision in the same case to await the ECJ's ruling. While the ECJ's judgment is months away, if it decides to follow the lead of Advocate General Tizzano, who delivered his opinion on 2 October 2003, dominant companies that rely on intellectual property rights may have reason to worry.

The Advocate General formulates an approach pursuant to which a competitor could force a dominant company to grant a license as long as the dominant company is unable to put forward objective justifications for its refusal to grant a license and the competitor is able to show that (1) the intellectual property right concerns an "input" on a "potential" upstream market; (2) the input is "indispensable" to its ability to compete on the downstream market; and (3) it intends to introduce a product that has "different characteristics" from the dominant company's product.

While an analysis of each of these elements is beyond the scope of this brief comment, none of them would seem to present an insurmountable obstacle. In most cases involving intellectual property rights, it would not seem difficult to establish that they relate to inputs for which there is at least a "potential" upstream market. The indispensability requirement – which is drawn from the case law on essential facilities – may be more difficult to satisfy because, after all, if the dominant firm was able to develop the technology, it would seem feasible for competitors to do so as well. One can imagine, however, that there may be situations where a competitor could convince a court that it would be so difficult to invent around the technology that the license is indispensable. In fact, the more successful the dominant company, the better would seem to be the chances of showing that the use of its intellectual property is indispensable. The third part of the test – a product with "different characteristics" – would not seem difficult to meet. While it is clear that the licensee's product may not be an exact copy of the dominant company's product, it is just as clear that it does not need to belong to a separate product market.

If the ECJ were to adopt the Advocate General's approach, this would represent a serious encroachment on the rights of intellectual property owners. It is generally accepted that an intellectual property right gives its owner the ability to exclude others from the use of its intellectual property. The existing case law already represents an erosion of the rights of intellectual property owners in that a dominant company could be forced to grant a license in "exceptional circumstances." While the case law is not clear, it is conceivable that the dominant company could be required to create competition in its own market as long as the competitor were offering a new product for which there was consumer demand. The Advocate General's approach represents an even greater erosion of the basic intellectual property right because the competitor would no longer even have to show that it intended to introduce a new product, but only a product with "different characteristics." Of course, the competitor would need to satisfy the other elements of the Advocate General's test before it could obtain a license, but, as noted, none of these would seem to present an insuperable obstacle.

A better approach may be to limit compulsory licenses to cases where the license relates to a market entirely separate from that on which the dominant company is exploiting its intellectual property rights and on which it is not active. Thus, a dominant company could not be forced to create competition in its own market – which would go to the very heart of its intellectual property right – but only in an adjacent market where



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it is not exploiting its right. While a license in such a situation is still troublesome as it encroaches on the intellectual property owner's right to choose not to grant a license at all, it does less violence to his right than a license in the market where he is already exploiting his right. Moreover, a license would only be granted for such an adjacent market if it can be shown that the intellectual property is indispensable, as could be the case if the intellectual property right owner is the sole source of information needed on that market, and the intellectual property owner is unable to put forward objective reasons for his refusal. This approach not only minimizes the risk of undue encroachment on intellectual property rights, but calls for familiar market definition analysis in deciding whether the competitor would be using the right in the dominant company's market or in an adjacent market, thus avoiding the ambiguity in the existing case law as to whether the license must relate to a new product or a new product market and the difficulties presented by the elusive concept of "different characteristics" introduced by the Advocate General.

In his opinion in *IMS Health*, the Advocate General puts forward an approach that would fail to strike the appropriate balance between the competing concerns of intellectual law and competition law in the area of

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compulsory licensing because his reading of the criteria that must be met before a license will be granted is too expansive. It is to be hoped that the ECJ will adopt an approach that seeks to ensure that compulsory licenses will only be granted in truly exceptional circumstances. ■