The IMS Health decision and the reconciliation of copyright and competition law

Estelle Derclaye

**Subject:** Competition law. **Other related subjects:** Information technology. Intellectual property

**Keywords:** Copyright; Database systems; Dominant position; EC law; Licensing; Pharmaceutical industry

*E.L. Rev. 687* This comment on the European Court of Justice's decision of April 29, 2004 in the IMS Health case first gives an account of the procedural and factual background of the case. The state of the case law decided prior to the decision is summarised for a better understanding of the decision. The decision clarifies the circumstances under which a refusal to licence copyright will be abusive. It also states that the degree of participation of the pharmaceutical companies in the development of IMS's structre and the effort that those companies would have to make in order to purchase reports made on the basis of another structure are important elements in the determination of the indispensability of the structure. The decision can be positively criticised for the fact that the Court has finally clarified the case law on abuses of dominant position by copyright holders and that it conciliates copyright and competition laws. It also resettles the balance between competition and copyright. However, the Court leaves the concept of new product undefined, entertaining legal uncertainty and allows the imposition of the licence immediately, which might undermine copyright holders' efforts and reduce their incentive to create in the first place.

**Introduction**

Just two days before the entry of the 10 new Member States in the Union, the European Court of Justice (" the Court" ) gave its final ruling in the long-lasting litigation opposing IMS Health (" IMS" ), the dominant player in the marketing of regional sales data on pharmaceutical products, to its competitor, NDC Health (" NDC" ). The case involved the refusal by IMS to licence its copyrighted structure to NDC. The Court closely follows Advocate General (" A.G." ) Tizzano's Opinion and confirms the current case law as embodied in the Court's seminal Magill ruling. The decision is crucial to the area of competition law dealing with abuses of dominant position by copyright holders as it clarifies the Community courts' rather murky case law in this field. It is now clear that four cumulative conditions are necessary for a refusal to licence copyright to be abusive: the copyright work must be indispensable to operate in the secondary market, the person asking the licence must intend to create a new product for which there is a potential consumer demand, the refusal must not be justified and the refusal is likely to eliminate all competition in the secondary market. The decision strikes an adequate balance between competition and copyright laws by making a difference between copyright and other *E.L. Rev. 688* forms of property in the conditions required for abuse. Moreover, the additional condition required for establishing an abuse by a copyright holder (the competitor must intend to market a new product) simultaneously respects copyright's aims and furthers competition and innovation. The decision is however not without flaws. The condition of new product is left undefined and the Court allows for the immediate imposition of a compulsory licence in case of abuse. The comment closes with a speculation of the possible outcome of the case at national level.

**Factual and procedural background**

IMS provides in Germany reports informing pharmaceutical companies on regional sales
of their pharmaceutical products. It does so under a "brick structure" dividing Germany into 1860 modules or geographical zones. Years before the creation of the structure, IMS set up a working group composed of its clients, the pharmaceutical companies, which made suggestions in the elaboration of this structure. Soon, IMS's structure became largely adopted not only by pharmaceutical companies but also by doctors and pharmacies. When a former manager of IMS created Pharma Intranet ("PI") in 1998, he entered the market with a different structure from IMS's. But he soon encountered the reticence of the pharmaceutical companies, who, accustomed to IMS's 1860 brick structure, refused to adopt the new structure. PI therefore commercialised a structure very similar to IMS's. IMS sued PI for copyright infringement, claiming that its 1860 brick structure was a database and was protected by copyright. In 2000, the Landgericht Frankfurt am Main prohibited PI from using any structure derived from IMS's structure and after the absorption of PI by NDC, issued the same prohibition to NDC. These orders were later confirmed.

On December 19, 2000, NDC introduced a complaint to the European Commission against IMS for abuse of dominant position because IMS denied NDC a licence to use its structure. In July 2001, the Commission, by interim measure, ordered IMS to grant a licence on its 1860 structure to all undertakings already present in the market. On IMS's appeal (application for interim relief), the President of the Court of First Instance ("CFI") suspended the decision and the President of the Court confirmed the suspension. On August 13, 2003, the Commission withdrew its decision of July 3, 2001, because it did no longer consider necessary that IMS opens the market to its competitors. This left unaffected the reference for a preliminary ruling which the Landgericht Frankfurt am Main asked the Court on the interpretation of Art.82 in the context of the action for copyright infringement of IMS's structure. On October 2, 2003, the Advocate General delivered his Opinion in this procedure.

The crucial question in the case is whether IMS, by refusing to licence the use of its structure to NDC, is committing a breach of Art.82 EC, namely, abusing its dominant position. Since the national court established dominance, the only question before the Court was whether the refusal was abusive.

**Summary of the case law before IMS**

Before examining the Court's ruling in IMS, a brief summary of the state of the case law as it stood before is in order. As stated in the introduction, before the IMS decision, the case law relating to a particular type of abuse, the refusal to licence an intellectual property right, was rather muddled. While on the one hand, it has always been clear that the mere ownership and mere exercise of an intellectual property right (here, the mere refusal to grant a licence) cannot in itself confer a dominant position nor consist in an abuse of such a position, the conditions or circumstances under which a refusal to licence is abusive have varied with time. It is first in the Magill case that the Court set forth the circumstances under which such abuse will exist. These three exceptional circumstances were: (1) the intellectual property right holder prevents the appearance of a new product which he does not offer and for which there was a potential consumer demand; (2) the refusal is not justified; (3) the intellectual property right holder reserves to himself a secondary market by excluding all competition on that market. It is not clear from the judgment whether these conditions are concurrent or alternative. The Court did not use the word "and" to connect them and the literature has always remained divided on the topic.

**E.L. Rev. 690** The next judgment to treat of an abuse of an intellectual property right was Ladbroke. The CFI took the first Magill condition (the prevention of the development of a new product) and added a new one which it clearly set forth as alternative (the product is indispensable for the competitor to exercise his activity in that there is no real or potential substitute for it). Thus an abuse of an intellectual property right was possible at two alternative conditions. The last relevant case before IMS was Bronner. Although it did not deal with an intellectual property right (but with the refusal by a newspaper company to distribute another newspaper in addition to its own by its early home-delivery service), the Bronner judgment has reinterpreted all the previous cases. The Court set three cumulative conditions combining the two last conditions of Magill and the new one the CFI had added in Ladbroke. In other words, to establish an abuse, the refusal must be likely to eliminate all competition in the secondary market, such refusal cannot be
objectively justified and the product or service must be indispensable to carry on the activity of the person seeking the licence, inasmuch as there is no actual or potential substitute.

As a result of this shilly-shallying, several interpretations of the case law were possible. In the IMS case, the Commission took the position that the relevant applicable case was Bronner while the President of the CFI and the court rather thought that it was Magill. The Commission found the Bronner conditions fulfilled and consequently imposed a compulsory licence on IMS while the Presidents suspended the decision implying that the Magill conditions were cumulative and that the condition of the prevention of the development of new product was most probably not fulfilled.

**Decision of the Court of Justice**

*Circumstances under which a refusal to license is abusive*

There are two main issues addressed in the judgment. The first and most important one concerns the conditions under which a refusal to license is abusive. The Court follows its well-established case law. First, referring to Volvo and Magill, it recalls that a refusal by a copyright holder to license the reproduction right, even if it is in a dominant position, cannot *per se* constitute an abuse of a dominant position but adds that the exercise of this exclusive right can in exceptional circumstances be abusive.19

To establish the conditions under which the refusal of a copyright holder is abusive, the Court then refers to the summary it made of the Magill conditions in Bronner’s para.[40] which it rewrites in full word for word. These conditions are that the refusal concerned a product the supply of which was indispensable for carrying the business in question in that the person wishing to make the product would find it impossible to do so, that the refusal is preventing the emergence of a new product for which there is a potential consumer demand, that it is not justified by objective considerations and that it is likely to *E.L. Rev.* 691 exclude all competition in the secondary market. The Court expressly states that these conditions are cumulative.20

The three conditions are reviewed by the Court one by one. As regards the condition relating to the prevention of the emergence of a new product, the Court follows closely the Advocate General. This condition reflects the necessary balance that must be struck between on the one hand, the interest in protecting copyright and on the other, the interest in protecting free competition.21 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” 22 Therefore the refusal to licence the use of a copyright work is abusive only if the competitor intends to produce new goods or services not offered by the owner of the copyright (in other words he does not simply wish to duplicate the goods or services offered on the secondary market by the copyright owner) and for which there is a potential consumer demand.

The Court does barely address the second condition (whether the refusal is justified or not by objective considerations).23 The parties did not make observations on its interpretation. Therefore the Court only states that it is for the national court to determine whether the refusal is justified or not by objective considerations. No further guidance is given as to what is an “objective refusal”.

For the interpretation of the last 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, the market for home delivery of daily newspapers and in IMS, the structure in 1860 modules) and one, 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).24 The Court reiterates that it is essential that two markets be identified and interconnected, but that it is sufficient that the upstream market is only hypothetical.25 Since the national court had decided that the structure is essential to the marketing of the reports, the A.G. found it is easy to identify two markets, one upstream
for access to the brick structure and the second downstream for the sale of the reports. The Court is more laconic and simply says it is for the national court to determine whether the structure constitutes upstream an indispensable factor in the downstream supply of reports on sales of medicines. It will thus also be for the national court to determine whether the refusal is capable of eliminating all competition in the market for the supply of such sales data.  

The criteria to determine the indispensability of the structure

The second issue seeks to determine the criteria to establish whether IMS's structure is indispensable for competitors to market products in the same market as IMS. More precisely, the question is whether, to appreciate when a copyrighted structure is indispensable to market reports on regional sales of pharmaceutical products in a given country, the degree of participation of the representatives of the pharmaceutical companies in the development of the structure and the effort that those companies would have to make in order to purchase reports made on the basis of a structure other than the structure protected by copyright are important elements. The A.G. and the Court rely on paras [43] and [44] of Bronner. For both of them it is clear that to determine whether a product or service is essential for enabling a competitor to do business in a market, it must be determined whether such products or services already exist 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. The Court adds that according to para. [46] of Bronner, in order to accept the existence of economic obstacles, it must be established, at the very least, that the creation of those 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.

In the Court's opinion, if it is proven that there has been a high level of participation of the pharmaceutical companies in the improvement of the structure, this will have created such a dependency of the companies so that it is very likely that they would have to make huge efforts to acquire reports based on an alternative structure. Therefore if this is the case, it is very likely that the producer of the reports structured differently would have to offer those reports at such conditions that it would not be economically viable to engage in that business on a scale comparable to that of IMS. The Court concludes that clearly the degree of participation of the companies in the development of the structure and the costs that the potential users would have to bear in order to purchase regional sales studies presented on the basis of another structure are elements to be taken into consideration when determining whether the structure is essential for the marketing of reports on regional sales of medicines. This means that the costs to switch to another structure and the degree of participation of the companies in the elaboration of the existing structure could be obstacles which would make it impossible or unreasonably difficult to create an alternative product. The Court leaves it to the national court to determine whether such conditions are fulfilled in the case at hand.

Comment

Clarification of the case law

No doubt the most important contribution of the decision is the clarification of the number, content and cumulative character of the conditions which must be fulfilled to find that a refusal to licence constitutes an abuse of a dominant position. Four concurrent conditions are necessary and sufficient to find that the refusal by a copyright holder in a dominant position is abusive: the product protected by copyright must be indispensable to compete in the secondary market, the refusal to licence copyright must prevent the emergence of a new product for which there is a potential consumer demand, it must not be justified by objective considerations and it must be likely to eliminate all competition in the secondary market. Whereas those four conditions are not new but spring from a combined reading of the Magill and Bronner rulings, as has been shown in the short
summary of the case law, it was far from clear whether the conditions were cumulative or not and which ones should apply. The Court, in its well-known manner, is patently proud to announce that its case law has always been clear and consistent. In a way it is not false, if one refers to para.[40] of Bronner in isolation. But combined with its para.[41], and with a reading of all previous decisions together, it was much less obvious, as the abundant commentaries on the topic have amply shown. Even if one can disagree with the content of the ruling in itself, the Court should in any case be applauded for having at least clarified its case law.

**Difference of treatment between copyright and tangible property for the application of Article 82**

The Court makes a difference, albeit implicit, between copyright and other forms of tangible property in its application of Art.82. The conditions under which a refusal by a copyright holder and by the holder of another form of property is abusive are different. An additional condition is required for a refusal to licence a copyright. This can be derived from para.[48], combined with the clearer points of the A.G. to which the Court specifically refers. The analysis of the A.G. had, in our view plainly, made a difference between intellectual property rights and other forms of property. Its analysis of the markets makes clear that in a case involving tangible property (the A.G. takes the example of the owner of a port whose access is indispensable in order to be able to provide maritime transport services) three conditions are necessary for the refusal to grant access to be abusive. First, the facility must be essential, second, the refusal must be unjustified and third, the refusal would eliminate all competition in the secondary market. These conditions match Bronner’s tripartite cumulative test. The A.G.’s analysis for other *E.L. Rev. 694* forms of property than intellectual property rights stops short at these three conditions. They are necessary but also sufficient. The A.G. clearly says:

> the judgments of the Court on the refusal to grant a licence over an intellectual property right lead me to believe that, in order for an unjustified refusal to be deemed abusive, it is not sufficient that the intangible asset forming the subject-matter of the intellectual property right be essential for operating on a market and that therefore, by virtue of that refusal, the owner of the copyright may eliminate all competition on the secondary market. (Emphasis added).

He makes an exception to the rule for intellectual property rights. For a refusal to licence an intellectual property right to be abusive, the condition of the prevention of the emergence of a new product must be fulfilled in addition to the other three “Bronner conditions”.

The Court generally follows this reasoning but, contrary to the A.G., restricts its ruling to copyright rather than all intellectual property rights. The decision gives the certainty that for refusals to licence copyright to be abusive, four conditions must be fulfilled, the Bronner conditions together with the condition of new product. Arguably, if interpreted as we suggest, the Court’s decision is a prime example of consistency since it sticks closely to both its precedents. Magill applies for abuses of dominant position by copyright holders and Bronner applies for abuses of dominant position by holders of tangible property. This differentiation was already in germ in the Bronner decision. Future decisions will have to establish a rule for the remaining intellectual property rights.

**Reconciliation of copyright and competition laws and resettlement of the balance between the two laws**

By requiring different conditions for different types of property rights, the Court also reconciles copyright and competition laws. At the same time it also strikes a good balance between the two laws.

Traditionally those two bodies of law are seen as being in tension. Competition law is seen as emasculating copyright owners by expropriating them from their rights. However both laws have as a goal to promote competition and enhance social welfare. In most countries, copyright is seen by a majority of authors and courts as pursuing mainly *E.L. Rev. 695* economic efficiency and public interest functions. Copyright’s aim is to benefit the public by encouraging the production and dissemination of new works, hence to
promote progress and innovation.

By its decision, the Court respects both laws' aims. For traditional tangible property rights, the Court makes competition law prevail by requiring only the three Bronner conditions. But it preserves copyright and at the same time entices innovation by requiring an additional condition to be fulfilled when the abuse springs from the holder of a copyright. It preserves copyright in the sense that no compulsory licence can be imposed if the competitor does not propose to market a new product. It would go against the aim of copyright of encouraging the creation of works to force the copyright holder to grant a licence to reproduce his work “as such”. Identical works would be in competition with his on the market. The copyright holder would have no incentive in the first place to create if he knows he will be obliged to grant a licence to all competitors simply because his work is essential to compete in a secondary market. Simply applying the Bronner conditions without this additional condition trumps copyright. Although the copyright holder would receive a licensing fee, he would not able to behave as he wishes as he would have to share his market with competitors. But to prevent the emergence of a new product is contrary to both competition and copyright laws. If the refusal of the copyright owner prevents the appearance of a new product on the market, it arguably goes against the very aim of copyright (promoting innovation). Thus requiring this additional condition does not frustrate copyright but on the contrary respects its aims. Furthermore, requiring this condition actually enhances innovation and competition: if potential competitors know that they would be granted a licence if they can create a new product, it encourages them to be innovative. Society can only be better off because there will be a better product on the market. This is readily seen in the facts of the Magill case. By proposing to market a comprehensive weekly television guide, Magill was providing a new and better product to consumers. In conclusion, the addition of the condition of new product in the case of refusals to licence a copyright work strikes a good balance between the need to preserve copyright and the need to promote competition.

**Condition of new product left undefined**

This additional and crucial condition closes the series of positive criticisms on the decision and simultaneously opens the negative ones. The Court does not define the concept of new product nor gives any guidelines. The A.G. had talked rather of “goods or services of a different nature”. It seems that such denomination is less vague than the word “new”. A new product could arguably include the same product but at a lesser price or at better conditions (e.g. assistance on how to use the product is offered 24 hours a day seven days a week). But a condition requiring the product to be of a different nature should not include these scenarios. However, if, as can be deduced from the ruling, the Court sticks *E.L. Rev. 696* to the meaning of “new” in Magill, then the product must definitely be different to be considered new. The term “new” did not there have a broad meaning but rather a narrow one. In addition, it could be argued that because the imposition of a licence on a copyright holder must remain exceptional, the conditions for imposing it must be interpreted restrictively. A new product in the IMS Health case would for instance be a report on sales of medicines structured another way or including additional information.

**Immediate imposition of the licence**

The decision could also be criticised for not specifying a period of time (e.g. a few years) after which the licence can be imposed. The licence can be imposed straight away, in the most extreme case, a few days or weeks after the copyright owner has marketed its creation. Perhaps this is a lacuna of the decision because imposing a licence so soon might diminish the incentive to create so much that the copyright owner, unable to reap the full benefits of its creation, might decide not to create in the first place. The Court ought perhaps to consider this in future decisions. An alternative to imposing a licence after a few years would be to enable the original creator to benefit from the new product created by the competitor thanks to his. Like in the field of patent improvements, a second compulsory licence would be imposed on the competitor to enable the original creator to exploit the new product.

**Possible outcome of the dispute before the national court**
After all these comments, one question remains: what will happen at national court level? The case is arguably less clear-cut than the *Magill* case. The battle in the national court will definitely be fought on the conditions of indispensability and of new product. The Court seems to be inclined to think that the structure is very likely indispensable because of the dependency of the companies on the existing structure. It also is inclined to believe that the production of an alternative product is not economically viable on a scale comparable as that of IMS. Thus NDC will seemingly have few difficulties to prove that the structure is indispensable and that therefore competition is eliminated in the secondary market. The structure has become a standard and the pharmaceutical companies seem totally locked in it since they do not want to change to another structure. Actually the national court is already convinced of that since it already determined the structure was indispensable in its decision. Therefore the core of the battle will be on whether NDC can prove it intends to market a new product and how the national court will interpret the word “new”. IMS contends that NDC does not intend to create a new type of report whereas NDC pretends it does. If the narrow construction of the word is taken, it will be very difficult for NDC to win the case. IMS has thus rather high chances to escape the imposition of the licence.

**E.L. Rev. 697 Conclusion**

The major impact of the decision is that it resettles the balance between competition and copyright and also respects both laws' rationales. Both competition and intellectual property lawyers should be satisfied. On the one hand, the essential facilities doctrine remains applicable to traditional property rights and on the other, a milder version of it, requiring an additional condition, is applicable to copyright. The whole package with the “new product” condition broadly respects copyright aims. The balance between copyright and competition is achieved with the safeguard of this very condition. Moreover, copyright holders should be even less worried than when *Magill* came out. They are now sure that the conditions are cumulative. Besides, it is arguably rare that many works protected by copyright will be indispensable. Not all such works are standards. The majority is most probably not. This means that the first condition will rarely be fulfilled. If it nevertheless is, before a licence can be imposed, the competitor eager to have access to the protected work will have to prove not only that he intends himself to innovate but also that the refusal to licencse is not economically viable on a scale comparable. They are now sure that the refusal to licence is unjustified. A rather strict test difficult to meet has thus been strengthened by the Court.

LL.M., D.E.S., Lecturer in Intellectual Property Law, Queen Mary Intellectual Property Research Institute, University of London.

E.L. Rev. 2004, 29(5), 687-697

---

8.  Case C-481/01 IMS Health Inc v NDC Health Corp [2002] 5 C.M.L.R. 1, ECJ.
In the Voivo, cited above at n.12, and Renault (Case C-53/87 Consorzio italiano della componentistica di ricambio per autoveicoli & Maxicar v Régie nationale des usines Renault [1988] E.C.R. 6039) cases, the Court did not establish conditions for abuse but only cited the refusal to grant a licence of an IPR as an example of abuse. See paras [9] of the Volvo decision and [15] of the Renault decision.

See paras [54-56] of the Magill decision.


Para. [131] of the Ladbroke decision.

n.12 above.

Para. [41] of the Bronner decision.

Paras [34] and [35].

Para. [37].

Compared to the A.G.’s Opinion, the decision however restricts this point to copyright and not all intellectual property rights.

Para. [48].

Para. [51].

Para. [42].

Paras [44] and [45].

Para. [47].

Para. [28].

Ibid.

Para. [29].

Para. [30].

Para. [28].

As far as the author is aware, no one had referred to para. [40] of Bronner to show that it was clear that the Magill conditions were cumulative. For a full explanation, see E. Derclaye (2003), cited at n.2 above.

Point 58: ”In terms of the case law on the refusal to grant a licence it may therefore be held that, by denying without justification access to the port infrastructure, the owner of that infrastructure would be abusing its dominant (monopoly) position on the market for port services inasmuch as by its conduct it would be eliminating any competition on the secondary market for maritime transport services”.

See Bronner, para. [41].

Point 61.

Para. [41]. (“Therefore, even if that case law on the exercise of an intellectual property right were applicable to the exercise of any property right whatever...”).

Copyright furthers innovation but it also promotes competition. Because copyright limits allow some substitution between works, some competition is promoted as well. For instance a multitude of authors can write textbooks on copyright law, the same ideas being expressed in a multitude of ways. Of course this competition is not without boundaries. Competition by making infringing copies is not permitted. See T. Heide, ”The approach to innovation under the proposed Copyright Directive: time for mandatory exceptions” [2000] I.P.Q. 215, p.217. Competition law’s goal is also to preserve a sane competition.


This is originally less true for continental countries which put the emphasis on the protection of the author. But with the cross-fertilisation of both systems of common law and civil law and the fact that continental systems also recognise limits on copyright, the argument developed here can be extrapolated to most countries.

L. Guibault/IVIR, Contracts and copyright exemptions (IVIR: Amsterdam, 1997), p.11. The first English copyright statute, the Statute of Anne 1709, for instance was entitled “An act for the encouragement of learning, by vesting the copies of printed books in the authors...during the times therein mentioned”. (Emphasis added).


As the Court reminds us in para. [35].

In patent law, there are statutory 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.