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ECJ finally rules on the refusal to license an IP right in the *IMS Case*

The European Court of Justice (ECJ) has rendered its long-awaited decision in *IMS Health v NDC Health*. The court confirmed that the mere refusal to license an IP right is not in itself an abuse under Article 82 of the EC Treaty, and that such a refusal will only amount to an abuse in "exceptional circumstances".

IMS Health provides wholesale pharmaceutical sales data in Germany according to a copyrighted geographic segmentation or 'brick structure'. The raw data from wholesalers is freely available – IMS holds copyright only in relation to the method of presenting the data in a commercially useful way. In 2000 IMS discovered that its competitors were using its brick structure, and obtained preliminary injunctions from the Frankfurt Regional Court. However, the competitors made an antitrust complaint to the European Commission, which imposed a compulsory licensing obligation on IMS, although this was later suspended by the European Court of First Instance (see European court favours IP rights over competition law).

In a parallel proceeding, the ECJ was asked by the Frankfurt Regional Court to consider certain questions relating to Article 82. The judgment confirmed that in order to constitute the "exceptional circumstances" amounting to abuse, a refusal to license must (in addition to a finding that the IP holder is dominant and the IP right indispensable for carrying on a particular business):

- prevent the emergence of a new product for which there is potential consumer demand;
- be unjustified; and
- exclude any competition in a secondary market.

With regard to the first condition, the ECJ held that abuse occurs only where the competitor requesting the licence does not:

> "*intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the copyright but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand.*"

The ECJ did not offer any explicit guidance as to the degree of novelty required. However, it seems to have set a high standard by rejecting the opinion given by Advocate-General Tizzano last year (see Opinion suggests compulsory licensing for copyrighted software) that it is sufficient for the competitor to intend to offer goods or services with "different characteristics". Indeed, if competitors merely offer goods or services with different characteristics, the refusal to license causes no prejudice to consumers and there is no reason why the interests of free competition should prevail over those of protecting IP rights. Potential unmet demand from a small group of consumers does not justify a compulsory licence, nor does unmet demand for a characteristic of minor consumer interest. It is therefore hoped that the notion of a "new product" will be interpreted narrowly.

The notion of a "secondary market", as stated in the third condition, seems imprecise. The ECJ accepts that two separate markets are needed when deciding if abuse has occurred – one for the indispensable intellectual property, and one where *access* to the IP right is indispensable. However, the court stated that the IP right does not actually have to be marketed separately. A "potential" or "hypothetical" market may suffice, provided that two different, interconnected stages of production can be identified.

If the ECJ's wording is broadly interpreted, the ruling may cover many types of intellectual property, since often the protected innovative or creative step is not the end product or service, but rather a component or process that enables or improves the end product. For example, the judgment may have opened the door to the compulsory licensing of copyrighted (or patented) software based on its function. This could lead to an undesirable situation whereby companies that develop intellectual property specifically for application in a product or service that is based on that intellectual property, cease to invest in development or choose to keep such advances secret, thereby hampering innovation.

Although the ECJ's ruling confirms previous case law, it fails to clarify fully the conditions for a finding of abuse, and leaves companies uncertain as to the rules for compulsory licensing. It will be interesting to see how the Frankfurt court applies the ruling to the facts at hand.

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