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Influences Affecting the Licensing of Rights in a Unitary European Market[†]

Ronald E. Myrick*

INTRODUCTION

Europe today is one of the most dynamic environments for the development of intellectual property and licensing law, as there are multiple currents and cross-currents reflecting themselves in a variety of initiatives and jurisprudential developments. The Commission of the European Communities ("European Commission" or "Commission") is particularly active through its Directorate General III in developing harmonization and other regulatory initiatives for intellectual property, primarily focusing currently on copyright and design protection, but with potential policy implications for patents as well. In addition, the Commission through its Directorate General IV is also exerting substantial influence on the development of intellectual property and licensing law through its activities regarding competition policy and the interface between that policy and intellectual property and its impending update or consolidation of the patent and know-how licensing block exemptions. Other Directorates General are also influential in varying degrees. Moreover, the jurisprudence of the Member States and the European Community ("Community" or "EC") is also developing along paths which have substantial potential for impact on various aspects

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of intellectual property law including patents.

It is beyond the scope of this paper to address all of these currents, cross-currents, initiatives, jurisprudential developments, and other influences which can and do conflict with varying effect on the intellectual property law system and on the foundations for licensing. Only selected influences will be addressed in the context of their impact upon the environment for licensing, with particular emphasis on the underlying systems of rights, in the Europe of the future. Moreover, the law in respect of many of these influences is unsettled or developing such that there remains considerable scholarly debate on many issues. In this paper, some of that debate will be ventilated, but by no means all, and some positions discussed herein are themselves the subject of continuing study and critical review. It is hoped that this paper may contribute in some way to the debate, hopefully positively. Finally, the debate on these issues is vital and active, so much so that this paper has been and will be in a developmental flux of its own as new factors, issues and influences appear in this process of dynamic development of intellectual property law.

In considering licensing one must begin with the foundation of rights that may be licensed. In this regard, for example, national patents remain the only currently available patent option in Europe and this may continue to be the case in the medium term. A Community patent for the whole European Community has been planned but bedeviled with problems for many years. Efforts are being made to push it forward. Even if the Community patent becomes a reality, however, national patent systems will remain. How "viable" national patents will be depends on, *inter alia*, how well they are respected by the European Community and national courts in the light of Community rules such as those on free movement of goods and also competition law. In this context the term "viable" is used to refer to the ability of patents to secure the full range of rights, including exclusionary rights, which may be used by the rights proprietor or licensed by same. This then will be the principal focus of this paper.

It is necessary that some background in the instruments and institutions of the Community be provided to form a base for the

discussion substantively of influences on licensing in Europe. Each of these instruments and institutions has a role to play in developing intellectual property and licensing law and policy in Europe. Indeed, many of the institutions are currently actively involved as various initiatives and adjudications are in progress which will have substantial effect on intellectual property and licensing law and policy. Therefore, it is desirable to set the scene by describing in a broad and general way the nature of the European Community (which may come to comprise virtually all of Europe by the turn of the century or shortly thereafter). For those who are already familiar with the Community, Part I of this paper will be quite basic, but it is hoped that it will be a useful general foundation. The succeeding Parts II and III also set the scene by describing the current position of patents in Europe, again, quite generally. The substantive discussion of the principal topic at hand for this paper begins at Part IV.

I. EUROPE AFTER 1992—GENERALLY

A. *The Original Objectives of the European Community*

The European Community was founded by the Treaty Establishing the European Economic Community, frequently referred to as the Treaty of Rome ("Treaty" or "EEC Treaty").¹ The Treaty came into effect on January 1, 1958. There are now 12 Member States: Belgium, France, Germany, Italy, Luxembourg, the Netherlands (the original six members), plus Denmark, Ireland, Greece, Portugal, Spain, and the United Kingdom.

The founders aimed to create a single economic community. According to Article 2 of the Treaty, they agreed to establish a Common Market, progressively approximate the economic policies of Member States and thus the relevant laws, and promote throughout the Community a "harmonious development of economic activities, a continuous and balanced expansion, an increase in stability,

1. Treaty Establishing the European Economic Community, Mar. 25, 1957, 298 U.N.T.S. 11 (1958), amended by Single European Act, O.J. L 169/1 (1987), [1987] 2 C.M.L.R. 741.

an accelerated raising of the standard of living and closer relations between the States belonging to it." Thereby they would create a Common Market in which goods, services, labor, and capital would move as freely throughout the Community as they could within each Member State and in which the economies of the Member States would be coordinated. As its aims were originally expressed in the Treaty, the Community was to be primarily economic in nature, but economics can never be divorced entirely from politics. Thus, a fundamental principle underlying both the application of the Treaty and of Community law generally is the advancement of the goal of European economic union; some would say simply "European Union!" The application of Community competition law and, increasingly, developments in intellectual property law within the Community, reflect this goal.

B. *The Unitary Market*

Although considerable progress had been made by the mid-1980s, the Member States were still far from achieving the ideals set out in the Treaty and in many respects national markets remained fragmented. Individual country's markets continued to remain separate internal markets as a result of a host of direct and indirect non-tariff barriers. These were often actively used to prevent exporters in other Member States from gaining access to national markets on a fair and competitive basis with local firms.

A renewed determination arose on the part of the European Commission to remove these residual barriers and achieve a true Common Market, and "1992" was shorthand for the resulting legislative program.

C. *The White Paper*

In 1985, the Commission published a "White Paper"² on "Completing the Internal Market" in which it set out an "eight-year plan" for demolishing physical, technical, and fiscal barriers and creating a single integrated internal market by the end of 1992.

The White Paper was a wide-ranging review. It took stock of

2. Commission of the European Communities, *Completing the Internal Market: White Paper from the Commission to the European Council*, COM(85)310 final.

developments achieved so far, focused on those areas where Community measures were required, outlined the Commission's proposals for action, and proposed a timetable for the adoption of appropriate measures by the Council of Ministers. It did not purport to be a detailed plan for every area of European integration or a comprehensive list of all the Commission's proposed measures affecting the internal market. It did, however, attempt to identify the principal barriers to the free movement of goods, persons, services, and capital within the Community. The White Paper was therefore an important statement of Commission policy with regard to those issues which are of principal concern to European undertakings and, indeed, to non-EC enterprises wishing either to invest in EC companies or to trade in the Community.

The White Paper outlined a program of nearly three hundred proposals for completion of the internal market and the removal of physical, technical, and fiscal barriers by the end of 1992.

D. *The Single European Act*

The commitment to complete the single or unitary market was formally embodied in a special act, the Single European Act, which has been in force throughout the Community since July 1, 1987.³ It is a treaty amending and supplementing the EEC Treaty and has been adopted and given effect under domestic law in each of the Member States. The Act defines "internal market" as "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured" and requires the Community to adopt measures with the aim of progressively establishing the internal market by the end of 1992.

Responsibility for these measures was spread across a number of different ministerial Councils—seventeen concerned the Internal Market Council, twenty-five the Economics and Finance Council, and twenty the Agriculture Council. Six Member States, including the U.K., had implemented seventy-five percent or more of the White Paper measures. Five fell within the sixty to seventy-five percent category. Italy was at the bottom of the list with just forty

3. Single European Act, O.J. L 169/1 (1987), [1987] 2 C.M.L.R. 741.

percent of measures implemented.

More recently, a further step in the evolution of the EC has been attempted in the Maastricht Treaty on European Union ("Maastricht Treaty") which was signed on February 7, 1992.⁴ The Maastricht Treaty represented the culmination of more than a year's work in two inter-governmental conferences, one on political union and one on economic and monetary union. It attempts to make various amendments to the EEC Treaty, extending the policy areas in which the EC has "competence" and including new provisions on, *inter alia*, foreign and security policy, interior and justice matters, citizenship, and social policy (although Britain elected to opt out of the social policy provisions signed by the other eleven Member States).

Changes are also to be made to the EC institutional structure which will mean that the European Parliament will have new powers in monitoring the EC's financial affairs as well as increased influence in the EC legislation procedure.

A timetable for implementation of the provisions for economic and monetary union is set out in the Maastricht Treaty, which aims for a single currency by 1999, at the latest. However, it must now be ratified by all twelve Member States before it can come into force. The target date was January 1993. This proved to be optimistic and various obstacles remain in the path of ratification at this time. The Single European Act (which provoked a referendum in Ireland) took nearly eighteen months from signature (February 8, 1986) to entry into force (July 1, 1987). It remains to be seen how much time will be needed to ratify the Maastricht Treaty and indeed what form the treaty will take in the end.

E. EC Institutions

1. The Council of Ministers

The Council of Ministers ("Council") is the Community's principal legislative body, although some legislative competence is delegated to the Commission. The Council acts on proposals sub-

4. Treaty on European Union, Feb. 7, 1992, O.J. C 224/1 (1992), [1992] 1 C.M.L.R. 719.

mitted to it by the Commission. It is made up of ministerial representatives from each of the Member States. The actual make-up of a particular meeting of the Council depends upon the subject at hand. The presidency of the Council carries considerable political influence and rotates every six months among the Member States.

2. The European Commission

The Commission is the Community's executive. Its principal job is to prepare and propose new policies and laws for the Community and to ensure that decisions, once taken, are carried out. The seventeen Commissioners are not elected, but nominated by their governments. Once appointed, however, they owe their duty to the Community; they are not representatives of the individual Member States. The Commission has a support staff of about 1200. It is organized into twenty-three specialist departments called "Directorates-General" ("DGs") based in Brussels plus a central Secretariat. Important DGs presently for intellectual property rights and technology generally include the following, but the Commission is being reorganized and these may change:

- DG III Internal Market and Industrial Affairs
- DG IV Competition
- DG XI Environment, Consumer Protection and Nuclear Safety
- DG XII Science, Research and Development
- DG XIII Telecommunications, Information Industries and Innovation.

Generally, the Commission has the power to initiate legislation. As such, it is an active source of intellectual property initiatives and many such initiatives are in work at the moment. While the Commission may not finally decide these initiatives itself, in one sense the Commission holds the pen on such initiatives and is very influential in regard to the development of intellectual property within the Community.

3. The European Parliament

The members of the European Parliament ("Parliament") are directly elected in elections held throughout the Community every

five years. The Parliament is playing an increasing role as a result of increased powers given it by the Single European Act. For instance, under Article 100a the Council must decide on the content of legislation relating to the internal market with the "cooperation" of the Parliament. The consequence of this is that the Parliament has a right of "second reading" in respect of such legislation, in effect most of the legislation relating to the 1992 program. The Parliament's influence will be further increased as a result of the new "co-decision procedure" embodied in the Maastricht Treaty. This is discussed more fully below.

4. The Economic and Social Committee

The Economic and Social Committee ("ECOSOC") is an advisory or consultative body made up of members drawn from various walks of economic and social life (e.g., trade unionists, producers, farmers, and professional people). It has few real powers. The ECOSOC's main significance is that the Treaty often requires it to deliver opinions to the Council on proposals issued by the Commission. For example, Article 100a requires the Council to consult with the ECOSOC on legislation concerning the internal market.

5. The European Court of Justice and Court of First Instance

Based in Luxembourg, the European Court of Justice ("ECJ"), often called the Court, comprises thirteen judges (one from each Member State, plus one chosen in rotation from the five biggest Member States to ensure an uneven number). The ECJ is the final arbiter of Community law. It must be remembered that Community law now forms part of the domestic law of each Member State, and that where there is a conflict, Community law prevails. The ECJ's job is to see that Community law is properly applied throughout the Community. Thus, in matters where the Community is competent, the ECJ is the highest court of appeal.

The Court of First Instance ("CFI") was established by the Single European Act to lessen the ECJ's work load. All competition-related cases are now generally heard first by the CFI, leaving the ECJ to concentrate on important or complex matters. CFI decisions are subject to an appeal to the ECJ. The CFI is playing an

important role as its decisions of recent date have generated considerable influence and debate. Witness the decision of the CFI in the *Magill* cases⁵ discussed below which have generated or are generating much interest.⁶

F. *European Community Legislation*

Legislation may take the form of regulations, directives, decisions, or recommendations and opinions.

Directives define the results to be achieved and require that national legislation be introduced by a specified date. Within defined parameters, the form and method of achieving results is left to the discretion of national governments. Certain directives have, however, been interpreted as being directly applicable and thus have an effect similar to regulations. As examples, a directive is in place for the protection of software by copyright;⁷ one was recently proposed for the protection of databases;⁸ one has been proposed for some time to harmonize patentability of biotechnological inventions.⁹

Regulations, in contrast, are immediately binding on all Mem-

5. *Radio Telefís Éireann v. Commission*, Case T-69/89, [1991] 4 C.M.L.R. 586 (Ct. First Instance) (*Magill TV Guide* intervening); *British Broadcasting Corp. v. Commission*, Case T-70/89, [1991] 4 C.M.L.R. 669 (Ct. First Instance) (*Magill TV Guide* intervening); *Independent Television Publications Ltd. v. Commission*, Case T-76/89, [1991] 4 C.M.L.R. 745 (Ct. First Instance). In the text, for convenience, these cases will be referred to collectively as *Magill*, but it should be noted that the BBC case (T-70/89) was not appealed to the European Court of Justice. Therefore, the shorthand usage of the collective term *Magill* in regard to the proceedings in the Court of First Instance refers to all three cases for convenience, and in regard to the proceedings in the Court of Justice, refers to only those which were appealed thereto.

6. *BASF, Limburgse Vinyl Maatschappij, DSM & DSM Kunststoffen, Huls, Atochem, Société Artesienne de Vinyl, Wacker Chemie, Enichem, Hoechst, ICI, Shell Int'l Chem. Co. & Montedison v. Commission*, Joined Cases T-79, T-84, T-85, T-86, T-89, T-91, T-92, T-94, T-96, T-98, T-102 & T-104/89, [1992] 4 C.M.L.R. 357.

7. Council Directive of 14 May 1991 on the Legal Protection of Computer Programs, 91/250/EEC, O.J. L 122/42 (1991) [hereinafter *Software Directive*].

8. Proposal for a Council Directive on the Legal Protection of Databases, COM(92)24 final—SYN 393 [hereinafter *Database Directive*].

9. Proposal for a Council Directive on the Legal Protection of Biotechnological Inventions, O.J. C 10/3 (1989); Amended Proposal for a Council Directive on the Legal Protection of Biotechnological Inventions, O.J. C 44/36 (1993) [hereinafter *Biotechnological Directive*].

ber States and individuals. They are "directly effective." No national legislation is required for their implementation. Interestingly, the Commission has proposed (and the Council has adopted) a regulation, rather than a directive, to provide for extended terms for pharmaceutical patents in the Community.¹⁰

Decisions of the Council or Commission are binding on Member States or any other legal or natural person to whom they are addressed who may be affected by them.

Recommendations and opinions have no legal force as such and are merely advisory. Often the aim is to encourage desirable, but not necessarily enforceable, practices throughout the Community.

G. The Legislative Procedure

The Council can delegate its powers to allow the Commission to adopt regulations and directives without further reference back to the Council, usually acting on technical advice given by a Standing Committee—those procedures will not be discussed further here. What follows are the procedures by which major European Community legislation is adopted.

There are two current procedures and a third proposed.

1. Consultative Procedure

Under the simple consultative procedure the Commission makes a proposal for a directive or regulation to the Council. The European Parliament and ECOSOC must deliver a formal opinion, but the Council is free to ignore any such recommendations made. The Commission may revise its proposal at any time up to the final adoption by the Council. However, the Council may amend the proposal only if acting by unanimity. If the proposal is acceptable to the Council, it will adopt it (by qualified majority or unanimously as the Treaty requires). If the Council cannot reach agreement, the proposal lies dormant until such time as a consensus can be achieved.

10. Commission Regulation of 18 June 1992 Concerning the Creation of a Supplementary Protection Certificate for Medicinal Products, 1768/92/EEC, O.J. L 182/1 (1992).

2. Cooperation Procedure

The Cooperation Procedure was introduced (with effect from July 1987) to try to speed up the legislative process and to give the European Parliament more power. Under this procedure, once a proposal has been made by the Commission, the Council must adopt a "Common Position" which takes into account the Parliament's opinion on that proposal. This Common Position goes back to the Parliament for a second reading and time limits then apply. The Parliament has three months to approve the Common Position or propose amendments. If it approves (or does nothing), the Council must adopt the proposal forthwith. If the Parliament rejects the Common Position, the Council can overrule the Parliament but must do so by unanimity. If the Parliament proposes amendments, the Commission then has a month to review them and submit its views to the Council. The Council has three months either to adopt the Commission's proposal by a qualified majority or adopt by unanimity any Parliament amendments *not* approved by the Commission. If the Council fails to act at all, the proposal lapses.

3. Proposed Co-decision Procedure: Maastricht Treaty

At Maastricht, a new "co-decision" procedure was agreed to which would increase still further the influence of the European Parliament in the EC legislative process. Under the new procedure (which, of course, is not yet in force¹¹), once the Council has adopted a Common Position, if the European Parliament proposes amendments which the Council cannot accept, a Conciliation Committee (consisting of an equal member of Council Members and of Parliament representatives) will be set up to try to agree upon a joint text. The Commission's role will be to try to reconcile the positions of the Council and of the Parliament. Decisions of the Committee will be taken by a qualified majority vote of Council representatives and simple majority of Parliament representatives.

The Committee has six weeks in which to achieve a joint text, and then the full Parliament and the Council have a further six

11. [Eds. note: The Maastricht Treaty came into force on November 1, 1993.]

weeks in which to approve this text. If no joint text can be agreed, the Council has six weeks in which to confirm its original Common Position, with or without amendments proposed by the Parliament, but this can then be blocked by the Parliament, voting within a further six weeks to reject the text. Limited extensions of these time limits are possible in some circumstances.

If, on the other hand, the Parliament intends to reject completely the Council's Common Position, either the Conciliation Committee is again set up or the proposal lapses. This is different from the cooperation procedure where, you will recall, the Council is able to override the Parliament and adopt its Common Position by unanimity. However, the Parliament is going to have to be disciplined about timing when voting on co-decision proposals. If it fails to take a view within three months on a Common Position, the Council may adopt it. Whenever the Parliament votes in the co-decision procedure, it must achieve an absolute majority of its members, i.e., 260 votes (half of 518, plus one) have to be cast, not merely a majority of these present when the vote is taken.

No transitional provisions were provided in the Maastricht Treaty for legislative proposals going through the decision-making process at the time the Treaty comes into force, so the procedure to be used will depend on the stage a particular proposal has reached (Council Common Position, Parliament position on Council Common Position, and so on). Bearing in mind the lobbying and publicity which surrounded the debating of the Software Directive¹² during 1988 to 1990, and the "Green" opposition to the proposed directive to harmonize patentability of biotechnological inventions,¹³ new initiatives (like the proposed directive on protection for databases¹⁴) may have an easier or harder legislative passage depending on the stage they have reached when the Maastricht Treaty comes into force.

12. Software Directive, *supra* note 7.

13. Biotechnological Directive, *supra* note 9.

14. Database Directive, *supra* note 8.

II. PATENTS AND COPYRIGHTS IN EUROPE—THE CURRENT POSITION

A. *Introduction*

Currently all patents and most copyrights in Europe are nationally based. For example, to date, there is no pan-European nor even pan-EC patent. The discussion that follows focuses on patents as exemplary of many points common to patents, copyrights, and some other intellectual property rights under Community and Member State law; there are, of course, differences in the treatment of the various rights, but all those differences are beyond the scope of this discussion.

A Community patent is contemplated and efforts are currently under way to get it off the ground. The Community patent is, however, not intended to replace national patent rights, but to complement such rights. Therefore, currently, national rights remain the only available rights.

Patent protection is available by applying individually at each national patent office or by using the streamlined routes offered by the European Patent Convention¹⁵ ("EPC") or Patent Cooperation Treaty¹⁶ ("PCT") or a combination of these.

B. *The European Patent Convention*

The EPC system provides for centralized filing, examination, and prosecution before the European Patent Office ("EPO") in Munich. The countries in which patents are desired must be designated when making the application. If granted, the application then issues not as a single "European" patent but as a bundle of national patents in the designated countries.

The EPC has proved a major force in harmonizing patent laws in Europe (including the EC). All the EC countries have ratified the EPC and so have all the European Free Trade Association ("EFTA") countries, except Finland and Iceland. Most of the EC and EFTA Member States have also amended their national laws

15. Convention on the Grant of European Patents, Oct. 5, 1973, Munich, 13 I.L.M. 270.

16. Patent Cooperation Treaty, June 19, 1970, 28 U.S.T. 7645.

to harmonize them with the EPC. Although not members of the EPC, both Finland and Norway have amended their laws in conformity with the EPC. So the underlying national patent statutes within Europe now are significantly in harmony.

Although the statutory patent laws may be similar, it does not follow that national courts will always interpret statutory provisions or patent claims similarly. As a consequence, there is still significant diversity in the application of patent law in Europe. Accordingly, to promote consistency among the courts, a Protocol on the Interpretation of Article 69 of the EPC provides in essence that the correct approach by the courts to patent claim construction is not to apply a strict literal meaning or only to use the claims as a guideline but to arrive at a middle ground "which combines a fair protection for the patentee with a reasonable degree of certainty for third parties." Notwithstanding this, considerable diversity still exists.

C. National Patent Systems

The respective national patent systems remain in each Member State (or in the case of Benelux Member State grouping), and the national patent laws co-exist alongside the EPC, notwithstanding substantial harmonization. The EPC has proved extremely successful since its inception in 1978, and the majority of patent applications in Europe are probably now filed through the European rather than national route.

D. Patent Cooperation Treaty

The PCT system is not an alternative to the European or national systems but sits alongside them as a way of preserving an applicant's position and enabling a preliminary search to be obtained before the expenses of general international filings need be incurred. It is therefore basically a work saving arrangement whereby the applicant effectively has twenty months after filing a basic application to file national applications in other participating countries. In the meantime, he will have obtained an international search report which will help him decide if and how best to proceed with a full filing program.

III. COMPULSORY LICENSING FOR "ABUSE" OF RIGHTS

The national patent laws of the EC all provide for the imposition of compulsory licenses in appropriate circumstances. It is beyond the scope of this paper to cover each country. Taking the United Kingdom as an illustration, the circumstances in which compulsory licenses may be imposed are dealt with in section 48 of the U.K. Patent Act.¹⁷ The grounds upon which a compulsory license may be obtained in the United Kingdom¹⁸ are briefly: (i) a patented invention capable of being commercially worked in the United Kingdom is not being so worked at all or to the fullest extent that is reasonably practicable; (ii) demand for a patented product in the United Kingdom is not being met on reasonable terms or is being met to a substantial extent by importation only; (iii) the commercial working of the patented invention in the United Kingdom is being prevented or hindered by the importation of the patented product or the product of a patented process; (iv) by reason of the refusal of the patentee to grant a license or licenses on reasonable terms, a market for the export of any patented product made in the United Kingdom is not being supplied; or the working or the efficient working in the United Kingdom of any patented invention which makes a substantial contribution to the art is prevented or hindered; or the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced; and (v) the manufacture, use, or disposal of materials not protected by the patent or the establishment or development of commercial or industrial activities in the United Kingdom, is unfairly prejudiced by reason of conditions imposed by the patentee on the grant of licenses under the patent, or on the disposal or use of the patented product, or on the use of the patented process.

17. Patent Act of 1977, § 48 (U.K.).

18. It had been thought for some time that the failure of section 48 to recognize working of the patent anywhere within the EC rather than just in the United Kingdom was inconsistent with the U.K.'s Treaty obligations. This was confirmed by the ECJ when it held that the United Kingdom and Italy were in breach of Article 30 of the EEC Treaty insofar as they did not recognize working anywhere in the EC as sufficient. The same will of course apply to other Member States which similarly require national working.

In appropriate cases, licenses may be granted not only to the applicant but also to the applicant's customers. Furthermore, existing licenses to the applicant may be cancelled and replaced by the new one, or the existing license may be amended. There are also provisions allowing the Government to effect compulsory licenses where reasons of national security so demand.

These are the provisions contained in the Patents Act for imposition of a compulsory license effectively resulting from an abuse of the exclusive right granted to the patentee by the Act. The Designs Act¹⁹ also includes compulsory license provisions. There are no such statutory, general compulsory licensing provisions in the United Kingdom for copyrights. The Patent Act also contains separate provisions negating the enforceability of a patent or validity of a licensing agreement when certain restrictive provisions are present in the agreement.

IV. EC GOALS VERSUS NATIONAL INTELLECTUAL PROPERTY RIGHTS

As discussed above, nationally based intellectual property rights are the only option for patent protection in Europe today, and the same is true, to a large extent, for copyrights as well. We have also seen that the aim of the EC is to create a single market within which firms can be active across borders, competing on a fair and efficient basis. In this single market, goods and services should be able to circulate freely, without hindrance because of the mere fact that they cross the border between one Member State and another. The aim was to achieve this by the end of 1992.

Intellectual property rights such as patent rights are by their very nature exclusive. The patentee may, if he chooses, derive remuneration from exploitation by licensees. But he may also, in his discretion, keep the right to exploit for himself and exclude all third parties from using the invention. The protective effect of patents is limited to the territory of the Member State granting such protection. National patent rights, therefore, potentially create

19. Copyright, Designs and Patents Act, 1988, 2 Eliz. 2, ch. 48 (U.K.).

barriers to trade between Member States; a tension can therefore exist between national patent rights and the principles of free movement. By their nature, such rights also affect the abilities of third parties to compete with the patentee, thus presenting a further tension between patent law and competition law. Accordingly, the continued viability (in the sense of continued effectiveness as rights of exclusion) of national patent rights in the EC depends on such tensions being properly rationalized by the Commission and the ECJ.

It is now well established that in case of conflict, Community law prevails over the national law of Member States. However, against this background, Article 222 of the EEC Treaty provides that the provisions of the Treaty (including those on free movement and competition) "shall in no way prejudice the rules in Member States governing the system of property ownership." This provision has been held also to apply to intellectual property, including patents.²⁰

There is thus a degree of tension between the Community ideal and, specifically, the free movement of goods provisions of the Treaty, and patents and other forms of intellectual property. Patents can resurrect borders between Member States and, at first sight, reduce or even eliminate competition.²¹ The holder of the right thus seems to be in a position to defeat (or at least frustrate) the objectives of the Community. It is from the inherent conflict between these notions—the territorial status of exclusive national

20. See *Établissements Consten SARL & Grundig-Verkaufs-GmbH v. Commission*, Joined Cases 56 & 58/64, ¶ 22, [1966] E.C.R. 299, 345, [1966] 5 C.M.L.R. 418, 442; see also *Parke, Davis & Co. v. Probel*, Case 24/67, ¶ 5, [1968] E.C.R. 55, 72, [1968] 7 C.M.L.R. 47, 52; Opinion of Advocate-General Roemer, *Parke, Davis*, [1968] E.C.R. at 77, [1968] 7 C.M.L.R. at 48; *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Großmärkte GmbH & Co. KG*, Case 78/70, ¶ 11, [1971] E.C.R. 487, [1971] 10 C.M.L.R. 631.

21. It would be wrong simply to describe intellectual property rights as "anti-competitive." They are needed to reward efforts made in the development of new products or techniques, or in creating goodwill of a firm, and thus to create an incentive to induce firms to incur the risks associated with new developments. Intellectual property rights are thus deliberately endowed with exclusivity to achieve an increase of competition superior to the limitation of competition resulting from the exclusive character of the intellectual property right.

rights and the unified market with free competition—that problems in connection with patents and, indeed, other forms of intellectual property, are perceived to arise.

It should be noted in passing that similar, but not identical, issues arise in the context of other categories of intellectual property, notably trademark, copyright, and design rights. However, precisely because the characteristics of each type of intellectual property are different, care must be taken to tailor the resolution of the conflict between national intellectual property rights and free movement in each case having regard to the particular categories of intellectual property in question.

The relationships between EC law and national patent rights may be further affected by the Maastricht Treaty's principle of subsidiarity, according to which the EC should only take action when objectives cannot be sufficiently achieved by Member States acting individually. This principle is intended to guard against over-centralization and over-regulation at the European level, but it remains to be seen what effect it will have in relation to the interaction between national intellectual property rights on the one hand and the competition and free movement of goods provisions of the EEC Treaty on the other.

The institutions of the Community and the Member States have thus far endeavored to find solutions on three different levels. First, the EEC Treaty itself contains certain rules dealing with the free movement of goods and with free competition, and these rules may be used to balance conflicting objectives. Second, national laws on patents and other forms of intellectual property rights may be harmonized to mitigate some of the adverse effects caused by the conflict. Third, the Community patent may be introduced and, in due course, possibly other Community-wide intellectual property rights.

Some of these solutions and the conclusions to be derived therefrom are discussed below. Particular attention will be paid to competition law as applied to patents. Before doing so, however, it will be helpful to sketch briefly the way in which the application of Community law to patents (and other forms of intellectual property) has evolved.

A. Articles 222 and 36

As mentioned above, Article 222 of the EEC Treaty protects intellectual property rights. It provides that "[t]his Treaty shall in no way prejudice the rules in Member States governing the system of property ownership." Article 222 is found in Part Six of the Treaty, the "General and Final Provisions," and therefore applies to all of the provisions of the Treaty.

By contrast, the "free movement of goods" provisions (Articles 30 to 36) are included in Part Two, Title I of the Treaty. Article 36 provides:

The provisions of Articles 30 to 34 [on the free movement of goods] shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of . . . the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

While Article 36 applies to free movement of goods cases, it does not apply to competition (the competition provisions are found in Part Three, Title 1, Chapter 1, "Rules on Competition" of the Treaty). This may be relevant because Article 36 is more stringent than Article 222 in that it contains a reference to arbitrary discrimination and disguised restrictions which Article 222 does not contain. It may, however, be appropriate to contrast the ambit of the two provisions. Article 222 applies to the existence of rights, while Article 36 is concerned both with the existence and the exercise of rights and, in particular, their use as a means of restricting intra-Community trade.

1. The Meaning of Article 222

Article 222 underpins to a substantial degree the ECJ's case law concerning intellectual property and competition. It is worthwhile therefore to review its precise meaning. In *Consten & Grundig v. Commission*, one of its earliest cases concerning Article 85, the ECJ held that Article 222 also applies to intellectual proper-

ty.²² In *Parke, Davis* the Advocate-General stated that Article 222 must be interpreted as meaning:

[A]ll the basic elements of the national system of property ownership must remain unchanged. This equally means that the existence of rights appertaining to inventions analogous to property rights must remain unchanged.²³

It has been questioned whether this was the original intention of the draftsmen of the Treaty.

The first draft of Article 222 provided that “[t]his Treaty shall in no way prejudice the system of ownership of the means of production existing in the Community.”²⁴ The reference to “means of production” was considered insufficiently clear and replaced by the reference “of undertakings to which the provisions of this Treaty apply.”²⁵ In the final drafting stages, these words (“of undertakings . . . apply”) were deleted.²⁶ The result is a broadly stated provision.

The first drafts of Article 222 were very similar to Article 83 of the European Coal and Steel Community (“ECSC”) Treaty,²⁷ which served to reserve the right of Member States to nationalize or privatize coal and steel corporations. Some have suggested that the original purpose of Article 222 was the same.²⁸ The changes

22. *Consten & Grundig*, ¶ 22, [1966] E.C.R. at 345, [1966] 5 C.M.L.R. at 442; see also *Parke, Davis*, ¶ 5, [1968] E.C.R. at 72, [1968] 7 C.M.L.R. at 52; Opinion of Advocate-General Roemer, *Parke, Davis*, [1968] E.C.R. at 77, [1968] 7 C.M.L.R. at 48; *Deutsche Grammophon*, [1971] E.C.R. 487, [1971] 10 C.M.L.R. 631.

23. Opinion of Advocate-General Roemer, *Parke, Davis*, [1968] E.C.R. at 77, [1968] 7 C.M.L.R. at 48.

24. Draft of Dec. 5, 1956 of the Groupe de Redaction, art. 9, Doc. MAE 641/56 (1956).

25. Doc. MAE 177/57, art. 43 (Jan. 1, 1957).

26. Doc. MAE 243/57, art. 43 (Jan. 21, 1957); Doc. MAE 786/57, art. 282 (Mar. 6, 1957).

27. Treaty Establishing the European Coal and Steel Community, Apr. 18, 1951, 261 U.N.T.S. 140. Article 83 reads: “The establishment of the Community does not in any way prejudice the regime of ownership of the enterprises subject to the provisions of the present treaty.”

28. 5 HANS SMIT & PETER HERZOG, *THE LAW OF THE EUROPEAN ECONOMIC COMMUNITY*, 6-216.64 (1993); see also Opinion of Advocate-General Roemer, *Consten & Grundig*, [1966] E.C.R. at 303, [1966] 5 C.M.L.R. at 422.

that were made in the final drafts (in particular the deletion of "of undertakings") and the wider application of the EEC Treaty beyond the areas of coal and steel strongly suggest, however, that Article 222 has a broader scope. This issue was the subject of debate immediately after the adoption of Article 222. The Commission argued that Article 222 did not exempt intellectual property rights from the application of the Treaty provisions.²⁹

The ECJ settled the matter and rationalized the debate in *Consten & Grundig* and subsequent cases by developing an analysis based upon the dichotomy between the existence of an intellectual property right and its exercise. Since that time, the meaning of Article 222 has not been directly challenged. The approach of the ECJ to Article 222 does not mean that intellectual property rights are sacrosanct and can be used to avoid the results to be achieved by the Treaty. The ECJ has held that:

[W]hilst the Treaty does not affect the existence of rights recognized by the laws of a Member State in matters of industrial and commercial property, yet the exercise of those rights may nevertheless, depending on the circumstances, be restricted by the prohibitions contained in the Treaty.³⁰

So far in case law, the ECJ has consistently applied the distinction between exercise and existence to decide what will be subject to its scrutiny and what will not. The question is how to distinguish the existence from the exercise of an intellectual property

29. See SMIT & HERZOG, *supra* note 28, at 6-216.65 to -216.66; see also Guiliano Marengo & Karen Banks, *Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed*, 15 EUR. L. REV. 224, 226 (1990).

30. Hoffmann-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH, Case 102/77, ¶ 6, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217; see Consorzio Italiano della Componentistica di Ricambio per Autoveicoli v. Regie Nationale des Usines Renault, Case 53/87, [1988] E.C.R. 6039, [1990] 4 C.M.L.R. 265; Volvo AB v. Erik Veng UK Ltd., Case 238/87, [1988] E.C.R. 6211, [1989] 4 C.M.L.R. 122; Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Großmärkte GmbH & Co., Case 78/70, [1971] E.C.R. 499, [1971] 10 C.M.L.R. 631; Parke, Davis & Co. v. Probel, Case 24/67, [1968] E.C.R. 55, [1968] 7 C.M.L.R. 47; Opinion of Advocate-General, Parke, Davis, [1968] E.C.R. at 77, [1968] 7 C.M.L.R. at 48. All these cases also concerned the rules of competition.

right.

(a) Specific Subject Matter

To ensure that the "existence" of an intellectual property right in a given case before the ECJ is not prejudiced, the ECJ has in almost every case defined the "specific subject matter"³¹ or the "substance"³² of the right involved or the "essential rights" of the rightsholder.³³ There may be minor semantic differences between these terms.³⁴ In practice, however, these terms have been used more or less interchangeably across the broad range of the ECJ jurisprudence including both competition and free movement of goods cases.³⁵

From the case law of the ECJ it can be concluded that "existence," "substance," "specific subject matter," and "essential rights" refer to a bundle of rights that are at the very core of the intellectual property right at issue. In the case of a patent, for instance, it has been held that its specific subject matter is:

The guarantee that the patentee, to reward the creative ef-

31. *Centrafarm BV v. Sterling Drug Inc.*, Case 15/74, ¶ 9, [1974] E.C.R. 1147, 1162, [1974] 2 C.M.L.R. 480, 503-04; *Merck & Co. v. Stephar BV*, Case 187/80, ¶ 4, [1981] E.C.R. 2063, 2080, [1981] 3 C.M.L.R. 463, 481; *Windsurfing Int'l Inc. v. Commission*, Case 193/83, [1986] E.C.R. 611, 655, [1986] 3 C.M.L.R. 489, 540; *Allen & Hanburys v. Generics*, Case 434/85, ¶¶ 10-11, [1988] E.C.R. 1273, [1988] 1 C.M.L.R. 701, 714; *Volvo*, ¶ 8, [1988] E.C.R. at 6211, [1989] 4 C.M.L.R. at 135; *Renault*, ¶¶ 11, 15, [1988] E.C.R. 6039, [1990] 4 C.M.L.R. 265; see also *Van Zuylen v. Hag*, Case 192/73, ¶ 9, [1974] E.C.R. 731, 744, [1974] 2 C.M.L.R. 127, 143; *Centrafarm BV v. Winthrop BV*, Case 16/74, ¶ 8, [1974] E.C.R. 1183, 1194, [1974] 2 C.M.L.R. 480, 503; *Hoffmann-La Roche*, [1978] E.C.R. at 1164, [1978] 3 C.M.L.R. at 241; *Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kapfere & Co.*, Case 119/75, ¶¶ 5-6, [1976] E.C.R. 1039, 1061, [1976] 2 C.M.L.R. 482, 490; *SA CNL Sucal NV v. Hag GF AG*, Case C-10/89, [1990] 3 C.M.L.R. 571 [hereinafter *Hag II*].

32. *Merck*, ¶ 9, [1981] E.C.R. at 2081, [1981] 3 C.M.L.R. at 480-81; *Pharmon BV v. Hoechst AG*, Case 19/84, ¶ 26, [1985] E.C.R. 2281, 2298, [1985] 3 C.M.L.R. 775, 790-91.

33. *Warner Bros. v. Christiansen*, Case 158/86, ¶ 13, [1988] E.C.R. 2605, 2629, [1990] 3 C.M.L.R. 684, 698.

34. For instance, in *Merck v. Stephar*, the words "specific purpose" were used as a synonym for "specific subject matter" and the "substance" of the patent (the core rights associated with the patent) was derived therefrom. [1981] E.C.R. 2063, [1981] 3 C.M.L.R. 463.

35. See, e.g., *Centrafarm v. Sterling Drug*, ¶ 7 (arts. 30 & 36), ¶ 39 (art. 85), [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480.

fort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licenses to third parties, as well as the right to oppose infringement.³⁶

This definition protects the patent holder against unauthorized application of his invention and against the marketing of products or services using his invention without his permission and is thus central to the patent's fundamental role of encouraging innovation by granting monopolistic rights as a compensation device.

The core bundle of rights is distinguished from rights that only constitute the fringe of the intellectual property right.³⁷ An example of such a fringe characteristic is the territorial nature of the right in situations where national law allows the rightsholder to prevent imports of products marketed abroad by him or with his consent.

(b) Interesting Aside on Article 222

A final note on an issue that may be relevant for harmonization of intellectual property law within the Community is that Article 222 applies to national intellectual property, so as to protect its "existence" and, therefore, its specific subject matter. Article 222

36. *Centrafarm v. Sterling Drug*, ¶ 9, [1974] E.C.R. at 1162, [1974] 2 C.M.L.R. at 503. See also *Merck v. Stephar*, ¶¶ 9-10, [1981] E.C.R. at 2081, [1981] 3 C.M.L.R. at 481, where the ECJ said that:

[T]he substance of a patent right lies essentially in according the inventor an exclusive right of first placing the product on the market. That right of first placing a product on the market enables the inventor, by allowing him a monopoly in exploiting his product, to obtain the reward for his creative effort without, however, guaranteeing that he will obtain such a reward in all circumstances.

Id.

The phrase is also used in *Windsurfing Int'l Inc. v. Commission*, Case 193/83, [1986] E.C.R. 611, 655, [1986] 3 C.M.L.R. 489, 533, where the ECJ seems to regard quality controls on licensed products covered by a patent as within the "specific subject matter" of that patent, but only if such quality controls are carried out on the basis of objectively verifiable criteria.

37. Friedrich-Karl Beier, *Industrial Property and the Free Movement of Goods in the Internal European Market*, 21 INT'L REV. INDUS. PROP. & COPYRIGHT LAW [I.I.C.] 131, 148 (1990).

also applies if the national laws are introduced in order to implement Community directives. If, however, intellectual property rights are introduced by regulation at a Community level, or even, perhaps, by a directly applicable directive, Article 222 presumably will not apply. A proprietor of such a Community patent, design, or trademark would, therefore, not be able to rely on Article 222 in resisting a particular application of the free movement of goods or competition provision of the Treaty to his intellectual property.

2. Free Movement of Goods Provisions—The Meaning of Article 36

In Article 36 cases (concerning the free movement of goods), the ECJ not only uses the notion of the “substance” of the right, but sometimes also invokes the “basic function”³⁸ or “essential function”³⁹ of intellectual property rights. These terms tend to refer to the objective of the legislature in granting the right.⁴⁰ The essential function of a patent, for instance, is to ensure for the inventor an opportunity to obtain a reward for his efforts or innovation and thus, if seen *ex ante*, gives an incentive for would-be inventors to invest time, money, and efforts into research.⁴¹ If a particular exercise of an intellectual property right does not reasonably correspond to the essential function of the right, the principle of free movement of goods prevails.

More recently, the ECJ has taken to using the words “legitimate

38. *Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kapfere & Co.*, Case 119/75, ¶ 5-6, [1976] E.C.R. 1039, 1061, [1976] 2 C.M.L.R. 482, 505-06.

39. *S.A. Compagnie Général pour la Diffusion de la Télévision v. Ciné Vog Films*, Case 62/79, ¶ 14, [1980] E.C.R. 881, 903, [1981] 2 C.M.L.R. 362, 400; *Coditel S.A. v. Ciné-Vog Films S.A.*, Case 262/81, ¶ 12, [1982] E.C.R. 3381, 3401, [1983] 1 C.M.L.R. 49, 65; *Hoffmann-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer mbH*, Case 102/77, ¶ 7, [1978] E.C.R. 1139, 1164, [1978] 3 C.M.L.R. 217, 227; *see also Hag II*, *supra* note 31, [1990] 3 C.M.L.R. at 571.

40. In *Hoffmann-La Roche* and *Hag II* (both concerning trademarks), the “specific subject matter” was distinguished from the “essential function.” *Hoffmann-La Roche*, [1978] E.C.R. at 1139, [1978] 3 C.M.L.R. at 217; *Hag II*, *supra* note 31, [1990] 3 C.M.L.R. at 571.

41. This *ex ante* approach, looking at the incentive rather than at a reward, appears only in recent case law. *See Thetford Corp. v. Fiamma SpA*, ¶ 19, Case 35/87, [1988] E.C.R. 3585, 3607, [1988] 3 C.M.L.R. 549, 561. Reward and incentive are, however, two sides of the same coin: prospects of a reward act as an incentive, and the actual reward is nothing but the incentive realized.

exercise" and "abusive" or "improper exercise" in copyright and design cases involving Article 36.⁴² "Legitimate" exercise is "justified" under Article 36 to protect intellectual property, and "abusive exercise" is defined as "of such a nature as to maintain or establish artificial partitions within the Common Market."⁴³

Why has the ECJ begun to use different words than the traditional "exercise" and "existence" and why does it ponder the "function" of the rights? It has been said that the existence of an intellectual property right can be equated to the aggregate of all the different ways of exercising it.⁴⁴ This mere semantic debate may be at the root of the ECJ's wording. However, the matter also may be more fundamental. In recent Article 36 cases, the ECJ apparently felt the need to explain why the national law was reasonable and why it should be available as a defense against a claim based on Article 30.⁴⁵ Such an analysis is suggested by the text of Article 36, which requires that the restriction of imports be "justified" by the protection of the intellectual property right and that the "prohibitions or restrictions shall not . . . constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States."

The word "justified" has a connotation of proportionality and reasonableness. For this reason it might be taken to indicate that the ECJ is entitled to review the "substance" of intellectual property under national law, in order to verify whether the core bundle of rights granted by national law indeed outweighs the interest the Community has in the free movement of goods. It is important to

42. *Keurkoop BV v. Nancy Kean Gifts BV*, Case 144/81, ¶ 24, [1982] E.C.R. 2853, 2873, [1983] 2 C.M.L.R. 47, 83; *E.M.I. Electrola GmbH v. Patricia Im-und Export*, Case 341/87, ¶ 8, [1989] E.C.R. 79, 95, [1989] 2 C.M.L.R. 413, 423. The Tribunal also used these terms in the *Magill* cases in an Article 86 context.

43. *See also Centrafarm B.V. v. American Home Prods. Corp.*, Case 3/78, [1978] E.C.R. 1823, [1979] 1 C.M.L.R. 326.

44. VALENTINE KORAH, AN INTRODUCTORY GUIDE TO EEC COMPETITION LAW AND PRACTICE 147 (4th ed. 1990). For additional criticism of the distinction between existence and exercise, see *Beier*, *supra* note 37, at 147.

45. *See Warner Bros. v. Christiansen*, Case 158/86, ¶¶ 15-16, [1988] E.C.R. 2605, 2629, [1990] 3 C.M.L.R. at 684, 698-99; *Thetford*, ¶ 15, [1988] E.C.R. at 3596-97, [1988] 3 C.M.L.R. at 561; *Patricia*, [1989] E.C.R. at 96, [1989] 2 C.M.L.R. at 423.

note, however that the ECJ has so far consistently rejected arguments that it should review the legitimacy of, for instance, trademark protection in Germany, or patent or design rights in the United Kingdom or Italy.⁴⁶ Moreover, as has been emphasized before, Article 36 applies to free movement of goods and services cases only and Article 222 is not identical to Article 36. Article 222 does not refer to restriction having to be "justified" and does not contain the reference to "arbitrary discrimination" or "disguised restriction on trade." These considerations may be relevant when applying the competition provisions of the Treaty to patents and other forms of intellectual property.

V. ARTICLES 85 AND 86: COMPETITION RULES

A. *Article 85*

While Article 85 applies to both horizontal and vertical arrangements on the exploitation of intellectual property,⁴⁷ most case law in relation to intellectual property rights concerns license agreements. The first cases date back to the 1960s⁴⁸ and 1970s.⁴⁹ From the 1970s onward, the Commission adopted block exemptions which state precisely the conditions under which certain kinds of agreements are automatically exempted. The most relevant regulations in the field of intellectual property concern patent licensing agreements⁵⁰ and know-how licensing agreements.⁵¹ Agreements

46. See *Thetford*, [1988] E.C.R. 3585, [1988] 3 C.M.L.R. 549; *Warner Bros.*, [1988] E.C.R. 2605, [1990] 3 C.M.L.R. 684; *Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kapfere & Co.*, Case 119/75, [1976] E.C.R. 1039, [1976] 2 C.M.L.R. 482.

47. See, e.g., *Ministère Public v. Tournier*, Case 395, [1991] 4 C.M.L.R. 248 (on copyright management societies).

48. See *Établissements Consten SARL & Grundig-Verkaufs-GmbH v. Commission*, Joined Cases 56 & 58/64, [1966] E.C.R. 299, [1966] C.M.L.R. 418.

49. See *L.C. Nungesser KG v. Commission*, Case 258/78, [1982] E.C.R. 2015, [1983] 1 C.M.L.R. 278.

50. Commission Regulation No. 2349/84 of 23 July 1984 on the Application of Article 85(3) of the Treaty to Certain Categories of Patent Licensing Agreements, O.J. L 219/15 (1984).

51. Commission Regulation No. 556/89 of 30 November 1988 on the Application of Article 85(3) of the Treaty to Certain Categories of Know-how Licensing Agree-

that do not comply with the conditions for application of the block exemption regulations continue to be dealt with by the Commission on an individual basis.⁵² The Commission's traditional approach to license agreements has been criticized on the grounds that certain restrictions on the licensee's and the licensor's conduct may discourage competition. In particular, if the parties are unable to impose certain ancillary restrictions, they may decide not to enter into a licensing agreement, in which case there will be not more but less competition. Recent case law of the Commission⁵³ and the ECJ⁵⁴ has allowed for such considerations to be taken into account.

B. Article 86

Article 86, which prohibits the abuse of a dominant position, has also been applied in the field of intellectual property.

1. Dominance

The ECJ has defined a dominant position as:

[A] position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of consumers.⁵⁵

The possession of an exclusive right may be one of the factors determining dominance, but it is not in itself conclusive.⁵⁶ A pat-

ments, O.J. L 61/1 (1989).

52. *E.g.*, *Windsurfing Int'l Inc. v. Commission*, Case 193/83, [1986] E.C.R. 611, [1986] 3 C.M.L.R. 489; *Bayer AG v. Sullhofer*, Case 65/86, [1988] E.C.R. 5249, [1990] 4 C.M.L.R. 182; *Kai Ottung v. Klee & Weilbach A/S*, Case 320/87, [1989] E.C.R. 1177, [1990] 4 C.M.L.R. 915.

53. *See Yves Rocher*, 87/14/EEC, O.J. L 8/49 (1987); *Computerland*, 87/407, O.J. L 222/12 (1987); *Charles Jourdan*, 89/94/EEC, O.J. L 35/31 (1989).

54. *See Pronuptia de Paris GmbH v. Pronuptia de Paris Irmgard Schillgalis*, Case 161/84, [1986] E.C.R. 353, [1986] 1 C.M.L.R. 414 (concerning a franchising agreement); *Erauw-Jacquéry Sprl v. La Hesbignonne Société Coopérative*, Case 27/87, [1988] E.C.R. 1919, [1988] 4 C.M.L.R. 576 (concerning breeders' rights).

55. *United Brands Co. v. Commission*, Case 27/76, ¶ 65, [1978] E.C.R. 207, 277, [1978] 1 C.M.L.R. 429, 486-87.

56. *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Großmärkte GmbH & Co. KG*, Case 78/70, ¶ 17, [1971] E.C.R. 487, 501, [1971] C.M.L.R. 631, 639. *See Guy Leigh*, *EEC Competition Law and Intellectual Property*, Speech before the Ameri-

ent does not in and of itself allow a patentee to ignore competitors and customers if another product can be substituted for the product covered by the patent, and the function and characteristics of the other product are sufficiently similar from the point of view of the user. Nevertheless, if intellectual property rights cover spare parts that cannot be substituted by a third party's spare parts, the Commission has on occasion shown itself quickly inclined to find dominance.⁵⁷

The nature of the right may also be relevant. For example, it is arguable that a copyright which is necessarily co-existent with a product of economic value could be a key indicator of dominance in a relevant product market, and that the same is less likely to be true in the case of a patent, which may only be an element of a product. Equally, a trademark might not necessarily have any direct relationship to a particular product market.⁵⁸

In general, if a firm has a market share of more than forty percent of the relevant product market in the relevant geographical market, there is a risk that it might be found to be dominant (unless in an oligopolistic market situation).

2. Abuse

The very essence of a patent is that it is exclusionary. A mere refusal to allow others to exploit an invention should therefore not be considered to be abusive, since that would mean stripping rights under national law of all effect and leaving but a mere shell with no meaningful existence. As explained above, under Article 222, the provisions of the Treaty (in particular Articles 85 and 86) may

can Bar Association, PTC and Antitrust sections (transcript available from author).

57. See *Hugin Kassaregister AB v. Commission*, Case 22/78, [1979] E.C.R. 1869, [1979] 3 C.M.L.R. 345; Opinion of Advocate-General Mischo, *Volvo AB v. Erik Veng UK Ltd.*, Case 238/87, [1988] E.C.R. 6211, [1989] 4 C.M.L.R. 122; Opinion of Advocate-General Mischo, *Consorzio Italiano della Componentistica di Ricambio per Autoveicoli v. Regie Nationale des Usines Renault*, Case 53/87, [1988] E.C.R. 6039, [1990] 4 C.M.L.R. 265.

58. One commentator suggests that *Magill* does not represent a change in the Commission's attitude towards finding dominance in cases involving intellectual property. See James Flynn, *Intellectual Property and Anti-trust: EC Attitudes*, 2 EUR. INTELL. PROP. REV. [E.I.P.R.] 49 (1992).

not prejudice the rules in Member States governing the existence of intellectual property.

For this reason, the ECJ has held that the mere fact that an exclusive right is enforced does not constitute an abuse,⁵⁹ nor does the simple refusal to grant a license to a third party. In the words of the ECJ:

[T]he 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.⁶⁰

Prohibiting the mere exercise of the right would reduce it, in some cases, out of existence. As explained below, this is exactly what happened in *Magill*, which is now on appeal to the ECJ.⁶¹ In *Magill*, the Commission and the CFI prohibited copyright holders from doing the very thing that the applicable national copyright law allowed them to do: prevent unauthorized third parties from producing and distributing copyrighted material. If such result should be affirmed broadly, the effectiveness of patent based exclusionary rights could be influenced thereby.

As has been seen, traditionally the ECJ has drawn a line between the "existence" and the "exercise" of a right, indicating that an abusive exercise requires certain additional features over and above the mere refusal to allow others to use the protected rights.⁶²

59. *Renault*, ¶ 15, [1988] E.C.R. at 6072, [1990] 4 C.M.L.R. at 282.

60. *Volvo*, ¶ 8, [1988] E.C.R. at 6235, [1989] 4 C.M.L.R. at 135.

61. See *supra* note 5.

62. *Renault*, ¶ 16, [1988] E.C.R. at 6073, [1990] 4 C.M.L.R. at 282; *Volvo*, ¶ 9, [1988] E.C.R. at 6235, [1989] 4 C.M.L.R. at 135-36; *Basset v. SACEM*, Case 402/85, ¶¶ 18-19, [1987] E.C.R. 1747, 1769; *Hoffmann-La Roche & Co. AG v. Centrafarm*

Use is not in itself abuse.⁶³ To illustrate this approach, in *Volvo* and *Renault*, the ECJ mentioned three carefully selected examples of such additional features.

The three examples of abusive conduct cited in *Volvo* and *Renault* were the following: (i) the arbitrary refusal to supply body panels (i.e., the protected goods) to independent repairers (i.e., purchasers who used these goods for the services they offered); (ii) the fixing of prices for the body panels at an unfair level; and (iii) ceasing production of the body panels even though they would still be needed on a large scale for repairs and maintenance.⁶⁴ In effect, the ECJ indicated that it would not permit intellectual property rights to be used to gain an unfair advantage in a market for products not covered by the rights. In other words, the ECJ would not permit the rights of the patentee or other rightsholders to be exercised illegitimately outside their proper scope. On the other hand, the ECJ declined to uphold a challenge to either the existence of the right or rights fundamental to that existence.

Thus, taking the first two examples, if spare parts are arbitrarily refused or unfairly highly priced, third parties are precluded from repairing certain automobiles since they cannot purchase the parts and are precluded from making the spare parts without a license. As a result, they cannot compete with the repair service provided by the rightsholder. The market in which the latter thus obtains an advantage, the service market, does not require exploitation of the intellectual property or performance of any act which is reserved for the rightsholder. Independent repairers only need the spare part, not the right to make it.

As to the third example, if spare parts for recent models cease to be available and no third party is authorized to produce them, users of cars with defective parts (i.e., customers who have been

Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH, Case 102/77, ¶ 16, [1978] E.C.R. 1139, 1167, [1978] 3 C.M.L.R. 217, 243-44.

63. Brenda Sufrin, *Comment on the Magill Case*, 2 EUR. L. REP. 67 (1992). Ms. Sufrin suggests that *Magill* is as much application of Article 86 to a refusal to supply as it is an attack on intellectual property rights.

64. *Renault*, ¶ 16, [1988] E.C.R. at 6073, [1990] 4 C.M.L.R. at 282; *Volvo*, ¶ 9, [1988] E.C.R. at 6235, [1989] 4 C.M.L.R. at 135-36.

supplied in the past and who have therefore become dependent on the supply of parts) are forced to purchase new models. The market in which the effect of the behavior is felt and the unfair advantage is obtained is the market for automobiles. A remedy in all three examples would be to leave the choice to the producer whether to supply the parts within a reasonable time and at reasonable prices or to grant a license.

Although the list of examples is not exhaustive, it does not suggest that other examples should include situations where competing firms need to engage in restricted acts (copying, in the case of copyright and design, or exploiting an invention, in the case of patents) to enter the dependent market. There is no indication that the ECJ in *Volvo* and *Renault* abandoned the principle set out in Article 222 that there is a core bundle of rights which are reserved to the rightsholder and which are not called into question by the competition rules of the Treaty.

Thus, the law remained, after *Volvo* and *Renault*, that even if the reasoning expressed in those cases applies equally to patents, as may well be the case, there is no principle of Community law which requires the granting of a license, except in the particular type of circumstances discussed above. Specifically, one might still expect the specific subject matter of a patent to comprise at least (i) the exclusive right of the patentee to place patented goods on the market either himself or through a third party with his consent, i.e., a licensee; and (ii) the right to pursue infringers.

However, there are now the decisions of the Commission and the CFI in *Magill*,⁶⁵ to which reference has been made above, and

65. See *supra* note 5. The factual background for *Magill* is stated in the Response to Notice of Appeal of the Commission in *Radio Telefis Éireann v. Commission*, Case C-241/91P, ¶¶ 2-5, as follows:

2. The Commission reminds this Court that the Decision of December 21, 1988 arose out of a complaint to the Commission by an Irish enterprise called *Magill TV Guide Ltd.* (*Magill*). *Magill* desired to bring out a weekly publication containing details of forthcoming radio and television programmes, showing not just one broadcaster's programmes but several broadcasters' programmes (BBC, RTE and ITP) in parallel. Such guides are common in other Member States but did not emerge in the U.K. or in Ireland because of the refusal of the broadcast companies there, based on copyright

which is currently on appeal to the ECJ. The potential significance of *Magill* is difficult to assess, even if the existing Commission Decision and Judgment of the CFI are upheld, because of its very particular facts. However, because of its possible serious implications, it is worthy of special mention.

law unique to those countries, to permit the publication of any magazine which would damage the monopoly position of the broadcasters' own "captive" weekly magazine. Thus Irish consumers who wished to plan a week's viewing had to buy *RTE Guide*, *Radio Times* (BBC), and *TV Times* (ITP), whereas *Magill* wanted to offer a single guide containing all this information.

3. The broadcasters prepared weekly "listings" of their own programmes for the forthcoming week, and distributed those widely to national, regional and local newspapers, encouraging them to reprint programme times on a daily basis (two days at weekends) but forbidding them to reprint the material on a weekly basis. The publication of weekly schedules of the U.K. broadcasters' programmes in other Member States (such as Belgium, France and The Netherlands) was tolerated or not opposed. However, they acted swiftly to close down the *Magill TV Guide* immediately after its publication of multi-channel programme information on a weekly basis. The U.K.-based companies were concerned that copies of the *Magill TV Guide* could be sold in the U.K. and could encroach on the parallel monopoly otherwise enjoyed there by *Radio Times* and *TV Times* respectively.

4. When the Decision was taken in December 1988, *Magill* had already been closed down by the grant of interlocutory relief to the three companies. On July 26, 1989, Lardner J. held that under Irish copyright law copyright could indeed subsist in the lists of programmes, rejecting the arguments of *Magill* that the plaintiffs were seeking an impermissible copyright over mere information. He declined to make a distinction between arranging a series of programmes with the purpose of attracting viewers, and the publication of information about that series of programmes. It was clear that a slavish reproduction of copyright material could constitute an infringement; but whether *Magill's* new method of presenting and compiling a combination of data, including basic facts such as time, channel and title descriptions in a novel multi-channel format would constitute a new, non-infringing, compilation appears not to have been considered.

5. The Commission's findings were that the three enterprises were each dominant on two markets, the market for the supply of television listings and the market for weekly television programme guides. The Commission found that the Applicants' respective dominant positions had been abused by the assertion of copyright rights in one market to retain the effective monopoly they enjoyed on the second market, and which they exercised to prevent the emergence of a new product.

Id.

C. Magill—*Its Reasonable Implications*

The essence of the three *Magill* cases is that the Commission and the CFI prohibited three broadcasting organizations, British Broadcasting Corp. (“BBC”), Independent Television Productions (“ITP”) and Radio Telefis Éireann (“RTE”), from invoking a right they had under national copyright law to exclude competitors from copying and disseminating certain program lists. Although the *Magill* cases concern copyrights, they may present fundamental questions on the relationship between intellectual property and EC competition law. Thus, these cases are relevant to the question of whether national patents will continue to be viable to maintain exclusionary rights in inventions in the EC in the future. Notably, the “market” which was the object for exploitation in *Magill* (assuming it was a separate market) was a market for products that required reproduction of the protected work. In this major respect, *Magill* deviates from *Volvo* and *Renault*.

In order to reach its conclusion, the CFI seemed not to refer to the traditional existence/exercise dichotomy. Instead, it used a somewhat confusing array of different arguments.

First, it distinguished “legitimate exercise” from “improper exercise”—notions which it seems to have taken from cases decided under Article 36.⁶⁶ “Improper exercise” is defined as “likely to create artificial partitions within the market or pervert the rules governing competition.” This appears to differ from the definition of “improper exercise” used in the past in the case law of the ECJ, which referred only to “artificial partitions within the Common Market.” Moreover, the CFI did not indicate clearly why the broadcasting companies’ behavior was an abuse, i.e., what additional circumstances or behavior over and above the exercise of the copyright itself led to a finding of abuse. The notions of “legiti-

66. *Radio Telefis Éireann v. Commission*, Case T-69/89, ¶ 67, [1991] 4 C.M.L.R. 586 (Ct. First Instance); *British Broadcasting Corp. v. Commission*, Case T-70/89, ¶ 52, [1991] 4 C.M.L.R. 669 (Ct. First Instance); *Independent Television Publications Ltd. v. Commission*, Case T-76/89, ¶ 52, [1991] 4 C.M.L.R. 745 (Ct. First Instance). The CFI took these words from *Keurkoop BV v. Nancy Kean Gifts BV*, Case 144/81, [1982] E.C.R. 2853, [1983] 2 C.M.L.R. 47, and other cases concerning Article 36 of the EEC Treaty.

mate” and “abusive” exercise appear to be derived from cases concerning Article 36. It is perhaps questionable whether they are relevant in an Article 86 context, as explained above, since Article 36 is a special rule that applies only to the free movement of goods provisions.

In addition, there is no reference in *Magill* to any set of core rights inherent in the existence of the copyright which are—as Article 222 dictates—free from the interference of the EEC Treaty so long as they are based on national law.

The CFI acknowledged the “actual substance of the intellectual property” by quoting earlier cases from the ECJ.⁶⁷ It stated that the exclusive rights of the author “are not called in question by the rules of the Treaty.”⁶⁸ However, the CFI appears then to have done something at least quite similar to that when it said that:⁶⁹

While it is plain that the exercise of the exclusive right to reproduce a protected work is not in itself an abuse, that does not apply when, in the light of the details of each individual case, it is apparent that that right is exercised in such ways and circumstances as in fact to pursue an aim manifestly contrary to the objectives of Article 86. In that event, the copyright is no longer exercised in a manner which corresponds to its essential function, within the meaning of Article 86 of the Treaty, which is to protect the moral rights in the work and ensure a reward for the creative effort, while respecting the aims of, in particular, Article 86.⁷⁰

67. *Radio Telefís Éireann*, ¶ 69; *British Broadcasting Corp.*, ¶ 56; *Independent Television Publications*, ¶ 54.

68. *Warner Bros. v. Christiansen*, Case 158/86, ¶ 13, [1988] E.C.R. 2605, 2629, [1990] 3 C.M.L.R. 684, 698.

69. See the Response to Notice of Appeal of the Commission in *Radio Telefís Éireann v. Commission*, Case C-241/91P, ¶¶ 37-38, where the Commission’s view is expressed: “National law [should] receive all proper respect from the Commission and this Court, but it cannot be sovereign.”

70. *Radio Telefís Éireann v. Commission*, Case T-69/89, ¶ 71, [1991] 4 C.M.L.R. 586 (Ct. First Instance); *British Broadcasting Corp. v. Commission*, Case T-70/89, ¶ 58, [1991] 4 C.M.L.R. 669 (Ct. First Instance); *Independent Television Publications Ltd. v. Commission*, Case T-76/89, ¶ 56, [1991] 4 C.M.L.R. 745 (Ct. First Instance).

Thus, the CFI applied the "essential function" test (which is based on the word "justified" in Article 36, not on Article 222) though perhaps changing its meaning somewhat. In addition, it changes the meaning of "essential function." According to the case law of the ECJ, the "essential function" is a concept of Community law, the contents of which are determined by national law. The CFI seems to have imported EC competition rules (Article 86) into the contents of "essential function" and thus into the "existence" of copyright.

In other words, whereas under the case law of the ECJ in competition cases there was a core bundle of rights (determined by national law in the absence of Community harmonization), which the provisions of the EEC Treaty did not affect, the CFI now seems to be using Article 86 of the Treaty to determine what the core rights are, and thus circumvent Article 222. In doing so, it has allowed Community law to override national laws in an area which Article 222 reserved to national legislation and harmonization.⁷¹ The CFI justified its reasoning that Article 86 may override national law by saying that

the primacy of Community law, particularly as regards principles as fundamental as those of the free movement of goods and freedom of competition, prevails over any use of a rule of national intellectual property law in a manner contrary to those principles.⁷²

This statement seems to be contrary to Article 222, as interpreted until now by the ECJ. The CFI confirms its approach by stating that "the exercise of an exclusive right which, in principle, corre-

71. See the Response to Notice of Appeal of the Commission in *Radio Telefis Éireann v. Commission*, Case C-241/91P, ¶ 40, where the Commission is even more explicit:

Whether the Court of First Instance would be right or wrong in its assessment of the meaning of concepts like the essential function and specific subject matter of copyright within Article 36 is not dispositive on the question of whether the conduct of the Applicants can fall foul of Article 86.

This suggests that Article 36 does, and Article 222 does not, apply in Article 86 cases.

72. *Radio Telefis Éireann v. Commission*, Case T-69/89, ¶ 71, [1991] 4 C.M.L.R. 586 (Ct. First Instance); *British Broadcasting Corp.*, ¶ 58; *Independent Television Prods.*, ¶ 56.

sponds to the substance of the relevant intellectual property may nevertheless be prohibited by Article 86 if it involves, on the part of the undertaking holding a dominant position, certain abusive conduct."⁷³

D. *The Potential Effects of the Magill Cases*

If the judgments in the *Magill* cases are upheld broadly by the ECJ and if, in addition, similar reasoning is subsequently applied in a patents context (which it is to be hoped would not be the case), then the consequences could be detrimental for the encouragement of innovation. This might, in turn, undermine true competition both within the Community and between the Community and its major trading partners.

The main substantive effect of the *Magill* reasoning is that at its broadest it could be understood as potentially having the effect of forcing an intellectual property proprietor to license its core rights to would be competitors for products that compete with the proprietor's own product but have some different characteristics. In spite of the CFI's identifying a different product market, there was evidence that the comprehensive weekly guide would compete head-on with the broadcasters' weekly guides. The Commission in its decision took the view that the raw information itself (the advance listing) could be a separate market.⁷⁴

73. *Radio Telefis Éireann*, ¶ 72; *British Broadcasting Corp.*, ¶ 59; *Independent Television Prods.*, ¶ 57.

74. *Magill TV Guide/Independent Television Prods., British Broadcasting Corp. & Radio Telefis Éireann*, 89/205, O.J. L 78, at 43-51, ¶ 20 (1989). It should be emphasized that the Court of First Instance identified two product markets in *Magill* the first being the market for TV listings themselves and the second being the market for TV listing magazines. This peculiar market definition allowed the CFI to find abuse in the form of exploiting dominance in one market by controlling a derivative market. Of course, although the finding of abuse in circumstances where dominance in one market is used to gain an advantage in another market is unsurprising, e.g., tying arrangements, what is unusual is the market definition in this case which allows such an analysis to proceed. The first market is arguably a market in the intellectual property rights themselves. Such market definition would proceed to a finding of abuse in almost any case where there was refusal to license intellectual property rights.

The very peculiar nature of the copyright material in *Magill* cannot be over emphasized. Copyright in compilations where there is no artistic or original creativity involved is only recognized in the United Kingdom, Ireland, Denmark, and the Netherlands. All

With markets so narrowly defined, one could possibly identify competing but different products also in other areas, such as pharmaceuticals and data processing, or treat raw "technology" (i.e., the patent right) as a separate market. This could substantially affect intellectual property protection. If a competitor can obtain access to a patentee's technology to apply it in a different but competing product, the incentive to invest in research and development may be expected to decrease. Inventors will likely have less discretion to decide how to exploit their rights and competing businesses may in many cases attempt to obtain a license rather than developing competing technology themselves, resulting in a reduction of technological variety. If the ECJ affirms *Magill*, it is hoped, *inter alia*, that it will limit the application of the principles underlying *Magill* to cases involving markets for products that do not compete and where firms have been made dependent by the overt acts of the rightsholder.⁷⁵

Another effect could be produced by the difference between *Magill* and the traditional refusal to supply cases. In previous cases, a refusal to supply has only been found to be abusive if the customer was previously supplied and there was no objective justi-

other EC countries have a more stringent test for originality which would exclude such material from copyright protection. The protection given listings in the Netherlands is largely a function of how broadcasting time is allocated on the public service channels in that country. The time allocated is based on the number of subscribers to a particular broadcaster's listings magazine. It is also noteworthy that in the Netherlands each magazine carries listings from all the broadcasters as they license one another but not other publications. The protection of listings in Denmark is pursuant to a specific statutory right separate from copyright which is of a shorter duration than copyright (10 years). This protection is not extended to non-nationals.

The continental European justification for copyright protection is based on the author's right to control the publication and reproduction of the fruits of his own creative effort. Although recognition of certain copyright works such as films serves to protect purely economic interests literary copyright serves to protect only the author's creative effort under continental European jurisprudence.

However, at least one commentator has concluded that even under the proposed EC Database Directive compulsory licensing would not be mandated in the *Magill* situation. Michael Pattison, *The European Commission's Proposal on the Protection of Computer Databases*, 4 E.I.P.R. 113 (1992).

75. In this connection it should be noted that the market definition is not before the Court.

fiction for choking off supplies.⁷⁶ This could be explained by the circumstance that the customer had made investments and had become dependent on the supply of the products in question. By contrast, in *Magill* a new business opportunity (which would compete, to a greater or lesser extent, with the broadcasters' magazines) was to be pursued by exceeding the terms of any license available from the program makers. In order to avoid such a shift in the law, the ECJ may, indeed, take care to limit the effect of *Magill* to cases where there is both an existing market and actual demand, or where arbitrary conditions of supply are being applied.

Further, in *Magill* it was said that the broadcasting companies prevented the emergence of a so-called "new product" for which there was alleged potential consumer demand (according to the Commission) which was not met. Comprehensive weekly guides existed in all Member States except the United Kingdom and Ireland. They were "new" in the sense that they combined the BBC, ITP and RTE listings in a single magazine. Purchasers could get all the details by buying the three independent magazines and demand was substantially being met by the rightsholders. It is a serious question whether it is justified to abrogate exclusivity rights where demand is being met by the rightsholders or by one or more (cross) licensees and there is simply an opening for a slightly different but perhaps more convenient product.⁷⁷ Nevertheless, that appears to be the present result of *Magill*.

76. See *Istituto Chemioterapico Italiano SpA & Commercial Solvents Corp. v. Commission*, Joined Cases 6 & 7/73, ¶¶ 23-25, [1974] E.C.R. 223, 250, [1974] 1 C.M.L.R. 309, 340; *Hugin Kassaregister AB v. Commission*, Case 22/78, [1979] E.C.R. 1869, [1979] 3 C.M.L.R. 345; *Centre Belge d'Etudes de Marché-Télémarketing CBEM SA v. Compagnie Luxembourgeoise de Télédiffusion SA*, Case 311/84, [1985] E.C.R. 3261, [1986] 2 C.M.L.R. 558.

77. At least one commentator sharply criticizes the CFI's market analysis. Jonathan Smith, *Television Guides: The European Court Doesn't Know "There's So Much in It,"* 3 EUR. COMMUNITY L. REV. [E.C.L.R.] 135 (1992). Mr. Smith comments that TV viewers do not change stations because there is a lack of listings, pointing out that 80% of viewers looked to newspaper listings that were published with the broadcasters' permission. Other commentators say that although the broadcasters had sufficient output, consumer demand was not satisfied. Diane Price, *Abuse of a Dominant Position—the Tale of Nails, Milk Cartons, and TV Guides*, 2 E.C.L.R. 80 (1990).

Under a more traditional analysis, a patentee should be able in his discretion to keep certain technology and information for itself and to exploit it by incorporating it in his own products. To force a patentee to institute a licensing program for technology where he has not made the technology available to third parties, would be a great danger for the commercially feasible exploitation of intellectual property.

E. *Some Options for the ECJ in Magill*

1. Option 1

The ECJ could overturn the decision's grant of a compulsory license and confirm in clear and unambiguous terms that an abuse under Article 86 requires more than just the exercise of an intellectual property right.

2. Option 2

The ECJ need not follow the CFI's approach to the definition of dominance and, indeed, might wish to take the opportunity afforded by *Magill* to reassert that dominance must be determined by reference to economic power and ability to act independently in the market place.⁷⁸

3. Option 3

The ECJ need not follow the CFI's approach to confirm that the broadcasting companies abused a dominant position. Arguably, the broadcasting companies' conduct (in particular, the conditions they applied to licenses), for example, may be deemed to have been discriminatory and arbitrary. In this regard the broadcasting companies appear to have been willing to license their program listings to any interested parties.⁷⁹ It appears to have been only when they perceived that *Magill* was intent on exceeding the parameters of

78. The broadcasters' economic power might be considered collectively, even though their parallel behavior was not concerted. Martin Schödermeier, *Collection Dominance Revisited: An Analysis of the EC Commission's New Concepts of Oligopoly Control*, 1 E.C.L.R. 28 (1990).

79. One commentator suggests that it may indeed be appropriate to limit intellectual property rights when their exercise affects consumers but that the EC's authority to impose such limitations should be narrowly defined. Andreas Reindl, *The Magic of Magill: TV Program Guides as a Limit of Copyright Law?*, 24 I.I.C. 60 (1993).

that license in a manner that threatened their own publications that they chose to assert their copyright. Possibly this conduct could be deemed arbitrary and discriminatory and, to that extent, not dissimilar to the conduct regarded as prohibited in both *Volvo* and *Renault*. The court might in either case point out that the facts and circumstances in *Magill* were very unusual.⁸⁰

4. Option 4

The ECJ could attempt to limit *Magill* to its facts. The cases present some special features that distinguish them from other situations where a refusal to license could arise.

These special features include the facts that: One, BBC, ITP and RTE had by statute exclusive responsibility for the dissemination of television programs, and thus were the only entities which could create listings. No amount of investment would allow third parties to create a competing listing. The broadcasters might therefore be regarded as having a special obligation to make the information available. Two, the program listings were a by-product of the creation of the programs themselves. The control of program listings and their publication is thus arguably more a question of broadcasting regulation than of intellectual property.

In the end, however, these considerations are as much in the nature of policy arguments as of purely legal arguments. They are, therefore, particularly appropriate considerations to be taken into account by the legislature when reforming broadcasting—and the United Kingdom government has indeed done so in a statute.

The fact that the program listings did not involve much intellectual or artistic effort also is a suspect justification for abridging the principle set out in Article 222. As long as there is no harmonized Community law on copyright and national law governs these rights, the Community should accept—and, in the past, has accepted⁸¹—the discrepancies resulting therefrom. This includes the fact

80. Thomas C. Vinje, *Magill: Its Impact on the Information Technology Industry*, 11 E.I.P.R. 397 (1992); *Addendum: Magill*, 2 E.I.P.R. 71 (1993). While favoring broad application of *Magill* to intellectual property rights, Mr. Vinje suggests the *Magill* decision results from "unusual facts and unusual protection [by intellectual property law]."

81. *Keurkoop BV v. Nancy Kean Gifts BV*, Case 144/81, ¶ 18, [1982] E.C.R. 2853, [1983] 2 C.M.L.R. 47; *E.M.I. Electrola GmbH v. Patricia Im-und Export*, Case 341/87,

that certain Member States protect "banal" or (in Commission terminology) "functional or utilitarian" works.

The ECJ could limit the case to intellectual property rights such as copyright that, unlike patents, are not subject broadly to statutory compulsory licenses, on the basis of the argument that if the national legislature provides expressly for a compulsory license to prevent unfair exploitation, this must be exhaustive, whereas in the absence of a compulsory license provision, abusive exercise must be limited otherwise.⁸²

5. Option 5

The ECJ could uphold the CFI decision without limiting the case to its facts and suggesting distinguishing factors. This would raise serious questions in terms of the obligations (in the case of other types of intellectual property and in particular, patents) to grant licenses on reasonable commercial terms. In this connection it is noteworthy that the *Magill* cases arguably had more to do with the underlying information than copyright (as hinted at by the Commission in its judgment). The ECJ may choose to build upon that distinction, perhaps reflecting upon the Commission's recently adopted proposals for a Directive to regulate electronic databases with which there are many parallels with television program listings. In this proposal the Commission suggests that there should be a separate right to control and prevent the unfair extraction of the contents of a database. However, this right is subject to compulsory licensing on fair and non-discriminatory terms if the mate-

[1989] E.C.R. 79, [1989] 2 C.M.L.R. 413.

82. Another important distinction is between copyright and know-how. As appears from the Commission's block exemption for know-how licensing agreements, secrecy is the essential subject matter of know-how. Commission Regulation No. 556/89 of 30 November 1988 on the Application of Article 85(3) of the Treaty to Certain Categories of Know-how Licensing Agreements, arts. 1(7)(1-2), 2(1)(1), O.J. L 61/1, at 1-8 (1989). The information in the listings was not secret and a supply obligation to a limited number of licensees therefore did not prejudice the right to enforce the copyright as against third parties who did not qualify for a compulsory license. In the case of know-how, however, there is a risk that once the information is disseminated widely enough, it will not be possible to enforce confidentiality obligations under the rules of trade secret, confidence, contract, unfair competition, tort, and other laws relevant to protect know-how. This could lead to a loss of the income from exploitation and license agreements.

rial cannot be independently created or obtained from another source. The possible parallel with *Magill* is clear.

Moreover, the Community now has a "legislative baseline" for the inter-relationship between competition and copyright law, in the Software Directive.⁸³ Interestingly, while the Software Directive allows decompilation (an otherwise prohibited act), it does not allow this for the purpose of developing a competing product. Moreover, such a right is enjoyed only by a legitimate licensee does not take away a copyright holder's right to determine whether or not to license its product.

6. Option 6

Even more of a departure: the ECJ might attempt to adopt the approach of finding that no copyright should have existed in the TV listings. This would involve a reinterpretation of Article 222 enabling the ECJ to review the existence of national intellectual property rights and many might argue the implications to be more damaging than a straightforward endorsement of *Magill*.

F. *Other Issues*

The *Magill* case raises many issues which have not been discussed here and which are in any case worthy of papers in themselves. Not the least of these is whether all intellectual property rights are based on the same philosophy. It could, for example, be argued that copyright has as much to do with ownership and attribution of authorship as with exclusive rights in contrast to intellectual property rights such as patents which are said primarily to do with "monopoly." Such an argument would have attractions to many European jurists.

Also worthy of discussion is whether copyright differs from other intellectual property rights in that there is usually a coexistence between a copyright and a product of economic value which is not necessarily the case with rights such as patents. In the *Magill* case, the CFI certainly seemed to be preoccupied by the coexistence of copyright and the concept of a "factual monopoly" in

83. Software Directive, *supra* note 7.

the underlying information.⁸⁴ Seen in those terms, the concept of "factual monopoly" may seem innocuous enough but it is, perhaps, a dangerous principle for the development of the Community competition law whether restricted to the intellectual property field or not.

Magill also raises fundamental questions as to the viability of market definitions and concepts of dominance in Community competition law and, therefore, could turn out to be a watershed decision for Community law. Equally, of course, it might be thought to be something of an aberration based on highly unusual circumstances.

In the light of the foregoing, it is thought likely that the ECJ will find a way of limiting the effect of *Magill* to its facts since to do otherwise will have broad and far reaching effects which are not likely to be warranted or desirable and are not demanded by the *Magill* factual situation. At the very least, the ECJ may feel constrained to restrict *Magill* to copyright. Its effects in that domain may, of course, be serious not least because it would be substantially inconsistent with the Software Directive, the proposed Database Directive, and certain other proposals for copyright harmonization, all of which are supposed to be declaratory of the existing law.

CONCLUSION

The law in the EC is, indeed, changing in manifold respects. Moreover, as the Commission contemplates its consolidation of the patent and know-how licensing block exemptions and begins to consider the many other initiatives that are on the agenda, one can only believe that it is a time to stay alert as the foundations for licensing are in flux.

84. One commentator suggests that an analysis analogous to the U.S. antitrust essential facilities doctrine would be helpful to *Magill*. This would focus analysis on the "factual monopoly." Romano Subiotto, *The Right to Deal with whom one Pleases under EEC Competition Law: A Small Contribution to a Necessary Debate*, 6 E.C.L.R. 234 (1992).

