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The IMS Health decision: a triple victory

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On 29 April 2004, the Court of Justice (E.C.J.) handed down its long awaited judgment in the IMS Health case.¹ It is a triple victory: a victory for clarity and hence legal certainty; a victory for copyright; and a victory for IMS Health (‘IMS’). The Court not only clarifies its case law in the area of the abuse of dominant position, but it reaffirms that Intellectual Property Rights (‘IPR’) are different from other forms of property. Furthermore, IMS should not, on the basis of the judgment, have difficulties winning the case at the national level.

In a previous article published in this review in December 2003², we had shown that the case law of the Community courts relating to abuses of dominant position was unclear, thereby creating a state of great legal uncertainty. But we had also pointed out that the solution towards clarification lied within the Bronner judgement itself. Thereafter, we had attempted to demonstrate that IPR and in particular copyright were different from other forms of property and that a difference of treatment for IPR was justified within competition law. Finally, we had concluded that the IMS Health case was a perfect opportunity for the Court to clarify its case law once and for all since almost 10 years had already passed since the Magill judgement. It is therefore with some satisfaction that we see that the Court took this opportunity and responded positively to the call. This short note does not review the whole judgement in detail but constitutes a follow-up on the points developed in our previous article.

It thus exclusively concentrates on those parts of the decision which deal with the points raised.³ First, the facts of the case are briefly recalled along with a summary of the law before the IMS decision was made. Finally, the decision of the Court is summarised and commented upon.

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¹ Case C-418/01, as yet unpublished, available on www.curia.eu.int.
³ A longer comment of the decision will be published in the European Law Review this year.
Factual background

IMS was the dominant player in the marketing of regional sales data on pharmaceutical products. It built a structure in 1860 geographical zones to format its reports on sales of medicines which it sold in Germany to the pharmaceutical companies. This structure is a copyrighted database. NDC Health (‘NDC’) entered the market with an alternative structure. It encountered the resistance of the pharmaceutical companies who were used to IMS’s structure and did not want to change to another one. NDC then marketed reports on the basis of a structure very similar to IMS’s. IMS was successful against NDC for copyright infringement before the German courts. NDC asked for a licence to use the structure in 1860 modules to IMS but this was refused. NDC complained of this refusal to the European Commission which imposed a licence on IMS for the abuse of a dominant position. IMS appealed before the President of the Court of First Instance (‘C.F.I.’) who suspended the Commission’s decision and confirmed the suspension.

In the meantime, the national court had suspended the proceedings on copyright infringement of IMS’s structure by NDC and asked several preliminary questions to the Court on the interpretation of Article 82 in this context. A few months before the Advocate General (‘AG’) gave its opinion on the case, the Commission withdrew its decision. In the reference for a preliminary ruling, the E.C.J. had to give guidelines to enable the national court to decide whether IMS’s refusal to licence the structure to NDC was abusive. In setting out the conditions under which there will be an abuse of dominant position, the E.C.J. follows the Advocate General’s Opinion and broadly confirms its Magill ruling.

The state of the case law before IMS

Before IMS, the Community courts decided four cases addressing the question under which conditions the holder of an IPR abuses its dominant position under Article 82 ECT: Renault, Volvo, Magill and Ladbroke. In addition, even though it did not

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10 The question of dominance was established by the national court and was therefore not reviewed by the E.C.J.
deal with an IPR, the Bronner decision is also relevant because it is the last decision on point before IMS which reinterprets the four above-mentioned cases. One aspect of the Community courts case law has always been clear: the Court has constantly held that mere ownership and exercise of an IPR (here, the mere refusal to grant a licence) cannot in itself confer a dominant position or consist of an abuse of such a position. There must be additional circumstances for an abuse to occur.

In the first two cases, Renault and Volvo, the Court did not set out circumstances in which a refusal to grant a licence is an abuse, but merely gave non-exhaustive examples of abusive conduct resulting from the exercise of an IPR, including the arbitrary refusal to licence. It is only in Magill that the Court first set forth the circumstances in which a compulsory licence can be imposed on the IPR holder for an abuse of a dominant position. The conditions, which must remain exceptional, were: (1) the IPR holder prevents the appearance of a new product which he does not offer and for which there is a potential consumer demand; (2) the unjustified refusal to grant a licence; (3) the IPR holder reserves a secondary market to himself by excluding all competition on that market. Unfortunately, it was not clear from the judgement whether these conditions were cumulative or not.

In Ladbroke, the C.F.I. restated one of the conditions of Magill (the prevention of the appearance of a new product) but it also added a new, clearly alternative, condition: a refusal to grant a licence will infringe Article 82 if it concerns a product or service which is essential for the exercise of the activity in question, in that there was no real or potential substitute.

Finally, in Bronner, the Court set a tripartite test which combines two conditions of Magill and the one elaborated upon for the first time in Ladbroke: (1) the refusal must be likely to eliminate all competition in the secondary market, (2) such refusal cannot be objectively justified; and (3) the product or service is indispensable to carry on the activity of the person seeking the licence, inasmuch as there is no actual or potential substitute.

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16 Paras. 9 of the Volvo decision and 15 of the Renault decision.
17 See paras. 54-56 of the Magill decision.
18 The court’s wording in paras. 54-56 is unclear. Upon reading para. 54, it seems that the condition set out there is sufficient to establish abuse. However, the Court goes on to enumerate other conditions in paras. 55 and 56 without using the term “and” to connect them. Finally, it concludes, in para. 57: “in light of all those circumstances, the Court of First Instance did not err in law in holding that the appellants’ conduct was an abuse of a dominant position within the meaning of Article 86 of the Treaty”. This final statement seems to infer that the conditions are cumulative but this is only speculation. Commentators are divided as to the exact status of the conditions set out in Magill (alternative or concurrent). See e.g. V. Korah, “The Interface Between Intellectual Property and Antitrust: The European Experience”, (2002) Antitrust L.J., p. 801, at p. 810, 811, 814; F. Fine, “NDC/IMS: In Response to Professor Korah”, (2002) 70 Antitrust L.J., p. 247, at p. 251.
19 Para. 131 of the Ladbroke decision.
20 Emphasis added. The court here adds to the Magill ruling by further qualifying the refusal.
21 Para. 41 of the Bronner decision.
As can readily be seen, there seems to be some difficulty in knowing exactly under which conditions a refusal will be abusive and those conditions that should be applied in subsequent cases.

Firstly, the conditions set down in the cases differ: some are restated in the same terms, others with a change in the wording, some are withdrawn, some are added. Secondly, there is uncertainty as regards whether the conditions should be applied in a cumulative or an alternative way (and if so which ones). In Magill, it was unclear whether the circumstances were to be alternative or concurrent. In Ladbroke, the C.F.I. set two alternative conditions. Finally, in Bronner, the Court took the opposite stance and opted for a cumulative test.

As a result of this confused state of the law, in the IMS case, the Commission interpreted the conditions alternatively and decided that there was abuse while the Presidents of the C.F.I. and of the E.C.J., preferred to apply the Magill conditions cumulatively. In IMS, the Court had to settle the matter and put an end to the possibility of having (at least) two different, and conflicting, interpretations of the case law.

The Decision of the Court of Justice

“By its first question, the national court asks, essentially, whether the refusal to grant a licence to use a brick structure for the presentation of regional sales data by an undertaking in a dominant position which owns the copyright to another undertaking which also wishes to provide such data in the same Member State, but which, because potential users are unfavourable to it, cannot develop an alternative brick structure for the presentation of the data that it proposes to offer, constitutes an abuse of a dominant position within the meaning of Article 82 EC” (para. 21).

In answering the first question, the Court starts by reiterating that the refusal by an undertaking holding a dominant position to grant a licence cannot in itself constitute an abuse of a dominant position (para. 34). However, it adds that the exercise of an exclusive right by the IPR holder may, in exceptional circumstances, be abusive (para. 35). Up to this point, the Court only recalls its well-established and clear case law.

The Court then refers to its summary of the Magill conditions in Bronner’s paragraph 40 (para. 37). In this summary, the Court cumulated and slightly reformulated the three Magill conditions. The Court takes pride in saying that “[i]t is clear from that case law that, 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.

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22 For a detailed account of those decisions, see E. Derclaye, above fn.2.
23 “By its second question, the national court questions the effect that the degree of participation by users may have on the development of a brick structure, protected by copyright and owned by a dominant undertaking, on the determination of whether the refusal by that undertaking to grant a licence to use that structure, is abusive. By its third question, the national court is uncertain, in the same context and for the purposes of the same assessment, as to the effect of the outlay, particularly in terms of cost, that potential users have to provide in order to be able to purchase market studies presented on the basis of a structure other than that protected by copyright.” (para. 23). The answer to those two questions will not be commented here.
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.” (para 38) (Emphasis added). In this paragraph the Court puts an end to the controversy: the three Magill conditions are clearly cumulative and not alternative as the Commission thought them to be. In this connection, it follows IMS’s contention (para. 32).

The Court then reviews each of the three conditions in turn. In respect of the third condition, the likelihood of excluding all competition in a secondary market, the Court relies on Bronner. It confirms that there must be two markets, one upstream, constituted by the product or service (in Bronner, it was the market for home delivery of daily newspapers and in IMS, the structure in 1860 modules), and the second market, downstream or secondary on which the product or service is used for the production of another product or service (in Bronner, the market for daily newspapers and in IMS, the reports on regional sales) (para. 42). The Court reiterates that it is imperative that two markets be identified (para. 45), even if the secondary market is only hypothetical (para. 44 citing the Advocate General’s Opinion at paras 56 to 59).

The question in IMS is thus whether IMS’s structure in 1860 modules is upstream an indispensable factor in the downstream supply of German regional sales data (para. 46). The national court has to determine whether this is actually the case and consequently establish whether IMS’s refusal is capable of eliminating all competition in the market for the supply of regional sales data.

As regards the condition relating to the prevention of a new product, the Court refers once more to the Advocate General’s Opinion (point 62) where he pointed out that this condition reflects the necessary balance that must be struck between, on the one hand, the interest in protecting copyright, and on the other hand, the interest in protecting free competition. The interest in protecting competition can only prevail where the “refusal to grant a licence prevents the development of the secondary market to the detriment of consumers” (para. 48).

Therefore there is only an abuse if the competitor intends to produce new goods or services not offered by the owner of the copyright and for which there is potential consumer demand (para. 49). Again the Court leaves it to the German court to decide whether this is the case in the dispute at hand.

The second condition is disposed of quickly since the parties did not make observations on its interpretation. The Court only states that it is for the national court to determine whether the refusal is justified or not by objective considerations (para. 51). Unfortunately no further guidance is given as to what constitutes an ‘objective refusal’. No progress has therefore been made on this condition in comparison to the previous decisions.

Accordingly, with respect to the first question the Court answers: “the refusal by an undertaking which holds a dominant position and is the owner of an intellectual property right over a brick structure which is indispensable for the presentation of data on regional sales of pharmaceutical products in a Member State, to grant a licence to use that structure to another undertaking which also wishes to supply such
data in the same Member State, constitutes an abuse of a dominant position within the meaning of Article 82 EC where the following conditions are fulfilled:

- the undertaking which requested the licence intends to offer, on the market for the supply of the data in question, new products or services not offered by the copyright owner and for which there is a potential consumer demand;
- the refusal is not justified by objective considerations;
- the refusal is such as to reserve to the copyright owner the market for the supply of data on sales of pharmaceutical products in the Member State concerned by eliminating all competition on that market.” (para. 52).

Comment

A victory for clarity and legal certainty

The IMS decision is a triple victory. First, the Court clarifies its case law in at least three ways. It confirms the three Magill conditions are cumulative. It makes clear that two markets need to exist in order for the second condition to apply. And it ensures that its ruling only applies to copyright rather than all IPR in general. Thus clarity and legal certainty are achieved on three different and important points.

As regards the cumulative character of the conditions, the Court goes further than the AG. It refers explicitly to paragraph 40 of the Bronner decision to show that its case law has always been clear. As we showed earlier in this note and in more detail in our previous article, it was far from being clear and the literature is deeply divided on the topic. In fact, to our knowledge, no one had pointed at this particular paragraph to show that the conditions were cumulative; it had remained completely incognito. Like the cat, the Court falls back proudly on its four paws.

The AG had implicitly, but still too timidly for our taste, made a distinction between IPR and other forms of property for the purpose of applying Article 82. Indeed, the AG had not provided for reasons why there should be a difference between those two forms of property. The Court, in its paragraph 48, is even less explicit. But by referring to the interface between competition law and copyright and to the AG’s opinion, the Court implicitly recognises that copyright is different. Thus it makes clear that the Magill conditions apply only to copyright and not generally to all forms of IPR, as we advocated in our previous contribution. We had pointed out that all IPR might not have all the same characteristics and that unless the Court delved more deeply into those characteristics, it should restrict its ruling to the interface between Article 82 and copyright.

Finally, like the AG, the Court has more generally not ruled out the application of the essential facilities doctrine as elaborated in Bronner. The AG had made it rather clear that for forms of property other than IPR, the Bronner test was applicable. The Court, while answering the second question, relies on Bronner to clarify when a product or service is indispensable. This first condition is combined with the three Magill conditions to find a refusal to licence copyright abusive.

In conclusion, for determining when a refusal to grant a licence (at least) for a copyright is abusive, both Bronner and Magill conditions must be added. First, it is necessary to verify that the product or service is indispensable to compete in a
particular market and second, the competitor must show he intends to offer new products, that the refusal is not justified and that it is likely to eliminate all competition in that market. As a result, it is even more difficult for a competitor to prove its case than it was during the Magill era. No doubt the intellectual property lawyers’ tension will relax upon reading the decision. But the competition lawyers should also rejoice as in cases involving forms of property other than copyright, at least tangible property, Bronner will continue to apply with all its force.

**A victory for copyright**

Secondly, copyright is safeguarded. Only “where a refusal to grant a licence prevents the development of a secondary market to the detriment of consumers”[^24] can competition law retake its rights. This confirmation of the condition of a new product makes sense both ‘copyright-wise’ and ‘competition-wise’. It is only fair that when the competitor wishes to use the copyrighted work to produce a second derived product which merely reproduces the copyright owner’s product, copyright should prevail. The consumer is arguably not better off with an identical product produced by another competitor. Normally, the price is not even lower since the competitor-licensee must pay a fee to the copyright owner.

On the other hand, it is only fair that competition prevails when the competitor wishes to provide a new product for which, in addition, there is a consumer demand. If consumers want it, the product is not only new but logically also better. If the competitor can provide this better product, progress is promoted and social welfare is enhanced. These two aims are common to both copyright and competition laws. By keeping this very condition, the Court reconciles both competition and copyright laws.

Some copyright lawyers might disagree because the copyright holder should be able to reap the fruits of his labour before a licence can be imposed on him. But why should the whole world be told to wait for an improvement, sometimes for over a century, given that copyright is able to last so long? Isn’t the solution in patent law transposable to copyright?[^25] Perhaps a licence should only be imposed after some time, e.g. a few years, to enable the copyright owner to reap his reward. This is one point this decision leaves unanswered and which will no doubt continue to fill pages of law reviews.

**A victory for IMS health**

Finally, the decision is good news for IMS Health. The third victory is thus a purely personal, albeit crucial one. IMS’s argument was that the Magill conditions were cumulative and that the first condition (preventing the emergence of a new product) was not fulfilled. IMS further argued that NDC did not intend to create a new product but wished to use the structure to provide an almost identical product on the same market (i.e. identical reports on sales of pharmaceuticals) (para. 32). On the other

[^24]: Paragraph 48 of the decision.
[^25]: In patent law, there are compulsory licences for “patent improvements”. When an inventor improves a patented technology within the 20 years term, the original inventor is obliged to grant a licence to the new inventor to allow him to market his better invention. In return, the new inventor is obliged to grant a licence to the previous inventor in order for the latter to be able to survive on the market, since his own invention has been surpassed by his successor’s. These compulsory licences are statutory.
hand, NDC claimed it wished to introduce a new product (para. 33). The court followed IMS’s argument as regards the cumulative character of the conditions.

As regards whether the condition of new product is fulfilled, the national court will have to decide who is right. Not only will NDC have to show that IMS’s structure is indispensable for it to compete but it will be hard to prove that its reports are new products. Also, do pharmaceutical companies want a new type of report? Nothing is less sure. It seems that NDC’s chances to win are thin.

**Points left unresolved**

The Court’s decision could be criticised here for not defining what is meant by a new product. In this regard, the decision does not improve upon the previous state of the law and thus leaves the law uncertain on this point. Due to its vagueness, the word “new” can potentially include the same product but offered at a cheaper price or at better conditions (such as free or round the clock assistance offered to use the product). The meaning of this condition is important. If the term “new” is accepted in its broader sense, NDC might have more chances to be granted a compulsory licence. But if we refer to *Magill*, a new product is necessarily one which differs from the copyright owner’s original one. It is not the same product offered for a lesser price or at better conditions. The meaning and definition of “new product” is thus an important point the Court will have to elaborate in future decisions. Hopefully this should not take too long since the E.C.J. will soon have to tackle the *Microsoft* case.

This brings us to the question whether the Court will similarly apply the cumulative conditions it has reaffirmed in *IMS* in all cases involving abuse of IPR. In *IMS*, the E.C.J. stuck to its previous case law while simultaneously clarifying it. However its ruling, which had to answer the specific questions referred to by the national court, could well be said to be narrow and apply only to the facts of the case (refusal by a copyright holder to licence the use of its copyrighted database (brick structure)). The question is therefore whether the E.C.J. will consider its ruling in *IMS* to apply equally in the *Microsoft* case. In *Microsoft*, the intellectual property rights involved are both copyrights and patents. Trade secrets are also involved. And the subject-matter is not a database but software. *Magill*, the seminal case relied upon by the Court, already involved a database (television listings). It was thus natural to rely on it in *IMS* as well. Should the same conditions apply to all copyright works? Should they also apply in cases of refusals to licence patents? What about trade secrets? All that can be said at this stage is that surely every lawyer will eagerly await the E.C.J.’s decision in *Microsoft*.

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26 The AG also pointed out in his suggested answer to the first question that the product must have different characteristics (point 66).

27 Commission decision of 24 March 2004, relating to a proceeding under article 82 of the EC Treaty, case COMP/C 3-37.792 Microsoft.