



IP-competition Conflicts in EU Law Through Five Judicial Lenses

Maria José Schmidt-Kessen

Thesis submitted for assessment with a view to obtaining
the degree of Doctor of Laws of the European University Institute

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Department of Law

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¹ The name was found through a common fascination with George Akerlof's piece.

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Abstract

This PhD thesis deals with IP-competition conflicts and how the EU Courts have addressed them over time. It seeks to answer the question of how the reasoning of EU Courts in these cases has been affected by three crucial evolutionary moments in EU law: (1) the Europeanization of IP law (2) the modernization of EU competition law and (3) the elevation of the Charter of Fundamental Rights of the European Union to a primary source of EU law.

The first two chapters provide the theoretical framework of the thesis. The first chapter provides a detailed overview of the three crucial evolutionary moments in EU law mentioned above. The second chapter provides an overview of theories about the legal reasoning of EU Courts and about the different approaches that the courts have adopted when deciding IP-competition conflicts. Five such approaches, or judicial lenses, are identified: an economics, a conflict of laws, a conflict of competences, a constitutional and a private law approach. It is shown that these five different approaches can be linked to the three evolutionary moments at the IP-competition interface in EU law.

Chapters three to five trace the theoretical insights from the first two chapters in three case studies on specific business methods having given rise to IP-competition conflicts before EU Courts: (i) selective distribution systems, (ii) digital platforms and restrictions of access, and (iii) lock-in strategies on aftermarkets, in particular in the online environment. The case studies analyse how these comparable factual situations of IP-competition conflicts have been treated on the one hand under EU competition law and on the other under EU IP law. In each case study, the legal reasoning is identified and compared between EU competition and IP law.

The main finding in the case studies is that EU Courts treat the spheres of EU competition law and IP law as wholly separate. This has led to quite diverging approaches in comparable cases of IP-competition conflicts depending on whether the cases are brought under EU competition law or IP law, jeopardizing the systemic coherence of EU law and disturbing the CJEU's dialogue with national

courts. This situation is not sustainable. In an economic environment where the EU's economies are increasingly depending on e-commerce and digital assets often protected by IP, IP-competition conflicts are bound to increase. To ensure a legal environment that provides legal certainty and equal conditions for firms to thrive across EU Member States without hurting consumers, a more coherent and improved methodological guidance on how to address IP-competition conflicts is needed. The aim of this thesis is to provide a first step in this direction.

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Introduction

The discussion on intellectual property (IP) law, competition law¹ and the interface between these two areas of the law is age-old yet ever-green. The question of how to strike a balance between protecting temporary legal monopolies² created by IP rights while not impairing market competition is complex and involves taking into account many different interests. While IP law and competition law have common goals, such as promoting innovative activity and enhancing consumer welfare,³ conflicts can arise because both fields of law try to achieve these goals through different means.⁴ The approach of IP law rests on granting right holders an exclusive entitlement: a right to exclude others from using their invention, copying

¹ Competition law is used throughout this thesis as understood in EU law, namely as an equivalent to antitrust law. It is not used in the sense of other regimes setting out market rules such as unfair competition law.

² A legal monopoly created by an IP right is not the equivalent to a monopoly in economic terms. In other words, an IP right does not necessarily confer market power on the IP owner. See, for example, Drexl, Josef (2008b). "The Relationship between the Legal Exclusivity and Economic Market Power - Links and Limits," in Govaere, Inge, Ullrich, Hanns (eds.), *Intellectual Property, Market Power and the Public Interest*, Brussels: P.I.E. Peter Lang, 13-34, 16.. See also the US Supreme Court Judgment in *Illinois Tool Works Inc. et al v Independent Ink, Inc*, 547 US 28 (2006) in which the Court held that it was not justified to presume that a patent conferred market power on the patent holder, and overruled precedent that had endorsed this presumption. The Court thereby also reacted to a change in US Patent Law, where Congress had abolished the presumption of market power in the patent misuse context.

³ EU Commission (2014). Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements (2014/C 89/03), para 7; U.S. Department of Justice and Federal Trade Commission (2007). "U.S. DoJ and FTC Guidelines on Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition", April 2007, available at <https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf> (last visited 11 October 2017), 1; Tom Willard K., Newberg, Joshua A (1997). "Antitrust and Intellectual Property: From Separate Spheres to Unified Field," *Antitrust Law Journal* 66(1), 167-229, 167; Drexl, Josef (2008a). "Is There a 'More Economic Approach' to IP and Competition Law", in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 27-53, 53.

⁴ Lemley, Mark A. (2007). "A New Balance Between IP and Antitrust", Stanford Law and Economics Olin Working Paper No. 340, available at <http://papers.ssrn.com/abstract=980045> (last visited 11 October 2017), 13.

their work or software code, or using their trademark for similar products in the course of trade. The award of these exclusionary rights is meant to encourage firms to engage in research and development, to create works, and to invest in their brand value. IP law is thus a form of market regulation⁵ which encourages competition on the basis of innovation and differentiation rather than imitation. Competition law, on the other hand, punishes anti-competitive agreements between undertakings as well as abuses by dominant firms in order to keep markets free and open to the benefit of consumers. Depending on the market conditions in a specific market, and depending on the economic strength of individual IP holders, the exercise of IP rights risks to create bottlenecks and barriers to entry, which ultimately stifle innovation and harm consumers.⁶ This is where conflicts at the IP-competition interface arise.

Over time, issues of conflict at the IP-competition interface have ranged from whether the maker of patented movie projectors could oblige its licensees to only use the projectors with its own films,⁷ to whether a trademark could be enforced to

⁵ For an understanding of IP law as regulation see, for example Czapracka, Katarzyna (2010). *Intellectual Property and the Limits of Antitrust: A Comparative Study of US and EU Approaches*, Cheltenham: Edward Elgar, x; Lianos, Ioannis (2006). "Competition Law and Intellectual Property Rights: Is the Property Rights' Approach Right?", *The Cambridge Yearbook of European Legal Studies* 8, 153-186, 179; Ullrich, Hanns (2012). "Die Entwicklung eines Systems des gewerblichen Rechtsschutzes in der Europäischen Union: Die Rolle des Gerichtshofs," in Behrens, Peter et al. (eds.), *Ökonomische Analyse des Europarechts: Beiträge zum XII. Travemünder Symposium zur Ökonomischen Analyse des Rechts*, Tübingen: Mohr Siebeck, 150. Ullrich points to the dual nature of IP law, as an assignment regime for property rights and as market regulation regime.

⁶ A different way of stating this would be to say that, under certain circumstances, IP rights could cause externalities that require intervention under competition law. See Rahnasto, Ilkka (2003). *Intellectual Property Rights, External Effects, and Anti-Trust Law: Leveraging IPRs in the Communications Industry*, Oxford: Oxford University Press, 78. For an overview of possible anti-competitive exclusionary practices that can be aggravated through the use of IP rights see Lianos, Ioannis Cooper Dreyfuss, Rochelle (2013). "New Challenges in the Intersection of Intellectual Property Rights with Competition Law - A View from Europe and the United States", Center for Law, Economics and Society (CLES) Working Paper Series 4/2013 available at: <https://www.ucl.ac.uk/cles/research-paper-series/index/edit/research-papers/cles-4-2013> (last visited 12 October 2017), 41-45.

⁷ This example is taken from the 1917 US Supreme Court judgment *Motion Picture Patents Co. v. Universal Film Co.*, 243 U.S. at 502 (1917). This was a classic case of product tying (forcing the licensees of film projectors to also purchase the film from the same source), and the question was whether the owner of the patented movie projectors was entitled to reduce competition in the secondary market for films by impeding the use of unpatented films produced by third parties in its

limit parallel imports,⁸ or whether carmakers could refuse to supply designs of their spare parts to repair service providers.⁹ With the advent of the information society, the IP-competition interface has gone digital; the issues of conflict nonetheless remain strikingly similar. Can Google force its users to use android phones with its own apps?¹⁰ Can online platforms limit the provision of services across the borders of EU Member States based on copyright?¹¹ Can Microsoft refuse to supply other software producers with specifications about its Windows APIs?¹²

I. State of the Art: one-sided and economics-based

The legislative provisions governing the IP-competition interface, which should give the answers to the questions posed above, can be found both in IP law and in competition law. IP laws determine how broad the scope of exclusivity is, as well as certain exceptions and limitations to exclusivity. Competition law sets the threshold as to when to intervene in case IP rights restrict the freedom of competitors in an unacceptable way, impair the competitive process, or harm consumers. These two sets of rules thus shape the IP-competition interface together. While such a unified

license scheme. The Supreme Court held against the patent owner, laying the foundations of the patent misuse doctrine in US patent law.

⁸ This example is taken from the early judgment of the European Court of Justice of the EU (CJEU), Case 56/64, *Consten and Grundig* [1966] in which the German TV producer Grundig authorized its French concessionaire to exclusively use its trademark to avoid parallel imports of Grundig products into France. This reduced EU-wide competition between Grundig's distributors. The CJEU confirmed the Commission Decision in holding that such an agreement infringed EU competition law.

⁹ This example is taken from the CJEU cases in Case 238/87 *Volvo v Veng* [1988] and Case 53/87 *CICRA v Renault* [1988]. It dealt with the issue of how far carmakers could restrict competition in the secondary markets for car spare parts and repair services. The Court held that the refusal to supply IP-protected information would only infringe EU competition law in exceptional circumstances.

¹⁰ European Commission Press Release of 20 April 2016, "Antitrust: Commission Sends Statement of Objections to Google on Android Operating System and Applications" (IP/16/1492).

¹¹ This is achieved by denying access to websites depending on the location of the geographic location of the internet user requesting access and is referred to as geo-blocking. The Commission is investigating the possibilities of taking legislative or competition enforcement action in this respect. See also EU Commission (2015). Communication from the Commission of 6 May 2015 – A Digital Single Market Strategy for Europe, COM(2015) 192 final.

¹² This example is taken from the General Court judgment in Case T-201/04 *Microsoft* [2007]. The Court held that Microsoft had indeed infringed EU competition law because its refusal to supply competing software makers with information on Windows APIs constituted an abuse of dominance under Article 102 TFEU.

approach to the IP-competition interface seems to be more common in the US,¹³ these two fields of law have mostly been treated as separate spheres under EU law.¹⁴ With few exceptions,¹⁵ most scholarship addresses the IP-competition interface in EU law in a single-sided manner, mainly from an EU competition law perspective.¹⁶ A reason for this could be how EU law has evolved. While competition law has been an EU competence since the Rome Treaties, and has thus been central to the discussion of EU law ever since its creation, IP rights have only undergone EU harmonization recently, and in a piece-meal fashion.¹⁷

This unilateral, competition law-centred approach towards the IP-competition interface in EU law now appears to be undergoing a transformation towards a more holistic approach. In the EU Commission's 2015 announcement of the Digital

¹³ This is especially the case for the intersection between patent law and antitrust. See, for example, Kaplow, Louis (1984). "The Patent-Antitrust Intersection: A Reappraisal," *Harvard Law Review* 97(8), 1813–1892; Tom Willard K., Newberg, Joshua A (1997). "Antitrust and Intellectual Property: From Separate Spheres to Unified Field," *Antitrust Law Journal* 66(1), 167-229.

¹⁴ Govaere and Ullrich, for example, notice that there is a disconnection among the stand of thought discussing the exercise of IP rights from a competition law-perspective and the strand of thought discussing the limits of protection of IP rights. See Preface in Govaere, Inge, Ullrich, Hanns (eds.), *Intellectual Property, Market Power and the Public Interest*, Brussels: P.I.E. Peter Lang.

¹⁵ Ghidini, Gustavo (2010). *Innovation, Competition and Consumer Welfare in Intellectual Property Law*, Cheltenham: Edward Elgar. Most works that integrate competition and IP law analysis, however, have been conducted by only looking at very specific problems, such as IP-competition conflicts in the case of car spare parts or software interoperability. See, for example, Kur, Annette (2008). "Limiting IP Protection for Competition Policy Reasons - a Case Study Based on the EU Spare-Parts-Design Discussion", in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 313-345; Graef, Inge (2014). "How Can Software Interoperability Be Achieved under European Competition Law and Related Regimes?," *Journal of European Competition Law & Practice* 5(1), 6-19. These studies, in contrast to this thesis, have not tested the consistency of the legal reasoning of EU Courts on the IP-competition interface and have not attempted to provide a thorough theoretical background on the IP-competition interface in EU law.

¹⁶ See, for example, Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press; Kolstad, Olav (2008) "Competition Law and Intellectual Property Rights – Outline of an Economics-Based Approach" in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 3-26; Maher, Imelda (1999). "Competition Law and Intellectual Property Rights: Evolving Formalism," in Craig, Paul P., De Búrca, Gráinne (eds.), *The Evolution of EU Law*, Oxford: Oxford University Press, 597–624.

¹⁷ Chapter 1 traces the evolution of the IP-competition interface in EU law and the EU harmonization process of IP law in detail.

Single Market Strategy,¹⁸ for example, the Commission has set out a plan to tackle the problem of geo-blocking based on both, a legislative reform of EU copyright law as well as by means of focused competition law enforcement.¹⁹ This thesis has a similar focus, albeit not taking the Commission, but the EU Courts and their legal reasoning as its centre of analysis. It aims at contributing to the mostly one-sided approaches to the IP-competition interface in EU law scholarship by taking a holistic approach²⁰ that considers the need to place EU IP law and EU competition law in a dialogue.²¹ The first aim of this thesis is thus to contribute to the transformation from a one-sided perspective in EU law on IP-competition conflicts to a more holistic perspective that understands the relationship between EU competition and EU IP law as dialectical.

The second contribution of this thesis to existing literature is to add a law-based perspective to the economics-dominated discussion on the IP-competition interface, and show that a law-based perspective provides a certain richness that is overlooked by an economic approach.²² The majority of scholarly literature undertakes comprehensive studies of the IP-competition interface from an economics perspective.²³ This dominant strand in literature stems mainly from

¹⁸ EU Commission (2015). Communication from the Commission of 6 May 2015 – A Digital Single Market Strategy for Europe, COM(2015) 192 final.

¹⁹ In a similar light, Ibáñez Colomo argues that the objectives of the Commission’s Digital Single Market Strategy in respect of geo-blocking can only be achieved by means of a two-pronged strategy. The geo-blocking problem needs to be addressed firstly, by way of copyright reform and harmonization and secondly, through the enforcement of competition law against territorial copyright licensing schemes as is happening currently in the case of the agreements between Sky UK and Hollywood’s ‘Big Six’ studios. See Ibáñez Colomo, Pablo (2015). “Copyright Licensing and the EU Digital Single Market Strategy,” LSE Law, Society and Economy Working Papers 19/2015, available at <http://ssrn.com/abstract=2697178> (last visited 11 October 2017).

²⁰ Section II below defines what a holistic approach means for the purposes of this research project.

²¹ Lianos also notes an “absence of a continuous cognitive relationship between the two [IP and antitrust] disciplines” in EU law. See Lianos, Ioannis (2006). “Competition Law and Intellectual Property Rights: Is the Property Rights’ Approach Right?”, *The Cambridge Yearbook of European Legal Studies* 8, 153-186, 156.

²² Katz has undertaken a similar exercise for the US and Canadian context. See Katz, Ariel (2016). “Intellectual Property, Antitrust, and the Rule of Law: Between Private Power and State Power - The Constitution of Information: From Gutenberg to Snowden,” *Theoretical Inquiries in Law* 17, 633–710.

²³ For example Bowman, Ward S. (1973). *Patent and Antitrust Law A Legal and Economic Appraisal*, Chicago: University of Chicago Press; Kaplow, Louis (1984). “The Patent-Antitrust Intersection: A

economists and antitrust law scholars on both sides of the Atlantic and assesses conflicts at the IP-competition interface from an economic efficiency perspective. The main focus has been on patent-related issues and innovation:²⁴ patent licensing and standard essential patents,²⁵ reverse payment settlements,²⁶ as well as abuses of the administrative patent system.²⁷

In the context of EU competition law, IP licensing, in particular in the framework of EU secondary competition legislation such as the Technology Transfer Block Exemption Regulation ('TTBER') has been thoroughly analysed.²⁸ Both in the patent and copyright context, refusals to license IP rights have been discussed.²⁹ In the EU antitrust context, this issue has received particular attention in relation to the

Reappraisal," *Harvard Law Review* 97(8), 1813–1892; Rahnasto, Ilkka (2003). *Intellectual Property Rights, External Effects, and Anti-Trust Law: Leveraging IPRs in the Communications Industry*, Oxford: Oxford University Press; Régibeau, Pierre, Rockett, Kathrine (2007). "The Relationship between Intellectual Property Law and Competition Law: An Economic Approach", in Anderman, Steven (ed.), *The Interface Between Property Rights and Competition Policy*, Cambridge: Cambridge University Press; Maggiolino, Mariateresa (2011). *Intellectual Property and Antitrust – A Comparative Economic Analysis of US and EU Law*, Cheltenham: Edward Elgar; Czapracka, Katarzyna (2010). *Intellectual Property and the Limits of Antitrust: A Comparative Study of US and EU Approaches*, Cheltenham: Edward Elgar.

²⁴ See, for example, Carrier, Michael A. (2002). "Unravelling the Patent-Antitrust Paradox", *University of Pennsylvania Law Review* 150(3), 761–854; Kerber, Wolfgang (2011). "Competition, Innovation and Maintaining Diversity through Competition Law" in Drexel et al. (eds.) *Competition Policy and the Economic Approach - Foundations and Limitations*, Cheltenham: Edward Elgar, 173-201.

²⁵ See, for example, Abbott, Alden F. (2014). "The Evolving IP-Antitrust Interface in the USA – the Recent Gradual Weakening of Patent Rights", *Journal of Antitrust Enforcement* 2(2), 363–388.

²⁶ See, for example, Esposito, Fabrizio, Montanaro, Francesco (2014). "A Fistful of Euros: EU Competition Policy and Reverse Payments in the Pharmaceutical Industry", *European Competition Journal* 10(3), 499-521

²⁷ See, for example, Maggiolino, Mariateresa (2011). *Intellectual Property and Antitrust – A Comparative Economic Analysis of US and EU Law*, Cheltenham: Edward Elgar, Chapter 6.

²⁸ For example Anderman, Steven D., Schmidt, Hedvig (2007). "EC Competition Policy and IPRs", in Anderman, Steven D. (ed.), *The Interface Between Intellectual Property Rights and Competition Policy*, Cambridge: Cambridge University Press, 37-124, 85 f; Anderman, Steven D. (2008) "The New EC Competition Law Framework for Technology Transfer and IP Licensing," in Drexel, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 107-138.

²⁹ For example Ahlborn, Christian et al. (2005). "The Logic & Limits of the 'Exceptional Circumstances Test' in *Magill and IMS Health*," *Fordham International Law Journal* 28, 1109–1156; Conde Gallego, Beatriz (2008). "Unilateral Refusal to License Indispensable Intellectual Property Rights - US and EU Approaches," in Drexel, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 215-238; Larouche, Pierre (2009). "The European Microsoft Case at the Crossroads of Competition Policy and Innovation: Comment on Ahlborn and Evans", *Antitrust Law Journal* 75, 933-963.

General Court's 2007 judgment in *Microsoft*,³⁰ and is now returning in the discussion around the Google case.³¹ Conflicts with trade mark law have been rarely addressed because exclusionary effects from trademarks are mainly considered unproblematic from an economics perspective.³²

Apart from descriptive accounts, the dominant economics-based strand of literature focuses on normative claims of whether IP law or competition law should prevail in cases of conflict. Many argue in favour of deference to IP law in order to remedy any competition problems resulting from an IP right. The principal argument is that IP law has its own system of safeguarding competition, which makes antitrust interference with IP rights at best redundant and at worst dangerous for innovation incentives. Régibeau and Rockett, for example, argue for a clear separation of competition and IP law.³³ The exercise or abuse of IP rights may only be subjected to competition scrutiny in monopoly situations comparable to those which arise in relation to any other type of property right,³⁴ resulting in a

³⁰ For example Howarth, David, McMahon, Kathryn (2008). "Windows Has Performed an Illegal Operation": The Court of First Instance's Judgment in *Microsoft v Commission*," *European Competition Law Review* 29(2),117-134; Andreangeli, Arianna (2008). "Case T-201/04, *Microsoft v. Commission*, Judgment of the Grand Chamber of the Court of First Instance of 17 September 2007", *Common Market Law Review* 45, 863-894; Ahlborn, Christian, Evans David S. (2009). "The Microsoft Judgment and its Implications for Competition Policy Towards Dominant Firms in Europe", *Antitrust Law Journal* 75, 887-932; Lange, Knut Werner (2009). "Europäisches Kartellrecht Und Geistiges Eigentum - Der Fall Microsoft," in Lange, Knut Werner et al (eds.), *Geistiges Eigentum und Wettbewerb*, Tübingen: Mohr Siebeck.

³¹ Akman, Pinar (2016). "The Theory of Abuse in Google Search: A Positive and Normative Assessment Under EU Competition Law", *Journal of Law, Policy and Technology*, Forthcoming, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2811789 (last visited 11 October, 2017).

³² Albeit trademarks were considered problematic from a EU competition law perspective in the CJEU's very early case law, this changed with Case 10/89 *CNL-SUCAL v Hag ('Hag II')* [1990] where the Court stated that "trademark rights are, it should be noted, an essential element in the system of undistorted competition which the Treaty seeks to establish and to maintain". In support of this argument, for example Kolstad, Olav (2008) "Competition Law and Intellectual Property Rights – Outline of an Economics-Based Approach" in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 3-26, 16.

³³ Régibeau, Pierre, Rockett, Karthrine (2007). "The Relationship between Intellectual Property Law and Competition Law: An Economic Approach", in Anderman, Steven (ed.), *The Interface Between Property Rights and Competition Policy*, Cambridge: Cambridge University Press, 505-552, 521.

³⁴ Régibeau and Rockett consider the 'essential facility' doctrine to be a good universal approach under competition law to all monopoly problems arising from property. *Ibid*, 524.

minimal antitrust interference with IP.³⁵ As IP rights are a result of a balance between dynamic and static efficiency considerations conducted by the legislator, there is no justification for more antitrust intervention than in cases of any other types of property.³⁶ In a similar vein, Crane argues that antitrust interference in IP is unnecessary and costly, as IP rights are designed in accordance with antitrust principles.³⁷ Bohannon and Hovenkamp could also be considered as arguing in favour of a solution of IP-competition conflicts under IP law, but contrary to Crane, they still see a need of reform of IP law guided by an antitrust spirit. They propose to introduce a theory of harm in IP law (a concept of “IP injury” in their words) which would require showing harm to the ex-ante incentive to innovate and produce novel goods in IP injury proceedings.³⁸ This ‘deference to IP’-approach is put forward in particular in the US context. European commentators, for example Drexl, see more room for competition law intervention in the exercise IP rights, but nonetheless equally endorse more involvement of the European competition watchdogs in the legislative process affecting IP rights.³⁹

The deference to IP argument under antitrust has been met from the other end by IP scholars both from law and economics in the discussion of the optimal scope of IP rights. This includes discussions on the correct time limits for patents and

³⁵ Ibid, 524-525.

³⁶ Ibid, 525.

³⁷ Crane, Daniel A. (2012). “IP’s Advantages over Antitrust,” in Lianos, Ioannis, Sokol, Daniel (eds.) *The Global Limits of Competition Law*, Stanford: Stanford University Press, 117-126. To a certain extent Crane’s argument is limited to the US context, where he finds that the treble damages awarded under antitrust law make false positives in IP-competition conflicts especially costly.

³⁸ Bohannon, Christina, Hovenkamp, Herbert (2010). “IP and Antitrust: Reformation and Harm,” *Boston College Law Review* 51, 905-992, 979 f.

³⁹ Drexl, Josef (2008a). “Is There a ‘More Economic Approach’ to IP and Competition Law”, in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 27-53, 53. Drexl makes this critique in a general manner stating that “Since competition problems may also arise as a consequence of regulatory failures within the IP system, DG Competition should also become more involved in European IP legislation. Ex ante competition-oriented IP legislation is a much more effective way to protect competition than ex post control under Article [102 TFEU]”.

copyright,⁴⁰ the construction of fair use,⁴¹ as well as the appropriateness of subject matter covered.⁴²

The purpose of adding further, law-based perspectives does not mean to discredit economics-based accounts of conflicts at the IP-competition interface. It is rather to show that an economics approach is but one angle of analysing or rationalizing the IP-competition interface. It fails to give a rich and full picture of the IP-competition interface in EU law.⁴³

II. Research questions and methodological approach

To examine conflicts at the IP-competition interface in EU law using a holistic approach, this research project observes the IP-competition interface from three angles. The first angle is an evolutionary perspective, tracing the IP-competition interface over time as EU law has evolved. The second angle is a substantive perspective of looking at the IP-competition interface from both EU IP law and EU competition law. The third angle is to observe IP-competition conflicts from the institutional perspective of EU Courts and their legal reasoning.⁴⁴

The inquiry was motivated by a first case study on selective distribution systems (Chapter 3), which gave clear evidence that the CJEU had decided two factually

⁴⁰ For a discussion of a more flexible copyright term, see, for example, Landes, William M., Posner, Richard A. (2003). *The Economic Structure of Intellectual Property*, Cambridge (Mass.): The Belknap Press of Harvard University Press, Chapter 8.

⁴¹ For example, Handke, Christian et al. (2008). "Development of the Economics of Copyright", in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 373-403, 387.

⁴² For example Ghidini, Gustavo, Arezzo, Emanuela (2008). "One, None, or a Hundred Thousand: How Many Layers of Protection for Software Innovations?" in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 346-372 (on the inappropriateness of covering computer programs by different IP rights); Kur, Annette (2008). "Limiting IP Protection for Competition Policy Reasons - a Case Study Based on the EU Spare-Parts-Design Discussion", in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 313-345; Boyle, James (2008). *The Public Domain Enclosing the Commons of the Mind*, New Heaven: Yale University Press (on the inappropriateness inter alia of copyright protection of software and patent protection of biotechnological inventions).

⁴³ For further elaboration of what is understood as the economic approach to IP-competition conflicts in the context of this research project see Chapter 2 Section III.1.

⁴⁴ The Introduction to Chapter 2 provides further reasons for why the institutional perspective of the EU courts is particularly apt to adopt a holistic approach to the IP-competition interface in EU law.

similar IP-competition conflicts in an opposite manner under Article 101 TFEU and under the EU Trademark Directive.⁴⁵ To further explore tensions between EU IP and EU competition law, research on two additional case studies was conducted to identify the sources and the nature of the tensions in the EU Courts' case law on IP-competition conflicts. To better understand the context that gave rise to these tensions, a deeper understanding of the IP-competition interface in EU law, as well as of the legal reasoning of EU Courts is necessary. The main research questions that have guided this project are therefore:

1. How has the evolution of the IP-competition interface in EU law affected the legal reasoning of the EU Courts in IP competition conflicts?
2. Which has been the approach in legal reasoning that EU Courts have used to decide comparable IP-competition conflicts in EU competition law and EU IP law?

These two questions are answered at a more general level in the first two Chapters and in the specific context of the case studies in Chapters three to five.

Chapter 1 provides an overview of the evolution of the IP-competition interface in EU law, which provides the setting for the evolutionary perspective of this thesis. It identifies three evolutionary moments that have affected the IP-competition interface in EU law: the Europeanization of IP law, the modernization of EU competition law, and the elevation of the Charter of Fundamental Rights (CFR) of the EU to a primary source of EU law. The evolution of the IP-competition interface has led to more complexity because it allows similar IP-competition conflicts to be addressed in different legal frameworks. This has heightened the risk of EU Courts deciding IP-competition conflicts inconsistently across different legal frameworks.

Chapter 2 addresses the legal reasoning of EU Courts when deciding IP-competition conflicts. It draws on literature on the theories on the legal reasoning of the EU Courts in general, and applies them to cases at the IP-competition interface. It

⁴⁵ This tension has now been somewhat eased by the CJEU's judgment in Case C-230/16 *Coty v Akzente* [2017].

specifies five approaches in legal reasoning that the EU Courts have adopted over time to decide IP-competition conflicts: an economics, a conflict of laws, a conflict of competences, a constitutional and a private law approach. In light of the evolution of the IP-competition interface, the Chapter concludes by finding that two approaches to the IP-competition interface are no longer appropriate. First, the conflict of laws approach which would consider EU competition law of a higher order than IP law can no longer be applied since the protection of IP has received a fundamental rights status with the entry into force of the CFR. Second, the conflict of competences approach has become obsolete with the Europeanization of IP law, which has turned most areas of IP law into a European competence. A modified version of the conflict of competences approach could however still be used by EU Courts.

With the theoretical background provided in the first two chapters, the thesis then proceeds to identify the types of tensions caused by uncoordinated forms of legal reasoning when EU Courts decide conflicts at the IP-competition interface in EU competition and EU IP law. This is done through three case studies in which the case law of the EU Courts under EU competition law and EU IP law on factually similar IP-competition conflicts is compared. These similar factual patterns are IP-competition conflicts that occur in relation to three business strategies: online selling restraints in selective distribution systems (**Chapter 3**), restrictions of access to digital platforms (**Chapter 4**), and razor-and-blade strategies to lock in aftermarkets (**Chapter 5**).

The choice of the case studies has been dictated by whether case law in relation to comparable IP-competition conflicts arising from specific business methods existed under both EU IP law and EU competition law. The IP law-side of the case studies focuses on trademarks, designs and copyright for the reason that these IP rights have been harmonized under EU law for more than a decade, which has provided sufficient time for national courts to refer preliminary references on the interpretation of secondary IP law instruments. While cases in relation to patents have been brought under EU competition law, harmonized EU patent legislation

has only entered into force recently, and no case under this secondary legislation has been decided by the EU Courts.⁴⁶

There is a range of business behaviour that has given rise to interesting IP-competition conflicts in the area of patent, such as the abuse of judicial or regulatory patent procedures,⁴⁷ standard essential patents and FRAND licensing,⁴⁸ or reverse payment settlements.⁴⁹ While they have been addressed under EU competition law, none of these have been chosen as case study since comparative material on the side of EU patent legislation is lacking to date. Once the CJEU, or the Unified Patent Court,⁵⁰ is called upon to interpret secondary EU patent law, case studies including patent law would be a possible and interesting extension to this research project.

Each case study in Chapters 3 to 5 follows the same structure. The first part is descriptive and discusses how similar IP-competition conflicts have been decided by the EU Courts under IP and competition law. The second part starts by classifying the legal reasoning under EU competition law and secondary EU IP law under the different approaches provided in Chapter 2.⁵¹ It then proceeds to identify the tensions or conflicts in the legal reasoning under EU IP and EU competition law. As all case studies show that there are several types of actual or potential tensions, this has given rise to further research questions.

- a) Are the tensions brought about by differences in the legal reasoning that the EU Courts adopt?

⁴⁶ To clarify, no substantive case in relation to the EU unitary patent regime has been brought yet. Spain challenged the legality of the unitary patent translation regime and Regulation (EU) No 1257/2012 on the unitary patent in Cases C-146/13 *Spain v Parliament and Council* [2015] and C-147/13 *Spain v Council* [2015], but there have been no preliminary references in relation to the substance of the unitary patent right.

⁴⁷ See, for example, Case C-457/10 P *AstraZeneca* [2012].

⁴⁸ As much discussed in the context of Case C-170/13 *Huawei* [2015].

⁴⁹ See, recently, Case T-472/13 *Lundbeck* [2016].

⁵⁰ The Unified Patent Court that has been created by international agreement between the EU Member States to establish a supranational Court that settles disputes relating to European and unitary patents.

⁵¹ Not all five approaches can be identified in each individual case study, but all five approaches can be seen when the case studies are taken together.

- b) Are the tensions brought about by different procedures leading to the judgments?
- c) How have national courts obliged to implement the legal reasoning of EU Courts reacted to these tensions?

These research questions have only arisen after the primary research questions had been examined. The answers in the case studies to questions a) to c) are therefore of a preliminary and anecdotal nature. Much more research, in particular on reactions from national courts to these tensions would be necessary to understand the ultimate impact of conflicting EU case law on the IP-competition interface.

Lastly, the tensions identified give rise to a further main research question:

- 3. How would a holistic approach to IP-competition conflicts under EU law provide a better alternative to the existing legal reasoning of EU Courts on IP-competition conflicts?

To give an answer to this question, each case study concludes by drawing on one of the approaches to legal reasoning in IP-competition conflicts identified in Chapter 2, and improving it by taking into account both IP interests as specified in secondary EU IP legislation and competition interests as protected under EU competition law. Such an improved approach would overcome the problem identified in the case studies that EU Courts treat the spheres of EU competition law and IP law as wholly separate. This separate treatment, in turn, has led to quite diverging approaches in comparable cases of IP-competition conflicts depending on whether the cases are brought under EU competition law or IP law. As mentioned in the case study on selling restraints in selective distribution systems, this has even led to outright conflicts between EU IP and competition law.

This situation is not sustainable. In an economic environment where the EU's economy is increasingly dependent on e-commerce and on digital assets often protected under IP law, IP-competition conflicts are bound to increase. To provide a legal environment that provides legal certainty and equal conditions for firms to

thrive across EU Member States without hurting consumers, a more coherent and improved methodological guidance on how to address IP-competition conflicts is needed. The aim of this thesis is to provide a first step in this direction.

Chapter 1

-The IP-competition Interface in EU law-

This chapter presents and discusses the ways in which the IP-competition interface has evolved over time within the framework of EU law. It provides the background for understanding options and changes in legal reasoning of the EU Courts in IP-competition conflicts.

Since the early days of the EU, IP law and competition law have gone through important developments in legislation and policy. This has affected the nature of the IP-competition interface in EU law over time. In the 1960s, the IP-competition interface was predominantly perceived as national IP laws and their territorial nature creating obstacles to the establishment of the internal market.¹ It was an interface of uneasy co-existence of EU free movement and competition law on the one hand, and national law IP laws on the other. The question was in how far EU law could regulate national IP laws to further the most important target the then European Economic Community had set for itself: the establishment of an internal market.² In this Chapter, this is referred to as the traditional IP-competition interface.

¹ The terminology for the EU's market integration project has generally evolved from referring to the goal of a "Common Market" to the goal of an "internal market", partially after the Maastricht Treaty, and fully after the Lisbon Treaty. Previously there had been a debate whether Common Market and internal market were two distinct concepts, see for example Gormley, Laurence W. (2002). "Competition and Free Movement: Is the Internal Market the Same as a Common Market?", *European Business Law Review* 13(6), 517-522. For the sake of simplicity, I will use the internal market terminology even when referring to developments in EU law that happened before the Maastricht Treaty.

² Article 2 of the EEC Treaty stipulated that the establishment of a Common Market should be the single most important instrument for achieving all other goals that the Community had set for itself. Article 3 of the EEC Treaty provided in paragraphs (a) and (c) that the Common Market would be achieved inter alia by ensuring the free movement of goods, persons, services and capital, as well as under paragraph (f) by the establishment of a system ensuring that competition is not distorted.

The first part of this Chapter addresses the traditional IP-competition interface in EU law, and three important developments that have changed this interface since the Rome Treaties. The first development, beginning in the early 1990s, is the harmonization of national IP laws and the creation of unitary EU IP rights. The enactment of a growing number of EU secondary IP laws has moved the centre of gravity of IP law from national legal systems to the EU legal system, and has helped to mitigate the friction between national IP law and EU internal market and competition law. New unitary, EU-wide IP rights, for example, have eliminated the problem of territoriality of national IP rights. Furthermore, the enactment of secondary EU IP legislation has added a new dimension to the nature of the IP-competition interface in EU law; it is now also an interface between secondary EU IP law and primary EU competition law.

The second development is the so-called modernization of EU competition law. It encompasses in particular the promotion of a 'more economic approach' by the Commission since the 1990s, and the decentralization of competition law enforcement with Regulation 1/2003. The promotion of a more economic approach has partially reduced the friction between national IP rights and EU competition law. This is the case, on the one hand, because the more economic approach by treating verticals in a more lenient way does not seem to prioritize market integration as much as earlier EU competition policies.³ The territoriality of national IP rights is thus less problematic from an EU competition law perspective than before. In addition, the more economic approach might be more sensitive towards efficiencies that derive from territorial protection of IP rights and render competition enforcement less justified. Some early case law of the EU Courts prior to EU IP harmonization shows, however, that the EU Courts were already aware of certain efficiencies that territorial enforcement of IP right could yield, thereby

³ Heinemann, Andreas (2011). "Intellectual Property Rights and Market Integration", in Ezrachi, Ariel, Anderman, Steven (eds.), *Intellectual Property and Competition Law – New Frontiers*, Oxford: Oxford University Press, 303-322, 308.

shielding certain IP-backed business practices against competition law interference.⁴

In the discussion of these first two important developments, it can be observed that the interaction between IP and competition law within the EU legal system has changed. Considerations of competition policy have had an influence in the enactment of secondary IP legislation and vice versa.

The third development has been the elevation of the Charter of Fundamental Rights of the European Union (CFR) from a non-binding instrument to a legal source of equal value to the other EU Treaties.⁵ The CFR lays down in Article 17, together with the general right to property, that “intellectual property shall be protected”. In contrast to the provision for physical property in paragraph 1, paragraph 2, which refers to intellectual property, contains no exceptions or limitations.⁶ It places the principle of protection of IP rights at the same level of primary sources of EU law as the provisions on competition law. This has added yet another dimension to the nature of the IP-competition interface in EU law: one between two sources of primary EU law. As further discussed below, it also enables the articulation of the IP-competition interface as one between fundamental rights.

Much literature has discussed the traditional interface between national IP rights and EU law.⁷ Furthermore, the progress of EU harmonization of IP law has received

⁴ These cases include Case 262/82 *Cotidel II* [1982] and Case 158/86 *Warner Brothers v Christiansen* [1988] for copyright in case of performance and rental rights, Case 258/78 *Nungesser v Commission [‘Maize Seeds’]* [1982] and Case 27/87 *Erauw Jacquery v La Hesbignonne* [1988] for patents, and Case 10/89 *Hag II* [1990] for trademarks. Enchelmaier notes that the specific subject matter doctrine defined “in light of the specific function and under the circumstances of each case makes the old notion of ‘specific subject matter’ well suited to the ‘more economic approach’ to competition law that the Commission has followed since the late 1990s.” See Enchelmaier, Stefan (2008). “Intellectual Property, the Internal Market and Competition Law”, in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 412.

⁵ Article 6 (1) Treaty on European Union.

⁶ Geiger, Christophe (2010). “Intellectual ‘property’ after the Treaty of Lisbon: Towards a Different Approach in the New European Legal Order?,” *European Intellectual Property Review* 36(6), 255-258, 257.

⁷ See, for example, Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell; Enchelmaier, Stefan (2008). “Intellectual Property, the Internal Market and Competition Law”, in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and*

much comment,⁸ as has the modernization of EU competition law.⁹ The changing nature of the IP-competition interface in terms of adding new dimensions of the IP-competition interface to the system of EU law has however received less attention. The subsequent discussion offers such an evolutionary perspective.

The second part of this chapter is devoted to showing how the evolution of the IP-competition interface in EU law has offered the possibility to create alternative legal options under which IP-competition conflicts can be brought before national and EU courts. As the case studies of the subsequent chapters demonstrate in detail, similar problems can now be argued alternatively or cumulatively under different provisions of EU law. This, in turn, has increased the complexity surrounding the adjudication of these conflicts, which calls for more transparency and systematization to avoid incoherent and conflicting interpretations of EU law by EU Courts and their national counterparts.

I. The evolution of the IP-competition interface in EU law

1. The traditional interface

With the signing of the Treaty founding the European Economic Community in 1957, the signatories committed to establishing an internal market, where goods, labour, services and capital could move freely.¹⁰ National IP laws soon proved to be

Competition Law, Cheltenham: Edward Elgar, 405-426; Heinemann, Andreas (2011). "Intellectual Property Rights and Market Integration", in Ezrachi, Ariel, Anderman, Steven (eds.), *Intellectual Property and Competition Law – New Frontiers*, Oxford: Oxford University Press, 303-322.

⁸ See, for example, Keeling, David T. (2003). *Intellectual Property Rights in EU Law. Vol. 1, Free Movement and Competition Law*, Oxford: Oxford University Press; Pila, Justine, Ohly, Ansgar (eds.) (2014)., *The Europeanization of Intellectual Property Law: Towards a European Legal Methodology*, Oxford: Oxford University Press; Dreier, Thomas (2007). "The Role of the ECJ for the Development of Copyright in the European Communities Part II," *Journal of the Copyright Society of the U.S.A.* 54, 183–230.

⁹ Schmidtchen, Dieter et al. (eds.) (2007). *The More Economic Approach to European Competition Law*, Tübingen: Mohr Siebeck; Parret, Laura (2011). *Side Effects of the Modernisation of EU Competition Law: Modernisation of EU Competition Law as a Challenge to the Enforcement System of EU Competition Law and EU Law in General*, Nijmegen: Wolf Legal Publishers; Maher, Imelda (2011). "Competition Law Modernization: An Evolutionary Tale?," in Craig, Paul P., De Búrca, Gráinne (eds.), *The Evolution of EU Law*, 2nd edition, Oxford: Oxford University Press, 717-741; Witt, Anne C (2016). *The More Economic Approach to EU Antitrust Law*, Oxford: Hart.

¹⁰ Articles 2 and 3 (a)-(c), (g) EEC Treaty.

serious obstacles to the completion of the internal market due to their exclusivity and territoriality. These inherent characteristics of IP protection, which allow right holders to control import and export of IP-protected goods and services, bore the potential to frustrate the project of establishing a market without internal borders among the Member States.

At the outset, the Treaties failed to offer a clear solution to the problem of trade barriers caused by national IP laws. On the one hand, Article 222 EEC Treaty (now Article 345 TFEU) provided that EU law shall in no way prejudice the rules in Member States governing the system of property ownership. Some interpreted the term property broadly, so as to include intellectual property, thus immunizing national IP laws from EU law interference.¹¹ On the other hand, Article 36 EEC Treaty (now Article 36 TFEU) allowed for derogations from the provisions guaranteeing the free movement of goods in the internal market for the sake of protecting industrial and commercial property.¹² At the very beginning, it thus appeared that EU law would have to tolerate the division of the internal market along national borders for IP-protected products and services.¹³

The CJEU, however, was not willing to accept an unchallenged partitioning of the EU internal market by national IP law regimes. In its case law, it interpreted EU competition law and EU free movement law to allow certain inroads into national IP laws to further the goal of creating an internal market.

In the following, EU competition law and EU free movement case law is discussed jointly in order to provide a complete image of the traditional IP-competition

¹¹ See, for example, submission of the applicants in Case 56/64, *Consten and Grundig* [1966].

¹² The exception of Article 36 TFEU only applies to the free movement of goods, while the provisions on the free movement of services contain no such derogation for the protection of industrial and commercial property. The Court, however, extended the exception of Article 36 TFEU in relation to IP rights to the free movement of services. See case Case 262/82 *Cotidiel II* [1982], 13.

¹³ Enchelmaier, Stefan (2008). "Intellectual Property, the Internal Market and Competition Law", in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 409-410.

interface in EU law.¹⁴ The inclusion of both areas of case law in the analysis of the traditional IP-competition interface is warranted because the CJEU has used EU competition law and free movement law in a complementary fashion to further the goal of market integration.¹⁵ The reasoning in both competition and free movement cases relating to restrictions of, for example, parallel imports based on national IP rights is very similar, evidenced *inter alia* by the CJEU referring to competition and free movement provision jointly,¹⁶ or using cross-references between competition and free movement cases.¹⁷ The insight that the IP-competition interface in EU law was initially shaped jointly under both EU competition rules and internal market rules is important because it set a precedent for an approach in legal reasoning that the Court partially abandoned later,¹⁸ but that has still resurfaced in more recent case law on the IP-competition interface.¹⁹

¹⁴ Snell similarly refers to three types of “traditional cases” in which the CJEU had to deal with the interface of the EU Treaties and intellectual property laws: (i) under the provisions on the free movement of goods and services of the Treaties, in particular when it comes to exhaustion of IP rights, repackaging and common origin cases (ii) under Article 101 TFEU, in particular in the case of IP license agreements and (iii) under Article 102 TFEU when the exercise of an IP right can amount to an abuse of a dominant position. See Snell, Jukka (2004). “European Courts and Intellectual Property: A Tale of Hercules, Zeus and Cyclops”, *European Law Review* 29(2), 178-179.

¹⁵ On the complementarity of the free movement and competition case law when it comes to shaping the IP-competition interface in EU law see also Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 60-61; Enchelmaier, Stefan (2008). “Intellectual Property, the Internal Market and Competition Law”, in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 413. On the general complementarity of the free movement and competition rules in the Treaties see Baquero Cruz, Julio (2002). *Between Competition and Free Movement*, Oxford: Hart, 86-91.

¹⁶ See for example case Case 24/67 *Parke Davis & Co. v Probel* [1968], where the Court analyses agreements on the parallel import of pharmaceuticals under Articles 101 and 102 TFEU, and then refers to Article 36 TFEU as “a comparable field”. This is also the case in Case 78/70 *Deutsche Grammophon* [1971] where the Court states that it is “in the light of those provisions, especially of Articles 36, 85 and 86, that an appraisal should be made as to how far the exercise of a national right related to copyright may impede the marketing of products from another Member State [emphasis added]”.

¹⁷ An example is Case 262/82 *Cotidel II* [1982] dealing with Article 101 TFEU and copyright licenses with territorial restrictions, which referred to *Coditel I* [1980], in which the Court had analysed the same factual circumstances under the free movement of services provisions.

¹⁸ Govaere mentions several cases in which the free movement rules have been “finally applied [by the Court] in their own right and have been freed from the shackles of competition rules in the form of the existence/exercise dichotomy” (on the existence/exercise dichotomy, see Section I.1.1 below). These cases include Case 35/87 *Thetford v. Fiamma* [1988] and Case 158/86 *Warner Brothers v Christiansen* [1988], in which the Court scrutinized the existence as such (not the exercise) of the IP right at stake. This meant that the Court actually scrutinized national IP laws in

The Court developed three main doctrines in the ambit of the traditional IP-competition interface in EU law to determine in which instances the EU competition rules or free movement rules would override a national IP right. These three doctrines are (i) the existence/exercise dichotomy, (ii) the specific subject matter doctrine, and (iii) the principle of EU-wide exhaustion of IP rights.

1.1 The existence/exercise dichotomy

Starting with *Consten and Grundig*,²⁰ the Court first held that a trademark licensing scheme that prevented the parallel import of television sets, tape recorders, radios and dictating machines of the GINT (Grundig International) trademark across Member States constituted an agreement restricting competition in violation of Article 85 EEC Treaty (now Article 101 TFEU). The Court found that the agreement aimed at “isolating the French market for Grundig products and maintaining artificially, for products of a very well-known brand, separate national markets within the Community”. It was therefore liable for distorting competition in the internal market.

The Court laid the foundations of the existence/exercise dichotomy in *Consten and Grundig* to determine how far EU law could interfere with the national IP law regimes of the Member States. It held that while the decision against Grundig did not “affect the grant” (i.e. the existence) of the trademark rights, it “only limit[ed] their exercise to the extent necessary to give effect to the prohibition under [Article 101] (1)”. In *Parke Davis*,²¹ the Court further elaborated upon the existence/exercise dichotomy, which delimits the jurisdiction of EU law.²² It held

light of the EU free movement of goods provisions by applying a justification test. See Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 191.

¹⁹ In Joined Cases C-403/08 and C-429/08, *Football Association Premier League v Murphy* [2011], the CJEU justified its decision under Article 101 TFEU on the illegality of the specific territorial restrictions in licensing schemes for broadcasting rights by reference to how it had evaluated the issue under the Treaties’ free movement rules in the same case. See further discussion below.

²⁰ Case 56/64, *Consten and Grundig* [1966].

²¹ Case 24/67 *Parke Davis & Co. v Probel* [1968].

²² Korah criticized the existence/exercise doctrine as incapable of drawing a clear line delimiting the jurisdiction of EU law: “It is submitted that a right cannot consist of more than the various ways in

that EU competition provisions affected neither the existence nor the mere exercise of IP rights. In the absence of an anticompetitive agreement or abuse of a dominant position, EU competition law would not interfere.

In *Deutsche Grammophon*,²³ the Court transposed the existence/exercise dichotomy from its competition case law to the Treaty provisions on the free movement of goods. In this case, a record label, Deutsche Grammophon (DG), tried to enforce the distribution right inherent in its records' copyrights against the wholesaler Metro that had imported DG records from DG's French subsidiary. The Court found that even in the absence of an agreement between DG and Metro, thus rendering Article 101 TFEU inapplicable, the market-partitioning exercise of IP rights could be caught under the free movement provisions of EU law.²⁴ The Court thus applied the Treaties' free movement provisions to a horizontal constellation between two private actors.²⁵ The Court acknowledged that Article 36 TFEU permitted restrictions of the free movement of goods in the internal market in order to protect IP rights. It also reiterated that while the exercise of IP rights was subject to EU law, the Treaty provisions did not affect the existence of IP rights based on national IP law. Article 36 TFEU, however, only allowed for derogations from the free movement of goods provisions "to the extent to which they are

which it can be exercised. The distinction between a right and its exercise, since it is not defined, and cannot be applied by logical analysis, confers a free discretion on the tribunal drawing the distinction in particular instances. It has proved a powerful and flexible weapon for accelerating the integration of the market." See Korah, Valentine (1972). "Dividing the Common Market Through National Industrial Property Rights" *Modern Law Rev* 35, 636. On a possible *communautaire* (i.e. integrationist) agenda of the CJEU see Chapter 2, Section II.2.

²³ Case 78/70 *Deutsche Grammophon* [1971].

²⁴ *Ibid.*, 7. See also Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 72.

²⁵ The application of the Treaties' free movement rules in the CJEU's IP cases is, according to Baquero Cruz, however not a true case of the free movement rules being applied to individual behavior as such. It is thus not a true case of horizontal direct effect of the Treaties' free movement rules. In his words, "The free movement provisions have been constantly applied in disputes between private parties when there was a link to State legislation that could be contrary to the Treaty." According to him, the *erga omnes* effect of an IP right by virtue of national legislation was the true object of scrutiny, not individual behavior as such. See Baquero Cruz, Julio (2002). *Between Competition and Free Movement*, Oxford: Hart, 107.

justified for the purpose of safeguarding rights which constitute the specific subject matter of such property".²⁶

The fact that the Treaties' free movement provisions, which are addressed to the EU Member States,²⁷ were applied to evaluate the conformity of the exercise of an IP right by a private undertaking vis-à-vis another private undertaking under EU law, provoked criticism.²⁸ According to critics, it would have been more appropriate for the Court to have scrutinized national IP laws to determine whether they were justified, proportionate and did not amount to discrimination in light of the first and second sentence of Article 36 TFEU.²⁹ The scrutiny of private parties' conduct was to be conducted under EU competition rules.³⁰ While the Court in subsequent free movement cases began to scrutinize national measures relating to IP rights

²⁶ Case 78/70 *Deutsche Grammophon* [1971] at 11. The Court here lay the foundation of the specific subject matter doctrine, which is discussed in further detail below.

²⁷ See for example Case 311/85 *VZW Vereniging van Vlaamse Reisbureaus v VZW Sociale Dienst van de Plaatselijke en Gewestelijke Overheidsdiensten* [1987] where the Court held at 30: "Articles [34 and 35] of the Treaty concern only public measures and not the conduct of undertakings". See also Case C-159/00 *Sapod Audic v Eco-Emballages* [2002], 74. In contrast, the Court held in Case 58/80 *Dansk Supermarked v Imerco* [1981] at 17 that "it is impossible in any circumstances for agreements between individuals to derogate from the mandatory provisions of the Treaty on the free movement of goods". Baquero Cruz suggests, however, that *Dansk Supermarked* "may no longer be good law", as the quoted passage has not been repeated or confirmed in any subsequent case. See Baquero Cruz, Julio (2002). *Between Competition and Free Movement*, Oxford: Hart, 110. In how far the prohibitions of Article 34-36 TFEU are applicable to the conduct of private parties is still a debated question, see for example Krenn, Christoph (2012). "A Missing Piece In The Horizontal Effect "Jigsaw": Horizontal Direct Effect And The Free Movement Of Goods", *Common Market Law Review* 49(1), 177–215.

²⁸ Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 67; White, Eric L. (1989). "In Search of the Limits to Article 30 of the EEC Treaty" *Common Market Law Review* 26, 266; Marenco, Giuliano, Banks, Karen (1990). "Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed", *European Law Review* 15(3), 225,226.

²⁹ Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 68; White, Eric L. (1989). "In Search of the Limits to Article 30 of the EEC Treaty" *Common Market Law Review* 26, 270, and Marenco, Giuliano, Banks, Karen (1990). "Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed", *European Law Review* 15(3), 226.

³⁰ Marenco and Banks put forward that the existence/exercise dichotomy retains its *raison d'être* under competition law. Marenco, Giuliano, Banks, Karen (1990). "Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed", *European Law Review* 15(3), 236.

directly,³¹ the existence/exercise dichotomy has survived in the Court's competition case law.³²

1.2 The specific subject matter doctrine

The specific subject matter doctrine derived from the existence/exercise dichotomy to distinguish legitimate use from abuse of IP rights under EU law. As long as a certain conduct was part of the specific subject-matter of the IP right, it would not be caught by EU free movement or competition law, whereas anything going beyond the specific subject matter of the right could run afoul of EU law. The Court first mentioned the concept in its *Deutsche Grammophon* judgment,³³ but it did not establish its content. The definition of the specific subject matter of IP rights in EU law, which would determine the boundary between legitimate and illegitimate uses of IP rights under EU law, was only developed in later case law.³⁴

In a majority of cases, the Court found that the specific subject matter of patents, industrial designs, and the distribution right in copyright, was merely the right to first place the IP-protected goods on the market by the IP owner or with her consent.³⁵ This in turn, allowed the Court to develop the principle of EU-wide exhaustion of national IP rights to further the goal of market integration.³⁶

³¹ For example, in cases Case 19/84 *Pharmon v Hoechst* [1985], Case 402/85 *Basset v SACEM* [1987], Case 158/86 *Warner Brothers v Christiansen* [1988], Case 35/87 *Thetford v. Fiamma* [1988]. In Joined Cases C-92/92 and C-326/92. *Phil Collins* [1993] the Court furthermore decided that national copyright laws could be scrutinized under the Treaties' general principle of non-discrimination (now first sentence of Article 18 TFEU). See also Snell, Jukka (2002). *Goods and Services in EC Law: A Study of the Relationship Between the Freedoms*, Oxford: Oxford University Press, 133-135.

³² See for example Case 238/87 *Volvo v Veng* [1988] at 7-9.

³³ Case 78/70 *Deutsche Grammophon* [1971] at 11.

³⁴ Marenco, Giuliano, Banks, Karen (1990). "Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed", *European Law Review* 15(3), 229-230.

³⁵ Govaere calls this approach the "consent theory" in respect of the specific subject matter concept. See Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 85,100 and 164. She also rightly notes that the Court's construction of the specific subject matter as a first marketing right (a positive right) is at odds with the ordinary understanding of IP rights as negative rights, i.e. as rights to prohibit others to do something (use/copy/market) with the IP. *Ibid*, 81.

³⁶ See below for a detailed discussion of the principle of EU-wide exhaustion of IP rights.

In the specific cases of trademark rights and performance rights in copyright, the Court did not adopt such a mono-dimensional understanding of the specific subject matter of the IP rights as the mere first sale right. In these cases,³⁷ the Court adopted a functional understanding of the specific subject-matter of the IP right. When determining the limits of the legitimate exercise of the IP rights at stake, the Court looked at what it termed the *essential function* of the IP right,³⁸ which it understood as the economic rationale underlying the grant of the IP right.³⁹

The Court thus adopted two very different approaches to the specific subject matter of IP rights, which had a different economic impact on IP right holders. In the cases in which the Court construed the specific subject matter of the IP right as first sale right, it prohibited any additional rewards apart from the first marketing in the internal market of the IP-protected product. Any additional form of territorial protection was contrary to EU law. In the cases in which the Court took into consideration the essential function of the IP right at stake, in contrast, it allowed additional rewards from territorial market segmentation if in accordance with the economic rationale of the IP right as compatible with EU law.⁴⁰

³⁷ Case 62/79 *Cotidel I* [1980] and *Cotidel II* [1982] for performance rights in copyright, Case 102/77 *Hoffman-La Roche v Centrafarm* [1978] for trademark rights.

³⁸ In these cases, the Court only explicitly made the connection between specific subject matter and essential function in relation to trademark rights, whereas in relation to the performance right in copyright the Court omitted the term specific subject matter entirely, and only discussed the essential function. Nonetheless, the Court used the essential function concept for the same purpose as it used the specific subject matter concept, namely to delimit legitimate from abusive exercises of IP rights. On specific subject matter versus essential function, see also Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 90, 100.

³⁹ For further discussion of the case law on the essential function of IP rights, see next section on the principle of EU-wide exhaustion.

⁴⁰ Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 89. The Court acknowledged that it made a distinction between distribution and performance rights in copyright in Case 395/87 *Ministère Public v Tournier* [1989]. According to the Court, “[t]he problems, in relation to the requirements of the Treaty, involved in the observance of copyright in musical works made available to the public through their performance are not the same as those which arise where the act of making a work available to the public is inseparable from the circulation of the physical medium on which it is recorded. In the former case the copyright owner and the persons claiming through him have a legitimate interest in calculating the fees due in respect of the authorization to present the work on the basis of the actual or probable number of performances” (Case 395/87 *Ministère Public v Tournier* [1989], 12).

The rationale for adopting these two different approaches remains unclear. While the distinction could be justified based on the principle of non-discrimination,⁴¹ or for economic reasons,⁴² the Court never gave an explanation for the different treatment in its judgments.⁴³

1.3 The principle of EU-wide exhaustion of IP rights

In *Deutsche Grammophon*, the Court derived a further important principle shaping the IP-competition interface in EU law from the existence/exercise dichotomy: the principle of EU-wide exhaustion.⁴⁴ According to this principle, once an IP-protected product is lawfully put on the market in one Member State with the consent of the IP right holder, she cannot rely upon her IP right to prevent imports of the product into other Member States.

Starting with copyright-inherent distribution rights in music records in *Deutsche Grammophon*, the Court extended the principle of exhaustion to other IP rights, such as patents,⁴⁵ trademarks,⁴⁶ and designs⁴⁷ in subsequent cases. The exhaustion principle even applied in cases in which imports stemmed from Member States

⁴¹ Marenco and Banks argue that in the cases where the Court interpreted the specific subject matter of the IP right as merely a right to first sale for the entirety of the EU internal market, the underlying principle of national exhaustion of IP rights (i.e. that allowed a IP right holder to prevent imports after the first sale in a national territory, but considered the IP right exhausted for the national market) was discriminatory, and thus legitimately attacked under free movement law. The case law in which the Court adopted the essential function approach in the application of the specific subject matter doctrine concerned a right to control an act in relation to an IP right (for example the broadcasting of a movie or the renting out of a video cassette), which would not be exhausted after the first act took place in the national territory. Such a measure was therefore indistinctly applicable, and did not amount to discrimination of imports.

⁴² In the case of communication of a work to the public, the IP right holder would only be able to commercially exploit her right (as, for example when showing a movie in public) if she were able to charge for every performance separately. In the case of the first sale, in contrast, the IP right holder can commercially exploit her IP right by setting a price she thinks the market will bear, without any further compensation from subsequent sales being necessary to provide economic incentives for IP production.

⁴³ Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 192; Marenco, Giuliano, Banks, Karen (1990). "Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed", *European Law Review* 15(3), 224-256, 241.

⁴⁴ Case 78/70 *Deutsche Grammophon* [1971] at 12-13.

⁴⁵ Case 15/74 *Centrafarm v Sterling Drug* [1974].

⁴⁶ Case 16/74 *Centrafarm v Winthrop* [1974].

⁴⁷ Case 144/81 *Keurkoop v Nancy Kean Gifts* [1982].

where no IP protection was available, as for example in the case of pharmaceuticals in Italy, which were excluded from patent protection until 1978.⁴⁸ The rationale of IP protection to incentivize investment, and possible economic disincentives created by the EU exhaustion principle initially did not play a role in the Court's analysis. The attainment of an internal market seemed to outweigh all other considerations.⁴⁹

In the course of the 1980s, the Court partially softened its bold application of the existence/exercise dichotomy and the principle of exhaustion. It began to pay closer attention to the economic rationales of the IP rights at stake and the surrounding market circumstances. Firstly, it held in *Coditel I* in relation to the free movement of services that the performance rights for movies were not subject to the principle of exhaustion. According to the Court, the "right of a copyright owner and his assigns to require fees for any showing of a film is part of the *essential function* of copyright in this type of literary and artistic work"⁵⁰; territorial copyright licences for the broadcast of a movie were thus not contrary to the EU free movement provisions. Furthermore, the Court pointed to the fact that the broadcasting market in the EU was largely constituted of national monopolies, which made copyright licenses other than territorial licenses impracticable.⁵¹ By analogy, in relation to Article 101 TFEU, the Court held in *Coditel II* that territorial licenses for the broadcasting of a movie were not *prima facie* contrary to EU competition law.⁵² The Court cautioned, however, that national courts would still

⁴⁸ Case 187/80 *Merck v Stephar* [1981]. Pharmaceuticals were not patentable in Italy until a judgment by the Italian Constitutional Court in 1978, which declared the provision of the Italian patent law which excluded pharmaceuticals from patentability unconstitutional (see Facts and Issues in *Merck v Stephar*).

⁴⁹ Korah, Valentine (2001). "The Interface Between Intellectual Property And Antitrust: The European Experience", *Antitrust Law Journal* 69(3), 801-839, 806; Whish, Richard, Sufrin, Brenda (1987). "Article 85 and the Rule of Reason", *Yearbook of European Law* 7(1), 1-38, 22.

⁵⁰ Case 62/79 *Coditel I* [1980], 14.

⁵¹ Case 62/79 *Coditel I* [1980], 16.

⁵² Case 262/82 *Coditel II* [1982]. I am not claiming at this point that the Court adopted something akin to a full-blown rule of reason approach to Article 101 TFEU when it comes to cases IP-competition interface, only that it paid closer attention to economic reasons behind IP rights that could justify territorial protections in IP license agreements. Even Whish and Sufrin, who strongly

have to inquire whether territorial licenses created artificial and unjustifiable barriers in concrete cases. This would depend on the needs of the cinematographic industry and further factors, for example, whether the amount of fees charged exceed a fair return on investment.⁵³ Secondly, it held in *Warner Brothers* that the rental right in movies was not subject to the EU exhaustion principle because the market for hiring out of videocassettes might collapse if moviemakers could not generate revenue reflecting the number of occasions a movie on videocassette is hired out.⁵⁴

In relation to patent, the Court qualified its exhaustion doctrine in relation to patented products that had been first placed on the market under a compulsory license.⁵⁵ In this situation, the patent holder was considered not to have consented to the first placement of the product on the market, and could therefore prevent parallel imports of the goods produced under the compulsory license.⁵⁶

In the case of plant breeders' rights, the Court found that exclusive territorial license schemes would not necessarily be anti-competitive and could be in conformity with Article 101 TFEU under certain circumstances.⁵⁷ It recognized that exclusive territorial licenses or IP right assignments might provide the necessary incentives to penetrate a new market, as was the case with new types of seeds.⁵⁸ Only open exclusive territorial licenses or assignments of IP rights, however, were

argue against any signs of a development coming close to a rule of reason approach under then Article 82 EEC, admit that *Cotidel II* presented a "kind of rule of reason approach" by the Court. See Whish, Richard, Sufrin, Brenda (1987). "Article 85 and the Rule of Reason", Yearbook of European Law 7(1), 1-38, 26.

⁵³ Case 262/82 *Cotidel II* [1982], 17-19.

⁵⁴ Case 158/86 *Warner Brothers v Christiansen* [1988], 14-15.

⁵⁵ Case 19/84 *Pharmon v Hoechst* [1985].

⁵⁶ Case 19/84 *Pharmon v Hoechst* [1985], 25.

⁵⁷ The Court recognized this for the first time in Case 258/78 *Nungesser v Commission* [1982], in which the Commission had tried to put forward a per se ban of all types of territorial licenses. The Courts' approach took into account the underlying market situation to determine the legality of territorial licenses next to the legal standards that prohibited licenses with absolute territorial protection. This approach was subsequently confirmed in Case 27/87 *Erauw Jacquery v La Hesbignonne* [1988].

⁵⁸ Case 258/78 *Nungesser v Commission* ['Maize Seeds'] [1982], 57, Case 27/87 *Erauw Jacquery v La Hesbignonne* [1988], 10.

considered compatible with EU competition law. Such open licenses would only bind the IP right holder and her licensee, and would still allow for competition by third parties, i.e. parallel importers or licensees for other territories.⁵⁹

Lastly, in relation to trademarks, the Court held that a trademark owner could rely on her trademark rights to prevent parallel imports in certain cases. The Court clarified that a trademark owner was entitled to rely on her trademark rights to prevent the import of products marketed by a third party in another Member State that used a confusingly similar or identical trademark.⁶⁰ Were the EU exhaustion principle applied in such cases, it would create a risk of confusion between two trademarks, and consumers would no longer be able to identify the origin of the goods in question. This could lead to consumers mistakenly holding the wrong trademark owner responsible for poor quality.⁶¹ The EU-wide exhaustion principle was thus inapplicable.

Furthermore, trademark owners could prevent the importation of goods placed on the market with their consent if third parties repackaged the goods and affixed the original trademark without the trademark owner's consent to the repackaged goods.⁶² Only if the repackaging could not adversely affect the condition of the product, would there be a disguised restriction of trade and thus a violation of the free movement provisions.⁶³ The Court made clear that a trademark owner could prevent parallel imports based on her trademark rights if the parallel imports put the trademarks' function as origin identifier or quality guarantor in jeopardy.

1.4 Article 102 TFEU: a shift away from the traditional approach?

In the first case in which the CJEU was called to assess the compatibility of the exercise of an IP right exclusively with Article 102 TFEU, the Court followed the

⁵⁹ Case 258/78 *Nungesser v Commission* ['Maize Seeds'] [1982] at 53, 58.

⁶⁰ In cases 119/75 *Terrapin v Terranova* [1976], 5-7, and Case 10/89 *Hag II* [1990], 16, the Court found that the exhaustion doctrine did not apply.

⁶¹ Case 10/89 *Hag II* [1990], 16.

⁶² Case 102/77 *Hoffman-La Roche v Centrafarm* [1978], 8.

⁶³ Case 102/77 *Hoffman-La Roche v Centrafarm* [1978], 10.

traditional approach as lined out in the previous sections. In *Volvo*,⁶⁴ the Court had to decide whether an IP holder could refuse to license design rights in its spare parts to independent spare part producers, which also enabled the IP holder to prevent parallel imports. The Court referred to the existence/exercise dichotomy to state that it was for national law to determine under which conditions IP rights in spare parts were granted.⁶⁵ The right to prevent others to produce, sell, or import products implementing a design without the right holders' consent constituted the "very subject matter" of her right and, as such, did not constitute an abuse of dominance contrary to EU competition law.⁶⁶ It could however be found to be in violation of Article 102 TFEU if the undertaking engaged in additional abusive conduct in combination with the exercise of the IP right.⁶⁷

In the next case in which refusals to license IP rights and their compatibility with Article 102 TFEU were at stake, the Court appeared to shift away from the traditional approach. In *Magill*,⁶⁸ Irish TV broadcasters prevented a publisher to publish a weekly TV guide by refusing to provide their weekly TV listings. They justified their refusal based on the copyright they held in their TV listings under Irish copyright law. In order to determine whether the broadcasters had abused their dominant position, the Court started by referring to the existence/exercise dichotomy.⁶⁹ The exercise of the exclusive right to reproduction by refusing to grant a license, which was an essential part of copyright, did not constitute an abuse as such.⁷⁰ Nonetheless, in exceptional circumstances, the exercise of the

⁶⁴ Case 238/87 *Volvo v Veng* [1988]. In Case 53/87 *CICRA v Renault* [1988], a case often cited in parallel to *Volvo*, the Court did not address the compatibility of the exercise of IP rights in spare parts exclusively with Article 102 TFEU, but also with the free movement of goods provisions in Articles 34 to 36 TFEU (ex-Articles 30 to 36 of the EEC Treaty).

⁶⁵ Case 238/87 *Volvo v Veng* [1988], 7.

⁶⁶ *Ibid*, 8.

⁶⁷ *Ibid*, 9. The Court specified certain types of additional abusive conducts, for example the "arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation".

⁶⁸ Joined Cases C-241/91 P and C-242/91 P *Magill* [1995].

⁶⁹ *Ibid* at 49.

⁷⁰ *Ibid*.

right could constitute an abuse. The Court then considered the surrounding market circumstances. It identified the TV schedules as an indispensable input to produce a weekly TV guide.⁷¹ Without access to the TV schedules, a new product, the weekly TV guide, for which there was consumer demand would not be produced.⁷² This put the TV broadcasters in a situation in which they could reserve the secondary market for TV guides for themselves by excluding all competition on that market.⁷³ Since the TV broadcasters could not justify their behaviour,⁷⁴ this constituted an abuse under Article 102 TFEU.

Magill has been portrayed in several instances as a departure from the traditional approach.⁷⁵ This might be true in respect to the consequences of the *Magill* judgment, which opened the possibility to grant a compulsory license as a new form of competition law remedy.⁷⁶ Nonetheless, the Court did not fundamentally depart from the steps of its traditional reasoning. It started from the existence/exercise dichotomy, acknowledged that the right to refuse to grant a license was an essential element of copyright, but then found that “exceptional”, additional circumstances to the exercise of the IP right amounted to an abuse.⁷⁷ In previous cases in which the Court had used the existence/exercise dichotomy, it had already

⁷¹ Ibid at 53.

⁷² Ibid at 54. The Court held here that this was a self-standing abuse under paragraph (b) of Article 102 TFEU.

⁷³ Ibid at 56. The Court referred at this point to Joined Cases 6/73 and 7/73 *Commercial Solvents v Commission* [1974], a case in which the indispensable input had not been an IP-protected product but chemicals, and where a disruption of previous supplies had taken place.

⁷⁴ Joined Cases C-241/91 P and C-242/91 P *Magill* [1995] at 55.

⁷⁵ Prime, for example, considers that *Magill* “marks a shift away from a more conceptual approach analysis to one based upon policy”, which does not rely on a categorical application of the existence/exercise dichotomy or the specific subject matter approach, but points towards a more rational, effects-based approach. See Prime, Terence (2000). *European Intellectual Property Law*, Aldershot: Ashgate, 24. Govaere also considers *Magill* as “difficult to reconcile with the ruling in the *Volvo* case”, since in *Volvo* the Court had not concerned itself with the actual effects of the exercise of the IP right. Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 148.

⁷⁶ Ibid, 147. See also in Joined Cases C-241/91 P and C-242/91 P *Magill* [1995] at 90-91, where the Court concludes that a compulsory license was the only means to bring the infringement to an end.

⁷⁷ Anderman and Schmidt also seem to consider *Magill* rather in line with the traditional approach as followed in *Volvo*. See Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press, 24.

set a precedent for taking into account economic effects. The Court did so, for example, in *Warner Brothers*⁷⁸ or *La Hesbignonne*.⁷⁹ In these cases, the Court paid attention to economic effects in order to justify shielding the exercise of IP rights from interference from EU law. Conversely, in *Magill*, it simply used economic effects analysis to justify the interference of EU competition law with the exercise of the IP right. Rather than exposing a radical shift, *Magill* merely unmasked the nature of the existence/exercise dichotomy and other doctrines building upon it as argumentative tools giving the Court wide regulatory reign to take inroads into national IP regimes via the interpretation of EU competition and free movement law.⁸⁰

Another feature of *Magill*, however, makes it stand out compared to all other cases in which the CJEU had applied EU law to regulate national IP laws. While the existence/exercise dichotomy in previous cases seemed to have the purpose of trimming IP protection offered by national law to achieve the goal of market integration, the existence/exercise dichotomy appeared to pursue a different goal in *Magill*. In *Magill*, the Irish copyright appeared not to be worthy of protection because it was overly broad; it protected a mere assembly of facts in the TV schedules. *Magill* thus set a precedent for EU competition law to regulate national IP regimes granting overbroad IP protection, which caused anti-competitive effects,⁸¹ but did not involve any territorial restrictions. The Court, however, did

⁷⁸ Case 158/86 *Warner Brothers v Christiansen* [1988] at 14 and 15. See also Kallaugher, John (2011). "Existence, Exercise and Exceptional Circumstances: The Limited Scope for a More Economic Approach to IP Issues under Article 102 TFEU", in Ezrachi, Ariel, Anderman, Steven (eds.), *Intellectual Property and Competition Law – New Frontiers*, Oxford: Oxford University Press, 113-140, 123.

⁷⁹ Case 27/87 *Erauw Jacquery v La Hesbignonne* [1988], 10.

⁸⁰ Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 194; Friden, Georges (1989). "Recent Developments In EEC Intellectual Property Law: The Distinction Between Existence And Exercise Revisited," *Common Market Law Review* 26(2), 193-217.

⁸¹ See on this point Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 146; Forrester, Ian S., Czapracka, Katarzyna A. "Compulsory Licensing in European Competition Law: The Power of the Adjective," in Ezrachi, Ariel, Anderman, Steven (eds.), *Intellectual Property and Competition Law – New Frontiers*, Oxford: Oxford University

not make such a corrective approach towards overly protective national IP laws explicit in the judgment.⁸²

1.5 Harmonization of IP law: the end of the traditional approach?

The traditional IP-competition interface under EU law is characterized by potential conflicts between the territorial effects of national IP laws and EU competition law, which has evolved largely in parallel with EU free movement law. The entire argumentative construct devised by the CJEU to delineate the competence spheres of national IP laws and EU competition or free movement law, in particular the existence/exercise dichotomy, specific subject matter doctrine, and EU-wide exhaustion principle, relied on the premise that national IP laws were not harmonized. The Court, for example, regularly announced the application of the existence/exercise doctrine with the preface that “in the absence of” EU “unification”⁸³ or “harmonization or standardization”⁸⁴ of national IP law, the existence, i.e. the conditions and procedures for the granting IP protection, was a matter of national law.

This brings us to the question of possible consequences for the traditional IP-competition interface in EU law arising from the harmonization of national IP laws by EU secondary legislation. The logical consequence would be a collapse of the existence/exercise dichotomy, because not just the exercise, but also the existence

Press, 141-164, 157-158; Korah, Valentine (2001). “The Interface Between Intellectual Property And Antitrust: The European Experience”, *Antitrust Law Journal* 69(3), 801-839, 813.

⁸² Remarked also in Korah, Valentine (2001). “The Interface Between Intellectual Property And Antitrust: The European Experience”, *Antitrust Law Journal* 69(3), 801-839, 813. The opinion of AG Gulmann in *Magill* evidences that the Commission had submitted that the copyright in TV listings did not merit protection because they were mere factual information. See Opinion of Advocate General Gulmann in Joined Cases C-241/91 P and C-242/91 P, *Magill* [1995], 119. As suggested in Chapter 2, the submissions of the parties can affect both, legal reasoning during the process of discovery as well as during the process of justification. While the Court might not have spelled out that the national copyright laws had anti-competitive effects, it might nonetheless have influenced the outcome of the case.

⁸³ See, for example, Case 78/70 *Deutsche Grammophon* [1971],

⁸⁴ See, for example, Joined Cases C-241/91 P and C-242/91 P, *Magill* [1995], 49.

of IP rights becomes part of the sphere of competences of EU law.⁸⁵ Nonetheless, in the case of harmonization, the territoriality of IP rights would not automatically disappear, as only the rules for the grant and enforcement of IP rights would be harmonized, but the scope of the IP rights would still be limited to the national territory only.⁸⁶ The only possibility to overcome obstacles posed by the territoriality of IP rights in the EU is the creation of EU-wide IP rights. This has occurred in the case of the EU Trademark, the EU Design Right and the unitary patent. The next section discusses the developments of the harmonization and unification of IP laws in depth to explain the consequences for the traditional IP-competition interface in EU law.

2. Developments in EU IP law: harmonization and unification, expansionist trends and the digital age

The harmonization of EU law through secondary EU legislation began in the late 1980s.⁸⁷ There were several factors, which facilitated and pushed an agenda for European IP-harmonization. The most important of these factors was the EU political climate, which was favourable for a launch of IP law harmonization. The Commission had already set out in its 1985 White Paper on the Internal Market that one of the vital points on the path to completing the EU internal market by the end of 1992 was to harmonize national IP laws and to create EU-wide IP rights.⁸⁸ According to the White Paper, differences in IP law posed serious obstacles to intra-community trade and prevented undertakings from being able to treat the

⁸⁵ Once one of the areas of justification grounds listed in the first sentence Article 36 TFEU has been harmonized under Article 114 TFEU, it can no longer be invoked by Member States to justify derogations from the free movement rules. See Case 251/78 *Denkavit* [1979] at 14.

⁸⁶ Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 59. Nonetheless, all EU secondary IP legislation encompass in one way or another the principle of EU-wide exhaustion. This is further discussed in Section 2 below.

⁸⁷ There had been proposals for IP law harmonization and the creation of unitary EU IP rights already since the 1960s. In 1964, for example, the EU Member States set up a working group that was to draft a Convention for a European Trademark. See Mühlendahl, Alexander von et al. (2016). *Trade Mark Law in Europe*, 3rd edition, Oxford: Oxford University Press, 3. Actual EU legislative activity in this area, however, only began in the late 1980s.

⁸⁸ EU Commission (1985). White Paper on Completing the Internal Market COM(85) 310 final.

internal market as a single environment for their economic activities.⁸⁹ One of the first concrete proposals on the table was the creation of a pan-European trademark right, to allow companies to have a one-stop shop to obtain a trademark registration for all EU Member States.⁹⁰ Furthermore, the Commission envisaged the creation of new types of IP protection, especially for biotechnological inventions, topographies of semiconductor products, and computer programs, to support emerging technologies in the EU.⁹¹

The subsequent 1986 Single European Act (SEA), the first major amendment to the Rome Treaties, added the necessary institutional changes to facilitate the passing of EU IP legislation.⁹² It introduced qualified majority voting for the Council when enacting legislative measures to further the completion of the internal market.⁹³ This change in legislative procedure made the passing of legislation easier than with the previous unanimity procedure that had regularly led to stalemates in the legislative process. The new internal market legal basis introduced by the SEA in Article 100a TEC (now Article 114 TFEU)⁹⁴ provides that the Council, acting by a qualified majority, can adopt measures to approximate the laws of the Member States, which have as their objective the establishment and functioning of the internal market.

The most important legal basis on which most EU IP Directives are based, from the Semiconductor Directive in 1987⁹⁵ to the Orphan Works Directive in 2012⁹⁶ has

⁸⁹ Ibid, 145.

⁹⁰ Ibid, 146.

⁹¹ Ibid, 149.

⁹² Groves, Peter et al. (1993). *Intellectual Property and the Internal Market of the European Community*, London: Kluwer Academic Publishers, 3-4.

⁹³ Article 18 Single European Act.

⁹⁴ The numbering of Article 114 TFEU has varied over time. Prior to the SEA, it was Article 100 of the EEC Treaty. Post-Maastricht Treaty it turned into Article 100a TEC and included the new voting procedure, post-Amsterdam Treaty the numbering changed again to Article 95 TEC and is now, post-Lisbon Treaty, Article 114 TFEU.

⁹⁵ Directive 87/54/EEC on the legal protection of topographies of semiconductor products. This Directive was still based on the internal market legal basis of Article 100 EEC Treaty, because the Directive was passed in December 1986, i.e. prior to the ratification and entering into force of the SEA in July 1987.

⁹⁶ Directive 2012/28/EU on certain permitted uses of orphan works.

been, as expected, the internal market legal basis of the Treaties.⁹⁷ In the absence of an explicit legal basis for the creation of unitary EU IP rights, such as the Community Trademark (now Union Trademark), the EU legislator relied on Article 352 TFEU, the general legal basis of the Treaties,⁹⁸ to pass the regulations that created EU-wide IP rights. After the entry into force of the Lisbon Treaty, the TFEU now contains an explicit legal basis for the creation of unitary EU IP rights in Article 118 TFEU. Article 118 TFEU also requires a qualified majority in the Council, and considers the creation of EU IP rights in the context of the establishment and functioning of the internal market. In essence, Article 118 TFEU is a *lex specialis* for IP legislation to Article 114 TFEU. The harmonization of national IP laws and the creation of unitary EU IP rights are thus deeply embedded in the EU internal market project.

The CJEU's case law following the traditional approach to the IP-competition interface has also left an internal market flavoured imprint on secondary EU IP legislation. The principle of EU-wide exhaustion of IP rights, for example, has been included in secondary EU legislation for all types of IP rights.⁹⁹ This is also true for

⁹⁷ Article 114 TFEU. For a very useful overview of all existing pieces of secondary EU IP legislation and their underlying Treaty legal basis see Pila, Justine, Torremans, Paul (2016). *European Intellectual Property Law*, Oxford: Oxford University Press, 64-65.

⁹⁸ Craig and De Búrca refer to ex-Article 308 TEC (ex-ex-Article 235 TEC), now Article 352 TFEU as "flexibility clause", which gave the EU the possibility to widen its competences, and requires unanimity in the Council. Ex-Article 308 TEC has not been copied verbatim in Article 352 TFEU, it still requires unanimity (which is increasingly difficult to achieve with the growing number of Member States), and now requires also the consent of the European Parliament, compared to a mere consultation of the Parliament in ex-Article 308 TEC. See Craig, Paul P., De Búrca, Gráinne (2015). *EU Law: Text, Cases and Materials*, 6th edition, Oxford: Oxford University Press, 90-93.

⁹⁹ Pila, Justine, Torremans, Paul (2016). *European Intellectual Property Law*, Oxford: Oxford University Press, 55. The principle of exhaustion is enshrined in Article 7 (1) Trademark Directive, Article 13 (1) CTMR, Article 15 Design Directive, Article 21 CDR, Article 9 Rental Right Directive, Article 4 InfoSoc Directive, Article 5 (c) Database Directive, Article 5 (1) and (5) Semiconductor Directive, Article 16 Community Plant Variety Rights Regulation, and Article 6 Unitary Patent Regulation.

exceptions to the principle of exhaustion, for example in the case of performance rights in copyright, as established in the Courts' case law.¹⁰⁰

Additional factors acting as catalysts on the harmonization and unification of EU IP law came from the international level.¹⁰¹ The EU became a member of the WTO in 1995, which meant that the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) automatically became binding on the EU. Furthermore, the EU has ratified several Treaties under the auspices of the World Intellectual Property Organization (WIPO), as for example the WIPO Copyright Treaty.¹⁰² The impetus of international IP instruments on EU IP legislation is evidenced by the preambles of EU IP Directives that refer to these international Treaties.¹⁰³ EU IP legislation is thus also linked to international IP instruments and international trade law.

A further factor that has affected the enactment of EU secondary IP legislation has been a general global expansionist trend in IP law, aiming at broadening the temporal and material scope of IP rights.¹⁰⁴ The expansionist tendency in IP law can

¹⁰⁰ Article 3(3) of the Infosoc Directive precludes exhaustion "by any act of communication to the public or making available to the public" just as the Court held in *Cotidel I* that the performance right in copyright was not subject to EU-wide exhaustion.

¹⁰¹ Seville, Catherine (2015). "EU Intellectual Property Law - Exercises in Harmonization," in Arnull, Anthony, Chalmers, (eds.) *The Oxford Handbook of European Union Law*, Oxford: Oxford University Press, 691-716, 692. Cornish considers the rationale of the establishment of trade-related international IP Treaties to be protectionist intentions of developed countries, which wanted to protect the competitiveness of their national industries with help of IP rights in view of the competitive advantage of developing countries in terms of labour costs. See Cornish, William R. (2004). *Intellectual Property Omnipresent, Distracting, Irrelevant?*, Oxford: Oxford University Press, 3-4.

¹⁰² On the EU's competence to sign international agreements relating to IP see Pila, Justine, Torremans, Paul (2016). *European Intellectual Property Law*, Oxford: Oxford University Press, 59-63, 69.

¹⁰³ One example is recital 15 of the InfoSoc Directive 2001/29, which refers to the 1996 WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, and states that the Directive's purpose is to implement these international obligations. Another example is Directive 98/44 on the legal protection of biotechnological inventions, which refers in recital 14 to the TRIPS agreement.

¹⁰⁴ In the EU context, Ghidini has discussed expansionist trends in IP law and their negative effects. In the US context, these expansionist trends and their social costs are, for example, vividly discussed by Boyle. Again, in the US, Landes and Posner provide empirical data to show expansionist trends in US IP legislation. See Ghidini, Gustavo (2010). *Innovation, Competition and Consumer Welfare in Intellectual Property Law*, Cheltenham: Edward Elgar, 19 f.; Boyle, James (2008). *The Public Domain*

be observed, for example, by the extension of the copyright term that was implemented through the EU Term Directive, which harmonized the copyright term across all EU Member States to 70 years after the death of the author.¹⁰⁵ The 70-year term was subsequently extended to copyright-akin rights in performances and phonograms.¹⁰⁶ Another example of these expansionist tendencies is the protection of technological anti-circumvention devices applied to control access to copyrighted content under IP law.¹⁰⁷ Taking the case of DVDs as an example, copyright legislation thus does not only cover the exclusive right to make copies of the movie and sell it as DVD, but also the technical measures intended to inhibit the distribution of pirated copies of the movie's DVD. One of the most recent and controversial proposals to extend copyright protection is the creation of a neighbouring right for digital uses of press publications,¹⁰⁸ which would make the online use of news snippets subject to authorization by the news publisher.¹⁰⁹

Furthermore, there increasingly exist protection overlaps of different IP rights.¹¹⁰ One example is the protection of three-dimensional shapes. A three-dimensional shape, like a handbag buckle for example, can now be protected in the EU under no less than five IP regimes simultaneously: by a national and an EU trademark right, a

Enclosing the Commons of the Mind, New Heaven: Yale University Press; Landes, William M., Posner, Richard A. (200). *The Political of Intellectual Property*, Washington, D.C.: AEI-Brookings Joint Centre for Regulatory Studies.

¹⁰⁵ Previously, the term had been shorter in many Member States, except Spain. See Directive 93/98/EEC, now replaced by Directive 2006/116/EC harmonizing the term of protection of copyright and certain related rights.

¹⁰⁶ See Directive 2011/77/EU amending Directive 2006/116/EC on the term of protection of copyright and certain related rights.

¹⁰⁷ Such protection is required by Article 6 of the InfoSoc Directive.

¹⁰⁸ See Articles 11 and 12 of the Commission Proposal for a Directive on Copyright in the Digital Single Market of 14 September 2016, COM(2016) 593 final.

¹⁰⁹ There seems to be opposition to the proposal to introduce a neighbouring right for digital use of press publications in the European Parliament. The Draft Report of the Legal Affairs Committee from March 2017 proposing amendments to the Commission Proposal, suggests a deletion of the parts of Articles 11 and 12, which would grant these neighbouring rights to press publishers, because these rights would disrupt other industries (for example news aggregators). See European Parliament (2017). Committee on Legal Affairs, Draft Report on the Proposal for a Directive of the European Parliament and of the Council on Copyright in the Digital Single Market of 10 March 2017, 2016/0280 (COD).

¹¹⁰ For a comprehensive overview of IP protection overlaps see Derclaye, Estelle, Leistner, Matthias (2011). *Intellectual Property Overlaps: A European Perspective*, Oxford: Hart.

national and an EU design right, and national copyright.¹¹¹ Similarly, computer programs can now be simultaneously protected under copyright and patent.¹¹² The expansionist trend in IP law creates the risk of overly broad IP legislation with anti-competitive effects when IP rights are exercised. This in turn, can call for competition law interference.

One last factor to be mentioned, which has affected the evolution of IP law is the rise of the digital age together with its challenges to existing IP regimes. Firstly, IP rights have become increasingly important for undertakings as a tool to compete in markets covering information technologies and information goods. Together with the rise of reproduction technologies and digitization, IP-covered information can be copied and distributed at no cost, which opens the door to large-scale violations of IP rights. To ensure that IP rights remain a reliable shield for companies to prevail over counterfeiters and copyright piracy, companies have asked for an adjustment of existing IP laws. The challenges posed by the digital age have provided the policy basis for EU secondary IP legislation like the InfoSoc Directive¹¹³ or the IP Enforcement Directive.¹¹⁴ The aim of these harmonization measures is to facilitate cross-border enforcement of IP rights, and to provide better IP protection from the specific threats resulting from digital technology and the Internet. As can be seen, the digital age has been an argument to expand IP protection. The effects of the digital age and expansionist trends on EU IP secondary legislation are to a certain extent intertwined.

¹¹¹ Ibid, 49, 60.

¹¹² Ghidini, Gustavo, Arezzo, Emanuela (2008). "One, None, or a Hundred Thousand: How Many Layers of Protection for Software Innovations?" in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 346-372.

¹¹³ Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society. Recitals 15, 16 and 17, for example, refer to the "digital agenda", the "network environment", and the "digital environment".

¹¹⁴ See in particular Recital 9 of Directive 2004/48/EC on the enforcement of intellectual property rights, which states "Infringements of intellectual property rights appear to be increasingly linked to organised crime. Increasing use of the Internet enables pirated products to be distributed instantly around the globe. Effective enforcement of the substantive law on intellectual property should be ensured by specific action at Community level".

EU IP harmonization has evolved in its almost 30-year history in an uneven piecemeal fashion. Different categories of IP rights have been subject to different harmonization strategies. While trademark law, for example, has been comprehensively harmonized early on through one Directive, and a unitary Community trademark has been created through one regulation, copyright is harmonized only partially through around nine different Directives. The following subsections provide an overview of the progress of harmonization of each main category of IP rights, namely trademarks, designs, copyright, and patent. The overview also includes a discussion of the function of each IP right according to the harmonization measures, which could be of importance for a recycled version of the specific subject matter doctrine to decide IP-competition conflicts in EU law.¹¹⁵

2.1 Trademarks

Trademark rights were the first type of IP right subject to harmonization at EU level. As early as 1988, the first EU Trademark Directive¹¹⁶ was passed, which comprehensively harmonized the requirements for registration, the rights conferred by a trademark,¹¹⁷ exceptions to those rights, and grounds for invalidity. The harmonization of national IP laws, however, still meant that there existed as many parallel national trademark systems as there were Member States,¹¹⁸ albeit with identical rules for registration and the scope of trademark rights. While this already helped furthering the internal market and the circulation of goods and services, only a unitary, EU-wide trademark right would truly overcome all obstacles posed by territorially confined trademark systems.

¹¹⁵ See for a further discussion of a modernized specific subject matter doctrine Section I.2.5 below.

¹¹⁶ Directive 89/104/EEC, amended by Directive 2008/95/EC, and now again amended by Directive 2015/2436 to approximate the laws of the Member States relating to trade marks.

¹¹⁷ Pila and Torremans point out that Article 10 (ex-Article 5) Trademark Directive entitled as “rights conferred” provides the basic criteria for an infringement action rather than the content of the trademark right. See Pila, Justine, Torremans, Paul (2016). *European Intellectual Property Law*, Oxford: Oxford University Press, 400.

¹¹⁸ To the exception of the Benelux area, that created a unitary trademark and design system already in the 1960s.

In 1994, the Community Trademark Regulation (now European Union Trademark Regulation - EUTMR)¹¹⁹ created such a unitary EU-wide trademark right. The substantive provisions are essentially the same as in the Trademark Directive, with the obvious difference that the EU Trademark has a unitary character with equal effect throughout the EU.¹²⁰ The regulation also provides for the creation of an EU trademark register for EU Trademarks, which opened its doors in 1996 in Alicante, Spain. It has recently been renamed as European Union Intellectual Property Office (EUIPO).¹²¹

As a result, there now exist two parallel trademark systems in the EU: on the one hand the harmonized national trademark systems based on the Trademark Directive, and on the other the unitary Community Trademark system based on the EUTMR. So far, there has not been any ambition to fully replace national trademark systems by the EU trademark system. Having two different system within the EU has been championed as an advantage because it offers flexibility to undertakings of different sizes and geographical presence in their varying needs for trademark protection.¹²²

The now generally accepted essential function of trademarks in EU law is “to guarantee the identity of origin of the marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin”.¹²³ The legal function of

¹¹⁹ Regulation (EC) 40/94 on the Community trade mark, amended by Regulation (EC) 207/2009, and recently amended again by Regulation (EU) 2015/2424.

¹²⁰ Article 1 (2) CTMR. There have been several problems with ensuring the unitary character of the Community Trademark. See Mühlendahl, Alexander von (2008). “Community Trade Mark Riddles: Territoriality and Unitary Character,” *European Intellectual Property Review* 30(2), 66–70.

¹²¹ See amendment to Article 2 of the CTMR as stipulated in Article 1 (7) of Regulation (EU) 2424/2015. Before, it was named “Office for Harmonization in the Internal Market” (OHIM).

¹²² Recital 6 of the EU Trademark Regulation (EU) 2015/2424 states that “National trade marks continue nevertheless to be necessary for those undertakings which do not want protection of their trade marks at Union level, or which are unable to obtain Union-wide protection while national protection does not face any obstacles. It should be left to each person seeking trade mark protection to decide whether the protection is sought only as a national trade mark in one or more Member States, or only as an EU trade mark, or both.”

¹²³ The CJEU gave this definition of the essential function of a trademark for the first time in Case 102/77 *Hoffman-La Roche v Centrafarm* [1978] at 7, which was a free movement of goods case.

trademarks as origin indicators coincides with their economic function.¹²⁴ The trademark system is considered efficient because, when working properly, it reduces consumers' search costs for products and it allows consumers to repeat a purchase if satisfied with the quality of a branded product. This, in turn, creates incentives for firms to invest in their trademark's brand value by increasing advertisement activities or enhancing the quality of their goods or services.¹²⁵ Considered in this way, a trademark is a tool of commercial communication with the consumer, which provides the trademark owner a certain degree of communicative freedom from interference by competitors through unauthorized uses of her trademark by third parties.¹²⁶

2.2 Designs

The process of EU design law harmonization was the second comprehensive harmonization effort in relation to a main category of IP rights. Mirroring the EU trademark law system, it adopted a parallel two-track structure by harmonizing national design laws through a Directive in 1998,¹²⁷ and introducing a unitary EU Design Right in 2002.¹²⁸ The register for Community Designs is also located at the EUIPO in Alicante.

The EU Design Directive and the Community Design Regulation (CDR) define designs as "the appearance of the whole or a part of a product resulting from the features of, in particular, the lines, contours, colours, shape, texture and/or

Subsequently, this definition was adopted in case law on the Trademark Directive, for example in Case 39-97 *Canon v Metro-Golwyn-Mayer* [1998] at 28, Case C-299/99 *Philips Electronics v Remington* [2002] at 30, and Case C-206/01, *Arsenal Football Club plc v Matthew Reed* [2002] at 48. Similarly, the preambles of the Trademark Directive (Recital 18 of Directive 2015/2436) and CTMR (Recital 10) both state that the function of trademark protection is to guarantee the trademark as an indication of origin.

¹²⁴ See, for example, Landes, William M., Posner, Richard A. (1987). "Trademark Law: An Economic Perspective," *Journal of Law & Economics* 30, 265-309, 270.

¹²⁵ *Ibid.*

¹²⁶ Phillips, Jeremy (2003). *Trade Mark Law : A Practical Anatomy*, Oxford: Oxford University Press, 25.

¹²⁷ Directive 98/71/EC on the legal protection of designs.

¹²⁸ Regulation (EC) 6/2002, amended by Regulation No 1891/2006, on Community designs.

materials of the product itself and/or its ornamentation”.¹²⁹ Registered designs that meet the requirements of novelty and individual character receive protection for a maximum of 25 years after the date of filing the design right application.¹³⁰ Neither the EU Design Directive nor the CJEU have defined the essential function of design rights. In *Volvo*, the CJEU merely stated that design rights are exclusionary in nature.¹³¹ The CDR provides in its preamble that design protection promotes “the contribution of individual designers to the sum of Community excellence in the field, but also encourages innovation and development of new products and investment in their production”.¹³² Taking the Court’s definition in *Volvo* and the CDR’s preamble together, the essential function of design rights in EU law appears to be the granting of an exclusive right over the appearance of a product to provide incentives to produce novel and innovative shapes for products, in order to enhance the EU’s competitive edge in this field.

One of the most controversial issues in EU design law is whether to avail design protection to spare parts for the repair of complex products.¹³³ The result of unsuccessful negotiations during the enactment of the Design Directive has been a “freeze-plus” rule in Article 14 of the Designs Directive. It provides that Member States are to keep their rules on protection of spare parts for the purposes of repair of complex products until the Commission adopts amendments to the Directive. This aspect of national design laws thus remains unharmonized. Article 110 CDR, in

¹²⁹ Article 1(a) Design Directive, Article 3 (a) CDR.

¹³⁰ Article 10 Design Directive, Article 12 CDR. The CDR additionally offers protection for unregistered designs, which are new and possess individual character, for a period of 3 years (Article 11 CDR).

¹³¹ In Case 238/87 *Volvo v Veng* [1988] at 8, the Court states that “the 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”. While this is a statement about the content of design rights, the Court did not explain what the essential function of design protection is.

¹³² Recital 7 CDR.

¹³³ Seville, Catherine (2015). “EU Intellectual Property Law - Exercises in Harmonization,” in Arnall, Anthony, Chalmers, (eds.) *The Oxford Handbook of European Union Law*, Oxford: Oxford University Press, 691-716, 712. Pila, Justine, Torremans, Paul (2016). *European Intellectual Property Law*, Oxford: Oxford University Press, 496.

turn, provides that protection is excluded for these kinds of spare parts (so-called 'must-match parts') for Community Designs.¹³⁴

2.3 Copyright

The harmonized EU regime for copyright is a patchwork of many area-specific directives. Harmonization is far from complete and many copyright issues continue to be a matter of national law. The first group of harmonization directives addressed areas that were of particular interest for the internal market because national divergences in law were particularly damaging for the market integration project.¹³⁵ These early directives concerned copyright in computer programs,¹³⁶ copyright treatment in EU-wide broadcasting,¹³⁷ rental and lending rights,¹³⁸ the length of the copyright term,¹³⁹ and the protection of databases.¹⁴⁰ In the new millennium, a directive on resale rights for works of art¹⁴¹ and the InfoSoc Directive¹⁴² were passed. The InfoSoc Directive was a first important step in adjusting copyright to the internet age, and is the broadest of all directives.¹⁴³ The latest copyright instruments introduced in this decade relate to orphan works¹⁴⁴ and the licensing of copyright for online use by collecting societies.¹⁴⁵ A new wave

¹³⁴ The spare parts debate is further discussed below in Section II.6.

¹³⁵ The Commission laid out the programme for sector-specific copyright harmonization where necessary for the furthering of the internal market in its 1988 Green Paper on copyright and the challenge of technology - copyright issues requiring immediate action, COM (88) 172 final.

¹³⁶ Directive 91/250/EEC, now Directive 2009/24/EC on the legal protection of computer programmes (CPD).

¹³⁷ Directive 93/83/EEC on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission.

¹³⁸ Directive 92/100/EEC, now Directive 2006/115 on rental right and lending right and on certain rights related to copyright in the field of intellectual property.

¹³⁹ Directive 93/98/EEC, now Directive 2006/116/EC harmonizing the term of protection of copyright and certain related rights.

¹⁴⁰ Directive 96/9/EC on the legal protection of databases.

¹⁴¹ Directive 2001/84/EC on the resale right for the benefit of the author of an original work of art.

¹⁴² Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society.

¹⁴³ Pila, Justine, Torremans, Paul (2016). *European Intellectual Property Law*, Oxford: Oxford University Press, 247.

¹⁴⁴ Directive 2012/28/EU on certain permitted uses of orphan works.

¹⁴⁵ Directive 2014/26/EU on collective rights management and multi-territorial licensing of rights in musical works for online uses.

of copyright reforms has been announced within the Digital Single Market Strategy.¹⁴⁶

The function of copyright is considered to be a market-based mechanism for an author to receive compensation for the creation of a work,¹⁴⁷ by granting the author exclusive rights to reproduce her work. At the same time, it is meant as an economic incentive for authors to engage in the creation of works in the first place.¹⁴⁸ Furthermore, broader societal functions of copyright, such as the promotion of culture,¹⁴⁹ and the distribution of knowledge,¹⁵⁰ form part of the rationales for having copyright protection.

Competition considerations have had an influence in the enactment of some of the copyright directives. The very recent enactment of the Collective Rights Management Directive in 2014 was preceded,¹⁵¹ for example, by Commission competition proceedings against 24 national collecting societies in the EU. The Commission found that the collecting societies' practice of not offering licenses outside their national territory for online exploitation was contrary to Article 101

¹⁴⁶ The Commission first outlined its Digital Single Market Strategy in May 2015, see Commission Communication on A Digital Single Market Strategy for Europe, COM(2015) 192 Final. Since then, it has produced a Proposal for a Regulation on Ensuring The Cross-Border Portability of Online Content Services in the Internal Market of 9 December 2015, COM(2015) 627 final, a Commission Proposal for a Regulation Laying Down Rules on the Exercise of Copyright and Related Rights Applicable to Certain Online Transmissions Of Broadcasting Organisations and Retransmissions of Television and Radio Programmes of 14 September 2016, COM(2016) 594 final, and a Commission Proposal for a Directive on Copyright in the Digital Single Market of 14 September 2016, COM(2016) 593 final. This last Proposal introduces exceptions to copyright protection for text and data mining, for digital and cross-border teaching activities, and for the preservation of cultural heritage. At the same time, it introduces a new neighbouring right for press publishers.

¹⁴⁷ The remuneration of authors of contemporary art was for example a principal reason for the enactment of the Resale Rights Directive, as stipulated in Recitals 2-4 in the Directive.

¹⁴⁸ Landes, William M., Posner, Richard A. (2003). *The Economic Structure of Intellectual Property*, Cambridge (Mass.): The Belknap Press of Harvard University Press, 39-40.

¹⁴⁹ The promotion of culture through copyright instruments has become increasingly an issue in EU law. See for example Recital 5 of the Resale Rights Directive, Recital 12 of the InfoSoc Directive and Recital 3 of the Collective Rights Management Directive all refer to Article 167 TFEU, which states that "the Union shall contribute to the flowering of the cultures of the Member State".

¹⁵⁰ See Commission Green Paper on Copyright in the Knowledge Economy COM(2008) 466 final, where the Commission refers to the free movement of knowledge as the "Fifth Freedom" in the Internal Market, and proposes on this basis a reform of the InfoSoc Directive.

¹⁵¹ Directive 2014/26/EU on collective rights management and multi-territorial licensing of rights in musical works for online uses.

TFEU.¹⁵² While the Court annulled the Commission Decision in regard of 20 of the affected collecting societies,¹⁵³ the Directive now provides a framework for multi-territorial licenses for online exploitation.¹⁵⁴

A second example is the treatment of interoperability in the software sector and follow-on innovation within the framework of the Computer Programs Directive (CPD). The CPD provides for an exception to copyright protection in case of copies made in the process of reverse engineering a program to achieve interoperability.¹⁵⁵ At the same time, the CDP provides in its preamble that it does not prejudice the application of EU competition law if a dominant supplier refuses to make information available, which is necessary for interoperability.¹⁵⁶ The Directive thus foresees competition and IP law having a common goal of ensuring that interoperability information is made available.¹⁵⁷

2.4 Patents

This thesis project somewhat disregards one of the most important forms of IP at the IP-competition interface: patent. This is due to patent law historically having gone a *Sonderweg*, outside the developments of harmonization of other IP rights in EU law.¹⁵⁸ In 1973, several European states signed the European Patent Convention

¹⁵² The practice of national collecting societies had been challenged by the Commission and by private parties before national courts under EU competition law before, see for example Case 395/87 *Ministère Public v Tournier* [1989].

¹⁵³ Case T-442/08, *CISAC v Commission* [2013] and parallel cases.

¹⁵⁴ See Arezzo for the tensions between the new Directive and the judgments of the EU Courts, which found the territorial licensing practices of collecting societies to be justified in light of the market situation and the capacities to provide protection against copyright infringement. Arezzo, Emanuela (2015). "Competition and Intellectual Property Protection in the Market for the Provision of MultiTerritorial Licensing of Online Rights in Musical Works – Lights and Shadows of the New European Directive 2014/26/EU," *IIC - International Review of Intellectual Property and Competition Law* 2015(5), 534-564, 558 f.

¹⁵⁵ Article 6 CPD.

¹⁵⁶ Recital 17 CPD.

¹⁵⁷ Graef provides a comprehensive assessment of the complementary mechanisms offered on the one hand by the CPD and on the other by EU competition law. See Graef, Inge (2014). "How Can Software Interoperability Be Achieved under European Competition Law and Related Regimes?," *Journal of European Competition Law & Practice* 5(1), 6-19.

¹⁵⁸ Ullrich, Hanns (2012). "Die Entwicklung Eines Systems Des Gewerblichen Rechtsschutzes in der Europäischen Union: Die Rolle des Gerichtshofs," in Behrens, Peter et al. (eds.), *Ökonomische*

(EPC), which created an independent international system outside the EU, harmonizing the requirements for patentability of the laws of its signatories, and establishing a central patent register in Munich.¹⁵⁹ Under the EPC, a European patent designating the signatory states to be covered is not, however, a unitary right. It is merely a bundle of different national patent rights that can be acquired at once at the European Patent Office in Munich.¹⁶⁰

Patent law has thus not left a significant mark in the history of the harmonization of EU IP law so far.¹⁶¹ This is to change with two new regulations on establishing a pan-European patent right, the so-called unitary patent.¹⁶² As the name reveals, the unitary patent will have a unitary effect in the 25 EU Member States participating in the enhanced cooperation.¹⁶³ With the unitary patent, the Unified Patent Court (UPC), a new supranational court with exclusive jurisdiction over infringement and revocation proceedings of European and unitary patents is to be set up under an intergovernmental treaty between participating EU Member States.¹⁶⁴ The system established under the unitary patent regulations and the UPC

Analyse des Europarechts: Beiträge Zum XII. Travemünder Symposium zur Ökonomischen Analyse des Rechts, Tübingen: Mohr Siebeck, 172 f.

¹⁵⁹ The EPC has by now been ratified by 38 states. Article 6 EPC provides that the common patent register, the European Patent Office, is located in Munich. Articles 52-57 EPC contain the conditions for patentability.

¹⁶⁰ Articles 2 (2) and 64 (3) EPC. Article 142 EPC, however, offers the possibility for the signatory states to grant a patent right with unitary effect across their territories. Article 142 (1) states that “any group of Contracting States, which has provided by a special agreement that a European patent granted for those States has a unitary character throughout their territories, may provide that a European patent may only be granted jointly in respect of all those States.” So far, Switzerland and Liechtenstein have made use of this provision.

¹⁶¹ The only two directives affecting substantive patent law that existed prior to the unitary patent package were Regulation 1768/92 (now Regulation 469/2009) concerning the supplementary protection certificate for medicinal products and Directive 98/44/EC on the legal protection of biotechnological inventions.

¹⁶² Regulation (EU) No 1260/2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements, and Regulation (EU) No 1257/2012 implementing enhanced cooperation in the area of the creation of unitary patent protection.

¹⁶³ Spain and Croatia do not participate in the enhanced cooperation in the area of the unitary patent.

¹⁶⁴ Prior to the UPC Agreement, the EU Member States had envisaged setting up a European and Community Patent Court (ECPC) via international treaty between the EU, the EU Member States and EFTA states. The CJEU, however, found the ECPC Treaty to be contrary to EU law because it would

agreement will only come fully into existence after the UPC agreement enters into force.¹⁶⁵ As the system is not yet operational, the CJEU has not had the opportunity to pronounce itself on the substantive law applying to the EU unitary patent so far.¹⁶⁶

2.5 The IP-competition interface in EU law after IP harmonization

As consequence of harmonization, the conflicts between national IP laws and EU law, in particular the free movement rules should disappear or at least significantly decrease. After all, the purpose of harmonizing national IP rights has to be the elimination of obstacles for the completion of the internal market. Europeanization of IP law could therefore be expected to decrease the likelihood that a conflict between IP rights and market integration arise.¹⁶⁷

One of the visible reactions in the case law of the EU Courts in this respect is that the existence/exercise dichotomy has lost its importance as argumentative tool to decide IP-competition conflicts.¹⁶⁸ As explained above, the traditional IP-competition interface in EU law was characterized by conflicts between differences

have put the supremacy and autonomy of the EU legal system at risk. The UPC Agreement takes into considerations the CJEU's concerns, and provides in Articles 21 to 23 that the UPC will apply EU law in its entirety and respects its supremacy, that the UPC can refer preliminary questions on EU law to the CJEU, and that it will liable for infringements of EU law. See Opinion 1/09 [2011].

¹⁶⁵ Article 18 (2) Regulation 1257/2012, Article 89 UPC Agreement. With Brexit, it is now unclear whether the UPC Agreement can come into force as it stands at all. See Ohly, Ansgar, Streinz, Rudolf (2017). "Can the UK stay in the UPC system after Brexit?", *Journal of Intellectual Property Law & Practice* 12(3), 245-258.

¹⁶⁶ The CJEU dismissed actions of annulment brought by Spain and Italy against the Unitary Patent Regulation and the Regulation on the Translation Arrangements. See Joined Cases C-274/11 and C-295/11 *Spain and Italy v Council* [2013], Case C-146/13 *Spain v Parliament and Council* [2015] and Case C-147/13 *Spain v Council* [2015].

¹⁶⁷ On this point, see also Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 300.

¹⁶⁸ Lianos and Dreyfuss take the *Coditel II* case as the last time the existence/exercise dichotomy played a significant role, while Petit takes *Vo/vo* as the last time the doctrine has been significant to the outcome of the case. See Lianos, Ioannis Cooper Dreyfuss, Rochelle (2013). "New Challenges in the Intersection of Intellectual Property Rights with Competition Law - A View from Europe and the United States", Center for Law, Economics and Society (CLES) Working Paper Series 4/2013 available at: <https://www.ucl.ac.uk/cles/research-paper-series/index/edit/research-papers/cles-4-2013> (last visited 12 October 2017), 55; Petit, Nicolas (2016). "The Antitrust and Intellectual Property Intersection in European Union Law," Handbook of Antitrust, Intellectual Property and High Tech, Roger D. Blair & D. Daniel Sokol editors, Cambridge University, Forthcoming, available at: <http://papers.ssrn.com/abstract=2796670> (last visited 9 October 2017), 9.

in national IP rights and the territorial nature of IP rights on the one hand, and the EU market integration project on the other. As IP law used to be an exclusive national competence, the CJEU had to devise a test to solve these conflicts which would not impinge on the Member States' sovereignty on the face of it, while still furthering the EU goal of market integration. This is why the existence/exercise dichotomy was born. It appeared to leave national sovereignty mostly intact, as the criteria and procedures for granting IP rights, the "existence", would not be affected; the application of EU law would be limited to the exercise of the IP right.¹⁶⁹

With IP law having gradually turned into an EU competence through harmonization, the existence of IP rights have come under the umbrella of EU law. The original rationale of distinguishing between existence and exercise to delimit the sphere of influence of EU free movement and competition law on the use of IP rights has thus become obsolete. Furthermore, the principle of EU-wide exhaustion that derives from the existence/exercise dichotomy has been enshrined in all EU secondary IP legislation, mitigating many potential conflicts arising from the territoriality of national IP rights.¹⁷⁰

Nevertheless, we can observe that friction between competition and internal market goals on the one hand, and the exploitation of IP rights on the other has not disappeared. This is, firstly, because some areas of IP law remain unharmonized, and secondly, because even in harmonized areas of IP law, Member States still have room to manoeuvre and diverge when implementing IP directives. This can lead to national provisions based on IP Directives, which still produce harmful effects for the internal market or competition.¹⁷¹ Thirdly, harmonization does not

¹⁶⁹ See footnote 22 above for a critique by Korah arguing that the existence/exercise dichotomy was but a farce that did not establish any proper limits to the extension of EU law.

¹⁷⁰ See footnote 99 above.

¹⁷¹ See below, where by reference to Joined Cases C-403/08 and C-429/08, *Football Association Premier League v Murphy* [2011] it is shown that there is still room for implementing Directives in a manner which creates unjustified obstacles to trade in the internal market.

automatically prevent private actors from using their IP rights in anticompetitive ways, which can call for the application of EU competition law.

Considering that IP-competition conflicts in EU law have not disappeared with harmonization, one could ask whether the existence/exercise dichotomy could still play a role in the EU Courts' argumentative toolbox. As its traditional understanding of a delineation tool between national and EU competences collapses with harmonization, the concept would need to be filled with new meaning. The existence part of the existence/exercise dichotomy could be understood, for example, as the sphere of an IP right that cannot be limited for competition or internal market considerations. This would be no longer for reasons of respecting national sovereignty, but for economic, deontic or systemic reasons.¹⁷²

The concept of the specific subject matter of the IP right, which the CJEU derived from the existence/exercise dichotomy would possibly be even more appropriate to reflect the idea of a sphere of an IP right "beyond reach" of free movement or competition law. As explained above,¹⁷³ the CJEU has used two approaches to determine the content of the specific subject matter of an IP right. The first approach, namely constructing the specific subject matter of an IP right as an EU first sale right would be unnecessary. After all, the enshrinement of the EU-wide exhaustion principle in secondary EU IP law already ensures that parallel imports within the internal market cannot be unduly restricted.

The second approach of constructing the specific subject matter of the IP right as its essential function appears more promising.¹⁷⁴ It would allow interference with the exercise of an IP right to the extent that the IP right was not used according to

¹⁷² This idea is further elaborated in Chapter 2 Section II.1.

¹⁷³ See Section I.1. above.

¹⁷⁴ Govaere, for example, has put forward a "functionality test" as a basis of a more coherent and transparent existence/exercise doctrine both in the area of EU free movement law and competition law. Anderman and Schmidt reject such approach as not having any backing in the EU Court's case law. See Govaere, *The Use and Abuse of Intellectual Property Rights in E.C. Law*, 67–70, 212; Anderman and Schmidt, *EU Competition Law and Intellectual Property Rights*, 25.

the function for which it was granted.¹⁷⁵ The essential function of the IP right could be determined according to different criteria. One possibility would be to determine the essential function of an IP right according to the provisions and the CJEU's interpretation of secondary EU IP law. This could be considered a systemic criterion, since it would look within the system of EU law for a definition of the essential function of an IP right. A second possibility would be to look for the economic function of an IP right to determine its specific subject matter. The economic function could coincide with the legal-systemic function of the IP right, as secondary IP legislation often refers to the economic function of an IP right.¹⁷⁶ Using the economic function of an IP right as determinant of the specific subject matter could possibly also be in line with the more economic approach to EU competition law, to which we now turn.

3. Developments in EU Competition Law: Modernization

EU competition law and policy have undergone significant changes since the establishment of the original competition law system after the Rome Treaties. The three major factors that have affected EU competition law in the last three decades have been the so-called more economic approach, the decentralization of EU competition law enforcement, and the very recent legislative activity to promote private competition enforcement.¹⁷⁷ While the effects on the IP-competition interface from the encouragement of private competition enforcement are not yet

¹⁷⁵ Govaere, *The Use and Abuse of Intellectual Property Rights in E.C. Law*, 67. The functionality test is quite similar to the scope of the patent doctrine in US law, as noted for example by Kallaughner. See Kallaughner, John (2011). "Existence, Exercise and Exceptional Circumstances: The Limited Scope for a More Economic Approach to IP Issues under Article 102 TFEU", in Ezrachi, Ariel, Anderman, Steven (eds.), *Intellectual Property and Competition Law – New Frontiers*, Oxford: Oxford University Press, 113-140, 131.

¹⁷⁶ See Section I.2. above for examples in the EU Trademark Directive and EUTMR, as well as CPD.

¹⁷⁷ These three developments are also mentioned by Basedow as main characteristics of EU competition law modernization in the "post-socialist phase of reorientation" ("*postsozialistische Phase der Neuorientierung*") since the 1990s. See Basedow, Jürgen (2009). "Entwicklungslinien Des Europäischen Rechts Der Wettbewerbsbeschränkungen. Von Dezentralisierung Über Ökonomisierung Zur Privaten Durchsetzung," in Augenhofer, Susanne (ed.), *Die Europäisierung Des Kartell- Und Lauterkeitsrechts*, Tübingen: Mohr Siebeck, 1–14.

clear,¹⁷⁸ the effects of the more economic approach and, to a lesser extent, of the decentralization of competition law enforcement have already left clear marks.

3.1 The more economic approach

The first and widely debated trend affecting EU competition law has been the EU Commission's ambitious plan of a "more economic approach" that started to gain traction in the mid-1990s,¹⁷⁹ opening the door to a more sophisticated use of economic models and analytical tools to assess competition infringements.¹⁸⁰ The first impetus for this development came from the enactment of the first EU Merger Regulation that required predictions of mergers' economic effects on the market.¹⁸¹ A second impetus came from discussions in academic and policy circles that called for a more lenient approach towards vertical restraints under Article 101 TFEU.¹⁸²

One of the first outputs of the Commission in light of calls for a more economic approach was the Commission Notice on Market Definition¹⁸³ and the Adoption of the Green Paper on Vertical Restraints in 1997.¹⁸⁴ Several other soft law

¹⁷⁸ Directive 2014/104/EU on antitrust damages actions is meant to encourage private enforcement of competition law on the basis of harmonizing and facilitating the recovery of damages actions by victims of competition law offenders.

¹⁷⁹ According to Hildebrand, Karel van Miert who was Competition Commissioner from 1993 to 1999 initiated the process of introducing more rigorous economic analysis into EU competition enforcement. See Hildebrand, Doris (2016). *The Role of Economic Analysis in EU Competition Law*, 4th edition, Alphen aan den Rijn: Wolters Kluwer, 16.

¹⁸⁰ On the more economic approach as a self-proclaimed guiding policy in EU competition law see for example speech of Competition Commissioner Mario Monti "A reformed competition policy: achievements and challenges for the future", Centre for European Reform, Brussels, 28 October 2004, available at http://europa.eu/rapid/press-release_SPEECH-04-477_en.htm?locale=en [last visited 21 November 2017].

¹⁸¹ Hildebrand, Doris (2016). *The Role of Economic Analysis in EU Competition Law*, 4th edition, Alphen aan den Rijn: Wolters Kluwer, 15-16.

¹⁸² Hildebrand, Doris (2016). *The Role of Economic Analysis in EU Competition Law*, 4th edition, Alphen aan den Rijn: Wolters Kluwer, 16; Witt, Anne C (2016). *The More Economic Approach to EU Antitrust Law*, Oxford: Hart, 10; Hawk, Barry E. (1995). "System Failure: Vertical Restraints and EC Competition Law", *Common Market Law Review* 32, 973-989.

¹⁸³ Commission Notice on the definition of relevant market for the purposes of Community competition law (97/C 372/03).

¹⁸⁴ Green Paper on Vertical Restraints in EC Competition Policy. COM (96) 721 final. The Green Paper was adopted on 22 January 1997, see European Commission Press Release IP/97/35.

instruments followed,¹⁸⁵ as well as a reform of secondary EU competition law guided by the new approach.¹⁸⁶

The more economic approach aims at shaping the substance of EU competition law according to contemporary economic thinking.¹⁸⁷ The Commission's intention was to reform the application of EU competition law in its methodology¹⁸⁸ and its policy objectives when interpreting the Treaties' competition provisions.¹⁸⁹ It implied an increased focus on the economic effects of undertakings' behaviour instead of classifying it according its legal form,¹⁹⁰ and it put the enhancement of consumer welfare at the centre of competition law analysis.¹⁹¹

In relation to the IP-competition interface, the more economic approach has had an impact in particular on the licensing of IP rights, which is now treated in a more lenient manner under Article 101 TFEU.¹⁹² This is due to, for example, the enactment of the Technology Transfer Block Exemption Regulation (TTBER).¹⁹³ The TTBER exempts certain forms of horizontal patent and other IP-based know-how

¹⁸⁵ Witt, Anne C (2016). *The More Economic Approach to EU Antitrust Law*, Oxford: Hart, 35, 43-47.

¹⁸⁶ *Ibid*, 41.

¹⁸⁷ Monti, Mario (2000). "A European Competition Policy for Today and Tomorrow", *World Competition* 23(2), 1-4, 2.

¹⁸⁸ For example by applying more sophisticated analytical tools from microeconomics and econometrics.

¹⁸⁹ Witt, Anne C (2016). *The More Economic Approach to EU Antitrust Law*, Oxford: Hart, 56, 74.

¹⁹⁰ In the old Guidelines on Vertical Restraints from 2000 (2000/C 291/01), for example, the Commission stressed that it "will adopt an economic approach which is based on the effects on the market" (para. 7). In the new Guidelines on Vertical Restraints (2010/C 130/01), the economic approach seems to be taken as given, since the "objective of Article 101 is to ensure that undertakings do not use agreements – in this context, vertical agreements – to restrict competition on the market to the detriment of consumers" (para.7). The prominence of an effects-based analysis can also be found in the new Guidelines: "Article 101 provides a legal framework for the assessment of vertical restraints, which takes into consideration the distinction between anti-competitive and pro-competitive effects" (para. 5).

¹⁹¹ See, for example, Guidance on the Commission's Enforcement Priorities in Applying Article 82 (2009/C 45/02), where the Commission states that when "applying Article 82 to exclusionary conduct by dominant undertakings, the Commission will focus on those types of conduct that are most harmful to consumers" (at para. 5). See also Witt, Anne C (2016). *The More Economic Approach to EU Antitrust Law*, Oxford: Hart, 59.

¹⁹² Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press, 203-204.

¹⁹³ Commission Regulation (EC) No 772/2004, now replaced by Commission Regulation (EU) No 316/2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements.

license agreements from competition law scrutiny because they are considered to be generally in conformity with Article 101 (3) TFEU.¹⁹⁴ As already mentioned, another important block exemption regulation (BER) motivated by the more economic approach is the BER for vertical agreements.¹⁹⁵ It provides for a more lenient treatment of vertical agreements, which do not surpass a market share of 30%.¹⁹⁶ The Vertical BER has benefitted in particular distribution and franchise agreements, which often rely on the use and exploitation of trademarks.

The more economic approach has not affected the analysis of abusive behaviour by economically powerful market players in their IP strategies under Article 102 TFEU as much as under Article 101 TFEU.¹⁹⁷ The difference in adoption of a more economic approach between Article 101 and Article 102 TFEU is often explained by the fact that a more economic approach was in line with, or even required by, the CJEU's case law under Article 101, whereas it would have contradicted the CJEU's case law under Article 102 TFEU.¹⁹⁸ While this might be *inter alia* true for defining an abuse under Article 102 TFEU, the more economic approach has nonetheless influenced other stages of analysis under Article 102 TFEU, as for example the definition of the relevant market in spare part cases.¹⁹⁹

¹⁹⁴ The Regulation provides nonetheless for a maximum market share of 20% to benefit automatically from the exemption, and has a list of black clauses that are not permitted in IP licensing agreements.

¹⁹⁵ Commission Regulation (EU) 330/2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices.

¹⁹⁶ Article 3 Commission Regulation (EU) 330/2010.

¹⁹⁷ Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press, 326-327.

¹⁹⁸ Witt, Anne C (2016). *The More Economic Approach to EU Antitrust Law*, Oxford: Hart, 42,47,107, 290; Rousseva, Ekaterina (2005). "Modernizing By Eradicating: How The Commission's New Approach To Article 81 EC Dispenses With The Need to Apply Article 82 EC to Vertical Restraints", *Common Market Law Review* 42, 587–638, 588. Rousseva furthermore strongly argues for a common approach under Article 101 and 102 TFEU at least when it comes to exclusionary contractual practices that can fall under Article 102 TFEU, since there is no good legal or economic reason to treat these practices differently under both provisions.

¹⁹⁹ See Chapter 5 Section II.1.

3.2 The decentralization of competition enforcement

EU enlargement in 2004 was another factor that affected the agenda of EU competition law modernization. The inefficiencies of the notification system under regulation 17/62 that had created an insuperable backlog at the EU Commission were expected to grow larger once ten new Member States joined the EU.²⁰⁰ It called for a restructuring of how EU competition law was administered, and the EU legislator chose the avenue of decentralizing EU competition law enforcement.

One of the most important changes brought about by the regulation that implemented the modernization agenda, Regulation 1/2003, is the abolition of the Commission's monopoly in applying the exemption under Article 101(3) TFEU.²⁰¹ Regulation 1/2003 now gives national courts the power to apply this provision.²⁰² As mentioned, one of the aims of decentralization was to free resources at the Commission's DG Competition,²⁰³ and to increase the overall efficiency of EU competition policy.²⁰⁴ To ensure the continued coherence and uniformity of EU

²⁰⁰ Ehlermann, Claus Dieter (2000). "The Modernization of EC Antitrust Policy: A Legal and Cultural Revolution", *Common Market Law Review* 37, 537–590, 542, 546.

²⁰¹ With it, the prior obligation to notify agreements to the Commission that require an exemption under Article 101 (3) TFEU originally established under Regulation 17/62 has been abolished as well. While the Commission continues to have the power to issue non-infringement decisions, the CJEU has ruled that NCAs do not have the power to adopt non-infringement decisions ("negative decisions") under Article 5 of Regulation 1/2003 (see Case C-375/09 *Tele2 Polska* [2011]).

²⁰² See Recital 4 of Council Regulation (EC) No 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, according to which "[t]he present system should therefore be replaced by a directly applicable exception system in which the competition authorities and courts of the Member States have the power to apply not only Article 81(1) and Article 82 of the Treaty, [...] but also Article 81(3) of the Treaty". After Case C-375/09 *Tele2 Polska* [2011], however, NCAs seem to have been stripped of this power when it comes to decisions that declare that there has been no infringement of EU competition law. This was re-emphasized by AG Kokott in her Opinion in Case C-681/11 *Bundeswettbewerbsbehörde v. Schenker & Co.* [2013], 108. Nonetheless, as Bailey explains, NCAs can still publish reasoned decisions where they provide an interpretation of Article 101 (3) TFEU to justify that they have no grounds for action. See Bailey, David (2016). "Reinvigorating the Role of Article 101 (3) under Regulation 1/2003", *Antitrust Law Journal* 81, 111-144, 119.

²⁰³ The Commission White Paper on Modernisation of the Rules Implementing Articles 85 and 86 of the EC Treaty setting out the agenda that led to Regulation 1/2003 maintained that one of the purposes of decentralization was "to refocus [the Commission's] activities on combatting the most serious restrictions of competition" (para. 42).

²⁰⁴ Ehlermann, Claus Dieter (2000). "The Modernization of EC Antitrust Policy: A Legal and Cultural Revolution", *Common Market Law Review* 37, 537–590, 560.

competition law nonetheless, the coordination of NCAs and the EU Commission is possible through the informal channels of the European Competition Network.²⁰⁵

The fact that national competition authorities (NCAs) and courts act now in parallel to the Commission in EU law enforcement can have effects on the IP-competition interface in EU law. In relation to the assessment of anti-competitive conduct involving of IP rights, for example, national competition authorities have not followed the parameters of a more economic approach at times.^{206,207} The trends of the more economic approach and of decentralization can then be antagonistic, dragging EU competition law in different directions at the cost of a consistent application of EU competition rules across the Member States.

4. EU Constitutional Developments: The Charter of Fundamental Rights of the European Union

The third important development potentially impacting the IP-competition interface is the entry into force of the Lisbon Treaty and the Charter of

²⁰⁵ Article 11 of Regulation 1/2003 provides for the cooperation between the Commission and the national competition authorities. The establishment of a network is only mentioned in the Recitals of Regulation 1/2003, for example Recitals 15-17.

²⁰⁶ The French and German competition authorities, for example, have not paid much tribute to a more economic approach in the assessment of online selling bans, and the German NCA when assessing internet platform selling bans Under Article 101 TFEU. See also Monti, Giorgio (2013). "Restraints on Selective Distribution Agreements," *World Competition* 36(4), 489–511. It should be noted that the Commission, in contrast, already adopted a more lenient approach towards mail order bans in selective distribution systems for luxury goods in Commission Decision 92/33/EEC in case IV/33.242 — *Yves Saint Laurent Parfums* [1991]. Chapter 3 deals with this issue in further detail.

²⁰⁷ Other examples where a national competition authority has not really followed the more economic approach promoted by the Commission are the decisions by the Italian competition authority against Merck in 2005 and against GlaxoSmithKline in 2006. The cases concerned the refusal of the two pharmaceutical companies to license patented active ingredients protected under supplementary protection certificates for pharmaceuticals after patent expiry. Ibáñez Colomo notes that the Italian NCA did not take into account effects on consumer welfare resulting from the refusal in any way, but only inferred competitive harm from the fact that some generics companies were prevented from entering the market. He argues that after the expiry of the SPC, the pharmaceutical companies would have priced the products containing the active ingredients so low that they would have undercut competition by generics in any case, thereby lowering prices below those of generics manufacturers. This would have arguably been sufficient to ensure low prices for consumers and thus promote consumer welfare. See Ibáñez Colomo, Pablo (2008). "Article 82 EC as a 'Built in' Remedy in the System of Intellectual Property. The Example of Supplemental Protection for Pharmaceuticals in Italy", in Govaere, Inge, Ullrich, Hanns (eds.), *Intellectual Property, Market Power and the Public Interest*, Brussels: P.I.E. Peter Lang, 119-141,135.

Fundamental Rights (CFR) of the European Union in 2010. Historically, the EU's commitment to honoring fundamental rights has come in a *crescendo*. The Treaty of Rome lacked a comprehensive list of fundamental rights.²⁰⁸ Fundamental rights protection was initially thought to be guaranteed by the constitutions of the EU Member States and through the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR).²⁰⁹ The first steps in the direction of a full recognition of fundamental rights in the EU legal order were taken by the Court of Justice of the European Union (CJEU) in the 1970s and 1980s.²¹⁰ In the relevant cases of this period, the Court found that "the respect for fundamental rights forms an integral part of the general principles of law protected by the Court of Justice."²¹¹ According to the Court, "the protection of such rights, whilst inspired by the constitutional traditions common to the Member States, must be ensured within the framework of the structure and objectives of the Community."²¹² The Court has also drawn on the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR) as a source for interpreting fundamental rights in the EU.²¹³

After judicial recognition, the first Treaty recognition of the importance of fundamental rights for the EU legal order arrived in 1992 with the Treaty of Maastricht.²¹⁴ Further steps were taken by the Treaty of Lisbon, which elevates the

²⁰⁸ Weiler, Joseph H. H. (1991), "The Transformation of Europe", *Yale Law Journal*, 100(8), 2403-2483, 2417; Stone Sweet, Alec (2004). *The Judicial Construction of Europe*, New York: Oxford University Press, 87.

²⁰⁹ Rosetti, Carlo, Tolley, Michael (2006). "Fundamental Rights, the European Court of Justice, and the Constitutionalization of Europe", Paper presented at World Congress of the International Political Science Association, Fukuoka, Japan, 9-13 July 2006, 5.

²¹⁰ For example Case 11/70 *Internationale Handelsgesellschaft* [1970], Case 4/73 *Nold* [1974] (with a first reference to the ECHR), Case 44/79 *Hauer* [1979], Case 5/88 *Wachauf* [1989].

²¹¹ Case 11/70 *Internationale Handelsgesellschaft* [1970], 4.

²¹² *Ibid.*

²¹³ Now also enshrined in Article 53 CFR.

²¹⁴ Article F (2) TEU (pre-Amsterdam numbering), „The Union shall respect fundamental rights, as guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms signed in Rome on 4 November 1950 and as they result from the constitutional traditions common to the Member States, as general principles of Community law”.

Charter of Fundamental Rights of the European Union (CFR) to a primary source of EU law,²¹⁵ and obliges the EU to accede to the ECHR.²¹⁶

Since the CFR became legally binding, the CJEU has increasingly been using fundamental rights analysis in its case law. The CJEU has even applied the provisions *ex officio*, for example in preliminary references from national courts that did not refer to a fundamental rights provision.²¹⁷

In the recent *Huawei* case,²¹⁸ the provisions of the CFR have also infused the interpretation of the applicable law in IP-competition conflicts. The question in the case was whether bringing an action for a prohibitory injunction by a standard essential patent (SEP) holder against a third party using the standard could constitute an abuse under Article 102 TFEU. The Advocate General began his analysis by departing from the relevant provisions in the CFR, thus engaging in a construction of the case from a fundamental rights perspective. He stated that a balance needed to be struck, in the light of competition law, between the SEP holder's right to IP, which must be protected under Article 17 (2) CFR, and the third party's freedom to conduct a business under Article 16 CFR.²¹⁹ The AG appeared to

²¹⁵ Article 6 (1) TEU.

²¹⁶ Article 6 (2) TEU ("The Union shall accede to the European Convention for the Protection of Human Rights and Fundamental Freedoms"). The first attempt of the EU to accede to the ECHR was however blocked by the CJEU in 2014, see Opinion 2/13.

²¹⁷ In Joined Cases C-317/08, C-318/08, C-319/08 and C-320/08 *Alassini* [2010], for example, the Court used fundamental rights analysis to justify a provision introduced in Italian law on the basis of Article 34 of Directive 2002/22/EC on universal service relating to electronic communication networks and services that made alternative dispute settlement procedures compulsory for plaintiffs before accessing a court. The Court decided the case relying on Article 47 CFR, which provides for the right to an effective remedy and fair trial. By following proportionality analysis as usually applied in constitutional law, the Court found that the Italian provision was a legitimate transposition of Article 34 of the Universal Services Directive. The Italian court had never asked for an interpretation in light of Article 47 CFR. At the moment of reference, the CFR had not even been of binding force yet.

²¹⁸ Case C-170/13 *Huawei* [2015].

²¹⁹ Opinion of the Advocate General in Case C-170/13 *Huawei* at 59. A source of inspiration for AG Wathelet to apply a fundamental rights approach was the Court's approach in its ISP liability case law. In Case C-70/10 *Scarlet v SABAM* [2011] and Case C-314/12 *UPC Telekabel Wien* [2014] the CJEU referred to the necessity to balance Articles 16 and 17 (2) CFR in the application of Article 15 of the E-commerce Directive when determining the scope of monitoring obligations to be imposed on ISPs. Article 15 (1) of the Directive prevents Member States from imposing general monitoring obligations on internet service providers (ISP) to detect illegal activities. In the context of potential

consider that the third party's freedom to conduct a business and the general interest in undistorted competition under Article 102 TFEU were so closely related that they merited being discussed jointly.²²⁰ He suggested that "the grant of an injunction sought by an action to cease and desist places a significant restriction on that freedom and is therefore capable of distorting competition".²²¹

While the AG construed the case from a conflict between fundamental rights, the Court chose a slightly different approach. It stated that a balance needed to be struck between maintaining free competition, which is furthered by the prohibition of abuses of dominance in Article 102 TFEU and the obligation to safeguard the rights of the IP holder under Article 17 (2) CFR.²²² The Court thus did not construct the conflict in terms of two conflicting fundamental rights, but of as a conflict between two sources of primary law (TFEU and CFR), which needed to be reconciled.

There is thus now a further dimension to think about the IP-competition interface in EU law. The CFR opens the option to EU Courts to consider the IP-competition conflicts as conflicts between on the one hand the right to have one's intellectual property protected under Article 17 (2) CFR, and on the other hand the freedom to conduct a business protected under Article 16 CFR or the general interest in undistorted competition protected under Article 102 TFEU. Albeit being still in an embryonic state, it might open up a new avenue for legal reasoning in cases arising at the IP-competition interface. This option is further discussed in Chapter 2.

online copyright infringement, the questions posed to the CJEU were whether monitoring obligations imposed on ISPs in individual cases could be justified nonetheless. The Court held that "national authorities and courts must, in particular, strike a fair balance between the protection of the intellectual property right enjoyed by copyright holders [as protected under Article 17 (2) CFR] and that of the freedom to conduct a business enjoyed by operators such as ISPs pursuant to Article 16 of the Charter".

²²⁰ Opinion of the Advocate General in Case C-170/33 *Huawei*, 68, where he uses the heading of "Freedom to conduct business and undistorted competition" to discuss the application of Article 102 TFEU.

²²¹ Opinion of the Advocate General in Case C-170/33 *Huawei*, 59.

²²² Case C-170/13 *Huawei* [2015], 42.

II. IP-competition conflicts ‘travelling’ through different legal frames

The developments in EU IP law discussed in the first part of this Chapter have changed both the content of IP-competition conflicts brought before courts, and the way in which these conflicts are presented in judicial proceedings.

First, we can observe that the traditional IP-competition interface in EU law, shaped by the existence/exercise dichotomy, the specific subject matter doctrine, and the principle of exhaustion to decide IP-competition conflicts, still influences recent cases before the CJEU. The impact of the digital age and expansionist trends in IP law, however, have altered the subject matter of these conflicts. An example of this development is discussed subsequently under the heading of “traditional approach, new issues”.

Second, the harmonization of IP law has opened up the possibility to subsume issues previously litigated within the framework of the traditional interface in EU law, which perceives the IP-competition conflicts as conflicts between national IP law and EU law, under the provisions of new secondary EU IP legislation. This development is exemplified subsequently under the heading “new approaches, traditional issues”.

1. Traditional approach, new issues

Despite predictions to the contrary,²²³ the approach to the traditional IP-competition interface in EU law continues to be relevant. The impact of the digital age and expansionist trends in IP law have however led to new areas of conflict between IP and competition, and thus new issues being adjudicated in the framework developed in the early case law of the CJEU under the EU free movement rules and competition law.

²²³ See discussion in Section I.2.5 above.

1.1 *Murphy*

An example of the impact of IP law's expansionist trend is the *Murphy* case decided by the CJEU in 2011.²²⁴ In this case, the UK legislator had followed the general trend to expand IP protection beyond its traditional boundaries. The UK had transposed Directive 98/48/EC on Conditional Access (Access Directive) in such way that Sections 297 and 298 of the Copyright, Designs and Patents Act 1988 criminalized the sale and possession for commercial purposes of unauthorized decoding devices for the UK territory which could be used to receive encrypted broadcasts of pay TV providers. Unauthorized decoding devices included foreign decoding devices that were subject to contractual limits which allowed for their sale and use in other Member States' territories exclusively. These provisions of the UK's copyright legislation reinforced the territorial license agreements at stake in the *Murphy* case between Football Association Premier League (FAPL) and broadcasters in different Member States for the broadcasting of Premier League football matches.²²⁵

FAPL concluded licensing agreements for the rights in the filming of its football matches via a public tender with different national broadcasters. The licensing agreements were exclusive and limited to the territory in which the broadcaster operated, usually the territory of one EU Member State. To ensure that the matches were only broadcasted in the territory covered by the license, the agreements also included a clause that obliged the broadcasters to encrypt the broadcasts, and to offer decryption devices only to subscribers in their own territory.

Several British pub owners had discovered that FAPL's Greek licensee, NetMed Hellas, offered live transmissions of Premier League matches at cheaper prices compared to the British licensee Sky. They therefore purchased Greek decoding devices from sellers that acquired the equipment by providing false Greek

²²⁴ Joined Cases C-403/08 and C-429/08, *Football Association Premier League v Murphy* [2011].

²²⁵ *Ibid*, 88.

addresses and telephone numbers. This allowed them to show Premier League matches to their customers at much lower subscription costs. FAPL brought proceedings against the sellers of the devices and the pub owners for violations of their copyrights in the matches and for using and trading in unauthorized decoding devices. The English courts dealing with the cases referred several questions to the CJEU relating to different broadcasting and copyright Directives, as well as to the free movement of goods and services, and Article 101 TFEU. In essence, the main question was whether the UK legislation and the FAPL territorial license agreements were in violation of the free movement rules and EU competition law.

The CJEU found that the UK legislation that prohibited foreign decoding devices, and thereby backed up the clauses in the FAPL license agreements prohibiting the sale of decoding devices outside the licensees' territories with civil and criminal sanctions, were contrary to Article 56 TFEU.²²⁶ The Court then went on to assess whether the restriction on the free movement of services could be justified on the basis of the aim of protecting intellectual property inherent in broadcasts of football matches.²²⁷ While the Court held that IP protection²²⁸ could be a valid justification for a restriction of the free movement rules, it could not go beyond what was necessary in order to attain that goal. By reference to the specific subject matter concept, the Court held that only measures that were necessary to safeguard the specific subject matter of the IP right were justified.²²⁹

In this case, the Court defined the specific subject matter as the IP right's function to "ensure for the right holders concerned protection of the right to exploit commercially the marketing or the making available of the protected subject

²²⁶ Ibid, 88-89.

²²⁷ Ibid, 117.

²²⁸ To be precise, the Court held that there could be no copyright in football matches, because they lacked originality according to the InfoSoc Directive (*Murphy*, 96-98). Nonetheless the Court found that Member States were not prevented from granting akin rights to sporting events under national law (*Murphy*, 100-102).

²²⁹ Joined Cases C-403/08 and C-429/08, *Football Association Premier League v Murphy* [2011], 105-106.

matter, by the grant of licences in return for payment of remuneration”.²³⁰ The protection of the specific subject matter would, however, not entitle the right holder to the highest possible remuneration.²³¹ Only appropriate remuneration formed part of the specific subject matter, in line with *inter alia* the preamble of the InfoSoc Directive.²³² To be appropriate, remuneration had to be reasonable in relation to the economic value of the service provided.²³³ In case of TV broadcasts, reasonable remuneration depended on the size of the actual and potential audience, and of the language version.²³⁴ As FAPL could take into account the size of the audience when agreeing on the price of a license with a broadcaster, and as FAPL had received remuneration from the Greek broadcaster that included a premium for territorial exclusivity,²³⁵ remuneration to this point was appropriate.²³⁶ Any territorial protection going beyond this, and thus adding an extra premium, was not necessary. This applied to the decoder clause in FAPL’s agreements in combination with UK legislation: it led to an absolute territorial exclusivity and to artificial price differences between Member States, which was irreconcilable with the aims of completing the internal market.²³⁷

The Court extended this reasoning *mutatis mutandis* to the application of EU competition law. While mere territorial exclusivity for a limited period of time was not considered anticompetitive *per se*,²³⁸ the FAPL licensing schemes of broadcasting rights for matches, which imposed absolute territorial restrictions by prohibiting the supply of decoders outside the licensee’s territory, did not stand EU

²³⁰ Ibid, 107.

²³¹ Ibid, 108.

²³² Ibid, 108.

²³³ Ibid, 109.

²³⁴ Ibid, 110.

²³⁵ The fact that FAPL had received some remuneration was the distinguishing factor from *Cotidel I* for the Court. In *Cotidel I*, the right holder had not authorized the cable companies to broadcast the movie and had not received remuneration for it (*Murphy*, 119).

²³⁶ Joined Cases C-403/08 and C-429/08, *Football Association Premier League v Murphy* [2011], 114.

²³⁷ Ibid, 115.

²³⁸ Ibid, 137. This was also in line with *Cotidel II* and Article 1(2)(b) of the Satellite Broadcasting Directive.

competition law scrutiny.²³⁹ They were held to be contrary to Article 101 (1) TFEU as they constituted restrictions of competition by object.²⁴⁰ Furthermore, they could not be exempted under Article 101 (3) TFEU, because they were found to partition the internal market without justification under the free movement rules.²⁴¹

When looking at the CJEU's reasoning in *Murphy*, there are two remarks to be made in relation to the traditional approach and subsequent developments affecting the IP-competition interface in EU law. The first remark relates to the more economic approach promoted by the Commission. The fact that the Court did not even consider a possible exemption under Article 101 (3) TFEU by referring to the fact that there was an unjustifiable restriction under the free movement rules, shows that the Court is not prepared to take into account any possible efficiencies in cases of absolute territorial exclusivity.²⁴² Secondly, the Court did not pay attention to effects on consumer welfare when deciding the case. The result of *Murphy* was that FAPL amended the license agreements so that broadcasters outside the UK can no longer provide English language options.²⁴³ Furthermore, the number of matches that can be broadcasted by licensees has been reduced.²⁴⁴ This means that consumers get a worse deal than before: They need to buy several

²³⁹ Joined Cases C-403/08 and C-429/08, *Football Association Premier League v Murphy* [2011], 141.

²⁴⁰ *Ibid*, 139, 144.

²⁴¹ *Ibid*, 145.

²⁴² Vries, Sybe de (2013). "Sport, TV and IP rights: Premier League and Karen Murphy", *Common Market Law Review* 50(2), 591-622,619. On the efficiencies of territorial restrictions that allow for the implementation of price discrimination in general see Petit, Nicolas (2011). "Parallel Trade: Econ-oclast Thoughts on a Dogma of EU Competition Law", in Govaere, Inge, Bronckers, Marco, Quick, Reinhard. *Trade and Competition Law in the EU and Beyond*. Cheltenham: Edward Elgar, 332-347, 336.

²⁴³ AG Kokott appeared to suggest in her opinion that restricting the available language versions was a legitimate discrimination strategy for FAPL, See Opinion of the Advocate General in Joined Cases C-403/08 and C-429/08, *Football Association Premier League v Murphy* [2011], 202. See also Ibáñez Colomo, Pablo (2014). "The Commission Investigation into Pay TV Services: Open Questions", *Journal of European Competition Law & Practice* 5(8), 531-541, 540.

²⁴⁴ *Ibid*. According to Van Rompuy this was an immediate consequence of the CJEU's *Murphy* judgment, see Van Rompuy, Ben (2014). "Premier League Fans in Europe Worse off after Murphy Judgment", *Kluwer Competition Law Blog*, 6 May 2014, available at <http://competitionlawblog.kluwercompetitionlaw.com/2014/05/06/premier-league-fans-in-europe-worse-off-after-murphy-judgment/> (last visited 14 November 2017).

subscriptions to be able to see all matches, and an UK subscription to watch the matches with English commentary. The Court's legal reasoning in *Murphy* is thus in dissonance with a more economic approach.

The second remark relates to the harmonization of EU IP law. Contrary to what could have been expected in theory, namely that harmonization of national IP laws in EU Directives would eliminate conflicts caused by national IP rights under the EU free movement and competition rules, *Murphy* shows that these conflicts²⁴⁵ continue to exist. This is especially the case when an overly expansionist transposition of EU IP Directives into national law occurs that strengthens absolute territorial exclusivity in IP license agreements.

To decide the conflict, the specific subject matter concept held an important position in the CJEU's legal reasoning. As suggested above,²⁴⁶ however, a new meaning for the specific subject matter other than a mere first sale right is needed. The Court indeed construed the specific subject matter differently: it was the entitlement to commercially exploit the protected subject matter in order to receive appropriate remuneration. The Court thus opened the door to a reward theory that was not constricted to the first sale, but to appropriate remuneration.²⁴⁷ In order to determine what appropriate remuneration meant, the Court resorted to secondary copyright and broadcasting Directives. It thus construed the specific subject matter in a systemic manner, from within the available sources of EU law. The approach under the traditional IP-competition

²⁴⁵ The IP-competition conflict in *Murphy* was one between a technological protection measure in the form of decoding devices to protect copyrights in Premier League footage that was to be implemented according to FAPLs agreements on an exclusive territorial basis with the help of UK legislation on the one hand, and on the other EU competition law that prohibits anti-competitive agreements, inter alia when they harm market integration.

²⁴⁶ Section I.2.5 above.

²⁴⁷ The question whether there was a reward theory inherent in the specific subject matter concept had already been debated earlier, but the consent theory that reduced the specific subject matter to a first sale right (i.e. the consent theory) appeared to prevail. Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 85, 100.

interface thus continues to be relevant for new issues raised under secondary IP law,²⁴⁸ but secondary IP law has a direct influence on its interpretation.²⁴⁹

The next section provides examples of an inverse development. The evolution of EU IP law has created room to shift factual situations of IP-competition conflicts, which could have been adjudicated according to the traditional approach, to new legal frames offered by EU IP law instruments.

2. Traditional issues, new frames

The harmonization of IP law has led to the creation of secondary IP legislation, which has aligned national IP laws to a great extent. As a by-product, the EU legislator has created new EU legal frames to adjudicate IP-competition conflicts. This has offered litigants alternatives to argue their IP-competition conflicts before courts.

2.1 Design protection for spare parts

A first example of such a possible shift from the traditional approach towards conflicts at the IP-competition interface in EU law to a new frame under secondary EU law is the struggle for liberalizing the market for car spare parts. The issue of whether and how much IP protection a car manufacturer should receive over car spare parts when it comes to controlling the aftermarket for repairs has been subject of fierce debate at national level for a long time.²⁵⁰ The question of liberalizing the market for car repairs, including the replacement of spare parts,

²⁴⁸ De Vries, for example, sees the CJEU's approach to territorial licenses under Article 101 TFEU in *Murphy* as the very same approach of *Consten and Grundig*. See Vries, Sybe de (2013). "Sport, TV and IP rights: Premier League and Karen Murphy", *Common Market Law Review* 50(2), 591-622, 617.

²⁴⁹ In Joined Cases C-92/92 and C-326/92 *Phil Collins* [1993] at 20, in contrast, the Court still referred to the specific subject matter "as governed by national legislation".

²⁵⁰ Kur, Annette (2008). "Limiting IP Protection for Competition Policy Reasons - a Case Study Based on the EU Spare-Parts-Design Discussion", in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 313-345.

depends on whether car manufacturers can enforce design rights in their spare parts against car repairers and independent spare part manufacturers.²⁵¹

The issue how much control car manufacturers should be allowed to have over the production of spare parts by enforcing their design rights in the spare parts, and therefore inhibiting independent repairers from providing repair services, was at issue for the first time in *Volvo v Veng* and *CICRA v Renault*.²⁵² In *Volvo*, the CJEU recalled that a refusal to license protected designs was part of the substance of the IP owner's exclusive right (in this case the IP rights at stake were design rights over car parts), and could not constitute in itself an abuse of dominant position under Article 102 TFEU.²⁵³ Nonetheless, such a refusal could be abusive if it exhibited some clear anti-competitive element, e.g. if the conduct involved an "arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation".²⁵⁴ The Court thus relied on the traditional approach followed in conflicts at the IP-competition interface, and respected national legislation that provided design protection for spare parts.

When the EU legislative project on harmonization of design law through a Directive began, differences in Member States' legislation as to design protection for spare parts made it difficult to come to an agreement. There was no consensus on the balance that the Design Directive should strike between the protection of car manufacturers' design rights in spare parts on the one hand, and on the other allowing for greater competitive freedom in the market for car repair services. The

²⁵¹ Unless, despite design protection being available for spare parts, car manufacturers collectively declare that they do not intend to impair independent repairers by enforcing their design rights against them, as has happened in Germany. See *Ibid*, 320.

²⁵² Case 238/87 *Volvo v Veng* and Case Case 53/87 *CICRA v Renault* [1988].

²⁵³ Case 238/87 *Volvo v Veng* [1988], 8.

²⁵⁴ *Ibid*, 9.

result was a compromise in Article 14 Design Directive, which allows Member States to keep their rules for design protection in spare parts intact.²⁵⁵

In 2004, the Commission proposed to amend Article 14 of the Design Directive.²⁵⁶ It found that due to the current situation in which some Member States provided design protection for spare parts, “resources and production are not allocated on the basis of competitiveness and production is not determined by market mechanisms” in the car repair market.²⁵⁷ The Commission’s intention was thus to insert a pro-competitive valve into the regime of design law by abolishing protection for specific spare parts. The proposal was never adopted.²⁵⁸

The struggle between car manufacturers and repairers, or between the design protection of spare parts and the further liberalization of the market for repairs, continues. In a recent preliminary reference from the Tribunale di Torino, the Italian court referred to the CJEU the question whether car repairers are entitled under Article 14 of the Designs Directive and Article 110 Community Design Regulation to use third-party trademarks when producing spare parts in their activity of offering repair services.²⁵⁹

The national legal background to these proceedings is that Italian law is one of the national legal systems which waives design protection for spare parts for the purpose of providing repair services.²⁶⁰ The interest of car manufacturers in these proceedings was to maintain at least a monopoly over being able to provide spare parts with the car’s trademark attached to it.²⁶¹ The car manufacturers had a strong

²⁵⁵ A more in-depth elaboration of this example can be found in Chapter 5 Section III.2.

²⁵⁶ The Commission adopted a proposal to abolish design protection of spare parts for repair services for complex products in 2004 (see Proposal amending Directive 98/71/EC on the legal protection of designs of 14 September 2004 COM(2004) 582 final).

²⁵⁷ Proposal amending Directive 98/71/EC on the legal protection of designs of 14 September 2004 COM(2004) 582 final, p. 2.

²⁵⁸ The proposal was silently withdrawn in 2014, as documented in OJ C153/6.

²⁵⁹ Tribunale di Torino, order of 10 October 2014, civil action n. 16531/2013. Case C-500/14 *Ford v Wheeltrims* [2015].

²⁶⁰ Art. 241 Codice Proprietà Industriale (c.p.i).

²⁶¹ The Court of Appeal of Naples had held in a previous case that the repair clause of Art. 241 c.p.i. entitled the car repair service providers to also use the trademarks of the car manufacturers,

incentive to stop car repairers of using their trademarks for spare parts, as this allowed the car manufacturers to avoid having competition in the market for car repairs by perfect substitutes.²⁶²

This example intends to show that the judicial discussion of a conflict between IP and free competition interests, namely the conflict between design protection of car spare parts and the liberalization of the market for car repairs, has been able to shift legal frames through harmonization of IP law. While it was initially an issue adjudicated under Article 102 TFEU, secondary design and trademark legislation has opened a parallel avenue to articulate these conflicts.

2.2 Digital copyright exhaustion

A second example of such shift due to the harmonization of IP law could be seen in the CJEU judgment in *UsedSoft*, which concerned the exhaustion of copyright in software.²⁶³ The case was a preliminary reference to the CJEU regarding the Computer Programs Directive (CPD). The issue at stake was a licensing scheme for software implemented by Oracle, which prohibited a subsequent transfer of the license for its software to a third party. Oracle stipulated, in other words, that the license to the computer programme could not be resold. When the German company UsedSoft created a business model of trading in used software licenses, Oracle brought proceedings against UsedSoft claiming that, by violating the terms of its licenses, UsedSoft was infringing the copyright in Oracle software. UsedSoft claimed in reply, that under the CPD Oracle's copyright in the software had been exhausted once it had sold a copy of its software through a download and the provision of an unlimited license agreement.

The IP-competition conflict, namely Oracle's copyright in the software versus the liberalization of the market for used software licenses, was litigated under the legal

otherwise spare parts of car repairers would not be fully able to restore the image, i.e. provide full repair, of a car (Corte d'Appello di Napoli, 22 ottobre 2013, *Il diritto industriale*, 1, 2014, pag.60 e segg.).

²⁶² The CJEU sided with the car manufacturers. For further details on the Court's analysis see Chapter 5.

²⁶³ Case C-128/11 *UsedSoft*.

provisions on copyright exhaustion under the CPD.²⁶⁴ This was not necessary. It could as well have been decided under EU competition law.²⁶⁵ Under EU competition law, it could be argued that restrictive software licensing schemes as Oracle's, which do not allow for a transfer to another user and thus restrict re-sales, are agreements in restriction of competition contrary to Article 101 (1) TFEU.²⁶⁶ Alternatively, if the software producer was in a dominant position, it could be argued that these license agreements would also be contrary to Article 102 TFEU, in particular Article 102 (2) (b), because the dominant undertaking would be applying unfair commercial terms,²⁶⁷ which would limit markets to the detriment of consumers.²⁶⁸ It may have had advantages to articulate the conflict under copyright law, *inter alia* in terms of procedure and burden of proof.²⁶⁹ In any case, the enactment of the CPD created an additional legal frame offering an alternative to litigate such a dispute based on EU law.

3. Risks of travelling IP-competition conflicts

The possibility of shifting disputes involving IP-competition conflicts between the framework offered by the traditional IP-competition interface, i.e. primary EU law and the concepts developed in the case law, to new legal frames offered by secondary EU IP legislation, creates a risk of incoherent case law. The fact that similar cases might lead to different outcomes depending on the legal frame of EU law under which they are litigated poses a risk to legal certainty and to the fair adjudication of disputes under EU law. It would therefore be desirable to find a

²⁶⁴ Article 4(2) CPD.

²⁶⁵ Eilmansberger, Thomas (2009). "Immaterialgüterrechtliche Und Kartellrechtliche Aspekte Des Handels Mit Gebraucher Software," *Gewerblicher Rechtsschutz Und Urheberrecht 2009*, 1123–1128; Stothers, Christopher (2012). "When Is Copyright Exhausted by a Software License? UsedSoft v Oracle," *European Intellectual Property Review* 11, 787–91.

²⁶⁶ Eilmansberger, Thomas (2009). "Immaterialgüterrechtliche Und Kartellrechtliche Aspekte Des Handels Mit Gebraucher Software," *Gewerblicher Rechtsschutz Und Urheberrecht 2009*, 1123-1128, 1127.

²⁶⁷ *Ibid.*

²⁶⁸ *Ibid.*

²⁶⁹ The main reason in this case for bringing the dispute under copyright law was that it was an appeal from an copyright infringement suit brought by Oracle against UsedSoft. The initiation of the case under copyright would have made it very difficult to raise competition concerns at a later stage if not claimed as defence at first instance.

common basis in legal reasoning for the adjudication of conflicts at the IP-competition interface, independently from the legal frame under which they are litigated. The next chapter will discuss the options for a common approach in legal reasoning that could be followed in all cases of IP-competition conflicts brought under EU law.

III. Conclusion

The intention of this Chapter was to show that the adjudication of IP-competition conflicts under EU law is becoming increasingly complex. Due to the developments that have taken place at the IP-competition interface in EU law, the legal provisions of EU law under which these conflicts can be brought are multiplying. While these conflicts were traditionally decided under EU free movement and competition rules, the Europeanization of IP law is offering new legal frames to litigate such conflicts under EU secondary IP legislation. The more economic approach offers new arguments drawn from economic theory that could influence the outcome of IP-competition conflicts.

In order to make this increased complexity of adjudicating IP and competition conflicts easier to navigate for Courts, IP owners, competition enforcers and other interested actors, a better systematic overview and understanding of the nature of IP and competition conflicts would be necessary. To provide a more systematic overview, the next Chapter maps out the basic structure of IP-competition conflicts and the possible choices in legal reasoning that the EU Courts have in the adjudication of IP-competition conflicts.

Chapter 2

-EU Courts and the IP-competition Interface-

The institutional focus of this thesis is on the Court of Justice of the European Union¹ and its decision practice in relation to conflicts at the IP-competition interface. The choice to approach conflicts at the IP-competition interface through the perspective of the EU Courts' case law offers several advantages when trying to give a holistic picture² of such conflicts. The CJEU receives preliminary questions in regard of both, EU IP law and EU competition law, when concrete cases of conflicts arise before national courts. Furthermore, GC and CJEU act as appeal and final instances for challenges to EU Commission decisions for infringements of EU competition law. This provides the CJEU with a docket of cases stemming from both the enforcement of IP law and of competition law.³

In addition, it is the task of the EU Courts to preserve the unity of the EU legal system by providing a coherent interpretation of EU law, which offers guidance to national courts when applying EU law. This uniformity-preserving function in the interpretation of EU law is so fundamental to the EU legal system that it has been invoked to justify the autonomy of the EU legal system and the supremacy of EU

¹ According to Article 19 (1) TEU, the Court of Justice of the European Union comprises the Court of Justice (CJEU), the General Court (GC) and specialized courts. Its task is to ensure that the law in the interpretation and application of the Treaties is observed.

² "Holistic" means viewing IP-competition conflicts in EU law both from a competition and IP law perspective.

³ The CJEU's statistics show that the sum of the number of judgments, orders and opinions dealing with IP (80 cases in 2016) and competition (30 cases in 2016) make up a substantial 19% of the total number of cases (626 in 2016) dealt with by the Court. See European Union (2017). Court Of Justice Of The European Union Annual Report 2016 of Judicial Activity, available at https://curia.europa.eu/jcms/upload/docs/application/pdf/2017-03/ra_jur_2016_en_web.pdf (last visited 9 October 2017), 97-98.

law.⁴ Both, the fact that the EU courts deal with cases from the areas of EU IP law and EU competition law, as well as the Court's imperative of guaranteeing the uniformity of EU law, make the EU Courts an ideally placed institution to study conflicts at the IP-competition interface under EU law.

Adopting the institutional perspective of the EU Courts has also an advantage over considering it through the lens of competition enforcers, in this case the EU Commission. Competition enforcers exclusively encounter IP-competition conflicts when enforcing competition law. While they are skilled specialists in the area of competition law, they are likely to be less informed or concerned about IP law and practice. Approaching the IP-competition interface from a competition enforcers' perspective thus potentially offers a limited, one-sided view.

A perspective from the EU Court's case law also offers an advantage over looking at the IP-competition interface exclusively through EU legislation. As the EU legislator cannot foresee all possible conflicts arising at the IP-competition interface under EU law when drafting legislation,⁵ the EU Courts will be called upon to fill in the gaps. Furthermore, both IP and competition law are vague by nature.⁶ Both fields of law thus have to rely heavily on courts to specify their provisions through interpretation when applying the law to concrete cases.

As just mentioned, IP-competition conflicts reach the EU Courts via two different procedures. First, they can reach the CJEU through preliminary references from

⁴ See, for example, Case 6/64 *Costa v E.N.E.L* [1964] and Case C-11/70 *Internationale Handelsgesellschaft* [1970].

⁵ Nonetheless, insights from competition law can, and have been used to draft secondary IP legislation and vice versa. Some examples are mentioned in Chapter 1 Section I.2.

⁶ On the vagueness of IP law see, for example, Meurer who notes that both the determination of scope and infringement of IP rights is governed by very vague legal standards. Meurer, Michael (2002). "Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation", Boston University School of Law, Working Paper Series, Law and Economics Working Paper No. 02-24 (December 2002), electronic copy available at: <http://ssrn.com/abstract=361760> (last visited 9 October 2017), 4-5. On the vagueness of EU competition law, see, for example, Monti, Giorgio (2007). *EC Competition Law*, Cambridge: Cambridge University Press, 3. Monti notes that the "opentextured nature of most antitrust legislation [...] allows for considerable variety in interpretation", thereby stressing the importance of engaging with competition policy when trying to understand competition law.

national courts asking for clarification on the correct interpretation of a specific provision of EU law.⁷ In preliminary reference proceedings, the case initiates in front of the national court and it is also the national court rendering the final judgment.⁸ The proceedings before the CJEU are only an intermediate step to enable the national court to give a final judgment in accordance with EU law. At the same time, the CJEU's interpretation of a provision of EU law at stake in a preliminary reference becomes binding for all national courts in the EU. This is how the preliminary reference procedure furthers the uniform interpretation of EU law.⁹

Second, IP-competition conflicts can reach the CJEU through direct actions by natural or legal persons that have been affected by a Commission decision under EU competition law.¹⁰ Companies that have been subject to competition proceedings have the right to appeal the Commission decision before the GC, from where a further appeal to the CJEU is possible.¹¹ In contrast to preliminary

⁷ Article 267 TFEU determines the jurisdiction of the CJEU in the preliminary reference procedure.

⁸ Arnall, Anthony (2006). *The European Union and Its Court of Justice*, 2nd edition, Oxford: Oxford University Press, 95; Bengoetxea, Joxerramon (1993). *The Legal Reasoning of the European Court of Justice*, Oxford: Oxford University Press, 96-97. The case studies in Chapters 3 to 5 partially follow up on how national Courts ultimately applied the interpretation of EU law given by the CJEU. The case study on online selling restraints in Chapter 3 shows in particular how national courts can be confused by interpretations of the CJEU. See Chapter 3 Section V.I..

⁹ Arnall, Anthony (2006). *The European Union and Its Court of Justice*, 2nd edition, Oxford: Oxford University Press, 95; Bengoetxea, Joxerramon (1993). *The Legal Reasoning of the European Court of Justice*, Oxford: Oxford University Press, 200. Bengoetxea finds that the *acte clair* doctrine (first articulated by the CJEU in Case 283/81 *CILFIT* [1982]) is also a piece of evidence that the preliminary reference procedure is meant to further the uniform interpretation of EU law across the courts of all Member States.

¹⁰ Article 263 TFEU. There would be another option of how an IP-competition conflict could reach the GC via appeal proceedings. According to Article 65 of the EUTMR and Article 61 of the CDR, decisions by the Board of Appeals of the EU Intellectual Property Office can be appealed to the GC, and from the GC to the CJEU. The Board of Appeals of the EUIPO only hears cases in relation to the registrability and validity of EU Trademarks and EU Design Rights. Issues related to registrability could potentially give rise to IP-competition conflicts; as none of the case studies of this thesis addresses registrability cases before the EUIPO, however, this option of bringing proceedings is not further analysed.

¹¹ Article 56 Statute of the European Court of Justice.

reference proceedings, no national courts are involved; it is the GC,¹² or in case of appeals the CJEU, taking the final judgment in the case.

Depending on the type of proceeding, the legal reasoning in the judgment varies. CJEU judgments in preliminary reference procedures tend to be short, in many cases pay less attention to the underlying facts,¹³ and can leave a degree of discretion to national courts,¹⁴ thereby leaving certain issues unresolved. GC and CJEU judgments in appeal proceedings of Commission competition decisions, in contrast, tend to be lengthy, entail a comprehensive assessment of the facts, and an elaborate justification.

The case studies in Chapter 4 and 5 allow for a preliminary hypothesis that the type of procedure under which an IP-competition conflict is brought can affect the legal reasoning of the EU Courts and the ultimate outcome of the case.¹⁵ In appeal proceedings to Commission Competition Decisions, the GC and CJEU seem to pay less attention to the importance of the IP-side of the conflict.¹⁶ This could be due to

¹² Arnall notes that contrary to critics' expectations, very few GC judgments are appealed to the CJEU. See Arnall, Anthony (2006). *The European Union and Its Court of Justice*, 2nd edition, Oxford: Oxford University Press, 26.

¹³ Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 227; Bengoetxea, Joxerramon (1993). *The Legal Reasoning of the European Court of Justice*, Oxford: Oxford University Press, 97. Both authors remark, however, that the attention the CJEU pays to the underlying facts varies between preliminary references.

¹⁴ Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 227. Preliminary reference proceedings, however, do not necessarily always leave more discretion to referring national courts in the application of EU law. While, for example in the *Nintendo* case, the CJEU left the national court a broad margin to decide the case by giving only vague guidelines in its interpretation of TPM protection in the InfoSoc Directive (See Chapter 4 Section IV.2.), in cases like *Bronner* the CJEU gave an interpretation that would make it very difficult for a national court to find abuse in case access is denied to a facility of a dominant undertaking.

¹⁵ See Chapter 4 Section V.1. and Chapter 5 Section IV.I. This to a certain extent confirmed by former General Court Judge and now Advocate General Wahl who explains that the CJEU is more concerned with pronouncing general principles of law in preliminary reference procedures, while questions of policy are essentially left to the Commission when the Court is acting as appeal instance to Commission Decisions. See Wahl, Nils (2007). "Exploitative High Prices and European Competition Law – A Personal Reflection", in Swedish Competition Authority (ed.), *The Pros and Cons of High Prices*, Kalmar: Swedish Competition Authority, 47-87, 48-49.

¹⁶ This is not to say that competition enforcers generally pay no attention to interests protected under IP laws. The Commission does so, for example, in its Guidelines on Technology Transfer. See EU Commission (2014). Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements (2014/C 89/03), Section 2.1.

the fact that the first assessment of the conflict is already conducted by the Commission in its application of EU competition law, possibly over-emphasising the competition interests in the conflict. As the first assessment might already be biased in favour of competition interests,¹⁷ the EU Courts should be all the more rigorous in reviewing whether IP interests are unduly affected, but fail to do so.

The aim of this chapter is to provide a theoretical background to how courts in general, and EU Courts in particular, encounter conflicts at the IP-competition interface. It starts by highlighting certain strategic specificities in the litigation of conflicts at the IP-competition interface. An abstract example helps to show that a characterizing feature of conflicts at the IP-competition interface is their legally amorphous nature, making them often subsumable under either competition law or IP law. Conflicts at the IP-competition interface thus can be argued either in the language of IP law or in the language of competition law. Furthermore, IP law and competition law arguments will often have a relationship of attack and defence.

The second part of this chapter deals with the legal reasoning in IP-competition conflicts. In the judicial context, legal reasoning can refer to the legal reasoning in the arguments of the parties or to the legal reasoning in court judgments.¹⁸ In relation to the legal reasoning of courts, most theoretical studies distinguish between legal reasoning in the context of discovery and legal reasoning in the context of justification.¹⁹ Discovery refers to the “puzzling and brooding”²⁰ in judges’ minds when coming to a preliminary opinion about the decision in a case. It refers to a variety of legal and extra-legal factors which influence a judge’s decision-making, but will not necessarily find mention in the official justification of

¹⁷ See also Section II.1. below on normative understandings according to which competition interests trump IP interests, which could be the underlying normative approach to the actions of competition enforcers.

¹⁸ Komárek, Jan (2015). “Legal Reasoning in EU Law,” in Arnull, Anthony, Chalmers, (eds.) *The Oxford Handbook of European Union Law*, Oxford: Oxford University Press, 30.

¹⁹ Ibid, 33; Bengoetxea, Joxerramon (1993). *The Legal Reasoning of the European Court of Justice*, Oxford: Oxford: Clarendon Press, 115; Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 46. Beck seems to draw this distinction rather in terms of scientific and heuristic legal reasoning.

²⁰ Anderson, Bruce (1996). *Discovery in Legal Decision-Making*, Berlin: Springer, 5.

the final judgment.²¹ Legal reasoning in the context of discovery can encompass a wide range of factors such as the judge's personality and background, public opinion or the opinion of other political institutions.²² While the precise process of discovery is difficult to grasp and to analyse, it is put forward in the context of this thesis that at least underlying normative convictions about the IP-competition interface can influence courts deciding conflicts at the IP-competition interface. They are discussed in Section II.1. of this Chapter.

Legal reasoning in the context of justification refers to the reasoning found in the judicial decisions published by a court, in which the court justifies its decision as in conformity with the law.²³ In contrast to discovery, which occurs hidden from public scrutiny, legal reasoning in the context of justification is readily available in the published texts of court judgments. Courts generally follow the 'doctrine of justification' in their judgments, which provides a canon of different criteria making the application of the law objective. These include reference to relevant sources of law, application of accepted methods of interpretation, and rules on the legal construction of relevant facts.²⁴ Section III of this Chapter addresses the legal reasoning in the context of justification of judgments deciding conflicts at the IP-competition interface. Special attention is paid to the rules on the legal construction of the relevant facts, since it is a notorious feature of the IP-competition interface that there are many possible competing judicial constructions of the relevant facts, which lead to different justification methods.

Existing literature on the legal reasoning of the EU Courts has mostly dealt with it at a general level, and in relation to its entire body of case law. The first

²¹ Komárek, Jan (2015). "Legal Reasoning in EU Law," in Arnull, Anthony, Chalmers, (eds.) *The Oxford Handbook of European Union Law*, Oxford: Oxford University Press, 38.

²² For a long and comprehensive list of factors of discovery see Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 46-47.

²³ Komárek, Jan (2015). "Legal Reasoning in EU Law," in Arnull, Anthony, Chalmers, (eds.) *The Oxford Handbook of European Union Law*, Oxford: Oxford University Press, 42-43.

²⁴ I wholly follow Komárek here, because he provides such clear classification of legal reasons in the context of justification, see Komárek, Jan (2015). "Legal Reasoning in EU Law," in Arnull, Anthony, Chalmers, (eds.) *The Oxford Handbook of European Union Law*, Oxford: Oxford University Press, 33.

comprehensive study of the CJEU's legal reasoning was conducted by Bengoetxea.²⁵ Several other authors have recently followed suit, again analysing the legal reasoning of the CJEU at a general level.²⁶ Other studies have focused on specific issues in the legal reasoning of the CJEU. Paunio, for example, has focused on the challenges posed by the multilingualism of the EU legal system for the CJEU.²⁷ Furthermore, there have been a few studies focusing on the legal reasoning of the CJEU in specific fields of EU Law. Sankari has analysed the Court's legal reasoning in its citizenship case law.²⁸ Favale, Kretschmann and Torremans have analysed the legal reasoning of the CJEU in its copyright case law.²⁹ This thesis adds to the existing literature by providing a starting point for a specific legal reasoning analysis of both the CJEU and the GC case law in the area of the IP-competition interface in EU law.

I. Subsuming IP-competition conflicts under IP or competition law

An important reason for the adoption of a holistic view on conflicts at the IP-competition interface derives from the insight that such conflicts can be brought as an action under IP law or under competition law. It might thus be important for a court to ensure that similar IP-competition conflicts are treated alike under IP law and under competition law. Choosing a different legal reasoning depending on

²⁵ Bengoetxea, Joxerramon (1993). *The Legal Reasoning of the European Court of Justice*, Oxford: Oxford: Clarendon Press.

²⁶ Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart; Conway, Gerard (2012). *The Limits of Legal Reasoning and the European Court of Justice*, Cambridge: Cambridge University Press. Conway focuses on the Court's case law that can be labelled as 'activist', i.e. "the prospective, developmental character of teleological interpretation employed by the Court, in contrast to a retrospective, originalist analysis" (Conway 2012, 36).

²⁷ Paunio, Elina (2013). *Legal Certainty in Multilingual EU Law : Language, Discourse, and Reasoning at the European Court of Justice*, Aldershot: Ashgate.

²⁸ Sankari, Suvi (2013). *European Court of Justice Legal Reasoning in Context*, Groningen: Europa Law Publishing. Her case law material consists of "cases where the Court of Justice has referred to Articles 20 and 21 TFEU (17 and 18 EC), one or both, in the operative part of preliminary rulings, after 1999" (Sankari 2013, 84).

²⁹ Favale, Marcella et al. (2016). "Is There an EU Copyright Jurisprudence? An Empirical Analysis of the Workings of the European Court of Justice," *The Modern Law Review* 79(1), 31–75.

whether IP law or competition law is applied can lead to a differential treatment and undermine the general principle of equality in the law, which stipulates that alike cases should be treated alike.³⁰ An additional risk of differential treatment under IP and competition law is to encourage forum shopping. Furthermore, arguments of IP law and of competition law are regularly placed in juxtaposition in the adjudication of conflicts at the IP-competition interface. This means that a court deciding IP-competition conflicts will often find itself simultaneously confronted with arguments from IP law and competition law.

An example might be helpful to show that very similar factual circumstances giving rise to a conflict at the IP-competition interface can be subsumed under either legal regime. Imagine undertaking A owning a rather unoriginal compilation of data, potentially protected by IP rights, which it refuses to license. Competitor B could use this compilation of data to produce a new product P that does not yet exist and would be very useful to consumers. B is prevented from producing P because A refuses to license the data compilation. If B had access to the necessary compilation of data, B could decide to take the risk to produce P, and A would probably sue B for infringing the IP rights in A's data compilation. B could then claim in defence that A's data compilation does not merit protection under IP law because it does not meet a minimum requirement of originality. This would be an invalidity claim under IP law regarding the IP right that A is invoking to stop B from producing P. If B's defence succeeds, B would be free to produce P.³¹

³⁰ The CJEU seems to follow this notion of equality when one considers the Court's definition of equality's antonym, i.e. discrimination: "as the Court has consistently held, discrimination consists solely in the application of different rules to comparable situations or in the application of the same rule to differing situations". See Case 283/83 *Racke v Hauptzollamt Mainz* [1984], 7.

³¹ This example is based on the US Supreme Court judgment in *Feist Publications, Inc. v. Rural Telephone Service Company, Inc.*, 499 U.S. 340 (1991). In this case, a telephone service provider, Rural, which also published a telephone directory refused to license its directory to Feist Publications, a company producing a more useful telephone directory, which covered a much broader geographical area than Rural's directory. When Feist copied part of Rural's directory without authorization, Rural filed a copyright infringement action. The Supreme Court held that Rural's compilation of the telephone directory lacked "the modicum of creativity necessary to transform mere selection into copyrightable expression" and was thus not sufficiently original to merit copyright protection.

If B has no access to the necessary compilation of data, B could try to sue A under competition law. B could claim that A is abusing its dominant position by refusing to license its compilation of data to B, thereby preventing B from producing P, a novel product for which there is consumer demand. To trigger the application of competition rules, B would firstly have to show, however, that A occupies a dominant position in the relevant market. Secondly, B would have to show that A's refusal to license the data compilation causes competitive harm, and thus constitutes an abuse under competition law. A could in response try to justify its refusal to license by relying on IP rights that protect the data compilation. If B succeeded to show both, that A is a dominant undertaking in the relevant market and that the refusal to license constitutes an abuse, and if A's justification based on the IP right were rejected, A would be liable for an infringement of competition law.³² As a remedy, B could be granted access to A's compilation of data. B could then legally produce P.³³

³² This example is drawn from the CJEU judgment in *Magill* (Joined Cases C-241/91 P and C-242/91 P [1995]). In this case, Irish TV broadcasters tried to prevent the publication of a comprehensive weekly TV guide by refusing to provide the publisher with their weekly TV listings. The Court held such a refusal constituted an infringement of EU competition law when the input (in this case the listings) was indispensable to compete, prevented the appearance of a new product (in this case a comprehensive weekly TV guide), was not objectively justified and the IP owner thereby eliminated competition on a secondary market. To be precise, the example does not correspond perfectly to the facts in *Magill*. In *Magill*, the publisher had had access to the information for the TV listings but the broadcasters had been successful in obtaining an injunction based on their copyright in the listings to stop the publisher from publishing the IP guide. The publisher resorted then to the EU Commission, which brought proceedings against the broadcasters under the competition provisions of the EU Treaties (then Article 86 TEC). Forrester gives a very insightful account of how the *Magill* case was concocted, see Forrester, Ian S. (2011). "Magill Revisited", in Govaere, Inge et al. (eds.), *Trade and Competition Law in the EU and Beyond*, Cheltenham: Edward Elgar, 376-390.

³³ Another author comparing *Feist* and *Magill* has been, for example, Pires de Carvalho. He uses the comparison to make a point about how competition law corrects overly protective (and thus badly designed) copyright laws. According to Pires de Carvalho *Magill* was not a true abuse case, but one of correcting an erroneously granted copyright in an unoriginal compilation of facts. See Pires de Carvalho, Nuno. *The TRIPS Regime of Trademarks and Designs*, 2nd edition, Alphen aan den Rijn: Kluwer Law International, 9. Rahnasto also uses *Feist* and *Magill* to exemplify that "[a]nti-trust scrutiny and intellectual property analysis have, in recent years and to a certain extent, been used as alternative approaches to the same problem." See Rahnasto, Ilkka (2003). *Intellectual Property Rights, External Effects, and Anti-Trust Law: Leveraging IPRs in the Communications Industry*, Oxford: Oxford University Press, 41.

This comparison is useful to note the strategic difference between bringing a case of a conflict at the IP-competition interface under IP or competition law. If the IP is readily accessible, competitors availing themselves of it against the will of the IP owner can find themselves as defendants in an IP infringement suit. The outcome of the suit will depend on the construction of the scope of the IP right and any relevant exceptions, and whether the competitor can convincingly argue that the IP right does not cover the competitor's actions or is invalid.

If the competitor, however, has no possibility to access the IP, she can opt to bring an action under competition law. In this case, the IP owner will be the defendant. To trigger the application of competition law, the competitor needs to show, that the factual circumstances qualify as a competition law problem (this includes, for example, showing that the IP owner is a dominant undertaking, showing that there is an anti-competitive agreement, proving anti-competitive effects on the market etc.). The outcome of the case is therefore also conditioned by external economic factors to the law, such as the structure of the relevant industry and the current market situation.

As an alternative, or in addition to bringing competition proceedings herself, the competitor could also complain to a competition authority to bring proceedings against the IP owner. The competition enforcer then has to incur the costs of gathering the necessary evidence to show that there is indeed a competition problem. This was the case, for example in *Microsoft*, as discussed in the case study of Chapter 4,³⁴ where Microsoft's competitors had recourse to the EU Commission and the US DoJ since the relevant IP-protected information was inaccessible to them. They could thus not resort to any means of self-help to appropriate the IP-protected information and subsequently wait for Microsoft to bring an IP infringement suit.

³⁴ See Chapter 4 Section III.2.

What is then the takeaway of showing that IP-competition conflicts can often be brought and analysed either under IP or under competition law? It is that the law, and courts enforcing the law, should pay attention to the amorphous nature of IP-competition conflicts in order to ensure that identical factual situations are treated equally under the law. Courts should be aware that a decision in an IP case might have an impact on competition cases and vice versa. An example where the CJEU has failed to pay attention to this circumstance, and which has had caused a domino effect leading to confusion in several German courts, can be found in the case study on online selling restraints in Chapter 3.³⁵

II. Legal reasoning in the context of discovery

Legal reasoning in the context of discovery refers to all of judges' reasoning before handing down and publishing a judgment. Many factors which cover a broader ground than those ultimately included in the officially accepted legal reasoning in the context of justification influence discovery. Beck, for example, offers five types of extra-legal discovery factors: psychological factors, social factors, wider political considerations, institutional factors and idiosyncratic factors.³⁶ They all cover social embeddedness considerations; from the personal attitude of individual judges, to how the court sees itself in the wider context of the political system it is part of, or to the court's position in the discourse of the legal professional community, including practitioners and academics.

Narrowing the focus to legal reasoning in the context of discovery and conflicts at the IP-competition interface, this section discusses two specific factors of discovery that arguably influence the decision-making of judges of the EU courts. The first specific factor is of a political-economic nature and concerns beliefs about the supremacy of IP or of competition interests. Normative theories surrounding the IP-competition interface, as well as the practice of courts in other jurisdictions, form part of social (as in the professional socialization of judges and the influence

³⁵ See in particular Chapter 3 Section V.I.

³⁶ Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 46-47.

of academic opinion) and wider political-economic value context in which EU judges operate. The second specific factor, which influences not only the EU courts' reasoning in the context of discovery but also justification, is a *communautaire* tendency, a bias to decide in a manner friendly towards European integration.³⁷

1. Beliefs about the superiority of IP or competition interests

Beliefs about the superiority of IP or competition interests are reflected in normative theories that provide a value judgment about whether IP law or competition law should prevail in cases of conflict. The following section will provide an overview of academic literature on three conceivable variations of such normative theories: IP rights are superior to competition law, competition law is superior to IP rights, or both are equal. While the EU Courts do not directly refer to any of these normative theories in their judgments, they still provide the background to academic and policy debates, which surround the decision-making of EU Courts. It is difficult to prove which factors exactly influence legal reasoning in the context of discovery in a concrete case, but academic and policy debates appear to be part of the straight-forward factors which could influence judges in their decisions.

1.1 Superiority of IP rights

The theory of the superiority of IP rights supports the view that IP rights should prevail in case of conflict at the IP-competition interface. The idea of granting immunity to IP rights under competition law has a long history. In the US, for example, during the first decades after the passing of the Sherman Act in 1890, courts granted patent holders essentially immunity from competition enforcement, even if they were engaging in blatantly anticompetitive conduct.³⁸ In 1902, the US Supreme Court held that a patent pooling agreement which contained price fixing

³⁷ See further Section II.2. below.

³⁸ Tom Willard K., Newberg, Joshua A (1997). "Antitrust and Intellectual Property: From Separate Spheres to Unified Field," *Antitrust Law Journal* 66(1), 167-229, 168; Lemley, Mark A. (2007). "A New Balance Between IP and Antitrust", Stanford Law and Economics Olin Working Paper No. 340, available at <http://papers.ssrn.com/abstract=980045> (last visited 11 October 2017),15.

clauses was not contrary to the Sherman Act, since the “general rule [was] absolute freedom in the use or sale of rights under the patent laws of the United States”.³⁹

Nowadays, the immunity of IP rights under competition rules is no longer only justified by the IP owners “absolute freedom in the use or sale” of IP, but on many other grounds. One of the most common invocations to justify the superiority of IP approach is that competition law enforcement would interfere with the IP rights’ incentive function for undertakings to invest in research and development because of the prospect of obtaining monopoly profits through the grant of an IP right.⁴⁰ As innovation and dynamic efficiency are generally considered to be more important for economic growth and overall welfare than short-term improvements of allocative efficiency, competition law should not prevail over IP rights.⁴¹

In a similar line, further arguments in favour of the superiority of IP rights are brought forward on the grounds of the high risk of over-enforcement of competition law if no immunity is provided to IP rights under competition law. According to Ahlborn, Evans and Padilla, the cost of type I errors (false positives), i.e. prohibiting conduct under competition law which would lead to innovation, is much higher than the cost of type II errors (false negatives), which would allow some IP-based anticompetitive conduct go unpunished.⁴² This leads the authors to conclude that a modified per-se legality rule for IP-based exclusionary conduct is warranted.⁴³

The idea that IP owners should benefit from non-interference with their IP rights for the sake of enhancing innovation, irrespective of their market power and anticompetitive behaviour, is attributed to Joseph Schumpeter.⁴⁴ According to

³⁹ *E. Bement & Sons v. National Harrow Co.* 186 U.S. 70 (1902) at 74-76.

⁴⁰ Rahnasto, Ilkka (2003). *Intellectual Property Rights, External Effects, and Anti-Trust Law: Leveraging IPRs in the Communications Industry*, Oxford: Oxford University Press, 35.

⁴¹ *Ibid.*

⁴² Ahlborn, Christian et al. (2005). “The Logic & Limits of the ‘Exceptional Circumstances Test’ in *Magill* and *IMS Health*,” *Fordham International Law Journal* 28, 1109–1156, 1142.

⁴³ *Ibid.*, 1144.

⁴⁴ Schumpeter, Joseph A. (1976). *Capitalism, Socialism, and Democracy*, 5th edition, London: Allen and Unwin; Drexler, Josef (2008a). “Is There a ‘More Economic Approach’ to IP and Competition Law”,

Schumpeter, monopolies are generally conducive to innovation, and the innovation cycle proceeds in disrupting technologies replacing each other over time.⁴⁵ This is interpreted in turn by some modern-day economists as meaning that the exercise of IP rights that result in enhancing the market power of already dominant players by possibly anti-competitive means should nonetheless be immune from competition law enforcement. Otherwise, their innovation incentive function would be lost because undertakings would not be able to accrue monopoly profits in order to have sufficient capital to engage in research for new disruptive technologies.⁴⁶

Yet another strand of thought advocating for the supremacy of IP rights argues that IP rights are essentially comparable to regimes for physical property. Merges, for example, has developed a theory of IP that relies on property theories developed in philosophy. He refers to Kant and Locke to justify the existence of IP rights as ownership rights, and uses Rawls' ideas to discuss the legitimacy of redistributive policies as in the case of physical property.⁴⁷ Further drawing on the analogy to physical property, the argument for supremacy of IP is that today, IP rights are essentially identical in economic importance and nature to land, raw materials, machines and labour during the first industrial revolution.⁴⁸ This has led to calls from industry to strengthen IP protection to boost a national economy's

in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 27-53, 41; Tom Willard K., Newberg, Joshua A (1997). "Antitrust and Intellectual Property: From Separate Spheres to Unified Field," *Antitrust Law Journal* 66(1), 167-229, 199; Czapracka, Katarzyna (2010). *Intellectual Property and the Limits of Antitrust: A Comparative Study of US and EU Approaches*, Cheltenham: Edward Elgar, 39.

⁴⁵ Schumpeter, Joseph A. (1976). *Capitalism, Socialism, and Democracy*, 5th edition, London: Allen and Unwin, 84.

⁴⁶ Drexl, Josef (2008a). "Is There a 'More Economic Approach' to IP and Competition Law", in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 27-53, 42; Ahlborn et al. (2006). "DG Comp's Discussion Paper on Article 82: Implications of the Proposed Framework and Antitrust Rules for Dynamically Competitive Industries", available at <http://ec.europa.eu/competition/antitrust/art82/057.pdf> (last visited 9 October 2017), 17-18.

⁴⁷ Merges, Robert P. (2011). *Justifying Intellectual Property*, Cambridge, Mass: Harvard University Press. For a view rejecting a proprietary approach and advocating for an instrumentalist approach to IP see Drahos, Peter (1996). *A Philosophy of Intellectual Property*, Aldershot: Dartmouth.

⁴⁸ Rahnasto, Ilkka (2003). *Intellectual Property Rights, External Effects, and Anti-Trust Law: Leveraging IPRs in the Communications Industry*, Oxford: Oxford University Press, 50.

competitiveness at the global level.⁴⁹ Vice-versa, this argument has been used to criticize lawmakers' attempts to limit IP rights.⁵⁰ In the same line, this view resents a limitation of IP rights through competition law enforcement.

One last argument invoked in favour of the superiority of IP rights approach is that IP law contains balancing mechanisms, which already implement competition law considerations into IP law. According to this opinion, IP law has its own system of "pro-competitive antibodies"⁵¹ or "internal system of checks and balances"⁵², in the form of time limitations of IP rights and exceptions such as fair use under copyright. As IP rights are already tailored to conform to principles of competition law, there is no justification for additional interference with IP rights. The development of EU design legislation shows, however, IP laws are frequently not optimal in their balancing of competition considerations, or the question of how to balance competition considerations is unclear.⁵³ A further piece of EU IP legislation that has been criticized as being unnecessary and overly restrictive of competition has been the Database Directive.⁵⁴

1.2 Superiority of competition law

The theory of the superiority of competition law constitutes the opposite normative theory to the superiority of IP rights. An extreme form of the normative view that competition law should always prevail would actually advocate for a

⁴⁹ Ibid, 54.

⁵⁰ Ibid, 55.

⁵¹ Ghidini, Gustavo (2010). *Innovation, Competition and Consumer Welfare in Intellectual Property Law*, Cheltenham: Edward Elgar, 33.

⁵² Anderman, Steven D. (2007). "The Competition Law/IP 'Interface': an Introductory Note," in Anderman, Steven D. (ed.), *The Interface Between Intellectual Property Rights and Competition Policy*, Cambridge: Cambridge University Press, 1-35, 18.

⁵³ See Chapter 5 Section III.2., where different Member States have decided to strike the balance between IP and competition interests differently when it comes to the design protection of spare parts for repair purposes.

⁵⁴ Directive 96/9/EC on the legal protection of databases. For a critique of the introduction of *sui generis* IP protection for databases see, for example, Ghidini, Gustavo (2010). *Innovation, Competition and Consumer Welfare in Intellectual Property Law*, Cheltenham: Edward Elgar, 134-135.

complete abolition of IP rights.⁵⁵ In a more moderate version, the theory of the superiority of competition law is based on the insight that innovation is not only furthered by the protection of IP rights but also by competitive pressure from the market.⁵⁶ IP rights have the function of “carrots”, whereas competition law acts as “stick” to incentivize firms to engage in innovation.⁵⁷

In light of this complementarity of IP rights and competition law enforcement in furthering the goal of innovation, those supporting the view that competition law should prevail over IP rights in case of conflict still recognize that competition law should accommodate IP rights to a certain extent.⁵⁸ Nonetheless, according to this view, it remains ultimately in the realm of competition law to decide whether the exercise of an IP right is legitimate in case of conflict. Anderman has repeatedly stressed in the context of EU law, for example, that in terms of legal hierarchies, competition ranks higher than IP rights.⁵⁹ He argues that competition law acts as “‘second tier’ of regulation of the exercise of IPRs providing an external system of regulation that applies to anti-competitive conduct not prevented by the ‘internal’

⁵⁵ Albeit not expressly connecting their discussion to competition or antitrust law, this opinion could be read into Boldrin and Levine’s work *Against Intellectual Monopoly*, in which the authors advocate for a complete elimination of patent and copyright law. Rahnasto, too, considers that an extreme version of the supremacy of competition law theory would abolish any IP laws. See Boldrin, Michele, Levine, David K. (2008). *Against Intellectual Monopoly*, New York: Cambridge University Press; Rahnasto, Ilkka (2003). *Intellectual Property Rights, External Effects, and Anti-Trust Law: Leveraging IPRs in the Communications Industry*, Oxford: Oxford University Press, 22.

⁵⁶ This argument is made, for example in the Commission Guidelines on Technology Transfer Agreements. EU Commission (2014). See Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements (2014/C 89/03), para.7.

⁵⁷ The carrots and stick metaphor is taken from Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press, 16.

⁵⁸ Drexel refers to this as the “theory of complementarity” in Drexel, Josef (2008a). “Is There a ‘More Economic Approach’ to IP and Competition Law”, in Drexel, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 27-53, 36.

⁵⁹ Anderman, Steven D. (1998). *EC Competition Law and Intellectual Property Rights: The Regulation of Innovation*, Oxford : Oxford University Press; Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press, 5; Anderman, Steven D. (2011). “The IP and Competition Interface: New Developments,” in Ezrachi, Ariel, Anderman, Steven (eds.), *Intellectual Property and Competition Law – New Frontiers*, Oxford: Oxford University Press, 3-26, 4.

system of regulation offered by IP legislation”.⁶⁰ He justifies this opinion by considering IP rights as just one form of many private rights, which are “subject to all the public law rules that regulate private property rights in markets, including the competition rules”.⁶¹

In the context of EU law, the supremacy of competition law over IP rights is at times also justified on the basis of the general supremacy of EU law over Member State law. The *Magill*⁶² and *IMS Health*⁶³ case law of the Court of Justice of the EU, for example, have been interpreted as EU competition law correcting excessive IP protection systems at Member State level.⁶⁴

The superiority of competition law approach could also be implemented within IP law. One example is the US doctrine of patent misuse.⁶⁵ Under this doctrine, a court will not enforce a patent if it has been used in ways which contradict antitrust law.⁶⁶ In *Motion Picture*, for example, the US Supreme Court held that a patent grant did not entitle the owner to engage in practices that made the sale of the patented product dependent on the purchaser also buying non-patented products

⁶⁰ Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press, 4.

⁶¹ *Ibid*, 5.

⁶² Joined Cases C-241/91 P and 242/91 P *Magill* [1995].

⁶³ Case C-418/01 *IMS Health* [2004].

⁶⁴ Forrester, Ian S., Czapracka, Katarzyna A. “Compulsory Licensing in European Competition Law: The Power of the Adjective,” in Ezrachi, Ariel, Anderman, Steven (eds.), *Intellectual Property and Competition Law – New Frontiers*, Oxford: Oxford University Press, 141-164, 157-158.

⁶⁵ Generally, the dominant opinion in US case law and literature seems to be that an antitrust violation by the copyright owner will always lead to a successful copyright misuse defense, while also violations of other public policy goals could amount to copyright misuse in specific cases. See, for example, *Apple, Inc. v. Psystar Corp.*, 673 F. Supp. 2d 931 (N.D. Cal. 2009) that essentially dismissed the copyright misuse defense because there was no antitrust offense committed by Apple. On the symbiotic, partially overlapping relationship of antitrust and misuse doctrine see Herrell, Jonas P. (2011). “The Copyright Misuse Doctrine’s Role in Open and Closed Technology Platforms”, *Berkley Technology Law Journal* 26(1), 441-490, 485. The IP misuse doctrine is also shortly discussed in Chapter 4 Section IV.3.

⁶⁶ Tom Willard K., Newberg, Joshua A (1997). “Antitrust and Intellectual Property: From Separate Spheres to Unified Field,” *Antitrust Law Journal* 66(1), 167-229, 184; Lemley, Mark A. (2007). “A New Balance Between IP and Antitrust”, Stanford Law and Economics Olin Working Paper No. 340, available at <http://papers.ssrn.com/abstract=980045> (last visited 11 October 2017), 15.

from the patent owner.⁶⁷ Such tying practices are also caught under the provisions of US antitrust law.⁶⁸

1.3 IP and competition law as equals

The third option to construe a normative theory on the hierarchy between IP law and competition law is to consider both as equals. The theory of IP and competition law as equals recognizes the IP-and-competition law interface as dialectical.⁶⁹ There is no presumption that one or the other should trump as a matter of principle. Under this theory, strong IP rights should be matched with strong competition enforcement and vice-versa to achieve the greatest possible degree of dynamic competition.⁷⁰

As economic theory is not conclusive on whether an 'IP-trumps' or 'competition-trumps' approach is more welfare enhancing,⁷¹ it appears sensitive also from an economics standpoint not to side with one or the other when deciding IP-competition conflicts, but to consider the facts and market circumstances of each case.

Within the structure of EU law there is another, legal-doctrinal, argument which would support treating IP rights and competition law as equals. Since the entry into force of the Lisbon Treaty, the Charter of Fundamental Rights of the EU (CFR) has acquired the same legal value as the EU Treaties.⁷² The CFR contains both, a

⁶⁷ *Motion Picture Patents Co. v. Universal Film Co.*, 243 U.S. at 502 (1917). This case is usually cited as the first establishing the patent misuse doctrine in US law.

⁶⁸ Bohannon, Christina, Hovenkamp, Herbert (2012). *Creation without Restraint*, Oxford: Oxford University Press, 265.

⁶⁹ For a dialectical conception of the relationship of IP and competition, see also Lianos, Ioannis (2006). "Competition Law and Intellectual Property Rights: Is the Property Rights' Approach Right?", *The Cambridge Yearbook of European Legal Studies* 8, 153-186, 156; Ghidini, Gustavo (2010). *Innovation, Competition and Consumer Welfare in Intellectual Property Law*, Cheltenham: Edward Elgar, 13-14, 212.

⁷⁰ Lemley, Mark A. (2007). "A New Balance Between IP and Antitrust", Stanford Law and Economics Olin Working Paper No. 340, available at <http://papers.ssrn.com/abstract=980045> (last visited 11 October 2017).

⁷¹ Maggiolino, Mariateresa (2011). *Intellectual Property and Antitrust – A Comparative Economic Analysis of US and EU Law*, Cheltenham: Edward Elgar, 21.

⁷² Article 6 TEU.

provision on the freedom to conduct a business,⁷³ and a provision with an obligation to protect IP rights.⁷⁴ The freedom to conduct a business could be considered as an interest protected also under competition law,⁷⁵ at least if it furthers consumer welfare.⁷⁶ Within the CFR, one could thus consider to have the protection of competitive freedom and of IP rights as equals, since there is no *a priori* hierarchy between the rights and freedoms enshrined in the CFR, with the exception of the right to human dignity.⁷⁷

Even if the constitutional freedom to conduct a business was not considered comparable to the enforcement of competition law in order to protect competitive freedom on the market, there would still be a clash of legal provisions of equal value in case of IP-competition conflicts. The conflict would then be between the competition provisions of the TFEU and the protection of IP rights under the CFR, which are two legal sources of equal legal value in the system of EU law.⁷⁸

All in all, judges deciding IP-competition conflicts could be influenced by any of the normative approaches in their legal reasoning in the context of discovery. All three

⁷³ Article 16 CFR.

⁷⁴ Article 17 (2) CFR.

⁷⁵ From an ordoliberal understanding of EU competition law at least, the diffusion of economic power to the benefit of individuals' freedom to compete constitutes one of the objectives of EU competition law. See Hildebrand, Doris (2016). *The Role of Economic Analysis in EU Competition Law*, 4th edition, Alphen aan den Rijn: Wolters Kluwer, 37, 58-59; for a very vocal defense of the freedom to compete as primary goal of EU competition law see Zäch, Roger (2009). "Freedom to Compete and the More Economic Approach – Limits Imposed by Law" *IIC - International Review of Intellectual Property and Competition Law* 40(6) 623-626.

⁷⁶ EU Commission (2009). Guidance on the Commission's Enforcement Priorities in Applying Article 82 (2009/C 45/02), para. 5-6. While Akman in an empirical study of the EU Court's case law identifies a growing reference to the concept of 'freedom' in EU competition law, she rebuts the argument that it is ordoliberal ideology that introduced the objective of protecting the freedom to compete at the moment of creation of EU competition law. References to a concept of economic freedom only appear increasingly in the case law of the EU courts starting in the mid-1990s, and are not fully supportive of a self-standing principle of freedom within EU competition law. See Akman, Pinar (2014). "The Role of 'Freedom' in EU Competition Law", *Legal Studies* 34(2), 183-213.

⁷⁷ The Explanations to the Charter of Fundamental Rights of the EU (OJ C 303/17, December 14, 2007) explain in relation to Article 1 that the right to human dignity constitutes the basis to all fundamental rights and cannot be restricted by any other right.

⁷⁸ For the construction of an IP- competition conflict either from within the provisions of the CFR or from a tension between the competition rules of the TFEU and Article 17 (2) CFR compare the opinion of AG Wathelet using the former approach, to the judgment of the CJEU using the latter approach in Case C-170/13 *Huawei* [2015]. See also discussion in Chapter 1 Section I.4.

normative theories are supported in the current debate on the IP-competition interface. Nonetheless, from an economics point of view and in the context of a systematic understanding of EU law, treating IP and competition law as equals would seem to be the most convincing normative approach to the IP-competition interface.⁷⁹

The normative understanding of the IP-competition interface affecting judges' legal reasoning in the context of discovery can have a direct impact on the choice of legal reasoning in the context of justification.⁸⁰ As discussed below, a normative understanding that considers IP and competition as equals would require an approach to legal reasoning in the context of justification that takes both IP and competition interests into account and finds a method to balance them against each other in a concrete IP-competition conflict.

2. *A communautaire agenda at the IP-competition interface?*

The most notorious feature of the CJEU's legal reasoning is its tendency to endorse an integrationist agenda in the interpretation of EU law.⁸¹ This is partially the result of EU legislation having an inbuilt *communautaire* tendency.⁸² The Court has, however, also contributed in its own right to an agenda favouring an 'ever closer Union'.⁸³ This was the case, for example, when it announced the autonomy and

⁷⁹ Anderman and Schmidt, however, reject this argument. See Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press, 4-5.

⁸⁰ See Section III below.

⁸¹ Bengoetxea, Joxerramon et al. (2001). "Integration and Integrity in the Legal Reasoning of the European Court of Justice," in De Búrca, Gráinne, Weiler, Joseph (eds.), *The European Court of Justice*, Oxford: Oxford University Press, 43; Conway, Gerard (2012). *The Limits of Legal Reasoning and the European Court of Justice*, Cambridge: Cambridge University Press, 52f.; Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 318 f. The most famous work criticizing the CJEU's activism in furthering EU integration is Rasmussen, Hjalte (1986). *On Law and Policy in the European Court of Justice: A Comparative Study in Judicial Policymaking*, Dordrecht: M. Nijhoff.

⁸² Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 318-319.

⁸³ The expression of an 'ever closer Union' is taken from the preamble to the EU Treaties, which begins with "determined to lay the foundations of an ever closer union among the peoples of Europe".

supremacy of EU law over national law,⁸⁴ the principle of direct effect,⁸⁵ or when it imposed a duty on national courts of harmonious interpretation on the basis of the principle of sincere cooperation of Article 4 TEU. In its legal reasoning, the Court has not followed a strictly textual interpretation, but has justified such an integrationist approach by invoking the spirit of the EU Treaties or of a particular provision of EU law.

This *communautaire* tendency can be found in written form in the texts of the CJEU's judgments, or, in other words, in its legal reasoning in the context of justification. Nonetheless, it is also appropriate to consider it as a factor which affects its legal reasoning in the context of discovery. Rasmussen, for example, has shown that it was not the judges of the Court that were enthusiastic about rendering judgments pushing for EU integration in the early years of the EU. The early *communautaire* tendency of the CJEU is rather explained by an effort of the EU Commission's legal service to persuade the court to adopt an integrationist approach in its case law.⁸⁶ This was, however, part of the legal reasoning in the discovery process. The influence of the ideas of the Commission's legal service was not explicitly mentioned in the legal reasoning of the text of the judgments.

How has the *communautaire* tendency in the legal reasoning of the EU courts then affected the decision practice in cases of IP-competition conflicts? The early case law discussed under the traditional approach to the IP-competition interface in Chapter 1 evidences that the CJEU's tendency towards an integrationist approach is in particular visible in the context of business practices which partition markets, for example in the case of territorial IP licenses which limit parallel imports.⁸⁷ While the case studies of the subsequent chapters do not directly refer to cases where IP

⁸⁴ Case 6/64 *Costa v E.N.E.L* [1964].

⁸⁵ The direct effect of the provision of the EU Treaties was established in Case 26/62 *Van Gend en Loos* [1963].

⁸⁶ Rasmussen, Morten (2012). "Establishing a Constitutional Practice of European Law: The History of the Legal Service of the European Executive, 1952–65," *Contemporary European History* 21(3), 375-397, 391.

⁸⁷ See Chapter 1 Section I.1.

rights were used to limit parallel imports,⁸⁸ a *communautaire* tendency could still be observed, for example, when the CJEU denied national design legislation to modify in any way the limitations to trademark rights established under EU trademark legislation.⁸⁹ Furthermore, the Court has been accused of implicitly basing its judgment prohibiting online selling bans in selective distribution systems on the consideration of furthering the internal market for e-commerce.⁹⁰

The furthering of the EU internal market, i.e. the goal of market integration, is a generally recognized goal of EU competition law.⁹¹ Article 3 (1) (b) TFEU on exclusive EU competences states that the EU has the exclusive competence to establish competition rules necessary for the functioning of the internal market. Competition rules are thus constituted as an instrument to achieve the goal of a functioning internal market.⁹² Equally, one of the principal *raison d'être* of the project of EU IP law harmonization is to enhance the completion of the internal market.⁹³ The entirety of the IP-competition law interface in EU law is thus embedded in the broader project of completing the EU internal market. As an omnipresent theme, it is to be included in the factors affecting the legal reasoning of the EU courts in the context of discovery in cases of conflict at the IP-competition interface.

⁸⁸ Secondary IP law predominantly provides in any case for EU-wide exhaustion, IP rights thereby losing their force as tools to implement restrictions on parallel trade. See also Chapter 1 Section I.2..

⁸⁹ See Chapter 5 Section IV.2.

⁹⁰ See discussion in Chapter 3 Section IV.2.

⁹¹ Gerber, David (1998). *Law and Competition in Twentieth-Century Europe: Protecting Prometheus*, Oxford: Clarendon Press; 347; Jones, Alison, Sufrin, Brenda (2014). *EU Competition Law, Text, Cases and Materials*, 5th edition, Oxford: Oxford University Press, 38-40; Hildebrand, Doris (2016). *The Role of Economic Analysis in EU Competition Law*, 4th edition, Alphen aan den Rijn: Wolters Kluwer, 59-60.

⁹² Sauter stresses that the strong link of EU competition law with the internal market “confirms that whereas competition policy itself may not be an objective of the EU, safeguarding the internal market appears to be the overarching objective of EU competition law as set out at constitutional level. This is clearly consistent with a view of the overall external coherence of EU competition law within the body of EU law as a whole.” See Sauter, Wolf (2016). *Coherence in EU Competition Law*, Oxford: Oxford University Press, 73.

⁹³ This is evidenced by most secondary EU IP legislation being based on the internal market legal basis of now Article 114 (1) TFEU. See also Seville, Catherine (2015). “EU Intellectual Property Law - Exercises in Harmonization,” in Arnall, Anthony, Chalmers, (eds.) *The Oxford Handbook of European Union Law*, Oxford: Oxford University Press, 691-716, 691.

III. Legal Reasoning in the context of justification: five judicial lenses

Legal reasoning in the context of justification refers predominantly to the legal reasoning found in the text of court judgments. In the process of justification, courts explain why their decision is justified according to the law with the help of “reasoned and often logical processes whereby a decision can be tested or justified according to certain accepted criteria as to what constitutes a rational justification”.⁹⁴ Considerations that might have influenced the outcome of the decision during the process of discovery might not get an explicit mention in the process of justification. This is in particular the case with extra-legal considerations, which cannot be articulated according to certain accepted and testable criteria for the purposes of the law.

Four classes of legal reasons constitute the doctrine of justification:⁹⁵ (i) sources of law,⁹⁶ (ii) methods of interpretation or *topoi* of legal argumentation,⁹⁷ (iii) rules on the legal construction of the relevant facts and (iv) meta-rules concerning the relationship of (i)-(iii). In the context of this thesis, a special focus lies on the legal reasons of classes (i) and (ii) for the purposes of analysing the case law of the EU Courts on conflicts at the IP-competition interface. It specifically lies on how a change in the sources of law (i) in the process of the evolution of EU law has affected the *topoi* of legal argumentation (ii) of the EU Courts.

⁹⁴ Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 46.

⁹⁵ Komárek, Jan (2015). “Legal Reasoning in EU Law,” in Arnull, Anthony, Chalmers, (eds.) *The Oxford Handbook of European Union Law*, Oxford: Oxford University Press, 28-51, 43.

⁹⁶ The most important sources of law invoked by the EU courts at the IP-competition interface have been the competition and free movement provisions of the EU Treaties, secondary IP legislation and competition block exemption regulations, and the case law of the CJEU.

⁹⁷ Interpretation method or legal *topoi* appear to be interchangeable expressions. Komárek refers to four categories of recognized arguments in interpretation: linguistic, systemic, teleological and arguments of intention. Bengoetxea in contrast uses three legal *topoi*, semantic or linguistic, systemic and purposive. See Komárek, Jan (2015). “Legal Reasoning in EU Law,” in Arnull, Anthony, Chalmers, (eds.) *The Oxford Handbook of European Union Law*, Oxford: Oxford University Press, 28-51, 45; Bengoetxea, Joxerramon (1993). *The Legal Reasoning of the European Court of Justice*, Oxford: Oxford: Clarendon Press, 218 f.

The rules of legal reasoning for the construction of the relevant facts are important in as far as the factual constellation giving rise to the IP-competition conflict is key; after all, one of the main arguments supporting the selection of case studies is that the factual similarities make the cases brought under EU competition law and EU IP law comparable. Nonetheless, as either Commission decisions or preliminary references from national courts already pre-define which law is going to be applicable to the facts at hand, the CJEU's freedom of factual construction is limited.⁹⁸ The Court, however, still has leeway to establish foundational facts.⁹⁹ In the context of EU trademark law, for example, the Court establishes that a third party can use another's trademark under certain circumstances if she is acting in accordance with honest practices in industrial or commercial matters.¹⁰⁰ Establishing the standard of an "honest business practice" as relevant for determining trademark infringement is a construction of a foundational fact.

Chapter 1 has discussed the sources of law affecting the IP-competition interface in EU law, including some of the concepts that the CJEU has developed to interpret these sources of law.¹⁰¹ This section deals in further depth with the options for interpretation or *topoi* of legal argumentation that the EU Courts use or could use when deciding conflicts at the IP-competition interface.

Three generally recognized categories of legal *topoi*, which are used by courts to interpret the law and justify their decisions, are semantic or linguistic, systemic, and purposive.¹⁰² First, semantic or linguistic arguments refer to arguments from

⁹⁸ The ability of EU Courts to establish the decisional facts is thus severely limited, as these are already defined by national courts or the EU Commission. Komárek defines the choice of facts determining the applicable law as decisional facts according to Sherry. See Komárek, Jan (2015). "Legal Reasoning in EU Law," in Arnull, Anthony, Chalmers, (eds.) *The Oxford Handbook of European Union Law*, Oxford: Oxford University Press, 47; Sherry, Suzanna (2001). "Foundational Facts and Doctrinal Change", *University of Illinois Law Review* 2011(1), 145-186.

⁹⁹ Foundational facts are "judges' generalized, but invisible, intuitions about how the world works". Sherry, Suzanna (2001). "Foundational Facts and Doctrinal Change", *University of Illinois Law Review* 2011(1), 145-186, 146.

¹⁰⁰ See Chapter 5 Section III.1.

¹⁰¹ See Chapter 1 Section I.1.

¹⁰² MacCormick, Neil, Summers, Robert S. (1991). "Interpretation and Justification," in MacCormick, Neil, Summers, Robert S. (eds.), *Interpreting Statutes: A Comparative Study*, Aldershot: Dartmouth,

the ordinary meaning of the wording of the law.¹⁰³ This is usually the starting point from which any court departs in its interpretation of the law. Second, systemic criteria refer to arguments that interpret the legal provision in the wider context of the legal system. In EU law, this includes reference to the recitals in the preamble, other provisions within the same legal instrument, other relevant legislation, precedent, and general principles of EU law.¹⁰⁴ Third, purposive criteria refer to arguments used to interpret a legal provision in light of *inter alia* its purpose (teleological interpretation), its function, or its consequences.¹⁰⁵ While linguistic *topoi* confine interpretation to the strict literal meaning of the wording of the legal provision, systematic and purposive *topoi* take a broader interpretative approach.

The study of the *topoi* of legal argumentation is particularly interesting at the IP-competition interface because there are many different options of judicially construing and interpreting conflicts. The following sections focus on systematic and purposive *topoi* that have been, or could be used, by EU courts in the justification of cases dealing with IP-competition conflicts. It is put forward that depending on how a court perceives the nature of a conflict at the IP competition interface, different legal *topoi* will be relevant in the legal reasoning in the context of justification. Five different perspectives are discussed in the following: An economics perspective, a conflict of laws perspective, a constitutional perspective, a federal competences perspective, and a private law perspective.

These different judicial lenses and different legal *topoi* of justification have two purposes in the context of this thesis. Firstly, they are used in a descriptive manner to classify the legal reasoning in the case studies presented in the subsequent chapters, exemplifying the diversity of possible approaches in legal reasoning to

511–544; Bengoetxea, Joxerramon (1993). *The Legal Reasoning of the European Court of Justice*, Oxford: Oxford: Clarendon Press, 187.

¹⁰³ MacCormick, Neil, Summers, Robert S. (1991). "Interpretation and Justification," in MacCormick, Neil, Summers, Robert S. (eds.), *Interpreting Statutes: A Comparative Study*, Aldershot: Dartmouth, 511–544, 512.

¹⁰⁴ Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 191.

¹⁰⁵ *Ibid*, 207 f.

similar underlying facts. As will be shown, the adoption of different perspectives on similar factual circumstances of IP-competition conflicts does not necessarily lead to conflicting outcomes,¹⁰⁶ but bears such a risk.¹⁰⁷ Secondly, the different perspectives on IP-competition conflicts are used in a normative manner to propose improvements to the current legal reasoning of EU Courts in IP-competition conflicts.

1. An economics perspective

Many authors writing on the IP-competition interface adopt an economics perspective.¹⁰⁸ The economics perspective is discussed first, because it is the starting point to which this thesis aims to contribute further perspectives. While many authors, including the EU Commission, would like the EU Courts to adopt an economics perspective and to use economic methods as justification to decide competition cases, there is little evidence that the EU Courts are willing to follow this approach, in particular in the framework of Article 102 TFEU.¹⁰⁹

An economics perspective takes the normative stance that a court deciding a conflict at the IP-competition interface should take a decision maximizing

¹⁰⁶ See for example in Chapter 4 Sections V. and VI. where both an economics or a constitutional construction of IP-competition conflicts can lead to outcomes in favor of interoperability of software products.

¹⁰⁷ For an example of a conflict see Chapter 3 Section V.

¹⁰⁸ See, for example Bowman, Ward S. (1973). *Patent and Antitrust Law A Legal and Economic Appraisal*, Chicago: University of Chicago Press. Kaplow, “The Patent-Antitrust Intersection”; Régibeau, Pierre, Rockett, Karthrine (2007). “The Relationship between Intellectual Property Law and Competition Law: An Economic Approach”, in Anderman, Steven (ed.) *The Interface Between Property Rights and Competition Policy*, Cambridge: Cambridge University Press; Ahlborn, Christian, Evans David S. (2009). “The Microsoft Judgment and its Implications for Competition Policy Towards Dominant Firms in Europe”, *Antitrust Law Journal* 75, 887-932; Maggiolino, Mariateresa (2011). *Intellectual Property and Antitrust – A Comparative Economic Analysis of US and EU Law*, Cheltenham: Edward Elgar; Czapracka, Katarzyna (2010). *Intellectual Property and the Limits of Antitrust: A Comparative Study of US and EU Approaches*, Cheltenham: Edward Elgar..

¹⁰⁹ As discussed in Chapter 4 Section V.2., this was, for example, the case in *Microsoft I* in which the Commission adopted an economic effects balancing test taking into account the impact on Microsoft’s innovation incentives, which the GC rejected. Compare Commission Decision of 24.03.2004 in Case COMP/C-3.37.792 – Microsoft, at 783 with the GC’s judgment in Case T-201/04 *Microsoft I* [2007] at 710.

welfare.¹¹⁰ According to this view, a conflict at the IP-competition interface arises because there are two competing efficiency concerns in conflict with each other. The efficiency considerations primarily pursued by competition law help to remedy welfare losses caused by monopolistic pricing. The aim of competition law is thus to lower prices and increase allocative and productive efficiency at a given point in time,¹¹¹ therefore referred to as static efficiency.¹¹² IP rights, on the other hand, can lead to monopolistic prices, since IP law is designed to allow an IP owner to charge prices above competitive level and exclude others from the use, production or marketing of its IP protected products. Despite potentially causing welfare losses, IP rights are still considered to be desirable, because they provide an incentive to invest in innovative activities.¹¹³ IP rights provide incentives to create new products, new works, and new brands. The logic behind IP rights is utilitarian:¹¹⁴ it is better to have an increase in welfare by innovation, partially offset by welfare losses due to higher prices, compared to not having innovation and new products, works, and brands in the first place. Such an increase in innovation in the long run is generally labelled as dynamic efficiency.¹¹⁵ The conflict at the IP-competition interface is therefore considered to be one between competing static and dynamic efficiency considerations.¹¹⁶

If IP rights are not considered *per se* harmful to economic welfare, the remaining question is how large a welfare loss caused by an IP holder should be tolerated. Should an IP holder be allowed to charge higher prices than the minimum price

¹¹⁰ Hylton, Keith N. (2016). "Antitrust and Intellectual Property: A Brief Introduction", Boston University School of Law Law & Economics Working Paper No. 16-32, 2016, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2826636 (last visited 9 October 2017).

¹¹¹ Maggiolino, Mariateresa (2011). *Intellectual Property and Antitrust – A Comparative Economic Analysis of US and EU Law*, Cheltenham: Edward Elgar, 4-5.

¹¹² *Ibid*, 13.

¹¹³ *Ibid*, 18.

¹¹⁴ Rahnasto, Ilkka (2003). *Intellectual Property Rights, External Effects, and Anti-Trust Law: Leveraging IPRs in the Communications Industry*, Oxford: Oxford University Press, 52.

¹¹⁵ Drexel, Josef (2008). "Is There a 'More Economic Approach' to IP and Competition Law", in Drexel, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 27-53, 35.

¹¹⁶ Ordovery, Janusz A. (1984). "Economic Foundations and Considerations in Protecting Industrial and Intellectual Property", *Antitrust Law Journal* 53(4), 503-518, 511.

necessary to maintain IP's investment incentives? Carrier has identified three types of answer to this question in existing literature.¹¹⁷ The first possible answer, an approach attributed to Bowman,¹¹⁸ would be to allow the IP holder to charge as much as the market bears, allowing the IP holder to maximise her rewards. The second possible answer, an approach attributed to Baxter, would be to minimize the rewards of the IP holder, so that she can only charge as much as is necessary to preserve the incentive function of IP.¹¹⁹ The third answer would be to compare the ratio of the IP reward and social welfare loss, an approach attributed to Kaplow.¹²⁰ The IP holder should be allowed to charge higher prices as long as her reward increases faster than the social welfare loss caused.¹²¹ Carrier, in contrast, suggests that the tolerable scope of reward that an IP holder can generate in the market should depend on how innovation works in a given industry.¹²² If innovation works rather by competition in the market, the reward should be smaller than in case innovation works rather by securing IP rights.

An economics perspective on conflicts at the IP-competition interface would imply that the EU courts adopt an economic *topos* in their justification. An economic *topos* could be possibly classified under the general category of purposive-consequentialist *topoi*¹²³. It would be concerned with the consequences for

¹¹⁷ Carrier, Michael A. (2002). "Unraveling the Patent-Antitrust Paradox", *University of Pennsylvania Law Review* 150(3), 761–854

¹¹⁸ Bowman, Ward S. (1973). *Patent and Antitrust Law A Legal and Economic Appraisal*, Chicago: University of Chicago Press, x. For advocates of a similar approach in German legal scholarship, see German scholarship cited in Heinemann, Andreas (2002). *Immaterialgüterschutz in der Wettbewerbsordnung*, Tübingen: Mohr Siebeck, 467.

¹¹⁹ Baxter, William F. (1966). "Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis," *The Yale Law Journal* 76(2), 267-370, 312.

¹²⁰ Kaplow, Louis (1984). "The Patent-Antitrust Intersection: A Reappraisal," *Harvard Law Review* 97(8), 1813–1892, 1831.

¹²¹ Carrier makes the point that such a ratio is extremely difficult to calculate in practice. See Carrier, Michael A. (2002). "Unraveling the Patent-Antitrust Paradox", *University of Pennsylvania Law Review* 150(3), 761–854, 797-798.

¹²² *Ibid*, 815.

¹²³ See Cserne, Péter (2011). "Consequence-based Arguments in Legal Reasoning: A Jurisprudential Preface to Law and Economics", in Mathis, Klaus (ed.), *Efficiency, Sustainability, and Justice to Future Generations*, Dordrecht: Springer, 31-54, 31 ("typical normative claims of law and economics based on economic efficiency can be interpreted as consequence-based arguments of a special kind").

economic welfare when interpreting the law. It would offer the means to solve IP-competition conflicts by quantifying dynamic efficiency gains and static efficiency losses from upholding the protection of an IP right. The solution would simply be a trade-off between gains and losses of static and dynamic efficiency, upholding IP interests or competition interests depending on what leads to a net increase in economic welfare.¹²⁴

The fundamental problem for courts adopting such a perspective on IP-competition conflicts would be the question of how to quantify the efficiencies at stake.¹²⁵ If precise quantification is impossible or impossibly costly, courts could use proxies representing the different types of efficiencies. The ‘new product’ prong of the *Magill* exceptional circumstances test, for example, would if fulfilled, indicate gains in static (more competition on the market) and dynamic efficiencies (product innovation).¹²⁶

2. A conflict of laws perspective

Passing from an economics perspective to a conflict of laws perspective is useful to highlight how different an IP-competition conflict is thought when comparing the visions of economics and legal dogma. From a conflict of laws perspective, a court would consider an IP-competition conflict as one between two different sets of legal rules with different aims but *prima facie* of equal applicability. While they govern the same subject matter, they point to different outcomes when applied in a concrete case.¹²⁷ To solve such substantive conflicts, a court can simply establish

¹²⁴ Ibid, 770-771. For an economic model of this trade-off in refusal to supply cases under Article 102 TFEU, see Larouche, Pierre (2009). “The European Microsoft Case at the Crossroads of Competition Policy and Innovation: Comment on Ahlborn and Evans”, *Antitrust Law Journal* 75, 933-963, 949.

¹²⁵ Ibid.

¹²⁶ Ibid, 949-950. See also discussion in Chapter 4 Section V.2.

¹²⁷ In the field of conflict of laws, in particular international private law, this is referred to as substantive conflict. The term substantive conflict originates from German legal scholarship where Kegel refers to it as *sachliche Kollision*. See Schmid, Christoph U. (2000). “Diagonal Competence Conflicts between European Competition Law and National Regulation - A Conflict of Laws Reconstruction of the Dispute on Book Price Fixing,” *European Review of Private Law* 8(1), 153-170, 162-163. Kegel, Gerhard (2004). *Internationales Privatrecht: Ein Studienbuch*, 9th edition, München: Beck, 48, 51.

a formal priority rule, such as ‘when law X and law Y apply in the same case, law X has always priority over law Y’.¹²⁸ Well-known priority rules are, for example, the principles of *lex posterior derogat priori*, *lex specialis derogat generali* or *lex superior derogat inferiori*.¹²⁹

When considering IP-competition conflicts under EU law, the preamble to the Computer Programs Directive (CPD)¹³⁰ offers an example of such a priority rule. It essentially provides that EU competition law overrides the IP protection for computer programs, in case a dominant software supplier refuses to make interoperability information available contrary to EU competition law.¹³¹ Since EU competition rules form part of primary EU law, whereas the CPD is a type of secondary EU law, this is a manifestation of the *lex superior derogat inferiori* principle. In a similar fashion, the GC refused in *Microsoft* to preoccupy itself with interpreting the notion of interoperability as defined by the CPD, since what was at stake was the interpretation of interoperability under Article 102 TFEU, which was “a provision of higher rank than [the CPD]”¹³².

EU Courts have frequently used the typical conflict of laws *topoi* such as *lex superior* or *lex specialis*.¹³³ Beck classifies these conflict rules as not

¹²⁸ To give an example from German law: If competition law and unfair competition law were both applicable to the facts of a case, antitrust would always have priority over unfair competition law. See Beater, Axel (2002). *Unlauterer Wettbewerb*, München: Beck, 610.

¹²⁹ These principles for solving conflicts of laws derive from Roman law but still form part of the basic principles in national and international law. See Larenz, Karl, Canaris, Claus-Wilhelm (1995). *Methodenlehre Der Rechtswissenschaft*, 3rd edition, Berlin: Springer, 87 f; Koskenniemi, Martti (2006). “Fragmentation of International Law: Difficulties Arising From The Diversification And Expansion Of International Law”, Report of the Study Group of the International Law Commission to the UN General Assembly (A/CN.4/L.682, 13 April 2006).

¹³⁰ Directive 2009/24/EC on the legal protection of computer programs. The first Computer Programs Directive (Directive 91/250/EEC) contained an identical provision in its preamble.

¹³¹ Recital 17 of the CPD states that the “provisions of this Directive are without prejudice to the application of the competition rules under Articles [101 and 102] of the Treaty if a dominant supplier refuses to make information available which is necessary for interoperability as defined in this Directive”.

¹³² Case T-201/04 *Microsoft I* [2007] at 227.

¹³³ See for example Case T-201/04 *Microsoft I* [2007] for an application of the *lex superior* principle. See also case study on digital platforms in Chapter 4. For further examples see Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 222-223.

consequentialist, special legal *topoi*.¹³⁴ The *lex superior* principle manifests itself in two important ways in EU law. Firstly, it refers to the supremacy of EU law over national law. Secondly, it refers to the hierarchy of legal sources within the EU legal system, in which Treaty-based norms are higher than secondary EU legislation.¹³⁵

Considering that competition law is a treaty-based norm and IP law norms are either based in national law or secondary EU law, a strict application of the *lex superior* principle would mean that competition law always prevails over IP law. The situation is however not this simple. Firstly, the EU Courts have applied the principle enshrined in Article 36 TFEU, which allows national measures for the protection of industrial and commercial property to derogate from the Treaty provisions on the free movement of goods, to allow derogations from EU competition law.¹³⁶ This is a derogation from the general principle of supremacy of EU law over national law. Secondly, the entry into force of the Lisbon Treaty, which has made the Charter of Fundamental Rights of the EU (CFR) binding and of equal value to the Treaties,¹³⁷ has upset the presumable *lex superior* status of competition law over secondary EU IP law. Article 17 (2) CFR, which states that “intellectual property shall be protected”, elevates IP protection to the same level as the treaty-based competition norms. While useful in under certain circumstances in the past, the *lex superior* argument is therefore hardly of good use for deciding cases of conflict at the IP-competition interface in EU law any longer.

3. A conflict of competences perspective

The system of EU law is often described as similar to a federal legal system,¹³⁸ in which some legislative competences are attributed to the federal level, the EU, while other legislative competences remain in the hands of the federal sub-units,

¹³⁴ Ibid, 219.

¹³⁵ Ibid, 192.

¹³⁶ See extended discussion in Chapter 1 Section I.1.

¹³⁷ Article 6 (1) TEU.

¹³⁸ See for example Cappelletti, Mauro, Golay, David (1986). “The Judicial Branch in the Federal and Transnational Union: Its Impact on Integration,” in Cappelletti, Mauro et al. (eds.). *Methods, Tools and Institutions, Book 2: Forces and Potential for a European Identity*, Berlin: Walter de Gruyter, 261–351.

the EU Member States.¹³⁹ When it comes to the IP-competition interface, a conflict of competences perspective essentially considers competition law to be an exclusive EU competence, while IP law, at least partially, is still a national competence.¹⁴⁰ A conflict at the IP-competition interface is consequently a conflict between EU and national law. This conflict between competences cannot be solved, however, by the simple application of the principle of the supremacy of EU law. The EU Member States retain the power to derogate from the free movement and internal market prerogatives when they implement national measures to protect industrial and commercial property, including intellectual property.¹⁴¹

In the past, the EU Courts have been confronted with the construction of an IP-competition conflict as a conflict between national and EU law in particular in cases where IP rights were used to limit parallel trade in the internal market. In this context, as discussed in Chapter 1,¹⁴² the CJEU has developed three important doctrines established in the early case law: the existence/exercise dichotomy, the doctrine of exhaustion of IP rights, and the specific-subject matter doctrine.

To briefly recall, the existence-exercise dichotomy derives from the idea that while the procedure to grant an IP right, i.e. the procedure leading to the IP right coming into existence, is immune from EU law intervention, EU law can control the exercise of the IP right.¹⁴³ This distinction means to pay tribute to the Member States'

¹³⁹ The number of legislative competences conferred to the EU determines the scope within which the EU can act. The EU's freedom to act is therefore restricted to scope of the competences conferred by the Member States. The principle of conferral is enshrined in Article 5 TEU.

¹⁴⁰ Since many aspects of IP law have been harmonized at EU level since the late 1980s, IP law however has become essentially an EU competence by now. Article 118 TFEU, added by the Lisbon Treaty in 2010, now even provides an explicit legal basis which authorizes the European Parliament and Council to enact legislation to create EU-wide IP rights. This development is further analysed in Chapter 1 Section I.2.

¹⁴¹ The principle of supremacy/primacy of EU law over Member States' law first announced by the CJEU in Case 6/64 *Costa v E.N.E.L* [1964] is not applicable since Article 36 TFEU explicitly allows for a derogation of the free movement of goods provisions of the Treaties for the purposes of protecting industrial and commercial property. It was applied by analogy to the other freedoms and to the Treaties' competition law provisions. See Chapter 1 Section I.1. for further details.

¹⁴² See Chapter Section I.1.1 to I.1.3.

¹⁴³ The existence-exercise dichotomy doctrine was established first in relation to EU competition rules in Case 56/64, *Consten and Grundig* [1966] and Case 24/67 *Parke Davis & Co. v Probel* [1968].

autonomy in the grant of IP rights, while ensuring the influence of EU law and its goal to establish an internal market when it comes to the exercise of IP rights.¹⁴⁴

The doctrine of exhaustion affects the exercise of IP rights.¹⁴⁵ It stipulates that once an IP-protected good is placed on the market in one EU Member State, the owner of an IP right cannot oppose its importation into other EU Member States based on her IP rights. The exhaustion doctrine thus imposes a limitation of the distribution right in national IP laws; it is akin to a first sale doctrine for the entire internal market, irrespective of the territorial nature of nationally granted IP rights.

The specific subject matter doctrine relates to the scope of the IP right. It is supposed to provide a safeguard mechanism, which ensures that the application of EU law to the exercise of IP rights cannot empty the core of the IP right's exclusionary powers. The normal exercise of IP rights, presumably covered by the specific subject matter doctrine, is thus deemed legitimate, whereas restrictive behaviour going beyond the specific subject matter can be sanctioned under EU law.¹⁴⁶ With the doctrines of the existence/exercise dichotomy, EU exhaustion and specific subject matter, the EU courts have thus attempted to strike a balance integrating the autonomy of national IP law and the autonomy of EU internal market and competition law.

From this perspective, an IP-competition conflict sits at a point of tension between the principle of EU market integration and of the free movement of goods and services on the one hand, and the principle of subsidiarity and attributed competences on the other, which places some regulatory competences in respect of IP rights in the hands of the EU Member States. Taking again Beck's categories of

It was subsequently transposed to cases on the free movement rules of the Treaties, starting with Case 78/70 *Deutsche Grammophon* [1971].

¹⁴⁴ Govaere explains the existence/exercise dichotomy as a strategy of the Court "to delineate between the competence of the E.C. and its Member States". See Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 7.

¹⁴⁵ Ibid 71 f. See also Case 78/70 *Deutsche Grammophon* [1971].

¹⁴⁶ Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 100.

legal *topoi* deployed by the EU Courts, there is a tension between two types of systemic *topoi*, expansive principles which indicate a broad interpretation of EU competences,¹⁴⁷ and restrictive principles which point to a restrictive interpretation of the powers of the EU.¹⁴⁸ The interpretative solution that the CJEU has crafted provides exceptions to national IP protection imposed *qua* EU internal market and competition law.

As discussed in further detail in Chapter 1,¹⁴⁹ there is a problem, however, with an interpretative approach towards the IP-competition interface from a conflict of competences perspective. Since IP law has become increasingly an EU competence through harmonization of national IP laws and the creation of European IP rights,¹⁵⁰ the importance of Article 36 TFEU, which the EU Courts used to establish the existence-exercise dichotomy doctrine, is diminished.¹⁵¹ Nonetheless, the specific subject matter concept derived from the existence/exercise dichotomy could continue to be a useful tool for the legal reasoning of the EU Courts. This would presuppose, however, that the concept is divorced from its initial function as a delineator between national and EU competence areas. The specific subject matter of an IP right would now rather have to be determined according to its economic function, or its function according to EU secondary IP law.¹⁵²

4. A constitutional perspective

The conflict of laws perspective and the conflict of competences perspective have both been deemed overly formalistic and outdated in light of the evolution of EU law. A plausible alternative construction of a conflict at the IP-competition interface is to consider it as a conflict between public and private interests. It is possible to perceive IP rights as a form of fundamental right, in the constitutional

¹⁴⁷ Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 197.

¹⁴⁸ *Ibid*, 202.

¹⁴⁹ See Chapter 1 Section I.2.5.

¹⁵⁰ Chapter 1 deals in depth with these changes.

¹⁵¹ Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 48-50, 58-60.

¹⁵² See in depth discussion of this argument in Chapter 1, Section I.2. and II.5.

sense of 'right to property'.¹⁵³ In a conflict at the IP-competition interface, the private interest of IP protection conflicts with the public interest having a public policy that furthers open markets and free competition, favouring an efficient allocation of resources.¹⁵⁴ Such a construction would be very close to the nature of conflicts that occur under administrative law and ultimately reach constitutional courts.¹⁵⁵ A variation of such a constitutional perspective could be to consider a conflict at the IP-competition interface as a conflict between two fundamental rights: the right to property and the freedom to conduct a business.¹⁵⁶

A court adopting a constitutional perspective of a conflict at the IP-competition interface would opt most likely for proportionality analysis or balancing to solve it.¹⁵⁷ In constitutional law, proportionality denotes a method to resolve disputes

¹⁵³ In Germany, intellectual property rights are granted constitutional protection under the general right to property of Article 14 (1) of the German Basic Law. See Grzeszick, Bernd (2009). "Geistiges Eigentum Und Wettbewerb aus Verfassungsrechtlicher Perspektive," in Lange, Knut Werner et al (eds.), *Geistiges Eigentum und Wettbewerb*, Tübingen: Mohr Siebeck, 6. Andreangeli also argues in favour of considering IP rights akin to a constitutional right to property when assessed in competition law proceedings. Andreangeli, Arianna (2012). "Competition Law and Human Rights - Striking a Balance Between Business Freedom and Regulatory Intervention", in Sokol, Daniel, Lianos, Ioannis (eds.), *The Global Limits of Competition Law*, Stanford: Stanford University Press, 22-36, 30. Against an understanding of IP rights as property, see Lianos, Ioannis (2006). "Competition Law and Intellectual Property Rights: Is the Property Rights' Approach Right?" in Bell, John, Kilpatrick, Claire (eds.), *Cambridge Yearbook of European Legal Studies 8*, Oxford: Hart Publishing, 2006, 153-186. See also Section II.1. above for a lengthier elaboration of the arguments in favour of the classification of IP as property.

¹⁵⁴ As explained, for example, by Lianos, the right to property in the EU legal order has a fundamentally social purpose, and can thus be curtailed by competition law which, "constitutes a 'general interest' objective". See Lianos, Ioannis (2016). "Competition Law and Intellectual Property Rights: Promoting Innovation", Pre-published version of Chapter 13 in I. Lianos & V. Korah with P. Siciliani, *Competition Law: Analysis, Cases and Materials* (forth. Hart Pub. 2017), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2863814 (last visited 10 October 2017), 21.

¹⁵⁵ An EU law example of a conflict between the right to property and the public interest might help to clarify what I mean by a private-public conflict in a constitutional law sense. This case law example arose in the context of administrative law. In Case 44/79, *Liselotte Hauer v Land Rheinland-Pfalz* [1979], the EU agricultural policy in reducing the production of wine conflicted with Ms. Hauer's interest to plant and produce wine on her own land. The Court applied proportionality analysis to determine whether the restriction of Ms. Hauer's fundamental right to enjoy her land by the EU prohibition of wine growing to avoid overproduction was legitimate.

¹⁵⁶ See Opinion of AG Wathelet in Case C-170/13 *Huawei* [2015], as discussed in Chapter 1 Section I.4.

¹⁵⁷ One of the most important theoretical groundwork for the construction of fundamental rights as principles (understood as optimization requirements), proportionality and horizontal effect of

around competing constitutional principles, conflicting fundamental rights, or cases of conflict between public and private interests. It is an analytical method to assess whether the limitations of a constitutional right imposed by law are constitutionally legitimate. It usually follows four steps of inquiry, namely (i) whether the limiting action has a proper purpose, (ii) whether it is appropriate and (iii) necessary to achieve that purpose, and whether it is (iv) proportionate *stricto sensu*,¹⁵⁸ to determine which interest, right or principle is to prevail to which extent. Fundamental rights balancing, on the other hand, refers to the last step of proportionality analysis, proportionality *stricto sensu*, and can sometimes be applied directly to weigh fundamental rights against each other. It essentially entails a case-specific trade-off between two interests protected by competing fundamental rights.¹⁵⁹

The principle of proportionality and the respect for fundamental rights form part of the most used interpretative *instrumentarium* of the EU Courts. Beck classifies the principle of proportionality and the respect for fundamental rights as two important systemic *topoi* in the legal reasoning of the CJEU. Both are considered indeterminate principles, because they are “characterized by a high degree of value pluralism or vagueness”.¹⁶⁰ While such high degree of value pluralism or vagueness might militate against a constitutional perspective on IP-competition conflicts in EU law, *inter alia* because it reduces legal certainty, such an approach also has advantages. Firstly, it would place competition law and IP rights on equal footing, which is arguably required post-Lisbon.¹⁶¹ Secondly, it might lead to more accurate and just results tailored to each particular case. Thirdly, it would allow pursuing a

constitutional rights (with reference to the German legal system) is Alexy, Robert (1985). *Theorie der Grundrechte*, Baden-Baden: Nomos.

¹⁵⁸ For a comprehensive overview of the general structure of proportionality analysis in constitutional law see Barak, Aharon (2012). *Proportionality: Constitutional Rights and Their Limitations*, New York: Cambridge University Press.

¹⁵⁹ On different concepts of balancing in constitutional rights law, as well as an answer to several critiques to balancing see Möller, Kai (2012). *The Global Model of Constitutional Rights*, Oxford: Oxford University Press, Chapter 6.

¹⁶⁰ Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 201.

¹⁶¹ Chapter 1 Section I.4. provides a more extensive elaboration on this argument.

holistic approach to the IP-competition interface as proposed in this thesis, which takes into account both the rationales of competition law and IP law.

5. A private law perspective

A final possible perspective on IP-competition conflicts is called here a private law perspective. This perspective comes close to the constitutional perspective in being a balancing exercise, but avoids applying the “fundamental rights”-label to the conflict and the interests involved. This can be helpful because it shortcuts debates such as the horizontal application of fundamental rights,¹⁶² whose discussion is potentially distracting and which would not provide added value to the arguments in this thesis. The term of “private law perspective” has been chosen to contrast it with a constitutional perspective of conflicts at the IP-competition interface, and to highlight its roots in values of unjust enrichment and unfair competition.¹⁶³ It essentially considers IP-competition conflicts as two conflicting private economic interests. The question is then how to determine which private economic interest is more worthy of protection, or which duties of a private law nature can be imposed on the parties.

The German legal system offers an example of a judicial method to decide conflicts at the IP-competition interface when a court adopts what is here referred to as a private law perspective. Under German unfair competition law¹⁶⁴ and under the economic dependency provisions of the German Act on Restraints of Competition,¹⁶⁵ courts use a method called *Interessenabwägung* (weighing of interest) to balance private economic interests. It is used to decide whether a behaviour of one market participant damaging another market participant is fair, taking into consideration the various interests involved and defining which interest

¹⁶² Alexy, Robert (1985). *Theorie der Grundrechte*, Baden-Baden: Nomos, Chapter 10, Section II alone provides three different approaches and main discussions in legal theory to construing the horizontal application of fundamental rights.

¹⁶³ Pila, Justine, Torremans, Paul (2016). *European Intellectual Property Law*, Oxford: Oxford University Press, 90.

¹⁶⁴ The statutory provisions of German unfair competition law are found in the Act against Unfair Trade Practices (UWG).

¹⁶⁵ In particular § 20 of the Act against Restraints of Competition (GWB).

is worthy of protection considering the competitive situation in a given case.¹⁶⁶ The weighing occurs in light of the interest of market participants in having a fair system of competition, and the general interest of the public in having undistorted competition in the market.¹⁶⁷ Applied to the IP-competition interface, such a weighing of interests could include an assessment whether IP owners are sufficiently protected from free riders to amortize their investment, while not compromising competitors' freedoms to an unreasonable degree.¹⁶⁸

It is unlikely that the EU Courts would be willing to adopt a comparative *topos* pointing to the practice by German courts to use an *Interessenabwägung* to decide certain conflicts at the IP-competition interface. In its general endeavour of establishing the EU legal system as an autonomous system of law, the EU Courts have avoided references to specific national legal systems or legal practices.¹⁶⁹

Without a direct reference to legal traditions of the German legal systems, the case studies show that the EU Courts have nonetheless chosen to adopt interpretation criteria to IP-competition conflicts in certain instances, which come close to a balancing of the different economic interests involved. Such interpretation is supported on the one hand by general principles of EU law, such as the principle of proportionality. On the other hand, the wording of new secondary EU IP legislation has enabled the CJEU to engage in such economic interest balancing in conflicts at

¹⁶⁶ Fezer Karl-Heinz, Becker-Eberhard, Ekkehard (eds.) (2005). *Lauterkeitsrecht: Kommentar Zum Gesetz Gegen Den Unlauteren Wettbewerb (UWG)*, München: Beck, § 3 Rn 196.

¹⁶⁷ Ibid.

¹⁶⁸ Hilty justifies such a 'protection of the competitor'- approach within his model for principles in a law of market behaviour to avoid market failures when investments can too easily or too quickly be appropriated by others. See Hilty, Reto M. (2007). "The Law Against Unfair Competition and Its Interfaces," in Hilty, Reto M., Henning-Bodewig, Frauke, *Law against Unfair Competition : Towards a New Paradigm in Europe?*, Berlin: Springer, 1–52.

¹⁶⁹ Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart, 216. Fundamental rights have been the only instance in which the CJEU has adopted comparative criteria of interpretation. This was the case prior to the Lisbon Treaty, in a time where the EU legal system lacked a fundamental rights regime. In order to ensure that the EU legal system offered fundamental rights protection, the Court referred to the constitutional traditions common to the Member States, or to international human rights systems such as the ECHR and the case law of the ECtHR. See Ibid, 216-217.

the IP-competition interface.¹⁷⁰ This is in particular true for EU trademark law that is heavily influenced by unfair competition values, such as the importance to avoid consumer confusion, to have an undistorted system of competition, and to have businesses engage in fair and honest trading behaviour.¹⁷¹

IV. Conclusion

This Chapter has provided a brief overview over the theories of the EU Courts' legal reasoning in the context of discovery and justification, and has applied them to the analysis of IP-competition conflicts in EU law. There is a threefold takeaway from the discussion in this Chapter: First, courts deciding IP-competition conflicts need to be aware that the underlying facts can often be subsumed under either IP or competition law. To ensure that identical factual situations are treated in the same way by the law, i.e. to safeguard the principles equality, legal certainty, coherence, and unity in the EU legal system, the EU Courts should be aware that IP case law can have an impact on competition law and vice versa. Second, the appropriate normative evaluation of the IP-competition interface in legal reasoning in the context of discovery should be to treat IP and competition interests as equals. While this can be justified in economic terms,¹⁷² such equal treatment is now also required from a systemic perspective of EU law. Since the protection of IP rights has been awarded a fundamental rights status in the Charter of Fundamental Rights of the EU, EU competition law can no longer take systematic precedence over IP interests within the EU legal order. Third, this constitutional change, which has placed competition and IP on equal footing within the EU legal order, calls for a judicial approach that sets IP and competition in relation to each other, and provides for the precedence of competition or IP interest on a case-by-case basis.

¹⁷⁰ Examples of such an approach can be seen in particular in the trademark case law in Chapters 3 and 5.

¹⁷¹ Pila, Justine, Torremans, Paul (2016). *European Intellectual Property Law*, Oxford: Oxford University Press, 92-93.

¹⁷² It can be justified in economic terms because neither the supremacy of IP nor the supremacy of competition has been conclusively proven to be the most welfare-enhancing approach. See discussion in Section II.1. above.

Balanced approaches for the EU Court's legal reasoning are provided by the economics, constitutional and private law perspectives discussed above. These three different approaches can already be observed in the case law of the EU Courts in the case studies.¹⁷³ Under certain circumstances, a modified specific subject matter doctrine could also lead to a balanced approach that leads to IP and competition interests being treated as equals. This option is discussed in particular in the case study on online selling restraints in selective distribution systems in Chapter 3.

¹⁷³ For an example of an economics approach see the discussion on the GC judgment in *Microsoft*, Chapter 4 Section V.1.1. An example of a constitutional approach can be found in the Opinion of AG Wathelet in Case C-170/13 Huawei [2015], as discussed in Chapter 1 Section I.4. To a certain extent, the legal reasoning in *Nintendo* as discussed in Chapter 4 Section V.2. exhibits a constitutional perspective. A private law perspective can be found in particular in the case law on EU trademark law, see Chapter 3 Section IV.2. and Chapter 5 Section IV.2.

Chapter 3

- Case Study: Selective Distribution Systems and Online Selling Restraints -

This chapter addresses online selling restraints in selective distribution agreements¹ and IP-competition conflicts at the trademark-competition interface. The rise of the internet age and e-commerce are posing challenges to the interpretation of EU competition law, in particular when manufacturers try to impose online selling restrictions on their distributors in the framework of their selective distribution systems. This Chapter seeks to contribute to the discussion on where to draw the line between legitimate and illegitimate online selling restraints by taking into consideration developments under trademark law. The developments under EU trademark law in the area of distribution systems for branded luxury goods are of particular relevance to this question. Whereas the case law in the area of competition law appeared to be developing toward a hostile position towards online selling restraints, and brand image protection was not considered as an objective justification, at least for complete bans on online selling,² the opposite seems to be happening under EU trademark law.

In its interpretation of the EU Trademark Directive,³ the CJEU has gone as far as holding that the distribution method is directly linked to the image and quality of a

¹ Article 1 (1) (e) Vertical BER provides the following definition of selective distribution system: “a distribution system where the supplier undertakes to sell the contract goods or services, either directly or indirectly, only to distributors selected on the basis of specified criteria and where these distributors undertake not to sell such goods or services to unauthorised distributors within the territory reserved by the supplier to operate that system”.

² CJEU, case C-439/09, *Pierre Fabre Dermo-Cosmétique SAS v Président de l’Autorité de la Concurrence* (Pierre Fabre’) [2011], 46. The KG Berlin and OLG Schleswig-Holstein adopted this argument in their judgments on online platform bans. The CJEU has now revised its position in Case C-230/16 *Coty v Akzente* [2017].

³ Directive 2015/2436 to approximate the laws of the Member States relating to trade marks.

product. Selective distribution systems which exclude certain distribution channels, such as discount stores and mail order companies, to maintain the reputation and prestige of the trademark are considered to be worthy of protection under EU trademark law.⁴

The contribution to the online selling restraints debate is to analyse the question on where to draw the line between legitimate and illegitimate vertical online selling restraints not only from a competition law perspective, but also from a trademark law perspective. The lack of debating the role of trademark law and trademark protection, which could militate in favour of online selling restrictions, is potentially leading to a bias towards condemning legitimate online selling restraints for branded goods.

The first part of this Chapter starts by explaining how online selling restrictions in selective distribution systems give rise to IP-competition conflicts. It then discusses the case law on selective distribution agreements by the CJEU and its evolution over time. It also refers to the influence of EU competition law modernization through the Vertical BER, and the reaction to European developments in the case law of the German Higher Regional Courts. It goes on to analyse the case law on selective distribution systems decided by the CJEU in the area of European trademark law.

The second part of this chapter is devoted to discuss the CJEU's legal reasoning. It identifies different types of legal reasoning under EU competition and EU trademark law when assessing IP-competition conflicts in selective distribution systems, and how these different types of legal reasoning have led to incoherence between these two fields of law. This incoherence has not gone unnoticed and is causing confusion to national courts. The Chapter finishes with a discussion on how a dialogue between competition law and trademark law in this area might

⁴ Case C-59/08, *Copad SA v Christian Dior Couture SA and Société Industrielle lingerie ('Copad')* [2009].

help to reconcile the tensions between EU competition and trademark law, and lead to a mutually beneficial approach in both areas of the law.

I. The problem giving rise to IP-competition conflicts: online selling restraints

The biggest revolution for retail trade in the past two decades has been the discovery and establishment of the internet as business tool. The internet has become such a common sales tool, that a consumer goods manufacturer not present on the internet will lose outlet capacities, revenues and possibilities to do business at distance. Nonetheless, manufacturers of branded goods have observed the development of online sales with suspicion. Albeit having embraced the internet as selling tool for themselves, some goods manufacturers of expensive brands have imposed on their retailers considerable restrictions on the possibility of using the internet as selling tool, often in the framework of selective distribution systems.⁵ Their fear has been that retailers might damage their valuable brands' reputation by offering prestige or high-value goods in an inadequate online environment, for example without adequate customer service. Furthermore, the fear among branded goods manufacturers of an increase in trade of counterfeited goods over the internet has prompted them to restrict internet sales of their goods.⁶

The IP-competition conflict in this situation sits at the interface of interests of brand owners to protect the value and reputation of their brands and trademarks through online selling restrictions, and the freedom of distributors to use the web, and in particular online marketplaces as sales outlets. Large online marketplaces such as Amazon, eBay, or Etsy, provide particular benefits to small vendors due to the visibility they give to their offers, which would otherwise be lost if placed on

⁵ The Commission found an increased recourse to SDS by manufacturers for online sales in its Final Report on the E-Commerce Sector Inquiry. See EU Commission (2017). Final Report on the E-commerce Sector Inquiry of 10 May 2017, COM(2017) 229 final, para. 15.

⁶ See, for example, arguments put forward by Pierre Fabre as summarized in the Opinion of AG Mazák in Case C-439/09, *Pierre Fabre v Autorité de la Concurrence* [2011], 38.

unknown websites in the vast space of the World Wide Web.⁷ Furthermore, these online intermediaries offer valuable infrastructure to small vendors such as payment and delivery systems, as well as the settlement of consumer claims.

Considering the importance of the internet as a selling tool, it has not taken long until the first competition law cases have been brought against manufacturers that imposed online selling restrictions on their retailers. The first case reaching the CJEU has been *Pierre Fabre*,⁸ in which the Court held that an absolute online selling ban on retailers violates EU competition rules and is a restriction by object under Article 101 (1) TFEU. Even though the CJEU thus clarified the situation for absolute online selling bans, the situation has been very unclear for online selling restraints falling short of an absolute ban until the CJEU's judgment in *Coty*. In Germany for example, Higher Regional Courts have produced contradictory case law on the question whether a brand manufacturer can impose a prohibition on her retailers to sell her branded goods over online platforms. This question is now pending on appeal before the German Federal Supreme Court (BGH).⁹ The very same question relating to the legality of online platform bans under Article 101 TFEU has also been sent as preliminary reference to the CJEU by the same Higher Regional Court in April 2016.¹⁰ Very recently, in December 2017, the CJEU has answered the question

⁷ Ezrachi, Ariel (2017). "Online Marketplace Bans and Consumer Welfare: A Tale of Quality and Long Term Investment, or a Story of Limited Choice and Higher Prices?", available at: <https://ssrn.com/abstract=2983670> (last visited 27 September 2017).

⁸ CJEU, case C-439/09, *Pierre Fabre Dermo-Cosmétique SAS v Président de l'Autorité de la Concurrence* (Pierre Fabre') [2011].

⁹ The Higher Regional Court of Frankfurt (OLG Frankfurt) has granted appeal to the BGH in its judgment of 22 December 2015 – 11 U 84/14 (Kart) –, juris = GRUR-RR 2016, 372-378 – *Funktionsrucksäcke*. In the meantime, it appears that the appeal in the appeal case BGH, KZR 3/16, has been withdrawn (see Maritzen, Lars (2017). "Verbot des Verkaufs über Verkaufsplattformen zulässig - Deuter-Entscheidung rechtskräftig", available at <https://www.commari.de/single-post/2017/04/18/Verbot-des-Verkaufs-%C3%BCber-Verkaufsplattformen-zul%C3%A4ssig---Deuter-Entscheidung-rechtskr%C3%A4ftig> (last visited 27 September 2017).

¹⁰ Pending Case C-230/16 *Coty v Akzente*, referred by OLG Frankfurt judgment of 19 April 2016 – 11 U 96/14 (Kart) –, juris.

affirmatively. In *Coty*,¹¹ the Court held that an online platform ban is *prima facie* not a restriction by object.¹²

The Commission has also taken the opportunity in its Preliminary and Final Reports on the E-commerce Sector Inquiry to voice its opinion on the matter.¹³ According to the Commission, online platform bans should generally not be considered as hard core restrictions under Article 4 (b) and (c) of the Vertical BER.¹⁴ This means that they would generally be exempted, because they fulfil the criteria of Article 101 (3) TFEU.¹⁵ Together with the CJEU's recent judgment in *Coty*, this sits in direct tension with the practice of some NCAs that have found online platform bans to be contrary to Article 101 TFEU in several decisions.¹⁶

II. EU competition law

1. The traditional approach

At EU law level, competition rules have generally been interpreted in a retailer- or distributor-friendly manner; contractual restrictions on distributors' freedom to choose the means to sell goods were seen rather critical under competition law ever since the CJEU's ruling in *Consten and Grundig* in the late 1960s.¹⁷ One exception to the rule that distributors' freedom to choose their selling strategy should not be curtailed were selective distribution systems (SDS). Since the CJEU's

¹¹ Case C-230/16 *Coty v Akzente* [2017].

¹² *Ibid*, 57.

¹³ European Commission's Preliminary Report on the E-commerce Sector Inquiry (SWD(2016) 312) (15 September 2016); EU Commission (2017). Final Report on the E-commerce Sector Inquiry of 10 May 2017, COM(2017) 229 final.

¹⁴ E-Commerce Sector Inquiry Preliminary Report, 472, and Final Report, 42.

¹⁵ See Ezrachi for a thorough critique of the Commission's position, Ezrachi, Ariel (2016). "The Ripple Effects of Online Marketplace Bans," <https://papers.ssrn.com/abstract=2868347> (last visited 12 October 2017).

¹⁶ See Bundeskartellamt decisions in case B2-98/11 of 26 August 2015 ("ASICS") and B3-137/12 of 19 August 2014 ("Adidas"), and decision of the Autorité de la Concurrence No 14-D-07 of 23 July 2014, concerning practices in the brown goods distribution sector, relating in particular to television sets.

¹⁷ Case 56/64 *Consten and Grundig* [1966].

ruling in *Metro I*,¹⁸ it was clear that SDS which imposed restrictions on retailers were not always caught by Article 101 (1) TFEU. As long as the producer chose retailers based on objective criteria of a qualitative nature relating to the technical qualifications of the reseller and her staff, and suitability of the trading premises, and applied these criteria in a non-discriminatory fashion, there would be no breach of competition law.¹⁹ The Court recognized in *Metro I* that competition on the basis of price was not the only relevant parameter to decide upon the question whether a specific distribution system constituted a restriction of competition.²⁰ Distribution systems could sometimes legitimately reduce price competition in order to compete on the basis of other parameters of competition to satisfy the expectations of particular consumer groups and to engage in novel distribution techniques.²¹

The Court later added to the *Metro I* formula that the legality of the SDS also depended on the nature of the distributed product. Only if the product in question necessitated an SDS to preserve its quality and ensure its proper use, and the imposed sales criteria did not go beyond what is necessary, was the restriction justifiable.²² The criteria established in this line of cases subsequently influenced the policy adopted by the Commission under the Vertical BER.²³ As the case law was handed down before the era of the Internet, however, the importance and validity for restraints arising from an SDS in the online environment had yet to be tested.

¹⁸ Case 26/76 *Metro I* [1977].

¹⁹ *Ibid*, 20.

²⁰ *Ibid*, 21.

²¹ *Ibid*.

²² Case 31/80 *L'Oréal* [1980] at 16.

²³ In contrast to the *Metro* criteria, which once fulfilled would lead to a selective distribution agreement to fall outside the scope of Article 101 (1) TFEU, the Commission eased some of the *Metro* requirements for an SDS to be eligible for exemption under the vertical BER. According to paragraph 176 of the Commission's Vertical Guidelines, SDS falling under the 30% market share threshold could be exempted regardless of the nature of the product or the selection criteria for distributors. Under certain circumstances, the Commission considered that anti-competitive effects could however still occur, which would lead to a withdrawal of the benefits under the vertical BER.

2. EU competition law modernization I: The Vertical BER

Apart from the special rules governing SDS established by the CJEU's case law, the issue of how far online selling restraints were compatible with EU competition rules was discussed in the ambit of the Block Exemption Regulation for vertical agreements (Vertical BER).²⁴ The old and new Vertical BERs were adopted under Article 101 (3) TFEU and function as a safe haven from the application of Article 101 (1) TFEU for vertical agreements which fall below a market share of 30%. The Vertical BER was introduced by the EU Commission in consideration of the fact that, based on insights from economic theory, certain categories of agreements could generally be deemed not to be harmful to competition in the EU internal market.²⁵

If an agreement below the relevant market share contains one of the provisions listed as hardcore restriction under Article 4 Vertical BER however, the agreement is not exempted from the application of Article 101 (1) TFEU. Albeit old and new Vertical BER are silent on whether the concrete case of online selling restraints constitutes a hardcore restriction under Article 4, the Commission made clear in its guidelines accompanying the Vertical BER that an absolute ban of online sales would definitely be considered as a hardcore restriction and would therefore be caught by Article 101 (1) TFEU.²⁶ When it comes to restrictions falling short of an absolute ban of online sales however, the Commission Guidelines are open-ended. While any seller should be allowed in principle to use the internet to sell products, the Guidelines find that a supplier may require quality standards for a seller's internet site in the same way as for a traditional shop, or for advertising or catalogues sales.²⁷ Furthermore, the supplier can require from a retailer who has

²⁴ Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices (Vertical BER).

²⁵ As discussed in Chapter 1 Section I.3., the Vertical BER was a first core piece of legislation introduced under the Commission's "more economic approach" modernization endeavor in EU competition law.

²⁶ Commission Guidelines on Vertical Restraints (2010/C 130/01), 52.

²⁷ *Ibid*, 54.

her online shop hosted by a third party platform, that the third party platform logo or name should not be visible on the retailer's website.²⁸ Despite these anecdotal clarifications, the Guidelines do not offer a clear and comprehensive answer as to where to draw the line between legal and illegal online selling restraints.²⁹

In any case, the Commission Guidelines, if at all, only bind the Commission itself.³⁰ To have a rule for online selling restraints under EU competition law of binding legal force, it was necessary for the CJEU to hand down a judgment on the issue, which was the case for total online selling bans in *Pierre Fabre*. The next section provides the context of the *Pierre Fabre* case and an analysis of the CJEU's reasoning. It will then turn to German case law, which shows that *Pierre Fabre* changed the approach of German courts towards a stricter assessment of online selling restrictions.

²⁸ Ibid; in Germany legal commentary this is generally referred to as the "*Logoklausel*", the logo-clause of the Guidelines.

²⁹ The lack of clarity of the Guidelines on this issue is also evidenced by the fact that the European Parliament searched for clarification in relation to online selling restraints after *Pierre Fabre* by sending a written Parliamentary Question to the Commission on 12 June 2014 (<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+WQ+E-2014-005151+0+DOC+XML+V0//EN> (last visited 23 November 2017), but the answer of the Commission was limited to stating that the "Guidelines are clear in indicating that a restriction on authorised distributors not to sell through third party platforms carrying the logo of the third party may benefit from the safe harbour of Block Exemption Regulation 330/2010" (<http://www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2014-005151&language=EN> (last visited 23 November 2017)).

³⁰ The status of soft law in EU law, which includes the Guidelines and Notices issued by the Commission in the field of competition law, is continuously disputed. While the Court appeared to suggest in Case C-322/88 *Salvatore Grimaldi v. Fonds des Maladies Professionnelles* [1989] that soft law issued by the Commission could have legal effects and should be taken into consideration by national courts, the Court said in Case C-303/90 *France v Commission* [1991] that a soft law instrument could not impose additional obligations on Member States. See also Cosma, Håkon A., Whish, Richard (2003). "Soft Law in the Field of EU Competition Policy", *European Business Law Review* 14(1), 25-56, 30. In relation to Commission Notices and Guidelines in the field of EU competition law, it seems to be now clear that Member States (including national courts) are not bound, while the Commission can be bound through general principles of law by its soft law instruments. See Case C-360/09 *Pfleiderer* [2011], 21, and Case C-226/11 *Expedia Inc v Autorite de la Concurrence* [2012], 28-29.

3. The CJEU judgment in *Pierre Fabre*

*Pierre Fabre*³¹ is an interesting case from an competition law perspective, because it was the first time the CJEU had to determine the scope of permissible internet selling restraints in selective distribution systems under Article 101 (1) TFEU.³² The case concerned a decision by the French competition authority against the cosmetics manufacturer Pierre Fabre (PF) for prohibiting its retailers to sell the products of PF brands via the internet. By its general conditions of distribution, PF required the members of its selective distribution system to sell its products at a specific physical outlet by the presence of a person with a degree in pharmacy. The ban on internet sales of PF's branded goods was therefore not explicit, but the contractual conditions for distributors made internet sales de facto impossible, due to the compulsory presence of a pharmacist.

The decision against Pierre Fabre had been part of a series of decisions issued by the French Authority against manufacturers that prohibited within their selective distribution systems the sales of their products via the internet. The decisions had mostly targeted undertakings which were manufacturers of consumer goods sold under expensive brands, such as cosmetics and personal care products in the case of Pierre Fabre (PF), but also watches and consumer electronics.³³ It appears that the main concern of the French competition authority was not a structural competition problem in these markets. In fact, despite of the selective distribution systems and restrictions on internet sale some manufacturers had in place, there was vivid inter-brand competition both at manufacturing level and at distribution

³¹ Case C-439/09, *Pierre Fabre Dermo-Cosmétique SAS v Président de l'Autorité de la Concurrence (Pierre Fabre)* [2011].

³² The Court also tested whether a selective distribution system of a market share below 30 % which imposed a total internet sales ban on its distributors could benefit from an exemption under the Vertical BER. The Court denied the possibility of an exemption. The analysis under the block exemption regulation is however not relevant for the argumentation in this Chapter.

³³ Monti, Giorgio (2013). "Restraints on Selective Distribution Agreements," *World Competition* 36(4), 489–511; Décision n° 06-D-24 du 24 de juillet 2006 relative à la distribution des montres commercialisées par Festina; Décision n° 12-D-23 du 12 de décembre 2012 relative à les pratiques mises en oeuvre par Bang & Olufsen dans le secteur de la distribution sélective de matériels Hi-Fi et Home-cinéma.

level.³⁴ Additionally, there was an overall trend towards opening up internet sale channels for distribution.³⁵ The motivation of the French Competition Authority to act was therefore hardly grounded on typical competition concerns, such as the foreclosure of the market or any other reasons for stifled competition. The Authority appeared to be driven rather by an industrial policy choice of promoting the internet as a medium for distribution and furthering e-commerce in general.³⁶ This policy choice was inherent in the argumentation of the Authority, which expressed concerns over the restriction of the commercial freedom of PF's distributors, because PF deprived them from using the internet as an important selling tool or marketing strategy.³⁷ Furthermore, the Authority justified its action by referring to PF's selective distribution system as depriving consumers from purchasing PF goods online.³⁸ The Authority therefore was concerned with opening up the possibility to French consumers to acquire any product they desire via the Internet. When PF appealed against the decision, the French court in charge filed a preliminary question with the CJEU.

The CJEU departed in its analysis of the lawfulness of the selective distribution system implemented by PF under Article 101 (1) TFEU from the premise that, absent objective justifications, selective distribution systems were to be considered as prohibited restriction of competition by object.³⁹ The test for identifying an objective justification included three steps⁴⁰: (i) the nature of the products

³⁴ Opinion of AG Mazák in case C-439/09, *Pierre Fabre*, 6.

³⁵ *Ibid.*

³⁶ Monti, Giorgio (2013). "Restraints on Selective Distribution Agreements," *World Competition* 36(4), 489–511.

³⁷ Opinion AG Mazák in Case C-439/09, *Pierre Fabre*, 8.

³⁸ *Ibid.*

³⁹ Case C-439/09, *Pierre Fabre*, 39.

⁴⁰ Case C-439/09, *Pierre Fabre*, 40-43. The court relied on similar tests applied earlier in selective distribution cases (for example Case 107/82 *AEG-Telefunken v COM* [1983], 33 and case 26/76 *Metro I* [1977], 20). The point of departure in these cases was the premise that selective distribution systems could actually enhance competition, unless the criteria for selecting the distributors were not applied on the basis of objective criteria of a qualitative nature or in a discriminatory fashion, or the products did not require such distribution method (*Metro I* at 20-21 and Case 31/80 *L'Oréal* at 16). In these previous cases the court had essentially inquired whether the restriction would lead to an increase in non-price competition, without unduly limiting price competition. In *Pierre Fabre* the

warranted selective distribution, (ii) conditions had to be applied to all sellers in the selective distribution system in a non-discriminatory way, (iii) the restriction resulting from the conditions had to serve a legitimate aim, and it had to be proportionate vis-à-vis the aim. PF submitted two justifications for the conditions of its selective distribution system. On the one hand, the presence of a pharmacist ensured adequate individual advice to the customer to allow him to make the right choice of product according to his skin or hair conditions.⁴¹ On the other hand, the ban on internet sales was an appropriate means to reduce the risk of counterfeiting and of free-riding⁴², as well as to maintain the prestigious image of the PF brands.⁴³

The Court rejected all justifications brought forward by PF. The first justification, along the lines of consumer protection considerations, did not fulfil the proportionality prong of the test. By referring to case law on the free movement of goods and services,⁴⁴ the Court held that in the case of non-prescription medicines, a ban on internet sales was disproportionate in light of the aim to protect the consumer against incorrect use of the products. Of particular importance for the argument of this Chapter was the Court's rejection of the justification in relation to protecting the image of the PF brands. In one single sentence the Court stated that "the aim of maintaining a prestigious image is not a legitimate aim for restricting competition"⁴⁵ and therefore contractual clauses in selective distribution agreements pursuing such an aim were contrary to Article 101 (1) TFEU.

In relation to a possible exemption under the vertical BER, the CJEU held that PF's online selling ban constituted a hardcore restriction under Article 4 (c) of the Regulation, which prohibits agreements which restrict active or passive sales to end

Court appeared to look for the objective justification not in an increase in non-price competition but rather in the compatibility of the restrictions with the free movement of goods, evidenced by its reference to free movement case law at paragraph 44 of the judgment.

⁴¹ Case C-439/09, *Pierre Fabre*, 17.

⁴² *Ibid*, 23.

⁴³ *Ibid*, 45.

⁴⁴ Case C-322/01, *Deutscher Apothekerverbund* [2003] and case C-108/09 *Ker-Optika* [2010].

⁴⁵ Case C-439/09, *Pierre Fabre*, 46.

users by members of SDSs operating at the retail level of trade.⁴⁶ The Court held that the online selling ban had least the restriction of passive sales to end users wishing to purchase online and located outside the physical trading area of the retailer as its object.⁴⁷ PF tried to argue that the online selling ban was equivalent to a prohibition on operating out of an unauthorised establishment, which is the exception to the application of Article 4 (c) vertical BER.⁴⁸ The Court rejected this argument by holding that the Internet could not be considered to be a “place of establishment”, which would generally only be an outlet where direct sales take place.⁴⁹ As an undertaking still had the option to rely on an individual exemption under Article 101 (3) TFEU, the CJEU did not consider it necessary to give a broad interpretation of the term “place of establishment” so as to encompass the Internet.⁵⁰

4. The voice of national courts

The issue of how to treat agreements between producers of goods and retailers under competition law, which restrict the retailers’ ability to sell goods over the Internet, had already been an issue years before the CJEU handed down its judgment in *Pierre Fabre*. At the national level, the German Federal Supreme Court (*Bundesgerichtshof*, ‘BGH’) had already ruled that agreements between producers and retailers which completely prohibit using the internet to sell the goods were illegal under German competition law.⁵¹ Nonetheless the BGH left open whether milder restrictions on internet selling could be in conformity with competition law, in particular in selective distribution agreements in which the producer introduces internet sales restrictions to protect the image of its trademark.⁵²

⁴⁶ Ibid, 53.

⁴⁷ Ibid, 54.

⁴⁸ Ibid, 55.

⁴⁹ Ibid, 56.

⁵⁰ Ibid, 57.

⁵¹ BGH, judgment of 4 November 2003, KZR 2/02, GRUR 2004, 351-352, *Depotkosmetik im Internet*.

⁵² The Court held that internet sales were structurally comparable to distance/catalogue sales, for which it had been recognized that SDS agreements for luxury brand perfumes could legitimately exclude them as sales channel.

The case law of the German Higher Regional Courts on the prohibition of online selling over third party platforms, including auction sites like Ebay and online marketplaces as Amazon, is ideal to learn about the many different ways in which online selling restraints can be treated under competition law. In these cases, either impaired retailers or interest groups brought cases against producers of branded goods that had clauses in their distribution agreements prohibiting sales of the branded goods over third party platforms. The different options chosen by the Courts to assess these online platform bans were as follows:

1. Article 101 (1) TFEU does not apply, because the producer has a SDS in place, which complies with the criteria for legitimate SDS according to the CJEU's *Metro* line of cases. The platform ban is a legitimate qualitative criterion for a SDS (Higher Regional Court Karlsruhe, 2008).
2. The distribution system is not an SDS, therefore Article 101 (1) TFEU applies. Nonetheless, the agreement is exempted under the Vertical BER (Higher Regional Court Munich, 2009).
3. Article 101 (1) TFEU applies and no exemption is granted under the vertical BER, because the criteria of the SDS are applied in a discriminatory manner when online and offline distribution is compared (Higher Regional Court Berlin, 2013).
4. The distribution system is not an SDS, therefore Article 101 (1) TFEU applies and no exemption is available under the vertical BER because the online platform ban constitutes a hardcore restriction under Article 4 (b) of the Vertical BER (Higher Regional Court Schleswig-Holstein, 2014).

A more detailed account of the case law of the Higher Regional Courts might be helpful to shed more light on these four options. There were two rulings decided prior to *Pierre Fabre*. The first case was decided by the Higher Regional Court Karlsruhe and concerned the selective distribution system of a producer of school

bags.⁵³ The school bag producer refused to further supply its school bags to a retailer that, in contravention to the selective distribution agreement, had sold the school bags over eBay. In response, the retailer filed a court action against the producer claiming that the eBay ban in the agreement was contrary to competition law, asking for damages and requiring further delivery of the school bags. The Court held that Article 101 (1) TFEU (or its equivalent in German law, § 1 ARC) did not apply, because the school bag producer's SDS fulfilled the *Metro I* criteria.⁵⁴ It then moved on to analyse the case under the economic dependency rules of §§ 19 and 20 ARC and came to the conclusion that the producer's interest of not having its goods sold over eBay, which had a quality-reducing 'flea market' image,⁵⁵ outweighed the distributors interest of using eBay as a convenient selling platform.⁵⁶

The second case of the pre-*Pierre Fabre* case law was decided by the Higher Regional Court of Munich in relation to a sports wear producer that was sued by an interest group for its distribution agreements which prohibited the sale of its branded products on third party platforms.⁵⁷ In this case the distribution system was not a SDS, therefore the *Metro I* exception to the application of Article 101(1) TFEU could not apply. Nonetheless, the online platform ban could be exempted under the Vertical BER, because the market share threshold was not exceeded, and because, in essence, online consumers would have an alternative to the well-known platforms,⁵⁸ by for example buying the relevant goods directly from the online stores of distributors. Only a complete online selling ban would constitute a hardcore restriction under Article 4 (b) Vertical BER.⁵⁹

⁵³ OLG Karlsruhe, judgment of 25 November 2009 – 6 U 47/08 Kart –, juris.

⁵⁴ Ibid, 50 f.

⁵⁵ Ibid, 77.

⁵⁶ Ibid, 79.

⁵⁷ OLG München, judgment of 02 Juli 2009 – U (K) 4842/08 –, juris.

⁵⁸ Ibid, 33.

⁵⁹ Ibid, 28.

While the German courts deciding prior to the CJEU decision in *Pierre Fabre* were quite mild in their application of competition law to online selling restrictions, a change can be observed in the post-*Pierre Fabre* judgments decided by German courts.⁶⁰ The first case decided by a Higher Regional Court after *Pierre Fabre* was identical to the school bags case before the court in Karlsruhe. When it had to decide on identical facts, the Higher Regional Court Berlin came however to the opposite conclusion.⁶¹ While it held that the school bag producer's SDS could have been exempted under the *Metro I* criteria, the Court held that the producer had applied the criteria in a discriminatory fashion.⁶² Due to the fact that the producer had sold some of the remaining stock through physical (offline) discount stores, it could not claim that sales over eBay would harm the image of its branded products, because online and offline environment had to be treated alike to benefit from a *Metro I* type exemption.⁶³ The Higher Regional Court of Karlsruhe had decided in its judgment that the identical treatment of online and offline sellers was not necessary, as long as it was based on a sound and non-arbitrary business strategy. The Karlsruhe Court found that as only schoolbags from old collections (remaining stock) were sold in offline discount stores, there was a valid business justification and the producer could still benefit from a *Metro I* exemption.⁶⁴ The Berlin Court disagreed with this assessment.⁶⁵ Furthermore, it held that there was no exemption available under the Vertical BER, because the online platform ban in the SDS agreement constituted a hardcore restriction under Article 4 (b) of the Directive, in essence due to the same reason of discriminatory treatment which also impeded an exemption under the *Metro I* criteria.⁶⁶

⁶⁰ It might be worth mentioning that the first instance court in Berlin had already decided prior to *Pierre Fabre*, and contrary to the Higher Regional Court Karlsruhe, that the online platform ban as implemented by the school bag producer was caught by § 1 of the German Act on Restraints of Competition/Article 101 (1) TFEU and could not be exempted under the vertical BER.

⁶¹ KG Berlin, judgment of 19 September 2013, „Schulranzen“ – 2 U 8-09 Kart –, juris.

⁶² Ibid, 64 f.

⁶³ Ibid, 65.

⁶⁴ OLG Karlsruhe, judgment of 25 November 2009 – 6 U 47/08 Kart –, juris, 60.

⁶⁵ KG Berlin, judgment of 19 September 2013 – 2 U 8-09 Kart –, juris- *Schulranzen*, 68.

⁶⁶ Ibid, 90.

The second case decided after *Pierre Fabre* by a Higher Regional Court concerned a platform selling ban imposed by Casio, a producer of digital cameras. Additionally to the CJEU's *Pierre Fabre* judgment, it played into hands of the Court that the German Competition Authority had in the meanwhile initiated proceedings against producers of branded goods due to online platform bans in their distribution agreements.⁶⁷ As the cameras case before the Higher Regional Court of Schleswig-Holstein did not involve a selective distribution system, the application of *Metro I* was excluded.⁶⁸ Contrary to the Higher Regional Court of Munich, the Schleswig-Holstein Court held that irrespective of market shares the online platform ban constituted a hardcore restriction under Article 4 (b) of the Vertical BER. The Court found that a restriction prohibiting sales over well-known online platforms would considerably lower the sales possibilities for retailers, because many costumers would in fact not be reached outside these well-known platforms.⁶⁹ It was therefore equal to a restriction of the customers to which a buyer party to the agreement could sell the contract goods as prohibited under Article 4 (b) of the vertical BER.⁷⁰ The Court went even further, and discussed the relevance of point 54 of the Commission Guidelines on Vertical Restraints,⁷¹ which states that under the Vertical BER the supplier may require certain quality standards for the internet site on which contract goods are sold. Inter alia, "the supplier may require that customers do not visit the distributor's website through a site carrying the name or logo of the third party platform".⁷² The Court discarded the applicability of this consideration to the case at hand, because it found that the rationale of this "logo-

⁶⁷ See e.g. press release of German Competition Authority of 28 April 2014, "Bundeskartellamt takes a critical view of restriction of online distribution by ASICS" available at http://www.bundeskartellamt.de/SharedDocs/Meldung/EN/Pressemitteilungen/2014/28_04_2014_Asics.html?nn=35915682 [last visited on 23 November 2017], or press release of 2 July 2014 „Adidas abandons ban on sales via online market places" available at http://www.bundeskartellamt.de/SharedDocs/Meldung/EN/Pressemitteilungen/2014/02_07_2014_adidas.html?nn=3591568 [last visited on 23 November 2017].

⁶⁸ OLG Schleswig-Holstein, judgment of 05 June 2014 – 16 U Kart 154/13, 16 U (Kart) 154/13 –, juris.

⁶⁹ Ibid, 82.

⁷⁰ Ibid.

⁷¹ This is interesting, considering that the Higher Regional Court is arguably not bound by the Commission Guidelines on Vertical Restraints.

⁷² Commission Guidelines on Vertical Restraints, 54.

clause” of the Guidelines could only apply to SDSs, and not to ordinary distribution agreements.⁷³

The tide, however, seems to have turned again. The Higher Regional Court of Frankfurt recently moved towards a more lenient assessment of platform bans in SDS. In December 2015, it decided that an Amazon-ban by a leading sports backpack manufacturer was not contrary to §§ 1, 19 ARC.⁷⁴ According to the Frankfurt Court, the platform ban fulfilled the *Metro I* criteria and the goods in question, outdoor backpacks, justified selective distribution. The restriction inherent in the Amazon-ban did not go beyond what was necessary to ensure the offer of appropriate customer service and to signal high product quality of the backpacks in question. Upon request of the parties, the Court allowed an appeal to the BGH to settle the questions surrounding platform bans at last instance.⁷⁵

Shortly after, the same Higher Regional Court was confronted again with very similar questions regarding platform bans in selective distribution agreements.⁷⁶ This time, the luxury cosmetics company Coty implemented a clause in its EU-wide selective distribution agreements that prohibited online sales over third party platforms. This time, the Court decided to stay the proceedings and refer four questions of interpretation of EU law to the CJEU. The first question seeks for a re-confirmation that brand image protection cannot constitute a valid justification for the restrictions of a SDS under Article 101 (1) TFEU. If the first question were to be replied in the negative (therefore limiting *Pierre Fabre* only to absolute internet sale bans), the second question asks whether banning all sales over third party

⁷³ OLG Schleswig-Holstein, judgment of 05 June 2014 – 16 U Kart 154/13, 16 U (Kart) 154/13 –, juris at 91.

⁷⁴ OLG Frankfurt, judgment of 22. December 2015 – 11 U 84/14 (Kart) –, juris, “Funktionsrucksäcke”. After engaging with the case law of the CJEU, the Court nonetheless decided to apply only the ARC, i.e. German competition law, to the facts of the case because it considered that the agreement in question did not affect trade between EU Member States.

⁷⁵ The appeal has been withdrawn in April 2017, see Maritzen, Lars (2017).” Verbot des Verkaufs über Verkaufsplattformen zulässig - Deuter-Entscheidung rechtskräftig”, available at <https://www.comhari.de/single-post/2017/04/18/Verbot-des-Verkaufs-%C3%BCber-Verkaufsplattformen-zul%C3%A4ssig---Deuter-Entscheidung-rechtskr%C3%A4ftig> (last visited 27 September 2017).

⁷⁶ OLG Frankfurt preliminary reference to CJEU of 19 April 2016 – 11 U 96/14 (Kart) –, juris.

platforms fails to fulfil the principle of proportionality, thus resulting in the SDS violating Article 101 TFEU. The third and fourth questions ask whether a third party platform ban can constitute a hardcore restriction under Articles 4 (b) or (c) Vertical BER.

5. The CJEU judgment in *Coty*

In *Coty*, the CJEU made clear that *Pierre Fabre* was limited to absolute internet sale bans in SDS.⁷⁷ It also held that the distribution of luxury goods can justify a SDS, if resellers are chosen on the basis of objective qualitative criteria in a non-discriminatory fashion, and the criteria do not go beyond what is necessary.⁷⁸ In contrast to *Pierre Fabre*, the Court found that if these criteria were met, a SDS with the aim of preserving an aura of luxury of those goods would be compatible with Article 101 (1) TFEU.⁷⁹ In other words, the Court found that brand image protection, in the case of luxury goods, constituted a legitimate aim of a SDS.

The Court justified the limitation of *Pierre Fabre* to the specific case of absolute selling bans for two main reasons. Firstly, the goods at stake in *Pierre Fabre* were not luxury goods, but cosmetic and body hygiene products.⁸⁰ Second, the guidance was meant for the specific case where the nature of the goods and the severity of the restriction (a complete ban of using the internet for sales) failed to fulfil proportionality requirements.⁸¹

In its assessment of whether an online platform ban was lawful under Article 101 (1) TFEU, the Court delved deeper into proportionality analysis.⁸² In light of the goods in question and given that, in this case, the preservation of a luxury image

⁷⁷ Case C-230/16 *Coty v Akzente* [2017], 32.

⁷⁸ *Ibid*, 24.

⁷⁹ *Ibid*, 29.

⁸⁰ *Ibid*, 32.

⁸¹ *Ibid*, 33-34.

⁸² For a summary of the different steps of proportionality analysis see Chapter 2 Section III.4.

constituted a legitimate aim for an SDS under Article 101 (1) TFEU, the Court considered the first step of proportionality to be fulfilled.⁸³

The second step of proportionality, inquiring into whether the means of an online platform ban were appropriate for the achievement of the aim of preserving a luxury image, was fulfilled for three reasons. Firstly, the online selling ban helped to create an exclusive association in the context of e-commerce with the manufacturer, which is one of the principal objectives pursued when implementing a SDS.⁸⁴ Secondly, the online platform ban allowed the manufacturer to better monitor whether the qualitative conditions for online sales had been met by its distributors.⁸⁵ Non-compliance by one of the distributors allowed the manufacturer to take action on the basis of the contractual agreement, whereas the manufacturer was not in such a contractual relation with a third-party platform.⁸⁶ The manufacturer would thus be left with less control over its quality standards in case the presentation of her goods on third-party platforms had a deteriorating effect on the luxury image.⁸⁷ Thirdly, the exclusive sale in authorized online shops contributed to the luxury image of the goods in question, which is a characteristic valued by consumers.⁸⁸

The Court also found that the necessity requirement of proportionality analysis was met. Since the platform ban did not eliminate the internet entirely as a sales tool for authorized distributors, and online platforms did not constitute the most relevant outlet for online sales,⁸⁹ it did not go beyond what was necessary to preserve the luxury image of the goods in question.⁹⁰ In addition, a clause that

⁸³ Case C-230/16 *Coty v Akzente* [2017], 39-42.

⁸⁴ *Ibid*, 44-45.

⁸⁵ *Ibid*, 47.

⁸⁶ *Ibid*, 48.

⁸⁷ *Ibid*, 49.

⁸⁸ *Ibid*, 50.

⁸⁹ *Ibid*, 54. The Court referred to the EU Commission's Preliminary Report on the E-Sector Inquiry, which had found that the main distribution channel, in the context of online distribution, were distributors' own online shops. Over 90% of distributors surveyed had their own online shop in place.

⁹⁰ *Ibid*, 53-55.

would allow distributors to use online platforms if they conformed to the quality criteria of the SDS was, due to the absence of a contractual relationship between the manufacturer and the third-party platform, not a sufficiently effective alternative to a platform ban.⁹¹

Finally, the Court also found that an online platform ban did not constitute a hardcore restriction under Article 4 (b) and (c) Vertical BER. In contrast to *Pierre Fabre* and the absolute online selling ban at stake in that case, the Court found that online platform bans did not amount to a restriction of passive sales to end users under Article 4 (c) Vertical BER or a restriction of the customers of distributors under Article 4(b).⁹² The Court thus gave full clearance to online platform bans in SDS for luxury goods under primary and secondary EU competition law.

The Court based the main part of its judgment on a precedent in EU trademark law, *Copad*.⁹³ While the Court failed to clarify why a trademark case could provide relevant information to decide upon the legality of a SDS under EU competition law, the next section dissects *Copad* and explains its importance when deciding whether brand image protection can justify a legitimate aim for vertical restrictions in SDS under EU competition law.

III. EU Trademark Law

1. Different approaches under competition law and trademark law towards SDS

The CJEU's outright rejection of brand image protection as objective justification for a selective distribution system under EU competition law in *Pierre Fabre* sits in tension with its earlier judgment in *Copad*,⁹⁴ a trademark case, decided two years earlier. This tension has been now eased to a certain extent by *Coty*, due to the

⁹¹ Ibid, 56.

⁹² Ibid, 65-68.

⁹³ Case Case C-59/08 *Copad v Christian Dior* [2008] is cited directly and indirectly five times in *Coty*, and its main function is to justify the departure from the reasoning in *Pierre Fabre*.

⁹⁴ Case C-59/08, *Copad SA v Christian Dior Couture SA and Société Industrielle lingerie ('Copad')* [2009].

recognition that brand image protection, at least for luxury goods, can constitute a legitimate aim for an SDS under EU competition law.

The facts of *Copad* are comparable to those in *Pierre Fabre* and *Coty*. *Copad* was a preliminary reference from a French court, and it concerned a selective distribution system set up by the fashion branch of the luxury goods company Dior, which prohibited sales to *inter alia* discount stores, mail order companies, and door-to-door sale companies to protect the prestige of its brand. The SDS had been set up through a trademark licensing agreement. Dior had licensed its trademark for the manufacture and distribution of luxury underwear bearing the Christian Dior trademark to a lingerie producer (SIL), under the selective distribution conditions set out above. The dispute arose after Dior's licensee, SIL, had sold lingerie carrying the Dior trademark outside the selective distribution system to Copad, a discount store business. As the contractual conditions of Dior's SDS prohibited sales to discount stores, SIL had therefore breached the conditions by the sale of Dior underwear to Copad. Due to the financial difficulties and subsequent insolvency of SIL, Dior did not sue SIL for a breach of contract, however, but tried to enforce its trademark rights directly against Copad. Dior was in essence claiming that it could 'reach out' to a third party outside the selective distribution system based on its trademark rights and prohibit any further distribution of its branded goods.

Dior relied firstly, on Article 25 (2) in conjunction with Article 15 (1) of the Trademark Directive (TMD)⁹⁵ and secondly, on Article 15 (2) TMD. Article 25 deals with trademark licensing agreements and expressly allows the trademark owner to license her trademark for some or all of the goods for which it is registered.⁹⁶ It does no more than to open the option to a trademark owner to contractually allow another party to use her trademark, just as Dior allowed SIL to use its trademark for corsets as long as it did not sell them to discount stores. The first remedy Dior had against SIL for selling the branded goods to Copad was therefore that of a

⁹⁵ Directive (EU) 2015/2436 to approximate the laws of the states relating to trade marks ("TMD").

⁹⁶ Article 25 (1) Trade Mark Directive.

simple breach of contract. Article 25 (2) TMD adds to this however; it gives a trademark owner an extra remedy in case of breach of the license agreement. This special remedy enables the trademark owner to enforce her rights in the trademark, i.e. the exclusive right to prevent others from using her trademark in the course of trade,⁹⁷ against her licensee. This special remedy, however, is only available for specific types of breaches of the license agreement. The provision includes a closed list of these specific types of breaches which trigger the special remedy against the licensee. The situation giving rise to the special remedy that is relevant for the present analysis, is the trademark owner's possibility to invoke his trademark against her licensee if the licensee violates a provision of the licensing agreement relating to the *quality of the goods* manufactured or of the services provided by the licensee.⁹⁸

The referring French court explicitly asked whether the sale of Dior-branded goods by SIL to the discount stores of Copad, i.e. outside of the selective distribution system, was a type of breach of the license agreement which would fall in the list of Article 25 (2) TMD. In short, the question was whether the breach was such as to "activate" the trademark rights of Dior or whether it remained a simple case of breach of contract. The Advocate General and the Court ultimately found that the type of breach by SIL fell within the closed list of Article 25 (2) TMD.

For the purposes of this Chapter, it is extremely interesting to follow, step by step, how this conclusion was reached. The Advocate General, whose reasoning was entirely followed by the Court, started from the premise that Article 25 (2) TMD is intended to give the trademark owner control over the quality of the goods bearing his trademark.⁹⁹ She suggested that the "quality of the goods manufactured" might be generally thought as relating to the material qualities inherent in the product,

⁹⁷ Article 10 Trade Mark Directive.

⁹⁸ The other circumstances of the closed list are: whenever the licensee contravenes the licensing contract with regard to the provisions on (i) its duration, (ii) the form covered by the registration in which the trademark may be used, (iii) the scope of goods or services for which the license is granted, (iv) the territory in which the trademark may be affixed.

⁹⁹ Opinion of Advocate General Kokott in Case C-59/08 *Copad*, 29.

for example if the licensee uses inferior materials for the production of the goods covered by the licensing agreement.¹⁰⁰ For luxury and prestige goods, however, the situation was a little different. In order to acquire and maintain their status as luxury or prestige goods, irrespective of their inherent material quality, the reputation of their trademark was essential. Damage to the trademark could lead to the goods losing their status as luxury or prestige goods. The Advocate General went on to state that for these goods, the manner of distribution was directly connected with the reputation of the mark, and therefore with the quality of the goods.¹⁰¹ The Court was even shorter in its reasoning and stated that “since luxury goods are high-class goods, the aura of luxury emanating from them is essential in that it enables consumers from distinguishing them from similar goods”.¹⁰² It went on to say that “an impairment of that aura of luxury is likely to affect the actual quality of those goods”¹⁰³ and by reference to a competition law case, held that “the characteristics and conditions of a selective distribution system can, in themselves, preserve the quality and the proper use of such products”.¹⁰⁴ Therefore, it was conceivable that the sale of the Dior corsets by SIL to the discounter Copad could damage “the aura of luxury of the goods”¹⁰⁵ so as to affect the quality of the goods. The breach of the license agreement thus violated a provision of the licensing agreement relating to the *quality of the goods*. As this constituted one of the specifically listed types of breaches under Article 25 (2) TMD, Dior could invoke its trademark rights against its licensee SIL.

¹⁰⁰ Ibid, 30.

¹⁰¹ Ibid, 31 and judgment in case C-59/08, *Copad*, 24.

¹⁰² Case C-59/08, *Copad*, 25.

¹⁰³ Ibid, 26.

¹⁰⁴ Ibid, 28. The Court cited paragraph 16 of case 31/80 *L'Oréal* [1980]. The case concerned the distribution of Kérastase hair care products, which L'Oréal only distributed through professional hairdressers. Another company, AMCK, tried to challenge L'Oréal's selective distribution system as contrary to Article 101 (1) TFEU (ex-ex-Article 85 (1) TEEC). Interestingly, the Court never stated in paragraph 16 of that judgment that luxury goods qualified as goods which necessitate selective distribution systems to preserve their quality. It only advised the national court to test whether this was the case.

¹⁰⁵ Case C-59/08, *Copad*, 30.

The next step was to inquire whether Dior could also invoke its trademark rights against Copad, a third party outside its selective distribution system. According to Article 15 TMD, once the trademarked goods have been placed on the market, the rights of the trademark owner are considered to be exhausted. This means that, as long as the goods have been marketed with the trademark owner's consent, she cannot further prohibit the use of the trademark in relation to the goods. The argumentative move of the Advocate General and the Court was in essence to link Article 25 (2) and Article 15 (1) TMD. If trademarked goods had been placed on the market by a licensee of the trademark owner in breach of one of the provisions of the licensing contract listed in Article 25 (2) Trademark Directive, which 'activated' the trademark rights of the trademark owner, it had to be assumed that the goods were marketed *without the consent* of the trademark owner. Consequently the trademark owner was assumed not to have exhausted her trademark rights because the consent condition of Article 15 (1) TMD was not fulfilled. This then opened the door to the trademark owner to invoke her trademark rights to prohibit a third party outside the selective distribution system to use her trademark in the course of trade.¹⁰⁶ Dior could therefore invoke its trademark rights not only against SIL, but also against Copad.

IV. Analysis and implications of the Courts' legal reasoning

1. Legal reasoning in the context of discovery and justification

1.1 Legal reasoning in the competition case law on SDS

In the SDS cases in EU competition law, the CJEU's legal reasoning always follows three steps of inquiry to determine the legitimacy of an SDS under Article 101 (1) TFEU.¹⁰⁷ Firstly, it had to be determined whether the nature of the distributed products necessitated selective distribution. Secondly, distributors had to be chosen on the basis of objective criteria of a qualitative nature, laid down uniformly

¹⁰⁶ Ibid, 51.

¹⁰⁷ See Case C-439/09, *Pierre Fabre v Autorité de la Concurrence* [2011], 40-41, and Case C-230/16 *Coty v Akzente* [2017], 24.

for all distributors and applied in a non-discriminatory fashion. Thirdly, the criteria must comply with the principle of proportionality.¹⁰⁸

While the CJEU in *Pierre Fabre* departed from these premises, the application of them to the specific facts of the case is difficult to follow. Indeed, one of the critiques raised against the CJEU's reasoning in *Pierre Fabre* was the actual lack thereof.¹⁰⁹ Rather than explicitly pointing at the type of legal reasoning of the Court, we can rather proceed by excluding with certainty some of the perspectives on IP-competition conflicts discussed in Chapter 2.

The CJEU did not adopt an economics perspective in *Pierre Fabre*. This can be seen, for example, by the fact that it never explained why it considered the online selling ban a restriction by object, and did not undertake an effects analysis as economic theory would suggest for vertical restrictions.¹¹⁰ As a consequence, the judgment lacked any complete theory of harm substantiated in economic theory.¹¹¹ The CJEU based its decision mainly on two unconvincing considerations of competitive harm, which could be caused by vertical restraints. Firstly, there would be a reduction of Internet sales, which would otherwise be beneficial for furthering the internal market.¹¹² It is however doubtful that PF's online selling ban could actually have as large an impact as to either partition the internal market,¹¹³ or in its absence significantly further it. In any case, it seems that the markets for online sales

¹⁰⁸ Usually the third criteria would be that the criteria "do not go beyond what is necessary". Nonetheless, in *Pierre Fabre* and *Coty*, it can be seen that the CJEU applied this criterion in the form of a proportionality check.

¹⁰⁹ Vogel, Louis (2012). "EU Competition Law Applicable to Distribution Agreements: Review of 2011 and Outlook for 2012," *Journal of European Competition Law & Practice* 3(3), 271–286, 273.

¹¹⁰ *Ibid*; Buettner Thomas et al. (2009). "An Economic Analysis of the Use of Selective Distribution by Luxury Goods Suppliers," *European Competition Journal* 5(1), 201–26.

¹¹¹ Monti, Giorgio (2013). "Restraints on Selective Distribution Agreements," *World Competition* 36(4), 489–511.

¹¹² *Ibid*, 495.

¹¹³ As put by Monti: "It should be at least easy to understand that when a firm with a relatively small market share enters into a vertical agreement that allocates exclusive territories to two distributors that the firm's commercial insignificance means that it cannot possibly 're-establish private barriers between Member States where State barriers have been successfully abolished" (*Ibid.*)

operate along national borders,¹¹⁴ i.e. an online selling ban by a non-dominant undertaking, in a market with a high degree of inter-brand competition, could hardly do harm to the internal market. Secondly, the Court seemed to be concerned that PF's online selling ban would lead to anti-competitive foreclosure because distributors wishing to sell PF's goods would be excluded from doing so.¹¹⁵ Consequently, consumers wishing to purchase PF cosmetics over the internet would not be able to do so, and they would therefore have to resort to buying the goods at a possibly higher price in a pharmacy. Again, it is not clear how this would constitute competitive harm. Consumers could in fact still acquire the goods 'offline', and they could simply opt to buy cosmetics of another brand which sells online. It is not clear why there would be a loss in overall welfare or a disruption to the competitive structure of the market if the retailers of one brand of cosmetics would not sell online, whereas many alternative brands are available online to consumers.

These critiques would apply all the more if the CJEU had found that a partial online selling ban such as an online platform ban would constitute a restriction of competition by object in *Coty*. A further critique raised by German commentators to the post-*Pierre Fabre* cases of the German Higher Regional Courts that considered online platform selling bans unlawful was that the case law effectively enhanced the already overwhelming market power of certain online platform

¹¹⁴ Hortaçsu, Ali et al. (2009). "The Geography of Trade in Online Transactions: Evidence from eBay and MercadoLibre," *American Economic Journal: Microeconomics* 1(1), 53–74; Bundeskartellamt (2013). Hintergrundpapier „Vertikale Beschränkungen in der Internetökonomie“ (10 October 2013), available at https://www.bundeskartellamt.de/SharedDocs/Publikation/DE/Diskussions_Hintergrundpapier/Bundeskartellamt%20-%20Vertikale%20Beschr%C3%A4nkungen%20in%20der%20Internet%C3%B6konomie.pdf?__blob=publicationFile&v=2 (last visited 12 October 2017), 17.

¹¹⁵ Monti, Giorgio (2013). "Restrictions on Selective Distribution Agreements," *World Competition* 36(4), 489–511, 496.

service providers, such as eBay.¹¹⁶ This could in itself create competition problems that would harm economic welfare.

Nonetheless, the CJEU *Pierre Fabre* judgment and the German case law following the *Pierre Fabre* judgment have been applauded by some actors, in particular by interest groups of online retailers,¹¹⁷ some commentators,¹¹⁸ and the German competition authority.¹¹⁹ They argue that restrictions in selective distribution systems with platform bans rob consumers and small sellers from the efficiencies that online platforms provide in terms of, for example, price transparency and reliance on the payment systems offered by platforms.¹²⁰

Whether one sides with those that approve of the economic outcome of the case or object to it, it is clear that the Court never explicitly specified a possible basis in economic theory that would justify its decision in the case. This leaves us with the other four possible perspectives the Court could have adopted in its justification, namely a conflict-of-laws, a conflict-of-competences, a constitutional, and a private-law perspective. As the Court did not pay heed in its judgment to the fact that IP interests were at stake at all, the adoption of a conflict-of-laws perspective can be excluded, as the Court did not even identify a rule that could be superior or inferior to EU competition law in the case at hand. The neglect of the IP interests at

¹¹⁶ Kuntze-Kaufhold, Georg (2004). "Anmerkung zu KG Berlin, Urt. V. 19.9.2013, 2 U 8/09 Kart – Schulranzen und –rucksäcke", *Wirtschaft und Wettbewerb* 2014, 476-481. As H. Hovenkamp notes however, producers would have a tool against negative effects from excessive market power of third-party platforms: They could simply decide to vertically integrate their distribution. See Hovenkamp, Herbert J. (2014). "Antitrust and Information Technologies," U Iowa Legal Studies Research Paper No. 15-05, available at <http://papers.ssrn.com/abstract=2531689> (last visited 12 October 2017).

¹¹⁷ For example the Berlin-based "Choice in eCommerce - Initiative for Choice and Innovation in Online-Trade", <http://www.choice-in-ecommerce.org/> (last visited 13 November 2017).

¹¹⁸ For example Themelis, Andreas (2012). "After Pierre Fabre: The Future of Online Distribution under Competition Policy," *International Journal of Law and Information Technology* 20(4), 346–369.

¹¹⁹ Bundeskartellamt, Hintergrundpapier „Vertikale Beschränkungen in der Internetökonomie“ (10 October 2013).

¹²⁰ Ezrahi, Ariel (2016). "The Ripple Effects of Online Marketplace Bans," <https://papers.ssrn.com/abstract=2868347> (last visited 12 October 2017), 4; European Commission's Preliminary Report on the E-commerce Sector Inquiry (SWD(2016) 312) (15 September 2016), 9.

stake equally excludes a private law perspective as far as it constitutes a balancing act that weighs competing private economic interests against each other.

Nevertheless, the legal reasoning in the context of justification in *Pierre Fabre* exhibits to a certain extent some features of a conflict-of-competences perspective.¹²¹ After all, the Court found in *Pierre Fabre* that the online ban included in the selective distribution agreements, albeit restricting competition, could be justified if it pursued a legitimate aim in a proportionate manner.¹²² The Court then went on to refer to prior case law in relation to the free movement of goods,¹²³ to assess whether the justifications put forward by PF, namely consumer protection and brand image protection, fulfilled the standards set by the Court. The Court applied an identical standard of justification to the actions of a private undertaking, namely PF, as it did to legislation by a Member State that was in conflict with the free movement of services provisions of the Treaty. PF's online selling ban was thus judged according to the same standard as national legislation prohibiting the sale of medicinal products¹²⁴ and of contact lenses online.¹²⁵ In this sense, the Court equated the TFEU's competition provisions to the free movement of goods provisions, in particular in an area such as public health,¹²⁶ in which Member States have a broader scope of discretion.

The result was a form of legal reasoning in *Pierre Fabre* that judged the worthiness of the poorly articulated interests of PF as brand owner under competition law according to the standard applied to Member State's interest in a particularly sensitive area of public policy under EU free movement rules. Some have considered this as a grave doctrinal *faux pas* because by putting on the free

¹²¹ See Chapter 2 Section III.3.

¹²² Case C-439/09, *Pierre Fabre v Autorité de la Concurrence* [2011], 43.

¹²³ Case C-439/09, *Pierre Fabre v Autorité de la Concurrence* [2011], 44.

¹²⁴ Case C-322/01 *Deutscher Apothekerverband* [2003], 106-107,112, where the Court found that German legislation prohibiting the online sales of non-prescription medicinal products was contrary to Article 34 TFEU and could not be justified under Article 36 TFEU.

¹²⁵ C-108/09 *Ker-Optika* [2010],58,65,74-76.

¹²⁶ Public health ("the protection of health and life of humans") is another ground in Article 36 TFEU that allows for derogation from the free movement rules.

movement of goods spectacles, the Court failed to consider the actual competitive situation in the market and discarded the protection of the image of a brand as justification without further ado.¹²⁷ It therefore appeared “completely disconnected of competition concerns”.¹²⁸ Despite this possible situational inappropriateness, it allows us to classify the legal reasoning of *Pierre Fabre* as a form of conflict-of-competences or constitutional approach to the IP-competition conflict at stake.

The brevity of the Court’s legal reasoning in the *Pierre Fabre* judgment leaves us with some room for speculation in relation to considerations that might have influenced the Court’s legal reasoning the context of discovery. The fact that the Court discarded brand image protection in one sentence as a possible legitimate aim of a SDS under Article 101 (1) TFEU could point to a normative viewpoint of the supremacy of competition interests, including the freedom of distributors, over brand-protection interests safeguarded under trademark law.

Furthermore, one could picture a *communautaire* tendency driving the *Pierre Fabre* Court. One year prior to the judgment in *Pierre Fabre*, ex-Competition Commissioner Mario Monti had produced a report to then Commission President Jose Manuel Barroso on the benefits of a new Single Market Strategy.¹²⁹ This new strategy for furthering the integration project of the EU’s internal market included the shaping of the EU’s Digital Single Market by enhancing e-commerce, and in particular, by establishing a pan-European market for online retail.¹³⁰ The importance of enhancing cross-border online sales (which presupposed encouragement of using the internet as a sales tool) as a hope for economic growth of the crisis-stricken EU economy might have been in the back of the heads of the

¹²⁷ Vogel, Louis (2012). “EU Competition Law Applicable to Distribution Agreements: Review of 2011 and Outlook for 2012,” *Journal of European Competition Law & Practice* 3(3), 271–286.

¹²⁸ *Ibid*, 274.

¹²⁹ Monti, Mario (2010). A New Strategy for the Single Market (May 9, 2010), available at http://ec.europa.eu/internal_market/strategy/docs/monti_report_final_10_05_2010_en.pdf (last visited 2 October 2017).

¹³⁰ *Ibid*, 45.

judges in the *Pierre Fabre* case, leading to a particularly strict approach toward online selling bans in EU competition law.

The EU Commission had also adopted a strict position towards absolute online selling bans in the vertical Guidelines, stating that “in principle, every distributor must be allowed to use the internet to sell products”.¹³¹ Together with the judgment by the BGH that had already found in 2003 that absolute online selling bans were contrary to German competition law,¹³² the CJEU might thus have been influenced in its legal reasoning in the context of discovery by the fact that other institutions had adopted a hostile position towards online selling bans.

In *Coty*, in contrast to *Pierre Fabre*, the Court followed the three steps mentioned above to assess the legitimacy of an SDS under Article 101 (1) TFEU strictly. The Court started by assessing whether the goods in question, in this case luxury perfumes, constituted a category of goods that justified selective distribution.¹³³ It held, by reference to *Copad*, that the conditions of a SDS may have a direct impact on preserving the quality of luxury goods through the maintenance of an aura of luxury.¹³⁴ The maintenance of the luxury image of the goods in question through the SDS at the same time led the Court to find that the online platform ban in SDS in question pursued a legitimate aim.¹³⁵ Through this line of legal reasoning the Court then embarked in a proportionality analysis as categorized as constitutional approach in Chapter 2.¹³⁶ As set out above,¹³⁷ the Court held that the platform ban was also appropriate and necessary in the case of the online distribution of luxury goods. It appears that the proportionality analysis as conducted in *Coty* was more attentive to the interest of the manufacturers as trademark owners. After all, the preservation of an aura of luxury, which is a form of brand image, could justify a

¹³¹ 2010 Vertical Guidelines, paragraph 52.

¹³² BGH, judgment of 4 November 2003, KZR 2/02, GRUR 2004, 351-352, *Depotkosmetik im Internet*.

¹³³ Case C-230/16 *Coty v Akzente* [2017], 25-28.

¹³⁴ *Ibid*, 26-27.

¹³⁵ *Ibid*, 39.

¹³⁶ Chapter 2 Section III.4.

¹³⁷ Section II.5.

SDS under Article 101 (1) TFEU. Nonetheless, the *Coty* Court still failed to create a direct link to EU trademark law. While it cited *Copad*, it never explicitly the trademark rights at stake as an influencing factor in its proportionality analysis. While *Coty* thus has eased some of the tensions created between EU trademark law and EU competition law in *Copad* and *Pierre Fabre*, it has fallen short of establishing a relationship of dialogue at this IP-competition interface.¹³⁸

1.2 Legal reasoning in the trademark case law on SDS

In contrast to *Pierre Fabre*, the CJEU's legal reasoning in the context of justification in *Copad* gave the trademark owner's interest to protect her brand much more prominence when determining in how far EU trademark law would help a manufacturer to enforce her SDS on third parties. In its legal reasoning in the judgment, the Court paid attention to the importance the method of distribution could have for the 'aura of luxury' surrounding a certain product.¹³⁹ In this sense, and by linking the aura of luxury of a good to its inherent quality for the purposes of trademark law, the Court acknowledged that the investment that a company undertook in furthering a luxury image of its brands was worthy of protection.

Furthermore, the Court pitted the interest of the trademark owner against the interests of distributors when determining whether Dior could inhibit the further commercialization of Dior goods by Copad under the Trademark Directive. It held that "a balance must be struck between, on the one hand, the legitimate interest of the proprietor of the trademark covered by the licence agreement in being protected against a discount store which does not form part of the selective distribution network using that trademark for commercial purposes in a manner which could damage the reputation of that trade mark and, on the other hand, the

¹³⁸ For an example of a relationship of dialogue between EU competition law and EU trademark law, see Section VI below.

¹³⁹ Case C-59/08, *Copad v Christian Dior* [2008], 24,28.

discount store's legitimate interest in being able to resell the goods in question by using methods which are customary in its sector of trade".¹⁴⁰

The balancing of two private interests, and the emphasis on the legitimate interest of a trademark owner to protect the reputation of her trademark, point to factors in the Court's legal reasoning that are influenced by values underlying unfair competition law. These values include, for example, that other market participants should not simply be able to free-ride on the investments undertaken by a manufacturer to enhance the value of her intellectual products like brand image and trademarks, for example by creating an aura of luxury.¹⁴¹ The Court thus adopted in *Copad* a private law perspective in its legal reasoning.¹⁴²

The Court's legal reasoning in the context of discovery could have been influenced by normative underpinnings of an approach to IP-competition conflicts in which IP interests take precedence over competition interests. Heinemann, for example, considers that the *Copad* Court tipped the balance too much in favour of the trademark owner by giving her too much control over second and third sales of her products.¹⁴³ Extending the remedies available to a trademark owner for violations of her selective distribution system beyond breach of contract to enforcing her trademark rights against third parties when the products' aura of luxury is damaged goes indeed quite far.¹⁴⁴ A construction of EU trademark law that takes damage to immaterial qualities of a good as sufficient to trigger the trademark rights of a trademark owner to restrict the further commercialization of goods that have

¹⁴⁰ Case C-59/08, *Copad v Christian Dior* [2008], 56.

¹⁴¹ Pila, Justine, Torremans, Paul (2016). *European Intellectual Property Law*, Oxford: Oxford University Press, 90.

¹⁴² See Chapter 2 Section III.5.

¹⁴³ Heinemann, Andreas (2011). "Intellectual Property Rights and Market Integration", in Ezrachi, Ariel, Anderman, Steven (eds.), *Intellectual Property and Competition Law – New Frontiers*, Oxford: Oxford University Press, 303-322, 314.

¹⁴⁴ *Ibid*, 315.

already been placed on the market allows for considerable inroads into freedoms of third-party distributors.¹⁴⁵

2. Procedure

The recent CJEU case law on SDS systems that constituted the main focus of this chapter, namely *Copad*, *Pierre Fabre*, and *Coty*, were all preliminary references from national courts. In all cases, with the exception of *Pierre Fabre*, the parties to the proceedings were private parties. In *Pierre Fabre*, the respondent was the French National Competition Authority. This is an interesting fact because, as has been discussed above¹⁴⁶ and is further analysed in subsequent chapters, the CJEU produced a judgment in *Pierre Fabre* that did not pay any attention to the possible IP interests of the brand owners involved. This observation is only of minor importance to this thesis, but it provides a piece of anecdotal evidence that Courts deciding IP-competition conflicts seem to honour affected IP interests in their legal reasoning to a lesser extent when reviewing decisions by competition authorities than in disputes arising between private parties.¹⁴⁷

V. Tensions between the CJEU's legal reasoning in IP and competition law

A direct comparison of *Pierre Fabre* and *Copad* shows that the approach the CJEU adopted towards selective distribution of luxury goods under EU competition law was quite the opposite to the approach it adopted under trademark law. In *Pierre*

¹⁴⁵ Heinemann considers that only damage to material qualities of goods should be able to trigger trademark rights. Otherwise the restrictions to competition and to the free movement of goods in the internal market would be excessive. See *Ibid*.

¹⁴⁶ See Section II.3. of this Chapter above.

¹⁴⁷ See also Chapter 4 Section V.2. and Chapter 5 Section IV.2. Forrester who is a seasoned and respected EU competition law practitioner and litigator before EU Courts makes a similar observation when he states in the context of the *Magill*, *IMS Health* and *Microsoft* cases that "This difficulty of predicting outcomes is reinforced by the difference between how the law is promulgated by the European Court of Justice to courts making references (principled, rather cautious), and how the European Courts perform their appellate function (deferential, confined to a review of the legality of the act). The courts are much more cautious in the former cases and much less critical in the latter". See Forrester, Ian S. (2011). "Magill Revisited", in Govaere, Inge et al. (eds.), *Trade and Competition Law in the EU and Beyond*, Cheltenham: Edward Elgar, 376-390, 388.

Fabre, the Court departed from a rather hostile position towards selective distribution systems. Absent an objective justification, they were restrictions of competition by object and therefore contrary to Article 101 (1) TFEU. As the aim of brand image protection did not constitute an objective justification, the Court held that EU competition law prohibited the implementation of an internet sales ban in a SDS.

Copad gives an entirely different image of SDS. Under trademark law, the Court went as far as to hold that the distribution method was directly linked to the image of a product. In case of luxury consumer goods, the distribution method even became a factor of the quality of the goods. This was due to the aura of luxury created by elaborate and expensive retail services. Selective distribution systems which excluded certain distribution channels to maintain the repute and prestige of the trademark, such as discount stores and mail order companies, were considered to be worthy of protection under EU trademark law. If the sales through these foreclosed channels affected the reputation of the goods to such an extent that their quality was called into question, trademark law even enabled the trademark owner to reach through to a distributor outside its selective distribution system, and to block the third party distributor to sell its goods.¹⁴⁸

At least two counter-arguments can be raised against the claim that there is a contradiction in the case law on trademark law and competition law when it comes to agreements containing selling restraints to protect the image of a trademark. Firstly, it could be said that the validity of *Copad*¹⁴⁹ applies only to luxury goods and not to normal branded goods; the tension would thus be limited to luxury goods.

¹⁴⁸ *Pierre Fabre* and *Copads* could potentially be differentiated by saying that under EU competition law a distribution agreement was at stake, whereas under EU trademark law a licensing agreement was at stake. While from a legal point of view this is true, of course, I think there is no relevant difference between the two when it comes to restricting certain sales outlets in order to protect the image of the trademark. In that instance both sales and license agreement are simply vertical distribution agreements which place restrictions on distributors of branded goods.

¹⁴⁹ *Copad* can be considered to a certain extent a one-off case, but it fits with a particular approach to trademark law inspired by considerations usually approached under unfair competition law, as can be seen in other EU trademark case law.

The CJEU's legal reasoning that emphasized the importance of the goods at stake in *Coty* being luxury goods supports this argument. Secondly, it could be argued that *Copad* concerned 'offline' retail, where restrictions might be more tolerable than in online retail, which has been consciously prioritized as an important tool for consolidating the EU internal market. I will discuss these possible counter-arguments one by one.

The first counter-argument would argue that *Copad* applies only to luxury goods, where expensive retail services are necessary to create an "aura of luxury", doing the magic of giving an otherwise ordinary good the higher value of a luxury good. In contrast, at least the goods which were at stake before the German Higher Regional Courts, i.e. school back packs, sportswear and digital cameras, would not fall into the category of luxury goods. The argument would continue by claiming that in the case of these normal goods, trademark law would not give as much protection to the interest of the trademark owner in protecting the image of its trademark, because there is not the same amount of investment into elaborate retail services. Therefore, in the cases of normal goods the importance of the protection of the image of the mark would be just as irrelevant under trademark law as under competition law. The CJEU's legal reasoning in *Coty* supports this argument. After all, the Court mainly differentiated *Coty* from *Pierre Fabre* on two grounds.¹⁵⁰ Firstly, *Pierre Fabre* concerned an internet selling ban, and thus a strong restriction on distributors, while in *Coty* the restriction was merely an online platform ban, leaving the choice of other types of online outlets unaffected. Secondly, *Pierre Fabre* did not concern luxury goods, while the goods in *Coty* clearly fell into the category of luxury goods.¹⁵¹ In this case, the protection of the goods' luxury image thus *prima facie* legitimized the SDS under Article 101 (1) TFEU.¹⁵²

While it may be true that luxury goods are a special case, there might be nonetheless at least a second category of goods, which might necessitate a more

¹⁵⁰ Case C-230/16 *Coty v Akzente* [2017], 32.

¹⁵¹ *Ibid*, 28.

¹⁵² *Ibid*, 36.

restrictive distribution system and protection for the reputation of the trademark. This second category would include the branded goods of producers that undertake high investments and marketing efforts to signal the special quality of a branded good to consumers, which are not luxury goods in the sense that there is no 'aura of luxury' as an element of the product's quality.¹⁵³ In other words, this would cover branded goods which are not advertised as conferring social prestige or another intangible value other than their actual function for the purchaser.¹⁵⁴ The reason for which these producers would merit a higher degree of protection can be found in economic theory. George Akerlof's famous piece *The Market for 'Lemons'*, for example, explains a type of market failure, which can occur when consumers are uncertain about the quality of a good, and choose not to purchase it based on this uncertainty.¹⁵⁵ One of the mechanisms to fix this market failure are brands, because they allow a producer to invest in the reputation of the brand through investing in informing the consumer about the quality of the good, for example by hiring and training specialized staff, and through advertising. The trademark therefore becomes an information carrier for consumers, which reduces uncertainty and can facilitate purchase decisions.¹⁵⁶ It works on the one hand to incentivize producers to invest in quality and R&D, and on the other hand allows consumers to repeat a purchase experience, or to cease to buy a product if not satisfied with the quality.¹⁵⁷ The distribution systems of producers that heavily invest in the reputation of a trademark through product quality might therefore equally justify a level of protection as high as for luxury goods under trademark law and competition law. In fact, the Higher Regional Court of Berlin used this argument in its analysis of the SDS for school bags, in which the Court held that it

¹⁵³ This analysis is borrowed from a discussion in competition law (and not from trademark law, but it could be equally applicable): Franck, Jens-Uwe (2010). "Zum Schutz Des Produktimages Im Selektiven Vertrieb," *Wirtschaft und Wettbewerb* 2010, 772–786.

¹⁵⁴ Ibid.

¹⁵⁵ Akerlof uses for his model the market for used cars ("lemons") as main example.

¹⁵⁶ Ramello, Giovanni B. (2007). "What's in a Sign? Trademark Law and Economic Theory," in McAleer, Michael, Oxley, Les (eds.), *Economic and Legal Issues in Intellectual Property*, ed. Oxford: Blackwell Pub.

¹⁵⁷ Ibid.

could have been justified by the interest of the producer to signal to the consumer a high level of quality of her products.¹⁵⁸

The second argument would claim that restrictions of offline retail in order to protect a trademark image as in *Copad* on the one hand, and restrictions of online retail for the same purpose on the other hand, are manifestly different.¹⁵⁹ Already in 2008, Marsden and Whelan questioned whether the benefits claimed by selective distribution systems could be also realized by restricting online distribution.¹⁶⁰ According to these authors, it is questionable whether the quality retail service provided online can be of such a high value to consumers that it would justify a restriction of online selling.¹⁶¹

While this argument may be very valid, the vertical restraints might nonetheless be justified on different grounds in the online environment. The risk of trademark infringement and counterfeiting, for example, has significantly increased in the age of online retail. This has prompted inter alia the CJEU to strengthen trademark protection in such way that online platform service providers might under certain circumstances be held liable for trademark infringement committed by third party vendors on their platform.¹⁶² The CJEU has therefore, and in contrast to some EU national courts and US courts,¹⁶³ moved some of the trademark infringement-policing burden from the trademark owner to the operators of online platforms that have knowledge of trademark infringement occurring on their sites.¹⁶⁴ One

¹⁵⁸ KG Berlin, Urteil vom 19. September 2013, „Schulranzen“ – 2 U 8-09 Kart –, juris, at 58.

¹⁵⁹ This argument is in fact raised, for example by Marsden, Philip, Whelan, Peter, (2010). “Selective Distribution in the Age of Online Retail,” *European Competition Law Review* 31(1), 25-36; Themelis, Andreas (2012). “After Pierre Fabre: The Future of Online Distribution under Competition Policy,” *International Journal of Law and Information Technology* 20(4), 346–369.

¹⁶⁰ Marsden, Philip, Whelan, Peter, (2010). “Selective Distribution in the Age of Online Retail,” *European Competition Law Review* 31(1), 25-36, 31.

¹⁶¹ Ibid.

¹⁶² Case C-324/09 *L’Oréal v eBay* [2011].

¹⁶³ Rimmer, Matthew (2011). “‘Breakfast at Tiffany’s’: EBay Inc., Trade Mark Law and Counterfeiting,” *Journal of Law, Information, and Science* 21(1), 128-166. In the US, the US Court of Appeals for the 2nd Circuit held that eBay could not be held liable for (contributory) trademark infringement, *Tiffany (NJ) Inc v eBay Inc*, 600 F 3d 93 (2d Cir NY, 2010).

¹⁶⁴ Rimmer, Matthew (2011). “‘Breakfast at Tiffany’s’: EBay Inc., Trade Mark Law and Counterfeiting,” *Journal of Law, Information, and Science* 21(1), 128-166; Smith, Joel, Silver, Joanna

might then ask whether holding the third-party platform liable is really the most fair and efficient means to deal with trademark infringement and counterfeited goods on online platforms. It could be possible that an online platform ban by the producer of branded goods would be actually more effective and efficient to achieve a reduction of counterfeit trade than placing a monitoring obligation on the platform operator.¹⁶⁵

As critics claim, it might thus be that the rationale for giving safe havens to SDS in the case of traditional brick-and-mortar shops based on freeriding concerns might not fully apply in the online environment. Nonetheless, there might be new and different rationales, in particular the increase in trade in counterfeited goods over the Internet, which might justify the exemption of SDS from competition rules in the online environment.

The two counter-arguments thus cannot fully reconcile the contradictions in *Pierre Fabre* and *Copad*. The fact that the contradiction cannot be reconciled is also evident in the reactions by German courts in the aftermath of *Pierre Fabre* that ultimately led to the preliminary reference in *Coty*. These reactions will be briefly outlined in the next section.

1. Reactions by national courts

In the aftermath to *Pierre Fabre*, German courts have proved to be stupefied by the CJEU's neglect of brand owners' interests in its legal reasoning. The Higher Regional Court of Berlin expressed perplexity in its school bags judgment in 2013 by stating that "the interest of a luxury goods manufacturer to maintain the reputation of her trademark and to protect the results of her efforts [...] should be able to justify a selective distribution system; [...] but apparently this is now different without,

(2011). "L'Oreal v eBay: A Warning to Online Marketplace Operators," *Journal of Intellectual Property Law & Practice* 6(11), 765–68.

¹⁶⁵ For a thorough discussion of this argument see Schmidt-Kessen, Maria José (2017). "Policing Trademark Infringement on Online Selling Platforms – An Account of Tensions between ISP Liability, Trademark Protection and Competition Law in the EU", *Managing Risk in the Digital Society Proceedings of the 13th International Conference on Internet, Law & Politics*. Universitat Oberta de Catalunya, Barcelona 29-30 June, 2017.

however, any discussion of prior case law in [*Pierre Fabre*].¹⁶⁶ The Berlin Court thus acknowledged the existence of the CJEU's *Pierre Fabre* judgment, but contrary to it, went on to accept that an e-Bay ban in a selective distribution system could be justified by the trademark owners interest to protect the reputation of her trademark.¹⁶⁷ In the concrete case, however, the trademark owner had failed to implement the SDS in a non-discriminatory manner, which led to it being contrary to Article 101 (1) TFEU.

Similarly, the preliminary reference from the Higher Regional Court of Frankfurt in *Coty* seems to be motivated by a discomfort with the CJEU's legal reasoning in *Pierre Fabre*. The Frankfurt Court essentially wants to reassure itself that the CJEU did not mean what it said in *Pierre Fabre*, when it held that the protection of brand reputation could not justify a SDS under Article 101 (1) TFEU. The precise wording of the referring court's question is: "Can selective distribution systems for the distribution of luxury and prestige goods that primarily serve the aim of protecting a luxury image of the products at stake be an acceptable form of competition under Article 101 (1) TFEU?".¹⁶⁸ The question by the Frankfurt Court is essentially framed as inviting the CJEU to revise *Pierre Fabre*.

The reactions of the German courts show that the CJEU's legal reasoning in *Pierre Fabre* has sown confusion and incomprehension at national level. The total neglect of trademark owners' interests in brand protection was incomprehensible to national courts. A more balanced approach by the CJEU appears to be necessary. While the CJEU in *Coty* provided a more balanced approach by re-establishing that

¹⁶⁶ Author's translation. See KG Berlin, judgment of 19 September 2013, „Schulranzen“ – 2 U 8-09 Kart –, juris, 46: "Auch das Interesse des Herstellers einer Luxusware, das hohe Ansehen ihrer Marke aufrechtzuerhalten und die Ergebnisse seiner Anstrengungen sicherzustellen [...], sollen ein selektives Vertriebssystem rechtfertigen können; anders jetzt anscheinend allerdings ohne Auseinandersetzung mit der früheren Rechtsprechung: EuGH, Urteil vom 13. Oktober 2011 C-439/09 – (*Pierre Fabre Dermo-Cosmetique*)".

¹⁶⁷ KG Berlin, judgment of 19 September 2013, „Schulranzen“ – 2 U 8-09 Kart –, juris, 49-50.

¹⁶⁸ Author's translation from German: „Können selektive Vertriebssysteme, die auf den Vertrieb von Luxus- und Prestigewaren gerichtet sind und primär der Sicherstellung eines "Luxusimages" der Waren dienen, einen mit Art. 101 Abs. 1 AEUV vereinbaren Bestandteil des Wettbewerbs darstellen?“, see OLG Frankfurt, Preliminary Reference to the CJEU of 19 April 2016 – 11 U 96/14 (Kart) –, juris - *Depotkosmetik II, Luxusparfüm im Internet*.

brand image protection, at least in the case of luxury goods, could justify a SDS implementing an online platform ban, the Court did not explicitly refer to the legitimate interests of trademark owners at stake in this case.¹⁶⁹ The next section gives suggestions for an improved approach in legal reasoning in IP-competition conflicts occurring when the protection of the trademark owner's interest is in tension with the freedom of distributors in a SDS to choose the most adequate sales strategy. This improved approach would be based on a dialogue between competition law and trademark law, which would lead to a more coherent and thus better case law in both fields.

VI. Would a different approach work better?

The alternative approach presented here would treat cases in which competition and trademark interests conflict as conflicts between the protection of competition on the one hand, and on the other the protection of trademarks as items of intellectual property. In German commentary on the cases before the Higher Regional Courts, it has already been argued that competition analysis should move away from seeking justifications for distribution systems restricting online sales for branded goods in the nature of the products concerned.¹⁷⁰ Instead, when tested under competition law, the existence of a trademark right protecting the branded goods should in itself be considered a justification for restricting online sales. This could be done by reference to case law of the CJEU in which it has previously held that the protection of the core of an IP right could justify competition restrictions. In *Premier League v Murphy*, for example,¹⁷¹ the CJEU held that restrictions under Article 101 (1) TFEU could be justified for the purpose of safeguarding the rights

¹⁶⁹ AG Wahl, in contrast, engaged with the trademark aspects of the case. See Opinion of AG Wahl in Case C-230/16 *Coty v Akzente* [2017], 71, 72, 88-90, 102.

¹⁷⁰ Fuchs, Anke, Nägele, Thomas (2014). "Aus Gutem Grund," *Markenartikel 10*, 84–86. See also the same argument in response to *Coty* made by Ibáñez Colomo, Pablo (2017). "Case C-230/16, *Coty Germany GmbH: Common Sense Prevails*", *Chillin' Competition Blog Post* of 6 December 2017, available at <https://chillingcompetition.com/2017/12/06/c%e2%80%91230-16-coty-germany-gmbh-common-sense-prevails/> (last visited 11 December 2017).

¹⁷¹ *Ibid* by reference to CJEU case C-403/08 *Premier League v Murphy* [2009] at 94.

which constitute the specific subject matter of the intellectual property concerned.¹⁷²

The problem when considering the specific subject matter protected by trademark rights as a type of intellectual property is that it goes to the deeper question of what exactly constitutes the core of the trademark right. When looking at traditional trademark doctrine as reflected for example in Recital 11 of the Preamble to the Trademark Directive, the main function of a trademark is to be an indicator of origin for the goods or services for which it is registered. The specific subject matter protected by trademark rights would therefore be the trademark as an information carrier, which helps to distinguish one good as to its origin from another.¹⁷³ Looking at the case law of online platform bans, it would thus be questionable whether a platform ban is a means to protect the trademark as an indicator of origin. It would appear that the trademark does not lose any of its origin-related function if used for sales on online platforms.

The first instance court of the German Casio cameras case, the Regional Court Kiel actually hinted at this reasoning when it discussed the logo-clause in Point 54 of the Commission's Vertical Guidelines.¹⁷⁴ It stated that the rationale behind the logo-clause was to avoid the risk of confusing the consumer when confronted with the producers' products and the third party platform logo at the same time. The consumer should not be lead into mistakenly believing that the goods might originate from the third-party platform.¹⁷⁵ According to the Regional Court, there was however no such risk in the case of well-known platforms as eBay and

¹⁷² Case C-403/08 *Premier League v Murphy* [2009] at 106 read in conjunction with paragraph 145, which applies the reasoning under free movement rules *mutatis mutandis* to competition rules. See also Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press, 24.

¹⁷³ Ramello, Giovanni B. (2007). "What's in a Sign? Trademark Law and Economic Theory," in McAleer, Michael, Oxley, Les (eds.), *Economic and Legal Issues in Intellectual Property*, Oxford: Blackwell Pub, 74.

¹⁷⁴ LG Kiel, judgment of 08 November 2013 – 14 O 44/13 Kart, 14 O 44/13.Kart –, juris at 31.

¹⁷⁵ *Ibid.*

Amazon.¹⁷⁶ Following this line of argument, it would therefore be correct to find a competition law infringement because the core of the trademark right (indication of origin to avoid a risk of confusion) would not be affected by enforcing competition law. Conversely, if the third-party platform were less well-known and there was a risk of confusing the consumer as to the origin of the goods due to the platform's logo, the correct outcome would be to treat this as a legitimate justification for the particular platform ban at stake.

It could, however, be questioned whether the origin function of a trademark constitutes the true and only subject matter of a trademark right. Firstly, in globalized trade, trademarks have become a tradable commodity,¹⁷⁷ which obfuscates occasionally the true production origin of a good. Taking Diesel Fragrances as an example, the consumer is not informed that the perfume itself is produced by the French cosmetics maker L'Oréal and not by the Italian fashion producer Diesel.¹⁷⁸ Furthermore, research done in the area of marketing shows that trademarks have a much more complex function in the eyes of the consumer than simply distinguishing one good from another.¹⁷⁹ There is an entire psychological component at play; consumers not only attach information value to trademarks, but also emotional value and the value of social prestige.¹⁸⁰ The trademark can be part of an entire concept of brand image, in which branded goods become identity symbols for the consumer. They can represent a certain life style, or symbolize the belonging to a particular societal group.¹⁸¹ Undertakings

¹⁷⁶ Ibid.

¹⁷⁷ Ramello, Giovanni B. (2007). "What's in a Sign? Trademark Law and Economic Theory," in McAleer, Michael, Oxley, Les (eds.), *Economic and Legal Issues in Intellectual Property*, Oxford: Blackwell Pub, 77.

¹⁷⁸ See on L'Oréal's website: <http://www.loreal.com/brands/loreal-luxe/diesel.aspx> [last visited 23 November 2017]

¹⁷⁹ Ramello, Giovanni B. (2007). "What's in a Sign? Trademark Law and Economic Theory," in McAleer, Michael, Oxley, Les (eds.), *Economic and Legal Issues in Intellectual Property*, Oxford: Blackwell Pub, 74.

¹⁸⁰ Ibid, 78. Beebe, Barton (2003). "Semiotic Analysis of Trademark Law", *UCLA Law Review* 51, 621-704, 624.

¹⁸¹ Without necessarily qualifying as luxury goods; Griffiths, Andrew (2011). *An Economic Perspective on Trade Mark Law*, Cheltenham: Edward Elgar, 149.

invest in creating such an image of their brand through marketing strategies and advertising, and will enter into a competitive and innovative race with other undertakings when it comes to building these intangible assets inherent in the trademark of their branded goods.¹⁸² To make this point clearer, take the example of Diesel fragrances above. L'Oréal is not only using the Diesel trademark as such to market some of its fragrances, but it is also using the marketing power of the 'young and cool denim-rebel'-image that has been created by Diesel around its branded products, which the L'Oréal brand itself would have more difficulty in providing.

The next question would be whether these intangible characteristics appealing to consumers' emotional and psychological needs would form a part of the core of a trademark right, which could immunize restrictive agreements from competition law enforcement. The CJEU's case law offers some guidance in this respect, as it held for example in its *L'Oréal v Bellure* judgment that a trademark's function is also one of communication, investment or advertising.¹⁸³ It would still be up for discussion whether these functions are part of the core or of the periphery of a trademark right. In the case of online selling bans, the question is how much deference competition law should show towards these functions of a trademark, which are not the 'essential' function of an indicator of origin.

A case-by-case analysis could lead to fair outcomes. Imagine, for example, a book publisher that invests in its brand image by representing itself as being on the left side of the political spectrum. Its customers appreciate buying books from this publisher because it supports social initiatives, gives fair working conditions to its workers and fair remuneration to the authors, supports a green policy for book printing etc. Now imagine that this book publisher disagrees with the working conditions for Amazon employees,¹⁸⁴ and therefore implements a distribution

¹⁸² Ibid, 151.

¹⁸³ Case C-487/07 *L'Oréal v Bellure* [2009] at 58.

¹⁸⁴ Amazon has been often in the press for its below-standard working conditions, see for example Cadwalladr, Carole (2013). "My Week as an Amazon Insider", *The Guardian*, 1 December 2013:

system with an Amazon selling ban for its books. If one of the retailers of this imaginary publisher challenged this distribution policy on the basis of competition law, a court handling the case could take into consideration the trademark image constructed by the publisher as a possible justification of the Amazon selling ban. Albeit this might seem very far-fetched, the German Higher Regional Courts seemed to have used a similar test when assessing discrimination under the *Metro I* formula. They were looking at whether the platform ban at stake formed part of a well-founded distribution policy based on commercial sense that was maintained consistently across all sales channels.¹⁸⁵ The CJEU's judgment in *Coty*, in contrast, would most likely not exempt such a distribution agreement under Article 101 (1) TFEU, since it does not concern luxury goods, but books. This highlights the weakness of making the legitimacy of an SDS dependent on the nature of the goods. Nevertheless, after *Coty* it appears that a platform ban in a SDS for non-luxury goods would always benefit from an exemption under the Vertical BER if it falls below the market share threshold.

The alternative approach presented here could serve as an inspiration for thinking in a new way about legitimate and illegitimate vertical restrictions at the interface of trademark and competition law. Firstly, it could help to exempt restrictive vertical agreements, which have potentially no anti-competitive effects, but are nevertheless too easily caught under Article 101 (1) TFEU because they are classified as restrictions by object on the basis of the CJEU's judgments in *Pierre Fabre* and *Expedia Inc*,¹⁸⁶ and are not concerned with the distribution of luxury

<http://www.theguardian.com/technology/2013/dec/01/week-amazon-insider-feature-treatment-employees-work> [last visited 23 November 2017].

¹⁸⁵ In the exact German wording of the Courts: „nachvollziehbare und willkürfreie Vertriebspolitik“ (OLG Karlsruhe, judgment of 25 November 2009 – 6 U 47/08 Kart –, juris at 60; KG Berlin, judgment of 19 September 2013, „Schulranzen“ – 2 U 8-09 Kart –, juris at 69), „eine entsprechend wohlbegründete Vertriebslinie [, die] dann auch über alle Vertriebskanäle [durchgehalten wird]“ (Schleswig-Holsteinisches Oberlandesgericht, judgment of 05. June 2014 – 16 U Kart 154/13, 16 U (Kart) 154/13 –, juris at 65).

¹⁸⁶ At least the Higher Regional Court of Schleswig-Holstein held that there was a restriction by object by reference to *Pierre Fabre* and Case C-226/11 *Expedia Inc* [2012], an approach, which might seem convenient to follow to other courts, too.

goods that have now received a more lenient treatment in *Coty*. Secondly, such an approach would ensure a more realistic view on trademarks' mode of functioning on the market under competition law, by taking into consideration discussions and developments in the area of trademark law. At the same time, competition law could invite trademark law to reflect on its own concepts, for example on what constitutes 'the core' of a trademark right. This dialogue would ensure a more harmonious development of competition law and trademark law, which are two areas of the law being challenged by the new economy and which are in a state of flux.

VII. Conclusion

A clear answer to the question of how to draw the line between legitimate and illegitimate online selling restraints in competition law is not yet settled, due to diverging judgments by national courts and the CJEU and diverging practices by NCAs. As the issue of online selling restraints has arisen so far always in connection with branded goods which receive trademark protection, this Chapter argues that courts should not decide these competition cases in isolation from developments under trademark law. Insights from trademark law might help courts to draw a clearer and more predictable distinction between truly anticompetitive online selling restraints, and online selling restraints which genuinely further legitimate business interests and receive protection under the umbrella of a trademark right. At the same time, trademark law might benefit from insights from competition law to avoid extending trademark protection in anti-competitive ways.

Chapter 4

- Case Study: Digital Platforms -

Digital platforms are the drivers of today's economy. This chapter analyses the EU Courts' legal reasoning in IP-competition conflicts in cases evolving around two classic examples of digital platforms: operating systems and video game consoles. It shows how both, IP law and competition law have been challenged by the digital economy, and the importance of achieving interoperability between various software products. Under competition law, it has been necessary to establish the conditions under which a dominant digital platform owner has to give access to third parties to its platform. Under IP law, the use of digital rights management (DRM) to control access to digital platforms and inhibit any customization by consumers,¹ has led to challenges to the protection against circumvention of technological protection measures (TPMs).

While other authors have focused more on the issue of interoperability as such, and on how different EU law regimes could achieve it,² this chapter deals with the type of legal reasoning the EU Courts have adopted to balance the different interests involved when the possibility of enhancing interoperability is at stake. While under competition law the *Magill* exceptional circumstances test has proven to be the chosen type of reasoning, under copyright law, in the context of technological protection measures, it has been proportionality analysis. The Courts'

¹ Samuelson, Pamela (2016). "Freedom to Tinker" in Harhoff, Dietmar, Lakhani, Karim R. (eds.) *Revolutionizing Innovation: Users, Communities, and Open Innovation*, Cambridge, Mass.: MIT Press, 217-233.

² See for example Graef, Inge (2014). "How Can Software Interoperability Be Achieved under European Competition Law and Related Regimes?," *Journal of European Competition Law & Practice* 5(1), 6-19; Zingales, Nicolo (2015). "Of Coffee Pods, Videogames, and Missed Interoperability: Reflections for EU Governance Of The Internet Of Things", TILEC Discussion Paper DP 2015-026, available at: <http://ssrn.com/abstract=2707570> (last visited 27 September 2017).

reasoning in both cases shows, however, that the interests of one side of the IP-competition conflict at stake have been neglected. In competition law, the GC has not paid due attention to the IP regime at stake. In copyright law, in the context of technological protection measures, the CJEU has paid no attention to competition interests at stake. In reaction to these omissions, this chapter proposes a more holistic perspective on IP-competition conflicts that could improve the Courts' legal reasoning.

From a competition law perspective, this chapter mainly engages with the GC *Microsoft* judgment and operating systems as two-sided markets.³ The EU *Microsoft* case has been discussed at length in many contributions.⁴ The argument of this Chapter that a holistic approach towards questions of interoperability under EU competition law should be undertaken by reference to EU IP legislation, in particular the Computer Programs Directive, has also been made before.⁵ This Chapter contributes new aspects to this discussion, however, by addressing how taking the two-sided nature of the digital platform at stake into consideration could

³ Other, more recent cases of classical types of two-sided markets (credit card systems and search engines) that have been subject to Commission competition law proceedings and EU Court judgments, such as Case C-67/13 P *Groupement des Cartes Bancaires* [2014] and the proceedings against Google, are not subject of this Chapters' analysis. The principal reason for not engaging with these cases is that they do not involve IP issues. Nonetheless, the analysis of this chapter might be helpful in order to provide an adequate legal reasoning for addressing affected interests outside the strict area of competition law in the context of online platforms, as for example data protection concerns.

⁴ For example Ahlborn, Christian, Evans David S. (2009). "The Microsoft Judgment and its Implications for Competition Policy Towards Dominant Firms in Europe", *Antitrust Law Journal* 75, 887-932 (criticizing that the General Court missed the opportunity in *Microsoft* to move towards a more economic approach under Article 102 TFEU); Larouche, Pierre (2009). "The European Microsoft Case at the Crossroads of Competition Policy and Innovation: Comment on Ahlborn and Evans", *Antitrust Law Journal* 75, 933-963 (criticizing, among other things, the application of the *Magill/IMS Health* test in *Microsoft* without taking other potential factors for establishing abuse into account, but finding Ahlborn and Evan's critique over the top); Andreangeli, Arianna (2008). "Case T-201/04, Microsoft v. Commission, Judgment of the Grand Chamber of the Court of First Instance of 17 September 2007", *Common Market Law Review* 45, 863-894 (case note criticizing that the General Court failed to take into account all relevant economic circumstances into account, including realities of New Economy markets).

⁵ For example Moldén, Robert (2008). "Mandatory Supply of Interoperability Information: The Microsoft Judgment", *European Business Organization Law Review* 9, 305-334, 330. Lianos, Ioannis (2006). "Competition Law and Intellectual Property Rights: Is the Property Rights' Approach Right?" in Bell, John, Kilpatrick, Claire (eds.), *Cambridge Yearbook of European Legal Studies* 8, Oxford: Hart Publishing, 2006, 153-186.

have further improved the legal reasoning in *Microsoft*. Furthermore, a novel aspect in this chapter is the comparison with the evaluation of denying access to digital platforms by using TPMs in the framework of the EU InfoSoc Directive.

Economics and business studies literature on two-sided markets aids the analysis of the cases at stake, because it provides enhanced insights on the kinds of economic interests and incentives involved. The first part of the Chapter therefore starts with a brief discussion of the theory and practice of two-sided markets. It then proceeds to discuss the nature of IP-competition conflicts regarding access restrictions to digital platforms, and how such restrictions have been treated under EU competition law and EU IP law.

The second part of the Chapter discusses the EU Courts' legal reasoning when assessing the different interests affected by restrictions of access to digital platforms. After classifying the legal reasoning under the categories of Chapter 2, possible tensions between the legal reasoning in competition and IP law are discussed. The Chapter ends by laying out concrete considerations of a holistic perspective on the IP-competition conflict at stake that would improve the EU Courts' legal reasoning.

I. Theory and practice of two-sided markets

Since the economist and Nobel Prize winner Jean Tirole and his colleague Jean-Charles Rochet introduced the concept of two-sided markets, a growing body of literature in economic theory and empirical analysis, as well as in law, has developed.⁶ A two-sided market is in essence a business model in which a platform

⁶ See, for example, Tirole, Jean, Rochet, Jean-Charles (2003). "Platform Competition in Two-Sided Markets," *Journal of the European Economic Association* 1(4), 990–1029; Evans, David S. et al. (2006). *Invisible Engines: How Software Platforms Drive Innovation and Transform Industries*, Cambridge, Mass: MIT Press; Hesse, Renata (2007). "Two-Sided Platform Markets and the Application of the Traditional Antitrust Analytical Framework," *Competition Policy International* 3(1), 191-195; Lamadrid de Pablo, Alfonso (2014). "The Double Duality of Two-Sided Markets", Swedish Competition Authority's 2014 Pros and Cons Conference, Stockholm, 2014; Nazzini, Renato, Nikpay, Ali (2014). "Object Restrictions and Two-Sided Markets in EU Competition Law after *Cartes Bancaires*", *Competition Policy International* 10(2), 157-172.

provider has the function of an intermediary between two customer groups in order to facilitate transactions between them. Furthermore, the platform has little intrinsic value in itself; its value derives from the number of transactions on it between two or more customer groups. Two-sided markets are characterized by network effects, because their value increases for the platform users by every additional user. Examples of two-sided “offline” markets include newspapers (the two sides being readers and advertisers) and shopping malls (the two sides being shops and clients). Examples for “online” two-sided markets are search engines (the two sides being users and advertisers) and dating platforms (the two sides being female and male users).

A special feature of two-sided markets in contrast to other business models with two distinct customer groups is that they frequently rely on one customer group subsidizing the other customer group. Taking Google as an example, it is well-known that it offers an array of valuable services such as Gmail, Google search, Google maps, *for free*. Google can do so, because it finances these services *inter alia* through selling advertising space on its websites to companies. The business model of two-sided markets thus relies on one side (the companies buying advertising space on Google websites) fully or partially subsidizing the services offered to the other side of the platform users (the free use of Google search or Gmail).

Rochet and Tirole thus define two-sided markets as “markets in which the volume of transactions between end-users depends on the structure and not only on the overall level of the fees charged by the platform”⁷. In a similar fashion, Evans defines a market as two-sided if “at any point in time there are (a) two distinct groups of customers; (b) the value obtained by one kind of customers increases with the number of the other kind of customers; and (c) an intermediary is necessary for internalizing the externalities created by one group for the other

⁷ Rochet, Jean-Charles, Tirole, Jean (2006). “Two-Sided Markets: A Progress Report,” *The RAND Journal of Economics* 37(3), 645–667.

group.”⁸ These definitions serve to make the case law on operating systems and video game consoles presented below more readily comparable.

1. The operating systems industry

An operating system (OS) is the layer of software that allows a user to control the underlying computer hardware. At the same time, it provides services to applications software, which enables users to run computer programs on top of the OS. An OS allows a user to run, for example, a word processor application in order to create or edit document files on a computer. Well-known OS for personal computers include Windows, OS X and Linux. OS sit on virtually any piece of hardware, for example smartphones (Android, iOS), servers (R2, RHEL), and game consoles (Play Station system software, Xbox system software).

When it comes to desktop PCs, the most used OS is Microsoft’s Windows. The success story of Microsoft has been told many times.⁹ Microsoft’s Windows OS has had a lead over the last 30 years in the area of personal computers and most PCs in the world today run on Windows OS.¹⁰ One of the accounts of Microsoft’s success has emphasized that Microsoft adopted the correct strategy in its business model for OS. As a general rule, an OS’s success increases the more application programs exist for it. One of Microsoft’s early goals in the history of Windows has therefore been to attract as many software developers as possible to write application

⁸ Evans, David S. (2011). “Platform Economics: Essays on Multi-Sided Businesses” , Competition Policy International, available at <http://www.marketplatforms.com/wp-content/uploads/Downloads/Platform-Economics-Essays-on-Multi-Sided-Businesses.pdf> (last visited 12 October 2017), 102.

⁹ Part of Microsoft’s success appears to derive from frequently choosing business strategies that deviated from standard business practice, for example by licensing one of its first software products, a programming language called BASIC, to PC manufacturers on a per-unit royalty basis instead of a flat fee. See Evans, David S. et al. (2006). *Invisible Engines: How Software Platforms Drive Innovation and Transform Industries*, Cambridge, Mass: MIT Press, 87.

¹⁰ For the last three years the market share of Microsoft Windows’ based OS for desktop computers has fluctuated around 90% (Desktop PCs Operating System Market Share 2012-2015 Statistics, *Statista*, available at <https://www.statista.com/statistics/218089/global-market-share-of-windows-7/> (last visited 27 November 2017).

programs for Windows.¹¹ Microsoft has achieved this *inter alia* by giving away application programming interfaces (APIs), i.e. the computer-code information needed for developers to make Windows-compatible application programs, well in advance before marketing a new Windows version.¹² Microsoft has also invested in programs and schooling to support developers in producing application software for Windows.¹³ The high number of available applications has in turn induced PC sellers and end-consumers to buy PCs with pre-installed Windows OS since consumers appreciate that Windows will enable them to use a large number of application software. Consequently, Microsoft has made the bulk of its revenue from licensing Windows to PC makers, which sell their own hardware bundled with Microsoft Windows to end consumers.¹⁴

In economics and business studies literature, OSs feature as one of the most prominent examples of a two-sided market.¹⁵ Firstly, an OS acts as facilitator between two distinct groups of customers: (third-party) software developers and users. Secondly, due to network effects, the value of an OS platform increases for both customer sides with the number of users and application developers on board.¹⁶ Thirdly, the pricing structure implemented by the OS producer matters for the numbers of transactions between the two customer groups, i.e. the pricing structure will matter for the overall success or failure of the platform. As

¹¹ Evans, David S. (2011). "Platform Economics: Essays on Multi-Sided Businesses", Competition Policy International, available at <http://www.marketplatforms.com/wp-content/uploads/Downloads/Platform-Economics-Essays-on-Multi-Sided-Businesses.pdf> (last visited 12 October 2017), 90.

¹² Ibid, 89. Tirole, Jean, Rochet, Jean-Charles (2003). "Platform Competition in Two-Sided Markets," *Journal of the European Economic Association* 1(4), 990–1029, 1017.

¹³ Evans, David S. (2011). "Platform Economics: Essays on Multi-Sided Businesses", Competition Policy International, available at <http://www.marketplatforms.com/wp-content/uploads/Downloads/Platform-Economics-Essays-on-Multi-Sided-Businesses.pdf> (last visited 12 October 2017), 89.

¹⁴ Evans, David S. et al. (2006). *Invisible Engines: How Software Platforms Drive Innovation and Transform Industries*, Cambridge, Mass: MIT Press, 89.

¹⁵ See Tirole, Jean, Rochet, Jean-Charles (2003). "Platform Competition in Two-Sided Markets," *Journal of the European Economic Association* 1(4), 990–1029; Evans, David S. et al. (2006). *Invisible Engines: How Software Platforms Drive Innovation and Transform Industries*, Cambridge, Mass: MIT Press.

¹⁶ Katz, Michael, Shapiro, Carl (1985). "Network Externalities, Competition, and Compatibility," *The American Economic Review* 75(3), 424-440, 424.

mentioned above, Microsoft's choice has been to subsidize the software developer side through making access to the Windows platform generally cheap (giving away APIs freely and offering schooling), despite the proprietary nature of the platform. At the same time, it has made its business model profitable by charging the user side of Windows OS, therefore making access to the Windows platform relatively costly to this customer group. In this way, Microsoft absorbs the positive externalities from facilitating exchanges between the two customer groups through its Windows OS. Windows, as an OS, thus fulfils the main characteristics of a two-sided market.

An important feature of Microsoft Windows OS is that it consists of proprietary software. In contrast to open source software, the source code behind proprietary software is secret and is not accessible to users.¹⁷ This means that users cannot view, study or modify the source code of proprietary software.¹⁸ In the case of Microsoft Windows OS, this allows Microsoft to decide to which developer to give the necessary APIs to produce application programs for Windows, without the developer ever knowing how the Windows OS works as a whole. It also allows Microsoft to prevent unauthorized developers from producing application programs for its OS. This is, on the one hand, because the Windows source code (including the code of the interfaces) is secret. Third-party application developers are thus left in the dark, because they cannot learn which information they need to include in their applications' code to make it runnable on Windows. On the other hand, even if the source code for the necessary API's was somehow revealed, Microsoft could still sue unauthorized developers for copyright infringement. Since Windows APIs are themselves lines of code, and are protected under copyright, patent, and trade secret law, developers could not simply copy the APIs and use

¹⁷ Deek, Fadi P. (2008). *Open Source: Technology and Policy*, New York: Cambridge University Press, Chapter 1.1.

¹⁸ Proprietary software can be imagined like a device in a case, for example a sewing machine or a radio set that a buyer cannot open, because the case is sealed. It prevents the buyer from being able to study how the device works, to understand which its different components are, and to fix it in case it breaks.

them for their application programs. They would need a license from Microsoft first. The proprietary nature of Microsoft's OS therefore gives Microsoft the power to determine who has access to which portion of its OS' source code. The issue of Microsoft's power to control access to its Windows OS in the context of network computing was one of the subjects in the *Microsoft* case discussed below.

2. The video games industry

The industry around video games has been a lucrative business since the first commercial video games were marketed for arcades in the 1970s in the US.¹⁹ Subsequently, the distribution of video games evolved into the game consoles business for private households in the 1980s. In 2015 the global turnover in games for game consoles was around US \$ 26.4 billion.²⁰ The two core products on the market for video game consoles are video games and game consoles. Game consoles are no more than specialized hardware, which run specialized software: games. There are three main groups of market participants in the market for video game consoles: the video game developers (mainly software engineers or larger companies specialized in the production of games), the game console manufacturers and the community of video game players. Console producers act as intermediaries between developers and consumers. They take up two roles as intermediaries: firstly, they offer a platform, or the infrastructure, through which game developers can distribute their games to their audience. Secondly, they have the power to select which games will actually reach the market; in this sense, they

¹⁹ Timelines about the developments of the video game industry in Umeh, Jude (2007). *The World Beyond Digital Rights Management*, Swindon: BCS, The Chartered Institute, 46; Evans, David S. et al. (2006). *Invisible Engines: How Software Platforms Drive Innovation and Transform Industries*, Cambridge, Mass: MIT Press, 116.

²⁰ Fortune online article of 15 January 2015, citing as source for the figure Newzoo, a specialized market research firm for the games industry, see "Mobile Game Revenues Will Overtake Console Games in 2015. Here's Why", available at <http://fortune.com/2015/01/15/mobile-console-game-revenues-2015/> (last visited 27 November 2017).

act as a quality monitoring mechanism, deciding on the life or death of a console game.²¹

Game consoles, too, fall within the category of business strategies defined as “two-sided markets”²², or multi-sided platforms.²³ Firstly, they cater to two distinct customer groups, game developers and video game consumers. Secondly, they show network effects: the more games are developed for a console, the more users will buy the console, because they will be attracted to having a greater choice of games. Reversely, the larger the community of gamers of one type of console, the more video game developers will have an incentive to produce games for that particular console, because their outreach to potential consumers will be larger.²⁴ Furthermore, as the current generation of game consoles enables connectivity via Internet between different players,²⁵ there is yet another dimension of network effects similar to those of a telephone system. The value of the telephone network grew with the number of users, because it enabled each user to reach more people via telephone. Similarly, the more players there are of one console, the more

²¹ Bethke mentions this as a relevant distinction between the market for PC games and console games; whereas it is relatively easy to market a PC game, console vendors will act as quality monitors throughout the game development process. This results in less games being eventually marketed, but at a higher profit rate than PC games. See Bethke, Erik (2003). *Game Development and Production*, Plano, Texas: Wordware Pub, Chapter 3.

²² Tirole, Jean, Rochet, Jean-Charles (2003). “Platform Competition in Two-Sided Markets,” *Journal of the European Economic Association* 1(4), 990–1029.

²³ As Evans explains the term “two-sided markets” is not helpful to describe the underlying phenomenon: “I typically avoid this term since it tends to obscure the fact that we are talking about businesses rather than markets. I prefer the term “multi-sided platforms” because these businesses provide a place for customers to meet and interact and often support more than two interdependent types of customers. In writing for business audiences I use the term “catalyst” to denote the fact that these businesses create value that couldn’t be had without bringing these customer types together” in: Evans, David S. (2011). “Platform Economics: Essays on Multi-Sided Businesses”, Competition Policy International, available at <http://www.marketplatforms.com/wp-content/uploads/Downloads/Platform-Economics-Essays-on-Multi-Sided-Businesses.pdf> (last visited 12 October 2017).

²⁴ In the context of literature on systems, this type of network effect by which an increase in the number of one group attracts members to another group has been coined “indirect network effect”. See, for example, Katz, Michael, Shapiro, Carl (1994). “Systems Competition and Network Effects,” *The Journal of Economic Perspectives* 8(2), 93-115, 99.

²⁵ The current generation of game consoles is the eighth generation. Wikipedia offers a comprehensive overview over the history of game consoles: “Video Game Console,” *Wikipedia, the Free Encyclopedia*, November 11, 2015, https://en.wikipedia.org/w/index.php?title=Video_game_console&oldid=690102703.

possibilities they will have to play with each other online.²⁶ Thirdly, game consoles act as a facilitator between game producers and video game consumers: they reduce their transaction costs by providing a single infrastructure through which they can transact. They provide a single point of reference for both customer groups,²⁷ which could not be achieved by game developers and consumers interacting individually. Game consoles thus create positive externalities, which are internalized by the game console producer. With these three characteristics, they fulfil the mainstream definition of a two-sided market as proposed by Evans in light of the research by Tirole and Rochet.²⁸

As noted above, the most important characteristic that distinguishes two-sided markets from other intermediaries is the non-neutral pricing structure adopted by the platform.²⁹ This means that for the volume of exchanges on the platform it is not the overall price charged which is decisive, but how the platform allocates the cost for interaction between the two customer groups. The pricing structure is thus non-neutral in relation to economic outcomes.³⁰

In the case of game consoles, a manufacturer wishing to maximize her profits would thus ask herself how to price access to her game consoles to consumers and developers in order to bring the maximum number of consumers and developers

²⁶ The type of network effect by which the utility of one user of a system increases by each additional user in the same group, for example due to increased possibilities of interaction, has been coined "direct network effect". See for example Katz, Michael, Shapiro, Carl (1994). "Systems Competition and Network Effects," *The Journal of Economic Perspectives* 8(2), 93-115, 96.

²⁷ To developers, the game console gives one set of technical rules of how game developers need to encode a game to sell it to the gamers owning a specific console; to consumers the game console is one single device through which they can play a wide variety of different games.

²⁸ Evans defines a market as two-sided if "at any point in time there are (a) two distinct groups of customers; (b) the value obtained by one kind of customers increases with the number of the other kind of customers; and (c) an intermediary is necessary for internalizing the externalities created by one group for the other group." See Evans, David S. et al. (2006). *Invisible Engines: How Software Platforms Drive Innovation and Transform Industries*, Cambridge, Mass: MIT Press, 102.

²⁹ Tirole and Rochet cite as examples of neutral pricing structures VAT, bilateral electricity trading, and payment systems in which certain conditions are met. The decisive characteristic of a neutral pricing structure is that both customer group can negotiate over the surcharges for using a platform, i.e. that Coasean bargaining is possible. See Rochet, Jean-Charles, Tirole, Jean (2006). "Two-Sided Markets: A Progress Report," *The RAND Journal of Economics* 37(3), 645-667, 648.

³⁰ Ibid.

on board. The predominant answer by console manufacturers has been to sell consoles at a very low price (i.e. access is cheap for consumers) and making their main profits from game developers (i.e. access is costly for developers).³¹ One side of the market thus subsidizes the other side. Nintendo's business model, for example, has been to sell its game consoles at zero profit or even below cost, thereby attracting video game players to buy Nintendo consoles at low prices. At the same time, it has made profits by charging fees to developers for blank media and collecting royalties from the sales of games for Nintendo consoles. While the profit from the sale of Nintendo games developed by third parties goes to those developers or publishers, they still have to pay a royalty to Nintendo, which is usually a percentage of the sales.³² Third party games are therefore often more expensive than games produced by console manufacturers themselves, where no licensing fees accrue. As Nintendo has strict quality controls for its games (increasing the chances that once a game for Nintendo is released it will likely be profitable), and has a broad user base, many developers have been attracted nonetheless to produce games for Nintendo consoles.

Nintendo implements an encryption system to ensure that only licensed developers produce games for Nintendo consoles. Such system is arguably necessary to protect the profitability of its pricing structure. Essentially, Nintendo game consoles will only read cartridges (or other carriers for the game), which implement Nintendo's authentication chip.³³ Developers thus have to buy the blank media for their games from Nintendo, which is yet another revenue resource for Nintendo. Technically, the encryption mechanism is but software included in Nintendo's consoles, and in the media carrying Nintendo-authorized games. As a form of software, the mechanism receives double legal protection: On the one

³¹ Evans, David S. et al. (2006). *Invisible Engines: How Software Platforms Drive Innovation and Transform Industries*, Cambridge, Mass: MIT Press, 117.

³² Schilling, Melissa A. (2006). "Game Not Over: Competitive Dynamics in the Video Game Industry," in Lampel, Joseph et al. (eds.), *The Business of Culture: Strategic Perspectives on Entertainment and Media*, New York: Psychology Press, 75-104, 88.

³³ Evans, David S. et al. (2006). *Invisible Engines: How Software Platforms Drive Innovation and Transform Industries*, Cambridge, Mass: MIT Press, 126.

hand, it cannot be copied without authorization under copyright law, and on the other, the encryption mechanism cannot be broken due to the legal protection of technological protection measures. The case study below focuses on the latter type of protection under EU law, in order to provide a background to the analysis of the CJEU's *Nintendo* case.³⁴

II. The problem giving rise to IP-competition conflicts: restrictions of access to digital platforms

The type of IP-competition conflicts with which this chapter is concerned is related to the degree to which digital platform owners are entitled to restrict access to their platforms. In how far is a digital platform owner obliged to give access to developers that want to produce interoperable products? In how far should both, the commercial freedom of the platform owner to design its platform, as well as the commercial freedom of third-party developers to produce compatible software products be protected?

The balance to be struck in these cases is not a straight-forward one, both within competition and within IP law. As, for example, a report by the French and UK competition authorities explains, the competitive effects of digital platforms that do not restrict access (open systems) and those that restrict access (closed systems) by third-party developers are mixed.³⁵ While open systems generate intra-system competition, closed systems can lead to fierce competition between systems.³⁶ The potential negative effect of closing a system can thus be offset by

³⁴ The former type of protection, i.e. copyright protection of Nintendo's encryption system software, was subject to court proceedings in the US: *Atari Games Corp. v Nintendo of America Inc.*, 975 F.2d 832 (U.S. Court of Appeals, Federal Circuit 1992).

³⁵ Autorité de la Concurrence, CMA (2014). The Economics of Open and Closed Systems. Report of 16 December 2014, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/387718/The_economics_of_open_and_closed_systems.pdf (last visited 26 September 2017).

³⁶ *Ibid.*, 15.

increased inter-system competition. Furthermore, the effects on innovation of open versus closed systems can be mixed.³⁷

An open platform system can be defined as one with an interface that is accessible to third-party developers to produce applications or other components, thus allowing for a variety of components for a platform from different sources competing on the market.³⁸ In a closed system, in contrast, the platform owner will restrict access to interfaces, thereby controlling how many and which components are available on the market from other sources.³⁹

When it comes to the openness or closeness of digital platforms, the IP regime applicable to software and technological protection measures is of crucial importance as a tool to allow platform owners to decide on the degree of accessibility to their platform.⁴⁰ Firstly, the information necessary to access a digital platform, which is embedded in APIs, can be protected under copyright. Secondly, under certain circumstances, technological protection measures that prevent access to a digital platform can receive anti-circumvention protection under IP laws. When a digital platform owner decides to establish a closed platform system, she will thus be able to rely on copyright law and technological protection measures to prevent any unwanted access to her platform by third-party developers. In how such a business decision is legally protected depends, however,

³⁷ Hilty, Reto, Köklü, Kaya (2007). "Access and Use: Open vs. Proprietary Worlds", Max Planck Institute for Innovation and Competition Research Paper No. 14-07, available at: <http://ssrn.com/abstract=2425637> (last visited 27 September 2017), 2.

³⁸ Autorité de la Concurrence, CMA (2014). The Economics of Open and Closed Systems. Report of 16 December 2014, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/387718/The_economics_of_open_and_closed_systems.pdf (last visited 26 September 2017), 12.

³⁹ Ibid.

⁴⁰ In this chapter I only refer to copyright and technological protection measures, because these are the types of relevant IP regimes in the case law of the CJEU discussed in this chapter. For a comprehensive list of IP rights that can cover interoperability information see Zingales, Nicolo (2015). "Of Coffee Pods, Videogames, and Missed Interoperability: Reflections for EU Governance Of The Internet Of Things", TILEC Discussion Paper DP 2015-026, available at: <http://ssrn.com/abstract=2707570> (last visited 27 September 2017).

on the design of the IP law system, and on how friendly it is towards interoperability.⁴¹

III. EU competition law

1. Article 102 TFEU

When access to a digital platform is covered by a form of IP right, and the platform owner is a dominant undertaking, closing a platform can run counter Article 102 TFEU. Under EU competition law, an undertaking with market power is not entirely free to restrict access to its intellectual property. This includes intellectual property rights covering access to a system or platform. In a famous line of cases, the CJEU has explained that the refusal to grant access to an IP protected business assets by a dominant undertaking can constitute an abuse under Article 102 TFEU.⁴²

Starting with *Volvo*, the Court held that a refusal to grant access to IP protected business assets could only amount to an abuse of dominance in “exceptional circumstances”, since the right to exclude lay at the centre of the IP right.⁴³ To identify such exceptional circumstances, the CJEU established a test in the subsequent *Magill* case.⁴⁴ In this case, three Irish TV stations that had refused to provide a company intending to publish a weekly TV guide with their weekly programme listings, which were protected by copyright under Irish law. According to the CJEU, a refusal to license was abusive when (i) the IP covered subject matter was indispensable for carrying out the commercial activity in question (i.e. in this case publishing a weekly TV guide)⁴⁵; (ii) the refusal prevented the appearance of a new product for which there was a potential consumer demand;⁴⁶ (iii) the refusal

⁴¹ An interoperability-friendly copyright provision can be found, for example, in Article 6 of the Computer Programs Directive, which, under limited circumstances, allows for an exception to copyright protection for software for the purposes of decompilation in order to achieve interoperability.

⁴² See also Chapter 1 Section I.1.

⁴³ Case 238/87 *Volvo* [1988], 8. For a detailed discussion of *Volvo* see also Chapter 5 Section II.2.

⁴⁴ Case C-241/91 *Magill* [1995].

⁴⁵ *Ibid*, 53.

⁴⁶ *Ibid*, 54.

resulted in the complete elimination of competition on the secondary market⁴⁷; and (iv) there was no objective justification for the refusal.⁴⁸

The CJEU confirmed the *Magill* test in the *IMS Health* judgment.⁴⁹ In this judgment, it clarified that the first three *Magill* conditions, namely “that the refusal prevents the emergence of a new product for which there is potential consumer demand, that it is unjustified and that it is such as to exclude competition on a secondary market”⁵⁰ had to be fulfilled cumulatively. The CJEU further specified in relation to the criterion of exclusion of competition on a secondary market, that even though the existence of two separate markets had to be shown,⁵¹ it was sufficient that a potential or even hypothetical secondary market could be identified.⁵² It was thus important that two different stages of production could be identified, which were interconnected, “inasmuch as the upstream product is indispensable for the supply of the downstream product”.⁵³

2. The GC *Microsoft* case and IP-competition conflicts

The EU Commission proceedings against Microsoft, as well as the antitrust proceedings by the DoJ against Microsoft in the US, are probably the most important cases of antitrust enforcement in recent competition law history.⁵⁴ The stakes were high, the situation unclear. One of the early Commission’s press releases expresses the fear of Microsoft monopolizing the server OS market through its dominance in the PC OS market: “Resolution of this case is of the utmost importance as operating systems for servers constitute a strategic sector in

⁴⁷ Ibid, 56.

⁴⁸ Ibid, 55.

⁴⁹ Case C-418/01 *IMS Health*, [2004].

⁵⁰ Ibid, 38.

⁵¹ Ibid, 41-42, by reference to Case C-7/97 *Bronner* [1998], 34.

⁵² Case C-418/01 *IMS Health*, [2004], 43-44.

⁵³ Case C-418/01 *IMS Health*, [2004], 45.

⁵⁴ Few other cases in the history of competition/antitrust law have provided the material to write entire books about them. See for, example, Gavil Andrew I., First, Harry (2014). *The Microsoft Antitrust Cases : Competition Policy for the Twenty-First Century*, Cambridge, Mass.: The MIT Press.; Rubini, Luca (ed.) (2010). *Microsoft on Trial : Legal and Economic Analysis of a Transatlantic Antitrust Case*, Cheltenham: Edward Elgar.

the development of a global market for information technology and e-commerce.”⁵⁵ The Commission was on a quest to defend a free and competitive future of the nascent European e-commerce sector.

The competition issue in the OS market brought forward by the Commission concerned the interaction between Windows and non-Windows servers in network computing. At the end of 1999, Microsoft released Windows 2000, a new server OS, that optimized the interaction and control of networks of computers running on Windows OS (the “Windows domain”). While Windows had provided other server OS manufacturers with the information necessary to interact with a Windows domain with the predecessor of Windows 2000, it now refused to do so. In reaction, Sun Microsystems, one of Microsoft’s competitors in the server OS market, complained to the Commission about Microsoft’s refusal to supply the necessary interoperability information for Windows 2000. Without the information about the functionality of the Windows 2000 communication protocols, servers running on Sun’s OS could not be seamlessly integrated in networks of several Windows servers and clients. Since more than 90% of the clients were Windows PCs, corporations in need of servers would prefer to buy perfectly interoperable Windows servers than servers with OS from other manufacturers like Sun. According to Sun, this would give Microsoft an artificial competitive advantage in the server OS market and drive out competitors. Sun therefore asked the Commission to force Microsoft to disclose the necessary interoperability information.

The Commission issued its Decision against Microsoft in April 2004.⁵⁶ It found that Microsoft had abused its dominant position in the PC OS market by refusing to supply to other undertakings the necessary interoperability information to be able to produce Windows domain-compatible server OS products. As the interoperability information was potentially covered by IP rights, the Commission

⁵⁵ Commission Press Release 3 August 2000 (IP/00/906).

⁵⁶ Decision 2007/53/EC relating to a proceeding pursuant to Article 82 [EC] and Article 54 of the EEA Agreement against Microsoft Corp. (Case COMP/C-3.37.792 – Microsoft).

decided to apply exceptional circumstances analysis. It however did not limit itself to the *Magill* test criteria to identify exceptional circumstances.⁵⁷ In contrast to the Commission, the GC returned to an exceptional circumstances legal reasoning which was *prima facie* faithful to the *Magill* test.⁵⁸

The Court confirmed the Commission decision by fitting the Commission's analysis into the *Magill* exceptional circumstances test.⁵⁹ Firstly, it held that the criterion that the IP-covered subject matter was indispensable for carrying out the commercial activity was fulfilled. Since computer programs were built to interoperate, especially in network environments, and the Windows domain architecture had become an industry standard,⁶⁰ server OS competitors needed the interoperability information to remain on the market.⁶¹ The interoperability information to interact with Windows client and work group server OS within a Windows domain was thus indispensable. Secondly, the criterion of preventing the appearance of a new product could be substituted by inquiring into whether the refusal limited technical development to the prejudice of consumers.⁶² According to the Court, prejudice to consumer choice would be caused in particular when, due to a lack of interoperability, more and more consumers were locked into the homogeneous Windows domain architecture.⁶³ Thirdly, the Court held that the complete elimination of competition in a secondary market was not necessary to fulfil the *Magill* test. A risk of elimination of competition was sufficient.⁶⁴ In this specific case, the Court found that the Commission had even more reason to act

⁵⁷ See Commission Decision in *Microsoft*, 555, 557 and 558. I will engage with the Commission's analysis in more detail below.

⁵⁸ Possibly out of fear of being reversed by the CJEU, the GC chose to do a narrower analysis than the Commission in respect of exceptional circumstances. This might simply be the result of how *Microsoft's* counsel framed the appeal in front of the GC. Nonetheless, the way in which the GC had to broaden the *Magill* test in order to fit the *Microsoft* facts is in itself helpful to illustrate the inadequacy of the exceptional circumstances test as form of legal reasoning to justify decisions in IP-competition conflicts.

⁵⁹ Case T-201/04 *Microsoft* [2007].

⁶⁰ *Microsoft*, 383, 387.

⁶¹ *Microsoft*, 421.

⁶² *Microsoft*, 647.

⁶³ *Microsoft*, 650.

⁶⁴ *Microsoft*, 561

before competition was completely eliminated. As the relevant market was characterized by network effects, an elimination of competition would be difficult to reverse.⁶⁵ Lastly, the Court rejected the justification brought forward by Microsoft. Microsoft argued that an obligation to disclose the relevant interoperability information would have a significantly negative effect on its innovation incentives. While the Court recognized that this could constitute an objective justification, it found that Microsoft had put forward only “vague, general and theoretical arguments on that point”⁶⁶ which did not substantiate the objective justification. The Court thus found that Microsoft had abused its dominance by withholding its interoperability information and that it had no valid objective justification to escape liability under competition law.

IV. EU copyright law and technological protection measures

In *Microsoft*, competitors that needed access to interoperability information regarding the interfaces of Windows OS were not able to decompile Microsoft’s OS’ software to achieve interoperability. While a limitation in copyright protection⁶⁷ would have offered competitors the possibility to legally get access to the necessary interoperability information, it was factually impossible due to the complexity of the Windows OS software.⁶⁸ This is why competitors had recourse to competition authorities to gain access to it.

Copyright law does not always include limitations to allow for interoperability as in the case of software. To the contrary, the protection awarded against circumvention of technological protection measures (TPMs) can sometimes prohibit the development of interoperable products in a manner that goes beyond

⁶⁵ *Microsoft*, 562.

⁶⁶ *Microsoft*, 698.

⁶⁷ Article 6 CPD states that “the authorisation of the rightholder shall not be required where reproduction of the code and translation of its form within the meaning of points (a) and (b) of Article 4(1) are indispensable to obtain the information necessary to achieve the interoperability of an independently created computer program with other programs”. Several limitations to this exception follow, but the Directive clearly recognizes circumstances where interoperability requirements authorize the free copying of code otherwise protected by copyright.

⁶⁸ See Commission Decision in *Microsoft*, paras. 455-456.

mere copyright protection over interoperability information. In this case, the factual access to interoperability information might be available to competitors, but its use might be prohibited under the rules on TPMs. Before turning to the CJEU's judgment in *Nintendo*, which was concerned with such a situation, we start with a brief overview over the protection regime of TPMs.

1. DRM protection under EU law

The WIPO Copyright Treaty (WCT) was the first international legal instrument implementing the idea of providing legal protection against the circumvention of technological protection measures (TPMs) which protect copyrighted works against unauthorized copying. Article 11 WTC provides that the "Contracting Parties shall provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures [...] that restrict acts [...], which are not authorized by the authors concerned or permitted by law". Many jurisdictions have subsequently adopted so called anti-circumvention legislation in their copyright laws.

In the EU, an anti-circumvention law was already known prior to the WCT, in the context of the first Computer Programs Directive (old CPD).⁶⁹ The Directive introduced in 1991 the protection of computer programs under copyright into the legal systems of the Member States. Prior to the Directive, some legal systems had no specific protection regime for computer programs, let alone against the circumvention of TPMs.⁷⁰ The CPD specified in Article 7 (1) (c) that Member States should provide protection in their laws against "any act of putting into circulation, or the possession for commercial purposes of, any means the sole intended purpose of which is to facilitate the unauthorized removal or circumvention of any

⁶⁹ Council Directive 91 /250/EEC of 14 May 1991 on the legal protection of computer programs.

⁷⁰ A press release by the Commission upon the adoption of the CPD shows that only five states (UK, France, Germany, Spain, Denmark) of the then 12 Member States provided specific copyright protection for computer programs (Commission Press Release of 15 May 1991, IP/91/420, available at: http://europa.eu/rapid/press-release_IP-91-420_en.htm).

technical device which may have been applied to protect a computer program”.⁷¹
The same wording can now be found in Article 7 (1) (c) of the new CPD.⁷²

Anti-circumvention was also introduced in the 2001 InfoSoc Directive harmonizing EU Member States’ copyright laws,⁷³ this time based on the WCT.⁷⁴ The Directive applies to all copyrighted works other than computer programs, for which the CPD is applicable.⁷⁵ It was enacted in a period of time in which the threats of the digital age for copyright (as perceived by the industry), such as peer-to-peer file sharing of copyrighted music, film, video games and other works, entered the agendas of legislators.⁷⁶ Article 6 of the InfoSoc Directive provides a more nuanced approach to the protection of TPMs against circumvention than the CPD. The first paragraph of Article 6 prohibits the very act of circumvention itself; in this sense, the InfoSoc Directive is stricter than the CPD, which does not prohibit the mere act of circumvention.⁷⁷ The second paragraph of Article 6 of the InfoSoc Directive prohibits the distribution of tools that enable circumventing effective TPMs if they are (i) advertised as to their capacity to circumvent TPMs, (ii) they have no other commercially significant purpose or use other than circumvention, or (iii) are primarily made to circumvent TPMs. Subparagraph two makes clear that the

⁷¹ Huet and Ginsburg provide an interesting comparison to the situation in the US in relation to TPM for computer programs at the time the CPD entered into force in the EU. While the EU chose to introduce anti-circumvention protection, there was case law in the US by the Court of Appeals for the 5th Circuit, which found that a programme which broke a TPM protecting another computer programme did not give rise to any liability under copyright. See Huet, Jerome, Ginsburg, Jane C. (1992). “Computer Programs in Europe: A Comparative Analysis of the 1991 EC Software Directive”, *Columbia Journal of Transnational Law* 30, 327-373; *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255 (5th Circuit 1988).

⁷² Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs.

⁷³ Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society

⁷⁴ Recital 15 of the Preamble of the Directive 2001/29/EC specifically refers to the WCT and specifies that the Directive implements obligations arising from the WCT.

⁷⁵ See Recital 50 of Directive 2001/29/EC.

⁷⁶ Recital 13 of Directive 2001/29/EC provides by reference to the WIPO Treaties that “those Treaties update the international protection for copyright and related rights significantly, not least with regard to the so-called ‘digital agenda’, and improve the means to fight piracy world-wide”.

⁷⁷ Arguably, whenever TPMs are software in themselves and are thus protected under the CPD, the act of circumvention could however be prohibited for example under Article 4 (b) CPD.

distribution of tools that circumvent TPMs is not always prohibited. It can be legal when circumvention tools have a commercially significant purpose or use other than circumvention.⁷⁸ This is an important restriction to anti-circumvention protection,⁷⁹ which will be at the core of the further analysis of this chapter.

2. The CJEU *Nintendo* case and its proportionality analysis

The legal protection of Nintendo's encryption system against circumvention was the issue in the *Nintendo*⁸⁰ case, decided by the CJEU in January 2014. The original dispute before the referring court had arisen between Nintendo and PC Box, an undertaking that marketed 'hacked' original Nintendo consoles. The issue was whether the defendant PC Box could market Nintendo consoles with additional software, which circumvented TPMs installed by Nintendo to allow PC Box's consumers to play not just Nintendo games, but also other multimedia on the Nintendo console. The CJEU was essentially asked to determine the scope of anti-circumvention protection under the relevant provisions in the CPD and InfoSoc Directive.

Nintendo claimed that its TPMs were necessary to prevent illegal copies of Nintendo video games being played on Nintendo consoles. PC Box argued in return that the mere effect of its circumvention software breaking Nintendo's encryption was to enable consumers of Nintendo consoles to make additional use of their consoles. Ultimately, its software allowed consumers to play MP3 files, movies and videos on their consoles, which they usually could not play because these media lacked Nintendo's authentication chip. While Nintendo was thus claiming protection against piracy as purpose of its anti-circumvention measures, PC Box was claiming that its circumvention software had other significant commercial

⁷⁸ This provision is similar to the commercially significant and non-infringing use test developed by the U.S. Supreme Court in *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984)

⁷⁹ Recital 48 of Directive 2001/29/EC stresses that the legal protection of anti-circumvention "should respect proportionality and should not prohibit those devices or activities which have a commercially significant purpose or use other than to circumvent the technical protection."

⁸⁰ Case C-355/12 *Nintendo* [2014].

purposes than simply breaking the encryption of Nintendo consoles to play pirated games.

The CJEU had to first decide whether the case fell into the scope of application of the CPD or the InfoSoc Directive. The Court held that video games were not the same as computer programs under the CPD, since video games had a unique creative value including graphic and sound elements, which made them something more artistic than just computer code.⁸¹ They were thus protected in their entirety by copyright under the InfoSoc Directive.⁸² Consequently, as the TPMs incorporated in the Nintendo consoles served to protect the copyright in the video games, they were covered by Article 6 of the InfoSoc Directive.⁸³

In the interpretation of Article 6 (2) Infosoc Directive, the Court failed to give a very conclusive answer to the referring court.⁸⁴ It stated that anti-circumvention protection under the Directive had to respect the principle of proportionality and “should not prohibit devices or activities which have a commercially significant purpose or use other than to circumvent the technical protection”.⁸⁵ In respect of the application of the principle of proportionality, the Court went a bit further in its guidance, along the lines of classic proportionality analysis usually found in constitutional law.⁸⁶ According to the Court, anti-circumvention protection was limited to TPMs which had the object of preventing or eliminating acts not authorized by the right holder over the copyrighted works (akin to the first step of

⁸¹ Ibid, 23. The Court reiterated by reference to *UsedSoft* that the Computer Programs Directive constituted a *lex specialis* in relation to the InfoSoc Directive.

⁸² Ibid, 23. This was essentially a restatement of Recital 48 of the Infosoc Directive.

⁸³ Ibid, 28. For a convincing critique of the Court’s decision to apply the InfoSoc Directive rather than the CPD to the TPMs at stake see Rendas, Tito (2015). “Lex Specialis(sima): Videogames and Technological Protection Measures in EU Copyright Law,” *European Intellectual Property Review* 37(1), 41–47.

⁸⁴ The ultimate factual assessment by the referring national court could have been both in favor or against PC Box. See also Zingales, Nicolo (2015). “Of Coffee Pods, Videogames, and Missed Interoperability: Reflections for EU Governance Of The Internet Of Things”, TILEC Discussion Paper DP 2015-026, available at: <http://ssrn.com/abstract=2707570> (last visited 27 September 2017), 22.

⁸⁵ Case C-355/12, *Nintendo v PC Box* [2014], 30.

⁸⁶ Barak, Aharon (2012). *Proportionality: Constitutional Rights and Their Limitations*, New York: Cambridge University Press.

proportionality, an inquiry into the “purpose”), were suitable to achieve this objective (step two of proportionality, “rational connection” or “appropriateness”-prong) and did not go beyond what was necessary for this purpose (step three of proportionality, the “necessity”-prong).⁸⁷ The referring court would thus have to enquire whether there were less restrictive measures achieving the same level of protection, but causing less interference with legitimate activities of third parties.⁸⁸

At the same time, the Court reiterated that Member States had to provide adequate legal protection, according to Article 6 (2) InfoSoc Directive “against those devices, products or components which have the purpose of circumventing that protection of effective technological measures which have only a limited commercially significant purpose or use other than to circumvent that protection, or are primarily designed, produced, adapted or performed for the purpose of enabling or facilitating that circumvention.”⁸⁹

It is interesting to note that the Court started its analysis from the principle of proportionality and only subsequently mentioned the specific provision of the InfoSoc Directive, namely Article 6 (2). It seems almost as if the CJEU required Member State courts to apply the principle of proportionality first to the technical measure implemented by right holder. In case protection was denied, Article 6 (2) would still provide a minimum level of protection and impose a burden of proof on the defendant. This means that the right holder would thus have to prove that her technical protection measure was proportionate, and the defendant would have to prove that her circumvention of the technical measure had more than just limited commercially significant use other than to circumvent the TPMs.

Intuitively, there seems to be an omission in the instructions given by the CJEU to national courts. If the right holder’s TPM is not proportionate, and the defendant fails to prove enough commercially significant use – is the defendant then liable? It

⁸⁷ Case C-355/12, *Nintendo v PC Box* [2014], 31.

⁸⁸ Case C-355/12, *Nintendo v PC Box* [2014], 32.

⁸⁹ Case C-355/12, *Nintendo v PC Box* [2014], 35.

appears that this question would be answered in the affirmative. Why, however, would there be liability of the defendant, if according to proportionality there is no protection of the TPM in the first place? Conversely, one may wonder about what would happen if the technical measure were proportionate but there were also commercially significant use. Intuitively, there should be no liability of the defendant, but the Court does not state this clearly. The Court does not explain how the two parts, the burden of proportionality on the applicant/right holder and the burden of showing commercially significant use on the defendant/infringer, are logically linked.⁹⁰ The next section attempts to connect the two by reconstructing the Nintendo facts as a conflict between an IP-related right (anti-circumvention), and the interest of having free competition in the market for circumvention devices with commercially significant use. I start by explaining more specifically how this IP-competition conflict manifests itself in Nintendo, and how the Court's approach to proportionality fails to account for it.

3. *Nintendo* as an IP-competition conflict

An attentive reader of the *Nintendo* judgment might doubt that *Nintendo* concerned an IP-competition conflict. After all, the Court never referred to a competition problem. This deliberate omission is precisely a problem of the legal reasoning in the judgment. The opinion of AG Sharpston however reveals that the referring court had an IP-competition conflict before it. She states that "it has been made clear that the underlying dispute between the parties to the main proceedings concerns not only copyright law but also the question whether the measures put in place by Nintendo are lawful in the light of the rules of competition law. Since the national court's questions are confined to issues of copyright law, it does not seem to me appropriate to express any view on the latter

⁹⁰ This is a bit unfortunate as the Advocate General actually notices that the two questions influence each other and cannot be dealt with completely separately. See Opinion of AG Sharpston in Case C-355/12 *Nintendo* [2014], 42, 64. The Advocate General actually even shows how proportionality could take both sides into account. She suggest that the more legitimate (not copyright-infringing) uses can be made with the help of a circumvention device, the more likely the technical measure will not meet the requirements of proportionality. Vice versa, the more circumvention devices are used to infringe copyrights, the more likely the technical measure will be proportionate (Ibid, 75).

aspect in the context of this reference”.⁹¹ While short-cutting the relevance of competition law might be a justified case of judicial efficiency, the CJEU could have made use of the opportunity to pronounce itself of the competition law aspects of the case. This could have enhanced the guiding function for national courts having to apply the ruling of the *Nintendo* judgment.

The competition aspect was hidden in the European *Nintendo* case. In a similar situation that gave rise to a case in the US, competition interests were raised in the framework of a possible copyright misuse defence. In the late 80s and early 90s, Atari games, a third-party game developer, tried to produce non-authorized games for Nintendo consoles for the US market. It did so by infringing Nintendo’s copyright in the encryption software. When Nintendo sued for copyright infringement before US Courts, Atari raised a copyright misuse defence by reference to antitrust.⁹² It claimed that Nintendo was misusing its copyright in the encryption software (or its “lockout system”), because it controlled third-parties in their freedom to design and market games. While the US court dismissed the defence on procedural grounds,⁹³ it is still a piece of evidence that there is a possibly valid competition concern involved in these cases. The concrete contours of the US copyright misuse defence remain unsettled.⁹⁴ There seems to be

⁹¹ See Opinion of AG Sharpston in Case C-355/12 *Nintendo* [2014], 28.

⁹² To be precise, Atari raised a copyright misuse defence, which is strictly speaking a defence within copyright law. Nonetheless the “content”, the argument of the defence is of a competition law nature. *Atari Games Corp. v Nintendo of America Inc.*, 975 F.2d 832 (U.S. Court of Appeals, Federal Circuit 1992).

⁹³ The Court dismissed the copyright misuse defence based on the doctrine of unclean hands because Atari had obtained the encryption software code by illegal means.

⁹⁴ Hovenkamp and Bohannon, for example, find that the “IP misuse doctrine is suffering from an identity crisis”. Bohannon, Christina, Hovenkamp, Herbert (2012). *Creation without Restraint*, Oxford: Oxford University Press, 258. This is in particular true for copyright misuse, see Herrell, Jonas P. (2011). “The Copyright Misuse Doctrine’s Role in Open and Closed Technology Platforms”, *Berkley Technology Law Journal* 26(1), 441-490, 459; Adelman, Todd C. (2010). “Are Your Bits Worn out: The DMCA, Replacement Parts, and Forced Repeat Software Purchases”, *Journal on Telecommunication & High Technology Law* 8, 185-216, 208. While copyright misuse is still a purely common law doctrine, the patent law misuse doctrine has been codified in US patent law (35 U.S. C. § 271 (d)).

consensus, however, that whenever a copyright use or license violates antitrust laws, the copyright misuse defence is available to the defendant.⁹⁵

The European *Nintendo* case can equally be pictured from a competition law perspective. Nintendo was trying to make its platform as profitable as possible by hoping to attract the highest possible number of video game players and high-quality game developers. Nintendo had chosen to achieve this goal by creating a bottleneck for game developers: Only licensed developers can develop games for Nintendo consoles. Technology enforces this bottleneck, namely encryption in the form of the authentication chip system. Nintendo consoles therefore only read media with the authentication chip. In case a third-party developer breaks the encryption, IP legislation protects the bottleneck in the form of anti-circumvention protection. This leaves game developers which refuse to accept the Nintendo licensing conditions without access to buyers of Nintendo game consoles. This factual constellation comes close to the factual patterns discussed under essential facilities cases⁹⁶ (or *Magill* exceptional circumstances) or exclusive licensing schemes in EU competition law.⁹⁷

⁹⁵ Generally, the dominant opinion in US case law and literature seems to be that an antitrust violation by the copyright owner will always lead to a successful copyright misuse defence, while also violations of other public policy goals could amount to copyright misuse in specific cases. See, for example, *Apple, Inc. v. Psystar Corp.*, 673 F. Supp. 2d 931 (N.D. Cal. 2009) that essentially dismissed the copyright misuse defence because there was no antitrust offense committed by Apple. On the symbiotic, partially overlapping relationship of antitrust and misuse doctrine see Herrell, Jonas P. (2011). "The Copyright Misuse Doctrine's Role in Open and Closed Technology Platforms", *Berkley Technology Law Journal* 26(1), 441-490, 485.

⁹⁶ The Commission defined an essential facility for the first time in 1992 as "a facility or infrastructure without access to which competitors cannot provide services to their customers, and which refuses its competitors access to that facility or grants access to competitors only on terms less favorable than those which it gives its own services". See Commission Decision of 11 June 1992 relating to a proceeding under Article 86 of the EEC Treaty (IV/34.174 – *Sealink/B&I – Holyhead*: Interim measures). In *Oscar Bronner* the CJEU spelled out the limits for granting forced access to an essential facility along the lines of the *Magill* judgment. It held that all competition in a downstream market had to be likely eliminated, that the refusal to grant access could not be objectively justified, that access was indispensable to carrying on the competitor's business, and that there was no actual or potential substitute for it. See Case C-7/97 *Bronner* [1998], 41.

⁹⁷ Nintendo's business method could be challenged both, under Article 101 as an exclusive licensing scheme which has anti-competitive effects or under Article 102 TFEU. The application of Article 102 TFEU, however, is dependent on a finding of dominance. Dominance is in turn dependent upon the definition of the relevant market.

The Italian Court where the preliminary reference originated ultimately dismissed any defences raised by PC Box under EU competition law.⁹⁸ It found that the argument that Nintendo was abusing its dominance by excluding independent software developers from the market was insufficiently substantiated. Furthermore, the court referred to a preliminary evaluation by the Italian competition authority that had dismissed a complaint by PCBox against Nintendo's TPM strategy as unproblematic from a competition law perspective. PCBox' insufficiently substantiated claim under competition law, and the preliminary positive clearance given by the Italian competition authority of Nintendo's conduct were enough reasons for the court not to further engage with competition law concerns.

It is unfortunate that neither the CJEU nor the Italian court engaged further in the discussion of possible competition aspects of the case. Albeit coming to the same conclusion of holding PC Box liable, the courts could have provided a more thorough reasoning to possibly create better law on TPMs.⁹⁹ One example could have been to introduce competition concerns in the proportionality analysis under Article 6 of the InfoSoc Directive. This option is further discussed in Section VII.2 below on better approaches to legal reasoning in IP-competition conflicts concerning access to digital platforms.

V. Analysis and implications of the Courts' Legal Reasoning

1. Legal reasoning in the context of discovery and justification

1.1 Legal reasoning in the competition case law on refusals to license IP

The GC in *Microsoft* relied on the *Magill* exceptional circumstances test to decide whether Microsoft had to give access to its IP-protected interoperability

⁹⁸ Milan Court (*Tribunale di Milano*), judgment no. 12508/2015 of 6 November 2015.

⁹⁹ A new area where the degree of TPM protection could give rise to tensions between IP and competition law is geoblocking, where VPN providers offer circumvention services. See Riis, Thomas, Schovsbo, Jens (2016). *The Borderless Online User – Carving Up The Market For Online and Streaming Services*, Torremans, Paul (ed), *Copyright Law: A Handbook of Contemporary Research*, 2nd edition, Edward Elgar Publishing, forthcoming, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2867353 (last visited 11 October 2017), 11.

information. The decisive factor in exceptional circumstances legal reasoning is the actual situation in a given market. The test is a mix of an inquiry into static efficiency (is competition eliminated in a secondary market? Yes/no), entry barriers (Is the IP-covered subject matter indispensable to compete? Yes/no), and dynamic efficiency (is the appearance of a new product prevented? Yes/no). In this sense, the Court adopted in its legal reasoning a formal approach, which is economic in substance. The test essentially decides IP-competition conflicts by looking at whether innovation in a given market is harmed.¹⁰⁰ While the Court rejected a full-blown balancing of competing efficiencies,¹⁰¹ as the Commission conducted in its Microsoft Decision,¹⁰² this legal reasoning falls nonetheless into the category of an economic *topos* of interpretation, i.e. the Court adopted an economics perspective on IP-competition conflicts.¹⁰³

While not explicitly addressing the scope, function, or content of the IP right at stake, the strict application of the *Magill* exceptional circumstances test is nonetheless favourable to IP holders. It makes a finding of abuse difficult, as it would necessitate a straight forward triple-yes answer to all steps of the test.¹⁰⁴ The test does not offer any leeway for a more nuanced weighing or balancing analysis in less straightforward cases than *Magill* in which the marketing of a new product for which there was consumer demand was clearly inhibited by the IP right at stake. Courts applying the exceptional circumstances test are thus faced with

¹⁰⁰ Lianos, Ioannis (2006). "Competition Law and Intellectual Property Rights: Is the Property Rights' Approach Right?", *The Cambridge Yearbook of European Legal Studies* 8, 153-186, 161. Maggiolino, Mariateresa (2011). *Intellectual Property and Antitrust – A Comparative Economic Analysis of US and EU Law*, Cheltenham: Edward Elgar, 161.

¹⁰¹ See on this point, for example, Schweitzer, Heike (2000). "Recent developments in EU competition Law (2006-2008): Single-firm Dominance and the Interpretation of Article 82", *European Review of Contract Law* 5(2), 175-213, 192.

¹⁰² Commission Decision in Microsoft, 783.

¹⁰³ See Chapter 2 Section III.1.

¹⁰⁴ This also remarked by Heinemann, who criticizes the *IMS Health* judgment for requiring the *Magill* criteria to apply cumulatively. According to Heinemann, the leveraging prong and the new product prong of the exceptional circumstances test should constitute two separate grounds to establish an abuse under Article 102 TFEU. See Heinemann, Andreas (2005). "Compulsory Licences and Product Integration in European Competition Law - Assessment of the European Commission's Microsoft Decision," *IIC - International Review of Intellectual Property and Competition Law* 36(1), 63-82.

two options: to either strictly follow the test and to almost never find an abuse,¹⁰⁵ or to apply the test in a broadened variant and without respecting its inherent lenience towards refusals of access by dominant firms. It is the latter approach that the GC chose in the *Microsoft* case.¹⁰⁶

The legal reasoning in *Microsoft* dropped the ‘new product’ prong of the *Magill* exceptional circumstances test and held that, under Article 102 (b) TFEU, this could not be the only parameter to determine whether there was abuse.¹⁰⁷ If the refusal to supply IP-protected information limited technical development to the detriment of consumers, it would be sufficient to find an abuse under Article 102 (b) TFEU.¹⁰⁸ The easing of the new product prong of the *Magill* test thus tipped the balance more against IP owners’ interests.

1.2 Legal reasoning in the case law on TPM

In *Nintendo*, the only case in which the CJEU has so far provided an interpretation of the prohibition against circumvention of TPMs in Article 6 InfoSoc Directive, the CJEU used proportionality analysis to determine whether the prohibition of access to the digital platform through TPMs was legally enforceable. While the Court did not refer to any fundamental rights at stake in the case, it nonetheless interpreted the provision as if following the analytical steps of proportionality, inquiring into legitimate purpose, appropriateness and necessity. In this sense, the legal reasoning in *Nintendo* can be classified as a constitutional perspective on the IP-competition conflict at stake in accordance with the classification of types of legal reasoning in Chapter 2.¹⁰⁹ It nevertheless failed to provide a holistic assessment of

¹⁰⁵ This was essentially what the CJEU suggested in *IMS Health* when it held that the *Magill* criteria had to be applied cumulatively.

¹⁰⁶ Maggiolino, Mariateresa (2011). *Intellectual Property and Antitrust – A Comparative Economic Analysis of US and EU Law*, Cheltenham: Edward Elgar, 167.

¹⁰⁷ Case T-201/04 *Microsoft I* [2007], 647.

¹⁰⁸ Case T-201/04 *Microsoft I* [2007], 648, 709.

¹⁰⁹ See Chapter 2 Section III.2.

the IP-competition conflict because the CJEU failed to clearly factor into its proportionality analysis any possible competition considerations.¹¹⁰

2. Procedure

The case law of IP-competition conflicts discussed in this chapter resulted from both preliminary references and appeals to Commission Decisions in competition cases. *Magill* and *Microsoft* were appeal cases, while *IMS Health* and *Nintendo* were preliminary references from German and Italian courts.

In the appeal cases of *Magill* and *Microsoft*, the IP rights at stake, their specific subject-matter, scope or function received little attention in the application of Article 102 TFEU. The IP right itself could, as protected under national or secondary EU law neither justify nor limit the application of EU competition law. The content of IP legislation had no impact in the Courts' legal reasoning to solve the IP-competition conflict at stake.¹¹¹

In *IMS Health*, in contrast, which was a preliminary reference, the CJEU at least expressly stated that the 'new product' prong of the *Magill* test was meant to do justice to IP-protected interests. By reference to the Opinion of AG Tizzano, it stated that "in the balancing of the interest in protection of the intellectual property right and the economic freedom of its owner against the interest in protection of free competition, the latter can prevail only where refusal to grant a licence prevents the development of the secondary market to the detriment of consumers".¹¹² While the EU Courts' applied the *Magill* exceptional circumstances test in *Magill*, *IMS Health* and *Microsoft*,¹¹³ the only time the Court explicitly

¹¹⁰ See Section VII.2. below for a suggestion of an improved approach.

¹¹¹ Maggiolino compares this situation in the EU to US Courts who have "deemed the content of IP legislation crucial to the solution of antitrust cases". She considers there to be a "weakness of the IP side of the EU interface between antitrust and IP laws". See Maggiolino, Mariateresa (2011). *Intellectual Property and Antitrust – A Comparative Economic Analysis of US and EU Law*, Cheltenham: Edward Elgar, 175.

¹¹² Case C-418/01 *IMS Health* [2004], 48.

¹¹³ In *Microsoft*, the CJEU repeated this passage from *IMS Health* only to find that the "circumstance relating to the appearance of a new product, as envisaged in *Magill* and *IMS Health* [...] cannot be the only parameter which determines whether a refusal to license an intellectual property right is

referred to the IP owner's interest in IP protection and her economic freedom as a relevant balancing factor was the preliminary reference of *IMS Health*.

This is thus a further anecdotal piece of evidence for a possible hypothesis that the procedure can influence how much attention EU Courts pay to IP interests in IP-competition conflicts.¹¹⁴ They appear to pay less attention to IP interests in appeal proceedings to Commission Decisions than in preliminary references from national courts.¹¹⁵ In preliminary references regarding the interpretation of secondary IP law, in contrast, it can be argued that there is a slight tendency of the CJEU paying too much attention to the IP interests at stake.¹¹⁶

VI. Tensions between the Courts' legal reasoning in IP and competition law

When assessing whether a platform owner is entitled or protected in her choice to refuse access to third parties to her platform, there are no fundamental tensions in the EU Courts' legal reasoning under EU competition law and EU IP law in relation to the outcome of the cases. In essence, both the legal reasoning in *Microsoft* and in *Nintendo* show that digital platform owners are not entirely free to restrict access to their platforms to third parties based on IP rights. In *Microsoft* the limits to the digital platform owner's freedom were set where refusals to access limit technological development to the detriment of consumers. In *Nintendo* the limits to the protection of TPMs to deny access were set where the TPMS were not

capable of causing prejudice to consumers" (Case T-201/04 *Microsoft I* [2007], 647). It did not repeat a possible relevance of the IP interests at stake for the outcome of the analysis of the refusal to supply part of the judgment. Only possible negative incentives to innovate were taken into consideration as a possible objective justification.

¹¹⁴ See also Chapter 3 Section IV.2. and Conclusion.

¹¹⁵ See also Chapter 5 Section IV.2.

¹¹⁶ Such a pro-IP bias, as for example observable in *Copad* (Chapter 3), is less pronounced due to relatively balanced approaches in other cases discussed, such as *BMW* and *Gillette* (Chapter 5).

proportionate or if there was significant commercial use of circumvention devices. In this sense, the legal reasoning in both cases was interoperability-friendly.¹¹⁷

Nonetheless, the legal reasoning both in *Microsoft* and *Nintendo* did not fully address the IP-competition conflict at stake. In *Microsoft*, the GC had could have embraced a more systematic legal reasoning taking IP interests into account, and so could the CJEU have taken competition interests better into account when laying out its proportionality analysis in *Nintendo*. Furthermore, the legal reasoning in both decisions could have been more accurate and tailored to the fact that the digital platform at stake was a two-sided market. The next section therefore suggests improvements to the EU Courts' legal reasoning.

VII. Would a different approach work better?

1. Possibilities to improve the legal reasoning in cases of refusals to supply IP protected information under Article 102 TFEU

It is not the purpose of this Chapter to criticize the outcome of the *Microsoft* case in relation to the refusal to supply interoperability information. This is a critique of the legal reasoning by which the GC reached this conclusion, which implies a critique of the *Magill* exceptional circumstances test, as well as its broadened version applied in *Microsoft*.

The *Magill* exceptional circumstances test is sub-optimal, because it fails to take into account all aspects of conflicts at the IP-competition interface when it comes

¹¹⁷ Zingales points to a general interoperability-friendliness in EU regulation influenced by EU competition law, see Zingales, Nicolo (2015). "Of Coffee Pods, Videogames, and Missed Interoperability: Reflections for EU Governance Of The Internet Of Things", TILEC Discussion Paper DP 2015-026, available at: <http://ssrn.com/abstract=2707570> (last visited 27 September 2017), 28. Interoperability-friendliness also seems to be a consumer preference. For a recent empirical study on consumers valuing in particular forward-oriented interoperability see: Erickson, Kristofer et al. (2017). "How Much Do Consumers Value Interoperability? Evidence From the Price of DVD Players", Working Paper 7 July 2017, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2998767 (last visited 6 October 2017). For a critique warning about long-term consumer welfare and innovation losses from adopting and interoperability-friendly approach within EU competition law see Yu, Quiang (2014). "Software Interoperability Information Disclosure and Competition Law", *European Competition Law Review* 35(5), 235-252.

to questions of mandating access to digital platforms.¹¹⁸ As discussed above, it addresses the IP-competition conflict without carefully considering the IP-side of the conflict. In the *Microsoft* case, the IP-side of the conflict concerned Microsoft's IP rights in the interoperability information embedded in its Windows source code. The relevant information came thus in the shape of strings of computer code, i.e. software.

Software, in turn, can be protected by copyright.¹¹⁹ The IP protection regime for software in the EU is codified in the EU Computer Programs Directive (CPD).¹²⁰ The CPD requires all EU Member States to protect software under copyright. At the same time, software is a special case of copyright protection, because it derives its value rather from its functionality than from its artistic nature. Having a separate

¹¹⁸ Ahlborn et al. do not agree, as they find the *Magill* exceptional circumstances test to be "a reasonable implementation of the optimal legal standard for the assessment of refusals to licence IP: modified per se legality". They are arguing from an economics perspective. Some authors, as for example Forrester, found the *Magill* exceptional circumstances test to be reasonable as well, in as far as it corrected "aberrations in the application of national copyright laws". Another group of authors remark, however, as for example Geradin, that the concrete IP right at stake is irrelevant in the exceptional circumstances test. It is in this latter sense, and in the quest of pursuing a holistic approach towards the IP-competition interface in EU law, that I find the *Magill* exceptional circumstances test sub-optimal. To complete the picture, Drexl finds the strict application of *Magill*'s new product requirement to be sub-optimal in *IMS Health* because it fails to take into account that the new product requirement will not always favour the interest of the consumer, and thus fails to be sound in economic terms (in contrast to Ahlborn et al.). See Forrester, Ian S. (2011). "Magill Revisited", in Govaere, Inge et al. (eds.), *Trade and Competition Law in the EU and Beyond*, Cheltenham: Edward Elgar, 376-390; Geradin, Damien (2004). "Limiting the Scope of Article 82 EC: What Can the EU Learn from the U.S. Supreme Court's Judgment in *Trinko* in the Wake of *Microsoft*, *IMS*, and *Deutsche Telekom*?", *Common Market Law Review* 41(6), 1519–1553, 1527-1528; Drexl, Josef (2004). "Intellectual Property and Antitrust Law *IMS Health* and *Trinko* - Antitrust Placebo for Consumers Instead of Sound Economics in Refusal-to-Deal Cases," *IIC - International Review of Intellectual Property and Competition Law*, 788-808, 802-804; Ahlborn, Christian et al. (2005). "The Logic & Limits of the 'Exceptional Circumstances Test' in *Magill* and *IMS Health*," *Fordham International Law Journal* 28, 1109–1156, 1110.

¹¹⁹ Interoperability information can be protected under patent law and trade secret law as well. Under the new unitary patent regime, an identical analysis to the CPD could be undertaken, since Article 27 (k) of the Agreement on a Unified Patent Court provides that the rights of the patent should not be extended to acts allowed under the CPD. See Graef, Inge (2014). "How Can Software Interoperability Be Achieved under European Competition Law and Related Regimes?," *Journal of European Competition Law & Practice* 5(1), 6-19, 16.

¹²⁰ Directive 2009/24/EC of the European Parliament and Council of 23 April 2009 on the legal protection of computer programs.

software protection regime already points to the fact that software is *sui generis* within copyright law, at least in the structure of EU law.¹²¹

One of the characteristics that make software special is that its essential function is to “communicate and work together with other components of a computer system and with users”.¹²² One of the aims of the CPD is thus to protect software under copyright without compromising the goal of achieving interoperability between programs. The EU legislator thus consciously chose to frame the CDP in an interoperability-friendly way.¹²³ Consequently, the Directive allows for a limitation of copyright protection for the sake of achieving interoperability.¹²⁴

While arguments relating to the CPD can be found both in the Commission Decision,¹²⁵ and the GC *Microsoft* judgment,¹²⁶ the GC chose not to give any role or weight to the CPD in its Article 102 TFEU analysis. It limited itself to holding that

¹²¹ Apart from databases and computer programs, all other types of works giving rise to copyright protection apart from software are dealt with under Directive 2001/29 on the harmonisation of certain aspects of copyright and related rights in the information society.

¹²² Recital 10 CPD.

¹²³ Article 6 CPD is one of the manifestations of this interoperability-friendliness and was a result of a struggle with the software industry during the legislative process leading to the first Computer Programs Directive 92/250. See Huet, Jerome, Ginsburg, Jane C. (1992). “Computer Programs in Europe: A Comparative Analysis of the 1991 EC Software Directive”, *Columbia Journal of Transnational Law* 30, 327-373, 331. The CJEU has also engaged in interoperability-friendly interpretations of the CPD, for example in Case C-406/10, *SAS Institute Inc. v World Programming Ltd.* [2012].

¹²⁴ Recital 15 CPD states that “[...] circumstances may exist when such a reproduction of the code and translation of its form are indispensable to obtain the necessary information to achieve the interoperability of an independently created program with other programs. It has therefore to be considered that, in these limited circumstances only, performance of the acts of reproduction and translation by or on behalf of a person having a right to use a copy of the program is legitimate and compatible with fair practice and must therefore be deemed not to require the authorisation of the rightholder. An objective of this exception is to make it possible to connect all components of a computer system, including those of different manufacturers, so that they can work together [...]”. Article 6 CPD allows reverse-engineering of computer programs to achieve interoperability.

¹²⁵ Commission Decision in *Microsoft* at 743-763. There was also a suggestion in the 2005 Commission Staff Discussion Paper on Art. 82 part on exclusionary abuses to have a special abuse category for refusals to supply interoperability information. The document lacks however any justification for this (even though it might be very well justified in light of the CPD, at least for software platforms). Eventually, the recommendation was not included in 2009 Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings (2009/C 45/02).

¹²⁶ *Microsoft* at 227.

primary Treaty law takes precedence over secondary law, thereby discarding the necessity to truly engage with the CPD.

This is unfortunate, since it could have used arguments taken from the CPD as relevant elements to construct a specific refusal to supply test for abuses of dominance in software markets.¹²⁷ If copyright protection is already a special case for software, and, in the EU law context, interoperability concerns are a reason to limit copyright protection for software, one could argue that this should be a relevant factor within the legal reasoning of an EU competition law case in which copyright protection for software is an issue. It would allow for a more systemic understanding of EU law and it could add legitimacy to abuse analysis by reference to other areas of EU law.

Furthermore, in the current post-Lisbon scenario, the *lex superior derogat inferior* reasoning that the Court used to discard the CPD from its legal reasoning might face difficulties.¹²⁸ After all, the CFR is now a piece of primary legislation, and according to Article 17 (2) CFR “intellectual property rights shall be protected”. As the CPD is an embodiment and specification of Article 17 (2) CFR, the EU Courts can no longer turn a blind eye on secondary IP legislation in the legal reasoning in its competition law judgments.

¹²⁷ Having a tailored and accurate judicial test for software markets would be forward-looking in any case. Software markets are going to be at the core of the Digital Single Market, and will probably come under competition scrutiny more often. Furthermore, designing a new judicial test in a refusal to supply situation is not uncommon. The CJEU did so in Case C-52/09 *Telia Sonera*, which was in essence very similar to the refusal to supply cases, albeit concerning margin squeezes in the telecoms market (where there was however no sector specific regulation in place). While this would have been a case where the strict criteria for ordering access of *Bronner* would have been applicable, the Court simply relaxed the applicable criteria. See also Jones, Alison, Sufrin, Brenda (2014). *EU Competition Law, Text, Cases and Materials*, 5th edition, Oxford: Oxford University Press, 521.

¹²⁸ Already prior to the CFR becoming a primary source of EU law, a hierarchical construction of EU competition and IP law was overly formalistic. Lianos explains that “advocating the existence of a hierarchy between intellectual property and competition law, for the simple reason that the latter is a Community competence enshrined in the Founding Treaties, whereas the former remains largely a national competence or the product of derivative legislation, is a legalistic approach which neglects the fact that both regimes are complementary tools in the regulation of innovation”. See Lianos, Ioannis (2006). “Competition Law and Intellectual Property Rights: Is the Property Rights’ Approach Right?”, *The Cambridge Yearbook of European Legal Studies* 8, 153-186,184.

The GC's legal reasoning was not only blind toward the IP nature of the interface information at stake in *Microsoft*. It was also oblivious to the two-sided market nature of OS, which could have been an ingredient to include in an improved exceptional circumstances test. An intermediary implementing a two-sided market strategy for its platform benefits from having as many transactions as possible on its platform. The more developers make interoperable software products for the platform, the more valuable the platform becomes. Microsoft had actually been willing to provide interoperability information to third-party software developers for previous versions of its server OS. In case Microsoft proceeded with its server OS as with Windows OS for PC, it probably even licensed this information at a very low cost.¹²⁹ It was only with Windows 2000 that Microsoft decided to keep third-party developers in the server OS market out, and refused to license its interoperability information.¹³⁰

While closing an access channel in a two-sided market to third parties, and turning it into a one-sided market might not be the decisive factor in a case where IP protection and competition considerations conflict, it could still be a relevant factor to look at. Why would a company engage in such a strategy if, on the face, it could reduce the value of its platform?¹³¹ The evaluation of such a change in business strategy under competition policy is not straightforward;¹³² nonetheless, it would

¹²⁹ See Section I.1. of this chapter above.

¹³⁰ The Commission gave weight to the disruption of levels of previous supply of interoperability information in its *Microsoft Decision* (at 579-584) by referring to case law of the CJEU, for example *Joined Cases 6 and 7/73, Commercial Solvents and Others v Commission*.

¹³¹ In other words, intent could play a role in establishing abuse. On this argument see also Parcu, Pier Luigi, Stasi, Maria Luisa (2017). "The Role of Intent in the Assessment of Conduct under Article 102 TFEU", in Monti et al (eds.), *Abuse of Dominance in EU Competition Law*, Cheltenham: Edward Elgar, 12-33, 21.

¹³² Lianos, for example, argues that locking in a dominant undertaking with its existing customer base could itself stifle innovation ("The decision to continue to supply an existing customer is nevertheless an issue that should not come within the realms of competition law, as it will have the result of locking in dominant firms with their existing customers, without them being able to terminate their business relation other than by relying on a possible objective justification, which is 'particularly inappropriate in fast changing markets'). See Lianos, Ioannis (2006). "Competition Law and Intellectual Property Rights: Is the Property Rights' Approach Right?", *The Cambridge Yearbook of European Legal Studies 8*, 153-186, 165-166. Furthermore, also a dominant undertaking's freedom to conduct a business under Article 16 CFR needs to be protected.

have been worth discussing it to give guidance for future competition cases.¹³³ Having a step in an improved refusal to supply test, which would allow for considering two-sided market nature of the business at stake, would thus be a way to further the development of competition law in this area.

2. Possibilities to improve the proportionality analysis under Article 6 InfoSoc Directive

In a similar way as the GC's legal reasoning in *Microsoft* could be improved, the CJEU's legal reasoning in *Nintendo* could be developed further. Looking from two perspectives at Nintendo's DRM, from a two-sided market perspective and from IP law, it becomes clear that Nintendo's encryption system can be considered to have two separate functions. On the one hand, as Nintendo claimed and the CJEU accepted, its function could be the protection of the copyright in video games for Nintendo consoles. It is thus an additional, and IP law-dependent layer of protection for copyright. On the other hand, it functions as a mechanism to enforce Nintendo's pricing structure. The encryption system allows Nintendo to extract licensing fees and royalties from game developers, by which it subsidizes the sale of Nintendo consoles to consumers. This is how Nintendo implements its two-sided market business strategy. At the same time, it allows Nintendo to create a bottleneck, or access barrier to the market for Nintendo games. Third-party developers might want to market their games for Nintendo consoles without having to purchase media from Nintendo or having to comply with Nintendo's quality policies, but are prevented from doing so.

It is thus possible to conceive of an IP-competition conflict at the heart of the *Nintendo* case. Nintendo is relying on copyright-dependent anti-circumvention protection to protect itself against video game piracy, which is an interest

¹³³ The GC could not have foreseen the developments in the IT sector, but by now two-sided markets/multi-sided digital platforms have become a priority of the Juncker Commission Digital Single Market agenda. One example is the Commission's Sector Inquiry into e-commerce launched in May 2015, which will look at a host of different digital platforms and *inter alia* their potential exclusionary effects.

protected under IP law. At the same time, however, Nintendo also uses this copyright-based mechanism to protect its two-sided market strategy, which aims at keeping unlicensed third-party game developers producing legal games for Nintendo consoles out of the market. PC box, in contrast, could rely on an argument that it is enhancing competition with the sales of its hacked Nintendo consoles, especially among third-party developers, to the benefit of consumers. At the same time, however, it is potentially violating an IP-related right against circumvention of TPMs. The question is whether there is, or whether there should be any room for competition arguments in this case, or whether the proportionality test wholly focused on Article 6 (2) InfoSoc Directive as applied by the CJEU does already justice to these considerations.

Proportionality has become a standard in legal reasoning to solve conflicts construed from a fundamental rights perspective.¹³⁴ How could a constitutional understanding of proportionality give guidance in the framework of Article 6 InfoSoc Directive? The Court could have started by holding that the protection of TPMs under Article 6 InfoSoc Directive is a manifestation of Article 17(2) CFR which provides that intellectual property shall be protected. As TPMs can help to protect copyrighted works, they could fall within the general scope fundamental rights protection of IP. Conversely, an *a contrario* reading of Article 6 (2) (b) InfoSoc Directive means that devices which circumvent TPMs but have commercially significant use, should not be prohibited. This could be a manifestation of the right to conduct a business under Article 16 CFR. Alternatively, it could be a manifestation of the public interest in free competition on the EU Internal Market. There would thus be a conflict between the principle that IP rights should receive protection and the principle of freedom of competition by ensuring that market access is not unduly restricted. These two principles could then be reconciled by using constitutional proportionality analysis.

¹³⁴ Barak, Aharon (2012). *Proportionality: Constitutional Rights and Their Limitations*, New York: Cambridge University Press, 20. See also Chapter 2 Section III.4.

The first question in applying proportionality would be to inquire about the starting point. One premise could be that copyright-related anti-circumvention protection is required to meet proportionality standards vis-à-vis the right to conduct a business of the defendant or the public interest in free competition. An alternative starting point would be to ask whether the defendant's freedom to compete fulfils the requirements of proportionality vis-à-vis the claimant's right to IP protection. There are two possible arguments to be made for starting with the former, i.e. that the TPM protection needs to meet proportionality. Firstly, the preamble of the InfoSoc Directive requests it.¹³⁵ It is thus the wording and system of the Directive that commands starting the analysis from the IP side. Secondly, there could be the argument made that the default position is that open access and freedom to compete always prevails.¹³⁶ It would thus always have to be the side where a restriction of this freedom occurs, for example through the existence of an IP right, which has to justify the restriction according to proportionality.

Starting from the point of view that the legal protection of TPMs needs to be justified, the first question would thus be whether the TPM has the objective of preventing unauthorized use of copyrighted material. In other words, the question would be whether the TPM has a proper purpose.¹³⁷ In this respect, the CJEU held that "legal protection is granted only with regard to technological measures which pursue the objective of preventing or eliminating, as regards works, acts not authorised by the copyright holder."¹³⁸ If the TPM has the main objective of

¹³⁵ Recital 48 InfoSoc Directive: "such legal protection [against circumvention of effective technological measures and against provision of devices and products or services to this effect] should respect proportionality".

¹³⁶ This seems to form part of European competition culture in contrast to US competition culture. Along these lines, see Fox, Eleanor M. (2003). "We Protect Competition, You Protect Competitors", *World Competition* 26(2), 149–165, 155-156; Maggiolino, Mariateresa (2011). *Intellectual Property and Antitrust – A Comparative Economic Analysis of US and EU Law*, Cheltenham: Edward Elgar, 169.

¹³⁷ I follow the terminology used by Aharon Barak in Barak, Aharon (2012). *Proportionality: Constitutional Rights and Their Limitations*, New York: Cambridge University Press. Under EU law, as the Advocate General in Nintendo suggests, the terminology would be whether a measure pursues a *legitimate aim*, whether it is *suitable* to achieve that aim and whether it does not go beyond what is *necessary* to achieve it.

¹³⁸ Case C-355/12 *Nintendo* [2014], 31.

maintain the pricing structure of Nintendo, the first step of proportionality might thus not be fulfilled. Considerations about business methods and market realities, as required in competition law cases, could change the whole dynamic in the analysis of the case. Nonetheless, this criterion would be sufficiently fulfilled if one of the purposes is to protect copyrighted works. The fact that there might be several purposes could become relevant again at the necessity step of proportionality analysis.

The second step would be to determine whether the TPM is appropriate to meet the objective of preventing copyright infringement. This would be an inquiry into whether there is a rational connection between the technical measure and the prevention of copyright infringement. At this step, it might be worth to question the effectiveness of the TPM. As soon as a measure is effective in the sense of Article 6 (3) InfoSoc Directive, namely “where the use of a protected work or other subject matter is controlled by the rightholders through application of an access control or protection process, such as encryption, scrambling or other transformation of the work or other subject-matter or a copy control mechanism, which achieves the protection objective”, this step of the test would be fulfilled.

The third step would be to inquire whether the technical measure in place is necessary, or whether the objective could be achieved through less restrictive means. This would, of course, depend on the existence of alternative technologies which achieve an identical level of protection. At the same time, the more a TPM restricts legitimate uses of a hardware piece, such as a game console, the more difficult it would be for the technical measure to fulfil this requirement, and the more likely it would be that there exist less restrictive alternatives. The question would here be whether a court should have the power to second-guess business decisions of undertakings implementing TPMs. Can a court tell Nintendo not to use authentication chips any longer but technology X instead? While a certain resentment to this, especially from the business community is understandable, this would be, however, what proportionality requires a court to do. The court, for

example, could design its inquiry into alternatives by looking at custom in the industry. If other game console producers do not implement as restrictive TPMs as Nintendo, this could be an indicator that they are not necessary.

In case the constitutional method of proportionality is applied consistently, any TPM failing to fulfil the first three steps should not be protected under Article 6 of the Directive. In case the first three steps of the proportionality analysis are fulfilled, there remains the last step of proportionality *stricto sensu*. It is only now that the freedom to conduct a business of the manufacturer of circumvention devices is weighed against the protection that the right holder deserves for her TPMs. One important factor in this inquiry would precisely be whether the circumvention devices have a significantly commercial purpose other than to circumvent. How high are the costs that the rightholder suffers from the circumvention device? Which alternatives would she have that might not be as effective but nonetheless providing protection? These are the questions to be posed on the IP protection side of the balance. Is the implementation of TPMs creating a serious obstacle to market access because of a possible dominance of the platform owner? How many benefits do users have from the circumvention device in terms of being able to make legal use of their game consoles? How much legal use is actually made? Could the circumvention device producer design its devices so as to allow for legal uses, while still inhibiting the use of pirated games? This would be some of the pertinent questions to ask on the side of freedom of competition or the defendant's right to conduct a business.

A clearer methodological guidance by the CJEU would have allowed it to shed more light on the underlying conflict in the *Nintendo* case, which can be conceived as an IP-competition conflict. While the Italian Court where the preliminary reference in *Nintendo* originated had at least preliminary guidance from the Italian competition authority on whether there were any justified competition concerns,¹³⁹ other

¹³⁹ The Milan Court referred to a complaint by the defendant PC Box to the Italian competition authority about Nintendo's TPMs. After some preliminary considerations, the authority closed the

national courts might have to decide these cases without help from competition enforcers. The Italian *Nintendo* Court discarded any claims raised by the defendant under competition law based on the opinion of the Italian competition authority. It then reduced the proportionality analysis suggested by the CJEU to two inquiries: whether there were less restrictive alternatives that Nintendo could have used to protect itself against game piracy, and whether there was sufficient non-infringing use of the circumvention devices sold by PC Box.¹⁴⁰ In regard of the former, it found that Nintendo had provided sufficient evidence that its encryption chip was the least restrictive option.¹⁴¹ In regard of the latter it found that there was insufficient legitimate use. This finding was informed by a market study provided by Nintendo that showed that more than 80% of Italian consumers that used circumvention devices used them to play pirated games on their consoles. Furthermore, the Court found that those consumers that made up the demand side for the market of homebrew games (games by third-party producers), i.e. the market for legitimate use of the circumvention device, could switch to alternative hardware devices, for example PCs to play homebrew games.¹⁴² While the Italian Court did not strictly follow the four steps of proportionality analysis, it nevertheless addressed relevant parameters under the fourth step of proportionality suggested above: it tried to make some assessment as to the actual situation in the market in regard of legitimate use of the circumvention devices, and whether the consumers making legitimate use (i.e. the homebrew consumers) were not unduly harmed.¹⁴³ The Milan Court thus included competition considerations at two stages in its reasoning: Firstly, when it referred to the findings of the Italian competition authority that had found no reason to act on behalf of PC Box against Nintendo,

case as it considered that there was no reason to act. Furthermore, the Court found that PC Box allegations of Nintendo's abuse of dominance ("monopolistic behavior") were only put forward in a generic and embryonic manner. See Milan Court (Tribunale di Milano), Judgment no. 12508/2015 of 6 November 2015 – *Nintendo*.

¹⁴⁰ See Milan Court (Tribunale di Milano), Judgment no. 12508/2015 of 6 November 2015 – *Nintendo*, 6.

¹⁴¹ *Ibid*, 7.

¹⁴² *Ibid*, 8.

¹⁴³ *Ibid*.

and secondly, when it considered whether consumers making legitimate use of the circumvention device could unduly be harmed.

The German Federal Supreme Court (*Bundesgerichtshof* - *BGH*) gave a different example of how a lack of clarity in the judgment by the European Court influences the legal reasoning in cases before national courts. When reversing and remanding an identical judgment to a lower German court, the BGH stated that the lower court would have to conduct a proportionality analysis to give effect to the CJEU judgment in *Nintendo*.¹⁴⁴ While the BGH gave correct instructions in respect to the first three steps of the proportionality test, it did not require proportionality *stricto sensu* balancing exercise. It therefore excluded from its legal reasoning the possibility of articulating any concrete competition concerns that might arise from the TPMs at stake. Nevertheless, it referred to some of the aspects to be otherwise discussed in the fourth step suggested above, as it declared that the existence of more than 1000 games and 60 programmes that could be legitimately played on Nintendo consoles by using the circumvention device was not sufficient proof of commercially significant use other than violating the circumvention device. It was sufficient that life experience ("*nach der Lebenserfahrung*") showed that the circumvention devices were mainly used for playing pirated games.¹⁴⁵ This is a problem. Firstly, life experience cannot replace hard data on video games and the use of circumvention to play pirated games. Secondly, the amount of legitimate use should be a factor to be weighed against the restriction of Nintendo's TPMs. This shows how an incomplete legal reasoning by the CJEU trickles down to the Member States courts and produces potentially unjustified outcomes at national level, because the legal reasoning fails to consider the IP-competition conflict at the heart of case brought under Article 6 InfoSoc Directive.¹⁴⁶

¹⁴⁴ BGH, judgment of 27 November 2014 - I ZR 124/11 - *Videospiel-Konsolen II*.

¹⁴⁵ *Ibid.*

¹⁴⁶ Or its national implementation, for example § 95a UrhG in Germany.

VIII. Conclusion

As digital platforms are increasingly becoming central nodes of connection between supply and demand in the digital economy, the question of access to these platforms is gaining importance. Dominant digital platform owners have different means at their disposal to limit access by third parties to their platforms, including withholding interoperability information or restricting access through TPMs. At times, such restrictions can cause harm to third-party developers who have no outlet for new products thereby restricting innovation in a market. Consumers who like to tinker or simply value interoperability between various digital products or services can be harmed as well.

Both, the legal reasoning under EU competition law and EU provisions on protection against circumvention of TPMs have the potential to lead to interoperability-friendly outcomes. Nevertheless, the EU Courts could have capitalized more on the synergies between values protected under EU competition law and EU IP laws to provide clearer guidance on how to address IP-competition conflicts when access to dominant digital platforms is at stake. In EU competition law, the GC missed the opportunity in *Microsoft* to establish a self-standing abuse test for software markets by reference to the regime of the Computer Programs Directive. Furthermore, an inquiry into the motives for closing access to a platform could have been considered from a two-sided markets perspective to further inform the assessment of abuse. Similarly, the CJEU in *Nintendo* could have pronounced the importance of taking into account the effects on competition of TPMs when establishing whether a specific TPM receives protection in its proportionality analysis under the InfoSoc Directive.

Chapter 5

- Case Study: Razor-and-blade strategies -

This chapter focuses on how razor-and-blade strategies, i.e. strategies that restrict competition in aftermarkets for spare parts, consumables or repair services based on IP rights have fared over time in the case law of the EU Courts. It shows that the Courts' legal reasoning has been affected by the modernization of EU law and its more economic approach in particular when it comes to defining the relevant market.

Secondary EU IP law seems to be designed favourably towards competition in aftermarkets by providing limits to IP protection and encouraging competition by third parties. At the same time it seeks to insure that IP owners' interests are protected. One big caveat to this balanced approach in EU IP legislation is the issue of design protection for spare parts. As harmonization in this area could not be achieved, there is a risk that razor-and-blade strategies implemented by dominant undertakings in Member States that provide design protection for spare parts stifles competition on aftermarkets excessively. In relation to this concrete problem, the legal reasoning of EU Courts when establishing an abuse of dominance under Article 102 TFEU is unsatisfactory. The chapter therefore provides ideas for an improved approach.

The Chapter follows the structure of the previous case studies. It first identifies the factual origins of IP-competition conflicts on aftermarkets, and how EU Courts have treated them under on the one hand EU competition law, and on the other EU design and trademark law. It then engages with the CJEU's legal reasoning, identifies tensions and suggests an improved approach.

I. The problem giving rise to IP-competition conflicts: razor-and-blade strategies

The razor-and-blades model is a simple and very familiar business strategy; a company sells a cheap razor, and sets the prices for the necessary replacement blades very high. Another well-known example is inkjet printers. The prices for inkjet printers have continuously dropped, but ink refills often cost up to half of the price of the printer. The name giver and widely accredited inventor of this business strategy was King Camp Gillette, an American businessman and inventor of the safety razor.¹ A razor-and-blade strategy consists of offering the primary product at a very low price, possibly even below production cost, and subsequently pricing the dependent product at a high price. The aim of this strategy is to attract consumers by the low price of the primary product and to lock them in, i.e. to oblige them to buy the dependent goods at high prices from the same source. This enables the business to recoup the losses from the sales of the primary product through the sale of the dependent product.²

In practice, a razor-and-blade strategy does, however, not work by itself. IP rights and brand loyalty play a very significant role in its success. Considering the example of King Gillette selling razor handles at a very low price and the necessary blades at a higher price, one has to consider competitor behaviour. Most likely, competitors would leave it to Gillette to incur losses for the sale of the handles, and would engage in producing blades that can be used with Gillette's handles. This would inject competition in the market for Gillette-compatible blades and would drive

¹ See Anderson, Chris (2009). *Free: the Future of a Radical Price*, New York: Hyperion, 11. Picker shows, however, that Gillette was not using anything similar this business model until long after the first market launch of the first Gillette razor. See Picker, Randall C. (2010). "The Razors and Blades Myth(s)", John M. Olin Law & Economics Working Paper No. 532 (2d Series), available at: <http://ssrn.com/abstract=1676444> (last visited 23 August 2017).

² It is worth noticing that razor-and-blade strategies are also at play when it comes to digital products, for example Amazon's kindle reader, which is sold at a loss, but serves as platform for Amazon to sell kindle-compatible eBooks. See Zawada, Craig (2012). "Razor-and-Blades Pricing Strategies in the Digital Age", *Forbes*, Article of 19 December 2012 available at <https://www.forbes.com/sites/ciocentral/2012/12/19/razor-and-blades-pricing-strategies-in-the-digital-age/#368e884d6e34> (last visited 28 November 2017).

down the prices for the blades. Gillette could not recoup his losses in the market for handles by the sale of blades, and his business would collapse. It is known, however, that Mr. Gillette was selling about 1 billion blades per year when he died in 1932.³ His strategy thus worked successfully.

The reason for why Gillette's strategy worked is not entirely clear.⁴ One well-known factor, however, that helps sustain successful razor-and-blades strategy is IP rights. IP rights can be used to block entry in the market for the dependent product, thereby reducing or eliminating competition in this market. One example is the strategy to insert computer chips in ink cartridges for printers in order to make them work with a printer of a particular brand.⁵ Competitors cannot copy these chips without infringing the IP rights of the manufacturer of the printer, making it impossible for them to offer alternative ink cartridges for the printer of that brand. This strategy facilitates the sale of printers at low prices, while ensuring that there is insufficient competition to drive down high prices for compatible ink cartridges in the secondary market.

Whether the producer of a primary product can actually rely on IP rights to reduce competition in secondary markets depends *inter alia* on the content of IP laws. IP laws can support razor-and-blade strategies, for example by providing design protection for spare parts or by offering protection against the circumvention of technological protection measures. At the same time, IP laws can also be designed as to facilitate entry in aftermarkets, for example by excluding IP protection for spare parts.

³ New York Times (1932). "K. C. Gillette Dead; Made Safety Razor; His Invention Led to Output by His Company of Nearly a Billion Blades Annually. Fame Became World-Wide Wrote Books Favoring Organization of Super-Socialistic Concern to Abolish Competition's Evils", News Article of 11 July 1932.

⁴ Picker, Randall C. (2010). "The Razors and Blades Myth(s)", John M. Olin Law & Economics Working Paper No. 532 (2d Series), available at: <http://ssrn.com/abstract=1676444> (last visited 23 August 2017).

⁵ The Guardian (2016). "HP 'Timebomb' Prevents Inkjet Printers From Using Unofficial Cartridges", 20 September 2016, available at: <https://www.theguardian.com/technology/2016/sep/20/hp-inkjet-printers-unofficial-cartridges-software-update> (last visited 23 August 2017)

Razor-and-blades strategies backed by IP rights to lock-in the aftermarket for a product or service can at times be in conflict with competition law. Under EU competition rules, such a strategy can run afoul of Article 102 TFEU. It must be kept in mind that undertakings implementing a razor-and-blade strategy aim at keeping competition weak in aftermarkets.⁶ This implies that such undertakings strive to be dominant in the aftermarkets for their primary product markets, which potentially puts them under the radar of competition law scrutiny.⁷ Under Article 102 TFEU, for example, excessively high prices can be caught and prohibited as unfair prices.⁸ Furthermore, refusals to supply competitors in the aftermarket with IP licenses to produce products or provide services for the primary market could also be caught as exclusionary abuse under Article 102 TFEU.⁹ The following section will give a detailed account of how razor-and-blade strategies by dominant undertakings have been evaluated under EU competition law. It will focus on the one hand on spare part and consumable cases in general, and on the other on spare part cases in the context of the car industry in particular.

⁶ In this chapter, I define an aftermarket as a market with two specific features. It is, firstly, dependent on a market for the primary product, because it encompasses goods and services which are only demanded because of the existence of a market for the primary good (examples of goods would be spare parts or consumables, for example printer ink and razor blades. An example for services would be repair services). Secondly, there is a time lag between the primary market and the aftermarket, i.e. demand for products on the aftermarket will only arise later in time in comparison to the primary market (you will get a razor blade included with your first purchase of a handle, and you will only incur the cost for replacement blades after the first razor blade is worn off. Similarly, you will only purchase repair services for your car after having owned your car for a while). For a similar definition of aftermarkets see Jones, Alison, Sufrin, Brenda (2014). *EU Competition Law, Text, Cases and Materials*, 5th edition, Oxford: Oxford University Press, 79.

⁷ This depends crucially of the definition of the relevant market. An aftermarket will not necessarily constitute the relevant market for competition law purposes. I will return to this point later.

⁸ The imposition of unfair purchase or selling prices is a category of abuse explicitly listed in Article 102 (a) TFEU. Nonetheless, higher prices resulting from an IP right do not automatically constitute an abuse as such. See for example Case 24/67 *Parke Davis & Co. v Probel* [1968].

⁹ The leading case law on refusals to supply in general include Joined Cases 6/73 and 7/73 *Commercial Solvents v Commission* [1974], Case 27/76 *United Brands v Commission* [1978], Case 22/78 *Hugin* [1979], Case 311/84 *Télémarketing* [1985], and Case C-7/97 *Bronner* [1998]. The case law on refusals to supply IP-protected information are further discussed in Chapter 4, Joined Cases C-241/91 P and C-242/91 P *Magill* [1995] being of particular importance.

II. EU competition law

1. Aftermarkets for spare parts and consumables in general

The restriction of competition on aftermarkets by dominant undertakings implementing IP-backed razor-and-blade strategies can be contrary EU competition law under certain circumstances. To determine whether such conducts violates Article 102 TFEU, courts have to follow the established steps of analysis under Article 102 TFEU.¹⁰ They have to firstly define the relevant market. As an undertaking implementing a razor-and-blade strategy intends to reduce competition on aftermarkets, the definition of the relevant market plays a particularly important role. If the market is defined narrowly, only comprising the aftermarket of a specific brand, the undertaking in question will face competition law scrutiny more easily than in cases in which the relevant market is defined broadly, for example by including the market for the primary product. Secondly, courts need to assess whether the undertaking in question possesses a position of dominance on the relevant market. Once a dominant position in the relevant market is established, courts must thirdly determine whether the conduct in question amounts to an abuse. This includes whether the particular exercise of IP rights is abusive. Fourthly, possible objective justifications need to be evaluated to establish whether the undertaking in question is liable for breaching Article 102 TFEU.¹¹

1.1 Definition of the relevant market

The definition of the relevant market in cases that concerned razor-and-blade strategies has changed over time in EU competition law. A characteristic feature of

¹⁰ Anderman, Steven D., Schmidt, Hedvig (2007). "EC Competition Policy and IPRs", in Anderman, Steven D. (ed.), *The Interface Between Intellectual Property Rights and Competition Policy*, Cambridge: Cambridge University Press, 37-124, 40.

¹¹ I have omitted one step, namely that courts have to assess whether there is an effect on trade between Member States to establish that Article 102 TFEU is applicable. The reason for this omission is that this question it is not problematic in the cases discussed and has no influence on the overall analysis of this chapter. This is also the reason why I have skipped the analysis of the relevant geographic market in the section below, since the relevant geographic market is mainly a relevant parameter to determine whether there is an effect on trade between Member States.

the case law on aftermarkets in the early days of EU competition law is the narrow definition of the relevant markets, which enabled a very low threshold for finding dominance. A ready finding of dominance means for businesses implementing razor-and-blade strategies backed by IP rights¹² that their market behaviour in aftermarkets will be scrutinized more easily under EU competition law, and that their conduct runs the risk of being qualified as an abuse.

A narrow definition of the relevant market meant in the early case law of the CJEU that it was essentially limited to the brand-specific spare parts or consumables. This means that if firm A produces the primary product X, and it competes on the market of primary product X with other firms, the relevant market for spare parts or consumables for product X is still defined as the market for spare parts/consumables of product X by firm A only. In *Hugin* for example, the relevant market was as narrow as the market for Hugin cash register spare parts for the purposes of repair services.¹³ In *Hilti*, one of the relevant markets defined was the market for nails compatible with Hilti nail guns. In *Tetra Pak II*, one of the relevant markets was the market for aseptic cartons for aseptic filling machines. While the definition in this case was not explicitly brand-specific, the finding of the relevant product market of aseptic cartons was in essence a finding of a relevant market in Tetra Pak machine-compatible aseptic cartons, considering that Tetra Pak held a 90-95% market share on the market for aseptic filling machines.¹⁴

The narrow definition of the relevant markets was justified by two main arguments. Firstly, spare parts or consumables for one brand could not to be

¹² An alternative to backing up a razor-and-blade strategy in aftermarkets through IP rights is to impose a contractual obligation on the purchasers of the primary product to also buy spare parts or consumables from the manufacturer of the primary product. This practice is referred to as “tying” and is listed as a separate form of abuse under Article 102 (d) TFEU (“making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations”).

¹³ For an early critique from an economics perspective of this narrow market definition that failed to take into consideration demand-side substitutability see Baden Fuller, C.W. (1979). “Article 86 EEC: Economic Analysis of the Existence of a Dominant Position” *European Law Review* 4(6), 423-441, 427.

¹⁴ Case T-83/91 *Tetra Pak II*, 13.

substituted by spare parts or consumables of another brand.¹⁵ There was thus no demand substitutability on the aftermarket for brand-specific spare parts or consumables, which would have allowed for a broader definition of the relevant market. Secondly, the fact that independent undertakings actively competed exclusively on the aftermarket, for example independent repair shops or spare part producers, was an important factor corroborating the existence of a separate relevant market for brand-specific spare parts or consumables.¹⁶

It is important to stress that the EU Courts did not choose such a narrow market definition of aftermarkets out of their own motion. They only rubber-stamped the Commission's competition law practice at the time. In the cases mentioned as examples, the origin of the very narrow definition of the relevant markets lay thus in the Commission's argumentation,¹⁷ and was not an invention by the EU Courts. The very narrow market definitions of the Commission merely withstood judicial review.

1.2 Dominance

Once the relevant markets are defined down to brand-specific aftermarket products, the finding of dominance¹⁸ is almost automatic.¹⁹ This is because firms implementing razor-and-blade strategies aim to occupy dominant positions in the aftermarkets for their primary products; otherwise, their strategy does not work.

¹⁵ Case 22/78 *Hugin* [1979], 7, Case T-30/89 *Hilti* [1991], 66.

¹⁶ Case 22/78 *Hugin* [1979], 7, Case T-30/89 *Hilti* [1991], 67, Case T-83/91 *Tetra Pak II* [1994], 82.

¹⁷ Anderman and Schmidt also underline the origin of the narrow market definition in the Commission's enforcement choices. See Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press, 41-43.

¹⁸ The most-quoted definition of dominance stems from Case C-85/76 *Hoffmann La-Roche* [1979], 38-39: "The dominant position thus referred to relates to a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by affording it the power to behave to an appreciable extent independently of its competitors, its customers and ultimately of the consumers [...]. The existence of a dominant position may derive from several factors which, taken separately, are not necessarily determinative but among these factors a highly important one is the existence of very large market shares."

¹⁹ Anderman, Steven D., Schmidt, Hedvig (2007). "EC Competition Policy and IPRs", in Anderman, Steven D. (ed.), *The Interface Between Intellectual Property Rights and Competition Policy*, Cambridge: Cambridge University Press, 37-124, 42.

The ambition to satisfy the highest share of demand on the aftermarket to succeed with a razor-and-blade strategy can result in an easy finding of dominance in a narrowly defined market under Article 102 TFEU. In *Hugin* for example, the CJEU held that Hugin had a monopoly over new spare parts for Hugin cash registers. According to the Court, the dismantling of old cash registers did not constitute a reliable alternative source of supply for spare parts.²⁰ Hugin therefore occupied a dominant position in the relevant market. In *Hilti*, Hilti was found to have a 70-80% market share in the market for Hilti-compatible nails, and was thus found to be dominant.²¹ Tetra Pak II held a 90% share in the market for aseptic cartons, and was consequently found to occupy a dominant position.²²

High market shares in the market for the secondary product are not the only factor, however, that determines the finding of dominance. Technological lead, sophisticated distribution networks, and other types of entry barriers are equally relevant factors that can point to the dominant position of an undertaking.²³ If to the contrary, entry barriers are low, potential entry by competitors can act as a sufficient competitive control on an undertaking with a high market share. The possibility of easy entry thus reduces the likelihood of a finding of dominance.²⁴

In this context, IP rights have been used as a reinforcing argument for the existence of entry barriers, and thus to establish a position of dominance.²⁵ In *Hugin*, the

²⁰ Case 22/78 *Hugin* [1979], 9.

²¹ Case T-30/89 *Hilti* [1991], 92.

²² Case T-83/91 *Tetra Pak II* [1994], 109.

²³ Case C-85/76 *Hoffmann La-Roche* [1979], 48. See also Guidance on the Commission's Enforcement Priorities in Applying Article 82 (2009/C 45/02), 17, where the commission lists several types of possible entry barriers. These include (i) legal barriers, such as tariffs or quotas, (ii) specific commercial advantages such as economies of scale and scope, privileged access to essential inputs or natural resources, important technologies, or an established distribution and sales network, (iii) switching costs for consumers, (iv) significant investments that would have to be matched by entrants, (v) or long-term contracts that lead to foreclosure.

²⁴ See Guidance on the Commission's Enforcement Priorities in Applying Article 82 (2009/C 45/02), 16.

²⁵ An IP right by itself is not considered to confer market power or dominance, but it can constitute a barrier to entry under certain circumstances. If the IP right covers an industry standard in a single-good market, it can be considered an absolute barrier to entry. If there are imperfect substitutes to an IP protected product, the IP right constitutes merely a financial impediment to entry that raises

Advocate General noted that Hugin spare parts were most likely protected under the UK IP laws. Competitors would not want to run the risk of being subject to infringement proceedings if they produced compatible spare parts for Hugin cash registers themselves. This in turn made new entry into the relevant market unlikely and reinforced Hugin's dominant position.²⁶ Similarly, the General Court in *Hilti* found that Hilti's patents and copyrights in the cartridge strips for its nail guns strengthened its position on the market for Hilti-compatible nails.²⁷ In *Tetra Pak II*, the General Court found that the patents Tetra Pak held in its aseptic machines reinforced its dominant position on the market for both aseptic machines and aseptic cartons. Its IP rights in its aseptic machines constituted a "serious barrier to access"²⁸ for new competitors on the relevant market, and thus strengthened its dominance.

One last interesting point on relevant markets and dominance in the Court's early case law is the rejection of the argument that a position of dominance on aftermarkets could be disciplined by competition on the market for the primary product. In other words, if competition on the primary market were rigorous, undertakings would not behave improperly in the brand-specific aftermarkets out of fear that they might lose as a consequence consumers to competitors in the market for the primary goods. If this argument were accepted, the definition of the relevant market would have to be widened to include both primary and aftermarkets, and would thus reduce the likelihood of a finding of dominance. While this argument was irrelevant in *Hilti* and *Tetra Pak II*, since the undertakings

rivals' cost for entering the market. See Anderman, Steven D., Schmidt, Hedvig (2007). „EC Competition Policy and IPRs“, in Anderman, Steven D. (ed.), *The Interface Between Intellectual Property Rights and Competition Policy*, Cambridge: Cambridge University Press, 37-124, 44-45.

²⁶ Opinion AG Reischl Case 22/78 *Hugin* [1979] at p. 905-906.

²⁷ Case T-30/89 *Hilti* [1991], 93. In fact, the independent producers for Hilti-compatible nails had claimed that they needed to know the design of the cartridge strips for Hilti guns in order to be able to produce Hilti-compatible nails. Hilti had refused to provide them with cartridge strips or with licenses for the IP rights in the cartridge strips. Furthermore Hilti had initiated infringement proceedings against one of the independent nail producers when it had attempted to get Hilti-compatible cartridge strips from other sources or when it had attempted to reverse-engineer them (see Case T-30/89 *Hilti* [1991], 2-3).

²⁸ Case T-83/91 *Tetra Pak II* [1994], 110.

subject to Article 102 TFEU proceedings were dominant in the primary markets,²⁹ too, it could have changed the finding of dominance in the *Hugin* case.³⁰ The CJEU remained silent on this issue, however, and did not engage with this argument in its analysis of dominance. The Advocate General, in contrast, cast considerable doubt on the validity of such argument. According to his opinion, a higher amount of competition in the primary market could not justify a complete elimination of competition in brand-specific aftermarkets, because it would amount to a forbidden alteration of the competitive structure.³¹

1.3 Abuse

For the purpose of this chapter, the relevant question is under which circumstances razor-and-blades strategies backed by IP rights amount to an abuse under Article 102 TFEU in the case law of the EU courts. The case law on spare parts and consumables in general does not provide conclusive answers. In all cases discussed as examples so far, i.e. *Hugin*, *Hilti* and *Tetra Pak II*, the EU Courts were concerned with reviewing Commission Decisions, which discussed the role of IP rights in backing razor-and-blade strategies very little.

In *Hugin*, the Commission limited itself to arguing that a refusal to supply competing repair service providers for cash registers with spare parts was abusive, because it forced independent repairers out of the market, and deprived consumers of the choice to purchase repair services from alternative sources.³² The Commission only noted that independent manufacturers could not avail

²⁹ In *Tetra Pak II* this was the case for aseptic machines and cartons. The issue of dominance in relation to non-aseptic machines and cartons was less clear.

³⁰ *Hugin* held a share of merely 12 % of the Community-wide market for cash registers (facts and procedures of *Hugin* case at p. 1872). See also Ezrachi, Ariel (2014). *EU Competition Law An Analytical Guide to the Leading Cases*, 4th edition, Oxford: Hart, 196.

³¹ Opinion AG Reischl in Case 22/78 *Hugin* [1979] at p. 1914: „In my opinion there are fundamental objections to such a "balancing out" of factual situations which involve the complete elimination of independent maintenance undertakings and thus a fundamental alteration of the structure of competition. No support for the applicant's view is to be found in the previous case-law.”

³² Submissions and arguments of the parties of *Hugin* case at p. 1884.

themselves of the possibility to produce the spare parts themselves because this would have contravened UK Design legislation.³³

In *Tetra Pak II*, Tetra Pak implemented its razor-and-blades strategy not directly through the exercise of IP rights, but through contractual tying. This means that Tetra Pak was excluding competitors from the aftermarket for cartons not by exercising IP rights, but by obliging the purchasers of its machines to purchase cartons exclusively from Tetra Pak. The General Court therefore found that the contractual clauses in Tetra Pak's sale contracts for its machines had the effect of making purchasers completely dependent from Tetra Pak for the lifetime of the machine.³⁴ This eliminated the possibility of having competition in the aftermarkets for cartons. Albeit the Commission and the GC were only concerned with the effect of contractual clauses, the effects of exercising IP rights (e.g. in the carton design) could arguably have the same effects of eliminating competition in the market for cartons.

Hilti is the only example of these cases where the General Court directly addressed the issue of IP rights in its abuse analysis. Hilti had denied its competitors access to its IP-protected cartridge strip, which was necessary to produce Hilti nail gun-compatible nails. When Hilti's patents became subject to a license of right, Hilti still refused to provide patent licenses voluntarily to its competitors for cartridge strips and nails, and informed them that it would in any case rely on its copyright in the cartridge strips if a license of right were granted for the patent.³⁵

Hilti's cartridge strip patents benefitted from the extension of the patent term introduced by the UK Patent Act 1977, but were at the same time subject to a

³³ Submissions and arguments of the parties to the *Hugin* case at p. 1885. The CJEU ultimately did not address the Commission's arguments because it annulled the Commission decision on the basis of a lack of effect on trade between Member States. The CJEU therefore did not discuss the substance of abuse.

³⁴ Case T-83/91 *Tetra Pak II* [1994] at 135.

³⁵ Commission Decision 88/ 138/EEC relating to a proceeding under Article 86 of the EEC Treaty (IV/30.787 and 31.488 — Eurofix-Bauco v. Hilti) [1987], 25-26.

license of right.³⁶ A license of right meant that if a patent owner and a potential licensee could not reach agreement on a license, the UK Comptroller of Patents, Designs and Trademarks could fix the terms of the license. In light of these circumstances, the General Court held that Hilti's refusal to voluntarily provide licenses for its patents, and its request of a price six times higher than the price ultimately set by the patents comptroller in the license of right proceedings, thereby delaying the grant of a license, "undeniably constitute[d] an abuse".³⁷ The patent-related abuse was just one competition law infringement of several that Hilti was found guilty of.³⁸ In this particular case, the IP-related abuse appeared to hinge on the fact that a license of right was available, and that the price demanded by Hilti for the license was excessive.³⁹

1.4 Objective justification

Once an abuse under Article 102 TFEU is established, an undertaking can still invoke an objective justification for its behaviour. Interestingly enough, none of the undertakings in the cases mentioned tried directly to invoke the protection of their IP rights as an objective justification. They could have claimed that they were under no obligation to supply any competitor with IP licenses, because IP rights are inherently exclusive. Instead, the undertakings claimed that the competitive restrictions they implemented on aftermarkets were necessary to ensure the quality of repair services and of spare parts or consumables.⁴⁰

³⁶ Case T-30/89 *Hilti* [1991], 15.

³⁷ Case T-30/89 *Hilti* [1991], 99. Albeit the case was appealed to the CJEU, the particular issue on the price of patent licenses to establish an abuse under Article 102 TFEU was not part of the appeal, and was therefore not reviewed by the CJEU at final instance.

³⁸ Article 1 of Commission Decision 88/ 138/EEC relating to a proceeding under Article 86 of the EEC Treaty (IV/30.787 and 31.488 — Eurofix-Bauco v. Hilti) [1987] lists seven further abuses, *inter alia* tying the sales of Hilti nails to the sale of cartridge strips.

³⁹ These circumstances are quite similar to those relating to standard essential patents for industry standards. See for example in Case C-170/13 *Huawei* [2015], where Huawei submitted to grant licenses for its standard essential patent in a telecommunications standard technology on FRAND terms, i.e. the abuse of a patent was at stake for which licenses were available on the basis of terms that could not be unfair/excessively high for potential licensees.

⁴⁰ See, for example, the submissions and arguments of the parties of *Hugin* case at p. 1886, Case T-30/89 *Hilti* [1991], 103, and Case T-83/91 *Tetra Pak II* [1994], 126.

In *Hilti*, the undertaking also claimed that the restrictions on competition it imposed on the market for Hilti nails were justified because it wanted to avoid claims under product liability law and comply with its duty of care towards consumers.⁴¹ In *Tetra Pak II*, the undertaking submitted that it needed control over all fields of marketing of its packaging system to protect public health, because in contrast to bottles, packaging beverages in cartons carried greater health risks.⁴²

The EU Courts rejected all these objective justifications. The GC held in *Hilti* and *Tetra Pak II* that it was “clearly not the task of an undertaking in a dominant position to take steps on its own initiative to eliminate products which, rightly or wrongly, it regards as dangerous or at least as inferior in quality to its own products.”⁴³ In *Tetra Pak II*, the General Court found that there were less restrictive alternatives to achieve the same goal of protecting consumer health, for example by providing information to the purchasers of its packaging machines about the requirements that cartons should meet.⁴⁴ Furthermore, both in *Hilti* and *Tetra Pak II*, the General Court held that as long as there was national legislation setting product safety standards, there was no need for the restrictions imposed by the undertakings because they could always have recourse to the national authorities.⁴⁵

1.5 The influence of EU competition law modernization

In the new millennium, a different approach has been adopted towards cases of potentially anti-competitive conduct on aftermarkets under EU competition law.

⁴¹ Case Case T-30/89 *Hilti* [1991], 105.

⁴² Case T-83/91 *Tetra Pak II* [1994], 126.

⁴³ Case T-30/89 *Hilti* [1991], 118 and Case T-83/91 *Tetra Pak II* [1994], 138.

⁴⁴ Case T-83/91 *Tetra Pak II* [1994] at 139. The General Court especially held that “reliability of the packaging equipment for dairies and other users and compliance with standards of hygiene in relation to the final consumer could be ensured by disclosing to users of Tetra Pak machines all the technical specifications concerning the cartons to be used on those systems, without the applicant's intellectual property rights being thereby prejudiced”; the Court thus was aware of the possibility that IP rights could be affected.

⁴⁵ Case T-30/89 *Hilti* [1991] at 118 - 119 and Case T-83/91 *Tetra Pak II* [1994] at 139.

There has been an observable change in the EU Commission's competition policy,⁴⁶ which has been accepted and confirmed by the EU Courts. This has affected in particular the definition of the relevant market and the assessment of dominance.

In the 1997 Commission Notice on the definition of relevant market, the Commission already departed from its very narrow definitions of the relevant market in its earlier decisions.⁴⁷ While the Notice still states that "a narrow definition of market for secondary products, for instance, spare parts, may result when compatibility with the primary product is important",⁴⁸ it also opens the possibility for a wider market definition when consumers could easily switch to other primary products in case of price increases for a brand-specific secondary product.⁴⁹ The acceptance of a trade-off where competition on the market for the primary good could cure a lack of competition on aftermarkets stands in contrast to the earlier cases. The tone of the Commission Notice is quite different when compared to the opinion of AG Reischl in *Hugin* who was concerned with the "structure" of competition, and found that an elimination of competitors in the aftermarket could not be justified by enhanced competition in the primary market.

The EU courts have in principle supported the new definition of the relevant market provided by the Commission Notice in the more recent case law on aftermarkets. In the ink cartridges case of *EFIM v Commission*, the General Court and, on appeal the CJEU, have accepted a wider definition of the relevant market.⁵⁰ The Commission held in its decision that the market for primary goods could discipline closely connected aftermarkets, and therefore exclude a finding of dominance in aftermarkets, if four conditions held. Firstly, the consumer must be able to take an informed choice by being able to forecast the price for secondary

⁴⁶ Heinemann, Andreas (2002). *Immaterialgüterschutz in der Wettbewerbsordnung*, Tübingen: Mohr Siebeck, 547-548.

⁴⁷ Commission Notice on the definition of relevant market for the purposes of Community competition law (97/C 372/03).

⁴⁸ Commission Notice on the definition of relevant market for the purposes of Community competition law (97/C 372/03), 56.

⁴⁹ *Ibid.*

⁵⁰ Case T-296/09 *EFIM v COM* [2011], on appeal Case C-56/12 P *EFIM v COM* [2013].

products during the life time of the primary product. Secondly, the consumer will take the price for secondary products into consideration at the moment of purchasing the primary product. Thirdly, in case of an increase of prices for secondary products a sufficient number of customers will change their behaviour on the primary market. Fourthly, that such change in behaviour will occur within a reasonable time.⁵¹ The Commission concluded that all these conditions had been met in the markets for inkjet printers and ink cartridges, and that there was consequently no dominance. The GC and the CJEU both accepted the Commission's reasoning in relation to the definition of the relevant market and dominance.⁵²

In *CEAHR v Commission*,⁵³ however, the GC annulled the contested Commission Decision, because the Commission had failed to substantiate its definition of the relevant market and dominance. The Commission had found in its decision rejecting a complaint by the Confederation of European Watch Repairers that the market for repair services of luxury and prestige watches was not a separate market from the primary market of luxury and prestige watches.⁵⁴ It had come to this conclusion by starting from the premise that the spare parts market for primary products of a particular brand may not be a separate relevant market in two situations: firstly, if it was possible for a consumer to switch to spare parts manufactured by another producer, and secondly, if it was possible for the consumer to switch to another primary product thereby creating a disincentive for price increases on the market for spare parts.⁵⁵

The GC accepted this argument, but qualified it by requiring that it needed to be shown that, "in the event of a moderate and permanent increase in the price of secondary products, a sufficient number of consumers would switch to other primary or secondary products, in order to render such an increase unprofitable."⁵⁶

⁵¹ Case T-296/09 *EFIM v COM* [2011], 60.

⁵² Case T-296/09 *EFIM v COM* [2011], 68 and Case C-56/12 P *EFIM v COM* [2013], 38- 39.

⁵³ Case T-427/08 *CEAHR v COM* [2010].

⁵⁴ Case T-427/08 *CEAHR v COM* [2010], 10.

⁵⁵ Case T-427/08 *CEAHR v COM* [2010], 79.

⁵⁶ *Ibid*, 80.

The Court then held that the Commission had not adduced sufficient proof for this.⁵⁷ While the Court generally accepted the new Commission approach to market definition and dominance, it still referred to the old case law on spare parts and consumables. It stated for example, that the existence of separate undertakings in the aftermarket, which only operate on the aftermarket of a primary product, was a strong indication that there was a separate relevant market for the purposes of EU competition law.⁵⁸ The GC thus did not seem to discard a structuralist approach to defining the relevant market in the case of aftermarkets entirely.

While the Courts in *EFIM v Commission* accepted the new approach to wider market definitions for aftermarkets, the Court in *CEAHR v Commission* required additional proof by the Commission to accept a wider definition of the relevant market for secondary products. This difference is likely related to the nature of the product markets at stake in each case. While the price for inkjet printers is rather low, consumers might indeed pay attention to cartridge prices when purchasing a printer, and might be willing to switch to a new printer in case the cartridge prices for a previously owned printer are too high. This would be less the case for luxury watches and repair services for luxury watches. For one, most watches are coming with a warranty, which covers repair for the first years of ownership. The possibility of having to pay for repair services thus does not manifest in the near future, thereby somewhat hiding possible costs of repair in the longer term. Furthermore, it is unlikely that a consumer will switch to a different luxury watch once she finds out that repair prices are very high for her current watch, because the prices for luxury watches are very high.⁵⁹

Apart from following a more economic approach towards the definition of the relevant market, there are small signs indicating that the modernization of EU competition law has also led to a greater awareness of the Commission to share

⁵⁷ *Ibid*, 107.

⁵⁸ Case T-427/08 *CEAHR v COM* [2010], 108 by reference to Case T-30/89 *Hilti* [1991], 67.

⁵⁹ Jones, Alison, Sufrin, Brenda (2014). *EU Competition Law, Text, Cases and Materials*, 5th edition, Oxford: Oxford University Press, 80.

tasks with its national counterparts.⁶⁰ In the more recent spare part cases, the Commission seems to be more aware that investigations and complaints can be delegated to national competition authorities. The Commission decided in *EFIM* and *CEAHR*, for example, not to investigate complaints by aftermarket competitors and stated in both cases that there was insufficient Community interest in initiating proceedings, but that the complainants could in any case have recourse to national competition authorities and national courts.⁶¹

2. The special case of aftermarkets in the motor vehicle industry

The case law concerning aftermarkets for motor vehicles are a special case when compared to the case law on aftermarkets in general discussed so far. This is due to two factors. Firstly, the case law on aftermarkets in the motor vehicle sector was not developed in the context of appeals to Commission Decisions. The two cases were preliminary references from national courts; the procedure was thus different. Instead of reviewing the concrete content of a Commission Decision, the CJEU gave a more general interpretation Article 102 TFEU.⁶² Secondly, while the General Court followed the Commission's policy towards aftermarkets in general,⁶³ the CJEU's approach to aftermarkets in the motor vehicle sector departed from the Commission's competition policy towards this industrial sector.

2.1 The case law under Article 102 TFEU

The two preliminary references concerning aftermarkets for motor vehicles were *Volvo v. Veng*, and *CICRA v Renault*.⁶⁴ The issue in both cases was similar. The national courts asking for an interpretation of Article 102 TFEU were essentially concerned with whether a car manufacturer could prevent independent undertakings to manufacture or import spare parts for its cars by enforcing its

⁶⁰ On the decentralization of EU competition law enforcement in general see Chapter I Section I.3.2.

⁶¹ Case T-427/08 *CEAHR v COM* [2010], 11 and Case T-296/09 *EFIM v COM* [2011], 106.

⁶² While the EU Courts decide the outcome of a case in appeals to Commission Decisions, the CJEU is supposed to merely offer an interpretation of EU law to the national court in preliminary reference procedures, leaving it to the referring national court to decide the outcome of the case.

⁶³ The GC and CJEU accepted, for example, very narrowly defined relevant markets.

⁶⁴ Case 238/87 *Volvo v Veng* [1988] and Case 53/87 *CICRA v Renault* [1988].

design rights in its car spare parts. The car manufacturers were implementing a razor-and-blades strategy backed by IP rights: They wanted to make it more difficult for repair service providers to compete on the aftermarket for Volvo and Renault cars, and they used their design rights to restrict competition on the aftermarket.⁶⁵

The questions posed to the CJEU were therefore the following: In *Volvo v Veng*, the question was whether refusing to provide a license for designs in body panel spare parts, even when offered a reasonable royalty, was an abuse under Article 102 TFEU. In *CICRA v Renault*, the question was whether the practice of obtaining and enforcing design rights in spare parts for body panels against independent spare part producers and repair service providers constituted an abuse. The CJEU gave an identical reply to both questions. It held that the conditions and procedures for granting design rights were, absent harmonization through EU law, a matter of national law.⁶⁶ It emphasized that the prevention of the manufacture, sale or import of products incorporating a design constituted the very subject matter of this IP right.⁶⁷ To impose on a design right holder a duty to license its designs for a reasonable royalty would deprive the holder of the substance of the design right, and therefore a refusal to license could not in itself constitute an abuse of dominance under Article 102 TFEU.⁶⁸ Only if the normal exercise of IP rights included an additional abusive element, could it amount to an abuse.⁶⁹

⁶⁵ In his opinion in Case 238/87 *Volvo v Veng* [1988], Advocate General Mischo pointed to a report by the UK Mergers and Monopoly Commission (since 1999 the UK Competition Commission and now the UK Competition and Markets Authority) that showed that the spare parts policy of one of the leading car manufacturers was to fix prices for bodywork components at excessively high levels (AG Opinion, 33).

⁶⁶ Case 238/87 *Volvo v Veng* [1988], 7. This point was made in the context of the free movement rules and Article 36 TFEU in Case 53/87 *CICRA v Renault* [1988] 10. In this case, the claimants based their claims both on the Treaty rules on free movement and Article 102 TFEU.

⁶⁷ Case 238/87 *Volvo v Veng* [1988], 8, and Case 53/87 *CICRA v Renault* [1988], 15.

⁶⁸ Case 238/87 *Volvo v Veng* [1988], 8.

⁶⁹ The examples the CJEU gave were “the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation”. See Case 238/87 *Volvo v Veng* [1988], 9 and Case 53/87 *CICRA v Renault* [1988], 16.

In contrast to the case law on aftermarkets in general discussed above, the CJEU took the IP right at issue in a more careful manner into account in the car spare parts cases. This was conditioned by the formulation of the questions referred by the national courts that requested an interpretation on the precise point of IP rights and abusive behaviour under Article 102 TFEU. Compared to the case law on aftermarkets in general, the CJEU gave the existence of an IP right a great amount of justificatory weight for restrictions of competition on aftermarkets; only in exceptional circumstances could the exercise of a design right locking-in an aftermarket for car spare parts be abusive under competition law.⁷⁰ The negative impact on independent spare part producers and repair service providers on aftermarkets did not factor into the interpretation offered by the CJEU.

The Court's approach that allows the use of design rights to lock-in aftermarkets for car spare parts and repairs (as long as prices are not fixed at an unfair level and car manufacturers do not arbitrarily refuse to supply spare parts to independent repairers)⁷¹ stands somewhat in tension with the Commission's policy regarding aftermarkets in the motor vehicle sector under Article 101 TFEU. While the Commission has accepted vertical restraints in the distribution networks of car manufacturers, it has always been wary to ensure that competition by independent repairers in aftermarkets is kept well alive. This is exemplified by the provisions of the Motor Vehicle Block Exemption Regulations (hereinafter "Motor Vehicle BER").

2.2 The Commission's aftermarket policy in the Motor Vehicle BER

Car manufacturers have traditionally operated their distribution in the form of selective distribution agreements. This means that only a limited number of authorized dealers appointed by a car manufacturer are entitled to sell and service cars of the manufacturer's brands. These agreements can run the risk of being contrary to Article 101 TFEU, but are generally not harmful to competition and

⁷⁰ The further development of the seeds of the exceptional circumstances test planted in *Volvo* and *CICRA* in the case law of the EU Courts is discussed in Chapter 4 Section III.1.

⁷¹ Case 238/87 *Volvo v Veng* [1988], 9 and Case 53/87 *CICRA v Renault* [1988], 16.

even generate efficiencies.⁷² The Commission recognized this fact and consequently issued the first Block Exemption Regulation for motor vehicle distribution and servicing agreements in 1985.⁷³

The first Motor Vehicle BER of 1985, as well as subsequent Motor Vehicle BERs,⁷⁴ emphasise the importance of giving access to independent repairers and spare part providers to aftermarkets. Motor Vehicle BER 1400/2002 showed an imprint of the more economic approach. It exempted a broader range of agreements from the scope of Article 101 (1) TFEU and introduced market share thresholds above which agreements would not be exempted.⁷⁵ It also removed the obligation on dealers to provide repair and aftersales services, allowing for more competition by third parties in aftermarkets.⁷⁶

In the BER, the contractual prohibition to supply independent repair services providers with spare parts constitutes a hardcore restriction, which removes the benefits of a block exemption regulation irrespective of market shares.⁷⁷

⁷² Marco Colino, Sandra (2010). "Recent Changes in the Regulation of Motor Vehicle Distribution in Europe – Questioning the Logic of Sector-Specific Rules for the Car Industry", *Competition Law Review* 6(2), 203-224, 211.

⁷³ Commission Regulation (EEC) No 123/85 on the application of Article 85 (3) of the Treaty to certain categories of motor vehicle distribution and servicing agreements.

⁷⁴ BER 123/85 has been replaced subsequently by Regulation No 1475/95 and Regulation No. 1400/2002. The current Motor Vehicle BER in place is Commission Regulation (EU) No 461/2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices in the motor vehicle sector.

⁷⁵ See Article 3 Regulation Motor Vehicle BER 1400/2002, which introduced the same threshold as the general Vertical BER of 30%. Article 3 of the most recent Motor Vehicle BER 461/2010 furthermore stipulates that from 1 June 2013 onward the general Vertical BER 330/2010 applies to vertical agreements relating to the purchase, sale, or resale of new motor vehicles. Agreements relating to aftermarkets, however, continue to be governed by the special BER for agreements relating to motor vehicles.

⁷⁶ Marco Colino points out that the second Motor Vehicle BER 1475/95 was an exception to the general aim of keeping aftermarkets open. This Regulation was designed so as to favour interests of car manufacturers and allowed for quite heavy restrictions of competition in motor vehicle aftermarkets. In this regulation, for example, dealers "were inexplicably obliged to carry out repair and maintenance services to enter into the manufacturers' network, and wholesalers outside the approved distribution system could be prevented from accessing original spare parts". See Marco Colino, Sandra (2010). "Recent Changes in the Regulation of Motor Vehicle Distribution in Europe – Questioning the Logic of Sector-Specific Rules for the Car Industry", *Competition Law Review* 6(2), 203-224,212, and Article 5 Motor Vehicle BER 1475/95.

⁷⁷ Article 3 (10) (b) BER 123/85, Article 4 (1) (i) BER 1400/2002, Article 5 (a) BER 461/2010.

Manufacturers are also banned from including clauses in their contracts which prohibit their authorized dealers to obtain spare parts from independent suppliers, as long as they match the quality of the original spare parts.⁷⁸ While the Court under Article 102 TFEU held that “arbitrary” refusals to supply IP-protected spare parts could constitute an abuse, the BER extends this prohibition to any form of prohibiting supplies of spare parts in distribution agreements.

The Commission’s continued commitment of keeping competition lively in the aftermarket for car spare parts is also stressed again and again in the Commission’s Supplementary Guidelines to Motor Vehicle BER 461/2010.⁷⁹ The Commission makes clear to car manufacturers and their authorized dealers that they should “be aware of the Commission’s determination to preserve competition both between the members of authorised repair networks and between those members and independent repairers”.⁸⁰

Manufacturers are capable, however, of restricting competition on car aftermarkets not only through restrictive clauses in selective distribution contracts but also through the enforcement of design rights in their spare parts.⁸¹ The effect of both strategies is identical: It leads to the exclusion of independent repairers and spare part manufacturers from brand-specific aftermarkets.⁸² The CJEU’s approach

⁷⁸ Article 3 (4) BER 123/85, Article 4 (1) (j) and (k) BER 1400/2002, Article 5 (b) BER 461/2010. These hardcore restrictions are peculiar to vertical agreements in the motor vehicle sector. No equivalent can be found in the general Vertical BER. See Marco Colino, Sandra (2010). “Recent Changes in the Regulation of Motor Vehicle Distribution in Europe – Questioning the Logic of Sector-Specific Rules for the Car Industry”, *Competition Law Review* 6(2), 203-224,215.

⁷⁹ See, for example, of Commission Supplementary Guidelines on vertical restraints in agreements for the sale and repair of motor vehicles and for the distribution of spare parts for motor vehicles (2010/C 138/05), 15, 18, 57, 58.

⁸⁰ Commission Supplementary Guidelines on vertical restraints in the motor vehicle sector, 60.

⁸¹ On this point see also Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 280; Heinemann, Andreas (2002). *Immaterialgüterschutz in der Wettbewerbsordnung*, Tübingen: Mohr Siebeck, 537.

⁸² Under IP law, this can be remedied by excluding IP protection for spare parts, as some Member States have done under Article 14 of the Design Directive, or as the EU legislator has chosen to do under Article 110 CDR. There are also self-regulatory mechanism possible: In Germany, car manufacturers have committed not to enforce their design rights in spare parts. See Beldiman, Dana, Blanke-Roeser, Constantin (2015). “European Design Law: Considerations Relating to Protection of Spare Parts for Restoring a Complex Product’s Original Appearance”, *International*

in *Volvo v Veng* and *CICRA v Renault*, which did not object to the enforcement of design rights in aftermarkets under Article 102 TFEU, sits therefore somewhat in tension with the Commission's policy under Article 101 (3) TFEU as expressed in the Motor Vehicle BERs. While the Court seemed to tolerate a reduction of competition in car aftermarkets to the detriment of independent repair service providers and spare part producers, the Commission is committed to keep aftermarkets completely open for these market players.

III. EU IP Law

The implementation of razor-and-blade strategies backed by IP rights can, under certain circumstances, be caught as an anti-competitive restriction of competition on aftermarkets under competition law. This is why independent repair service providers or spare part and consumables producers have complained to competition authorities at times to gain access to an IP-blocked aftermarket. This was the case in *Hugin, Hilti and Tetra Pak II*. Alternatively, aftermarket competitors can initiate proceedings before national courts, as in *Volvo* and *Renault*.

As an alternative to competition law, aftermarket competitors can try to challenge the validity or scope of the IP rights used by the undertaking trying to lock-in an aftermarket. The legal reasoning under IP law when challenging an IP right is quite different, however, from the legal reasoning under competition law.⁸³ Issues such as for example the market power of the IP holder do not enter the legal calculus when Courts are balancing the interest of IP right holders, aftermarket competitors and consumers under IP law.

Review of Intellectual Property and Competition Law 46, 915–919, 917. Despite the declaration of not enforcing their design rights in spare parts by the association of car manufacturers, German car manufacturers have brought proceedings before national courts against independent spare part producers for infringement of their spare part designs. National courts have not considered the declaration given by the car manufacturers as binding. See Hartwig, Henning (2016). "Spare Parts under European Design and Trade Mark Law", *Journal of Intellectual Property Law & Practice* 11(2), 121-129, 123.

⁸³ See also the abstract example comparing an IP-competition conflict brought under competition law and IP law in Chapter 2 Section I.

Within the EU legal system, the EU Courts were for a long time not confronted with the typical types of legal reasoning within IP law because IP law was an exclusive competence of the Member States. This situation changed when a harmonization wave swept through many areas of IP law, beginning in the late 1980s with trademark law, and by now spanning the whole spectrum of IP rights.⁸⁴ The fields of harmonized EU IP law in which the CJEU has been confronted with questions relating to IP-backed razor-and-blades strategies have been trademark law and design law.

1. Trademark Law

A trademark right gives the owner the power to prohibit third parties to use her sign for similar goods in the course of trade. The trademark owner may prohibit third parties to use her trademark in particular in the course of marketing products, of advertising, and in import and export activities.⁸⁵ A trademark right can be limited when the use of the sign is necessary to indicate the intended purpose of a product or service.⁸⁶ It is in the context of Article 14 (1) (c) of the Trademark Directive that issues concerning the lock-in of aftermarkets through the exercise of trademark rights were brought to the CJEU.

At first sight, it might not be obvious how a trademark right would help an undertaking in implementing a razor-and-blade strategy to lock in the aftermarket for its primary product. After all, a trademark is not a patent, i.e. absent patent protection, competitors can produce spare parts and consumables for the primary good without having to fear legal sanctions. Nonetheless, a trademark right is a more subtle tool to help to lock in an aftermarket because it can obstruct the commercial free speech of independent repairers or manufacturers. Imagine, for example, an independent garage specialized in repairing BMW cars. In order to attract clients, the garage must be able to advertise its services. In order to do so,

⁸⁴ For further details of the harmonization of IP law in the EU legal system see Chapter 1 Section I.2.

⁸⁵ See Article 10 Trademark Directive and Article 9 EU Trademark Regulation.

⁸⁶ See Article 14 (1) (c) of the Trademark Directive and Article 12 (c) of the EU Trademark Regulation.

however, it needs to make use of the BMW trademark in its advertisements. How could potential clients otherwise understand that the strength of this garage is to repair cars of the BMW brand? BMW, in turn, might pursue a razor-and-blade strategy to keep control of the market for BMW repair services. As BMW owns the BMW trademark, and this trademark gives BMW the exclusive right to use it in advertising, it could prevent independent repairers from using the trademark in their advertisement. These were precisely the facts giving rise to the *BMW v Deenik* case.⁸⁷

In *BMW v Deenik*, the question was whether BMW could prohibit a small independent garage in the Netherlands to use the word “BMW” in its advertising to convey that it was specialized in repairing BMW cars. The reason preventing BMW from enjoining the repairer from using its trademarks were the limits to its trademark right spelled out under Article 14 (1) (c) Trademark Directive. This provision stipulates that a trademark shall not entitle the proprietor to prohibit a third party from using it, in the course of trade, “for the purpose of identifying or referring to goods or services as those of the proprietor of that trademark, in particular, where the use of the trademark is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts”.

The CJEU had to determine, in essence, whether the repairer could rely on the limitation in Article 14 (1) (c) because she needed to use the BMW trademark to indicate the purpose of her services. While the Court held that the repairer could indeed rely on Article 14 (1) (c) Trademark Directive because it was necessary for her to make use of the trademark to indicate the purpose of her services,⁸⁸ she had still an obligation to act fairly in relation to the legitimate interests of the trademark owner.⁸⁹ If the advertisement falsely suggested that there were

⁸⁷ Case C-63/97 *BMW v Deenik* [1999]. This case was decided under the old Trademark Directive, in which the relevant provision had a different numbering (Article 6 (1) (c)).

⁸⁸ Case C-63/97 *BMW v Deenik* [1999], 59-60.

⁸⁹ This duty derives from now Article 14 (2) Trademark Directive, which only allows for the limitations of the trademark right, “provided [the third party] uses them in accordance with honest practices in industrial or commercial matters”. See Case C-63/97 *BMW v Deenik* [1999], 61-63.

commercial links between the repairer and BMW, or if the repairer took unfair advantage of the reputation of the BMW trademark or denigrated it, the repairer could not rely on Article 14 (1) (c).⁹⁰ If, on the other hand, the repairer derived an advantage from using the trade mark in her advertisements, which were otherwise honest and fair, and this use lend an aura of quality to her own business, such use was in line with Article 14 (1) (c).⁹¹

The second case in which the CJEU had to interpret Article 14 (1) (c) Trademark Directive was, coming back to King Camp, the *Gillette* case.⁹² The factual background to *Gillette* was a trademark infringement action brought by Gillette against a Finnish producer of razor replacement blades, which were compatible with Gillette handles. In order to inform the consumer that her blades were Gillette-compatible, the producer had written on the packaging of the replacement blades that they could be also used with Gillette handles. According to Gillette, this use of their trademark infringed their trademark rights. The independent producer, however, relied on the limitation under Article 14 (1) (c).

The Court applied the same reasoning as in *BMW*. It reiterated that trademarks were an essential component of a system of undistorted competition, because they enabled undertakings to keep customers by virtue of the quality of its products and services.⁹³ At the same time, the limitation to trademark rights in Article 14(1) (c) was also necessary to preserve a system of undistorted competition because it ensured that the public would have full information about the intended purpose of a product or service.⁹⁴ The Court made clear, however, that the use of the trademark under Article 14 (1) (c) must be the only available means in practice to provide such information.⁹⁵ The Court also repeated the holding in *BMW* that the use must be in conformity with honest business practices, which imposed on the

⁹⁰ Case C-63/97 *BMW v Deenik* [1999], 63, 51-53.

⁹¹ Case C-63/97 *BMW v Deenik* [1999], 63, 53.

⁹² Case C-228/03 *Gillette* [2005].

⁹³ *Ibid*, 25.

⁹⁴ *Ibid*, 33-34.

⁹⁵ *Ibid*, 35.

third party using the trademark a duty to act fairly relation to the legitimate interest of the trademark owner.⁹⁶

The CJEU's approach was, of course, influenced by the design of EU trademark law. The EU legislator has drafted secondary trademark legislation in consideration of potential IP-competition conflicts on aftermarkets and has included limitations to the rights to safeguard the competitive freedom of independent undertakings in aftermarkets. These limitations can be found *inter alia* under Article 14 (1) (c) Trademark Directive. In this sense, EU secondary legislation limits the scope of IP rights to facilitate competition in aftermarkets.

While the statutory limitation in itself is intended to further competition on aftermarkets despite IP protection, the Court chose not provide aftermarket competitors with complete freedom to use the trademark.⁹⁷ Only a "fair use", which is necessary in order to communicate full information about the aftermarket competitors' product or service, is allowed. Furthermore, the use should not denigrate the trademark or take unfair advantage of it. This is what the Court termed the "duty to act fairly in relation to the legitimate interests of the trademark owner". Even in case of vigorous competition on aftermarkets, the interests of the trademark owner are thus to be protected.

2. Design Law

The use of design rights as lock-in tools for aftermarkets was already discussed in the context of EU competition law in the *Volvo v Veng* and *CICRA v Renault* cases.⁹⁸ Design rights, which come much closer to patent protection than trademark rights, can effectively enable undertakings to exclude independent spare part or consumable manufacturers from secondary markets. This is, however, dependent on whether spare parts qualify for protection under design law at all. In the

⁹⁶ Ibid, 41.

⁹⁷ This is arguably required by Article 14 (2) of the Trademark Directive, since „[p]aragraph 1 shall only apply where the use made by the third party is in accordance with honest practices in industrial or commercial matters”.

⁹⁸ See section I.2. above.

legislative process of the Designs Directive and Community Design Regulation for example, there was considerable disagreement as to whether design protection should cover spare parts.

The industrial sector that was the source of most debate in this respect was the car industry, especially in respect of the aftermarket for spare parts for repair purposes.⁹⁹ This is not entirely unsurprising considering that this market is particularly lucrative. In 2013, the worth of this market for Germany alone was estimated at 15 billion EUR.¹⁰⁰

Italy was one of the Member States which decided to abolish protection for spare parts for repair purposes.¹⁰¹ This does not mean, however, that car manufacturers and independent spare part producers are now at peace in Italy. Aftermarket competitors continued to push for an even further inroad into car manufacturers' IP rights, by arguing that not only design protection, but also trademark protection should be excluded for the purposes of car repairs. Consequently, in *Ford v Wheeltrims*,¹⁰² the CJEU had to decide upon whether a design protection waiver for spare parts under national law would also cover trademarks when attached to the design.

The independent spare parts producer in this case claimed that it should be allowed to produce perfectly exchangeable spare parts in relation to original Ford spare parts. The spare parts at issue were wheel trims, and the independent producer wanted to include the Ford trademark in the wheel trims it produced and sold. The Court held that the exclusion of design protection for spare parts did not

⁹⁹ Kur, Annette (2008). "Limiting IP Protection for Competition Policy Reasons - a Case Study Based on the EU Spare-Parts-Design Discussion", in Drexl, Josef (ed.), *Research Handbook on Intellectual Property and Competition Law*, Cheltenham: Edward Elgar, 313-345, 318. See also discussion in Chapter 1 Section II.2.

¹⁰⁰ Hartwig, Henning (2016). "Spare Parts under European Design and Trade Mark Law", *Journal of Intellectual Property Law & Practice* 11(2), 121-129, 128.

¹⁰¹ Art. 241 Codice Proprietà Industriale (c.p.i): "[...] i diritti esclusivi sui componenti di un prodotto complesso non possono essere fatti valere per impedire la fabbricazione e la vendita dei componenti stessi per la riparazione del prodotto complesso, al fine di ripristinarne l'aspetto originario".

¹⁰² Case C-500/14 *Ford v Wheeltrims* [2015].

cover trademarks embedded in them. Given that EU trademark law was fully harmonized, no further limitations than those found in the Trademarks Directive could apply to the use of trademarks.¹⁰³ Trademark law ensured a sufficiently balanced system between trademark protection and a system of undistorted competition; no further limitations were necessary.¹⁰⁴

Regarding the issue of total exclusion of independent spare part producers from aftermarkets, *Ford v Wheeltrims* shows that even after the waiving of design protection for spare parts, the interest of IP owners implementing a razor-and-blade strategy and competitors on aftermarkets continues to play a role. The CJEU's judgment in *Ford v Wheeltrims* suggests that despite of the absence of enforceable rights for spare parts in design law, aftermarket competitors cannot compete by perfectly imitating the spare parts including the trademark of the producer of the primary good. This would pose a risk of confusing the public as to the origin of the goods and would probably run against the duty to act fairly in relation to the legitimate interests of the trademark owner.¹⁰⁵

The essential function of a trademark is to act as an indicator of origin of the goods and services it is attached to, in order to avoid a likelihood of confusion of the consumer as to the origin of the goods.¹⁰⁶ If consumers are confused as to the origin of goods and services, and cannot rely on trademarks to inform them about origin and expected quality of a good any longer, a market failure can ensue.¹⁰⁷ This is possibly also the concern which drove, among other factors, the *Ford v Wheeltrims* case. If Wheeltrims had been allowed to attach the Ford trademark to its wheel trims, consumers could be seriously confused as to the origin of the wheel trims. Further enhancing competition on aftermarkets by excluding trademark

¹⁰³ Ibid, 43-44.

¹⁰⁴ Ibid, 44.

¹⁰⁵ On the discussion of the duty to act fairly in relation to the legitimate interest of the trademark owner see Section II.2. above.

¹⁰⁶ Case C-228/03 *Gillette* [2005] at 26, see also Recital 16 of the Trademark Directive.

¹⁰⁷ Again, as famously described by Akerlof, George A. (1970). "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism," *The Quarterly Journal of Economics* 84(3), 488–500. See also Chapter 3 Section V.

protection would have led to a market failure of asymmetric information, since consumers would no longer be able to distinguish original from non-original spare parts. Next to this economic explanation, there was arguably also a very simple textual interpretation driving the CJEU's legal reasoning: The preamble of the Design Directive and of the CDR both state that the provisions of the Directive and Regulation apply without prejudice to trademark law.¹⁰⁸ Trademark law thus trumps design law within the EU legal system.

IV. Analysis and implications of the Courts' legal reasoning

1. Legal Reasoning in the context of discovery and justification

1.1 Legal reasoning in the competition case law on aftermarkets

For the purposes of analysing the EU Courts' legal reasoning in the context of justification in IP-competition conflicts on aftermarkets, it is helpful to observe the Courts' legal reasoning in two distinct areas of analysis under Article 102 TFEU: on the one hand the definition of the relevant market and dominance, and on the other the determination whether there was abuse.

Relevant market and dominance. As already explained above, the EU Courts have accepted different Commission approaches to determine the relevant market over time. In the EU Courts' early case law like *Hilti*, for example, the GC put a strong emphasis on the fact that there existed independent manufacturers on the secondary market for Hilti-compatible nails. This was "sound evidence" of the existence of a separate relevant market.¹⁰⁹ The Court engaged with, but dismissed the argument that there might be cross-price-elasticities of demand across primary and secondary markets, i.e. that a price increase in Hilti nails could change a demand on the primary market for fastening systems.¹¹⁰ The Court was thus already aware of the possibility of defining a wider market.

¹⁰⁸ Case C-500/14 *Ford v Wheeltrims* [2015], 41.

¹⁰⁹ Case T-30/89 *Hilti* [1991], 67.

¹¹⁰ Case T-30/89 *Hilti* [1991], 67-78 and Case C-53/92 *Hilti* [1994], 12-14.

Twenty years later, in *EFIM v COM*, the existence of a separate market for inkjet printer cartridges was acknowledged, but the GC agreed that competition in the primary market for printers could discipline the behaviour of undertakings on secondary markets for ink cartridges.¹¹¹ In *CEAHR v COM*, the GC also accepted the possibility of a “system market”,¹¹² i.e. joining primary and secondary markets with close links as a single relevant market for the purposes of Article 102 TFEU. In this case, however, the GC required the Commission to show that consumer behaviour would actually change on the primary market if prices increased on the secondary market. In the concrete case, the mere possibility of such change due to the existence of several brands as alternatives on the primary market for watches was insufficient proof.¹¹³

The new method to define the relevant market looks much closer at how consumers will actually behave. Especially in *EFIM v COM*, the test applied considers whether consumers are in fact taking an informed choice in relation to the prices for secondary products when purchasing the primary product, and whether consumers will readily change to different products on the primary market if prices on the secondary market increase. In as far as it puts consumers at the centre of the market definition exercise, this approach looks closer at economic effects than a structural approach,¹¹⁴ which rejects taking into considerations cross-price-elasticities across primary and secondary markets. The result of this widened market definition is that competitors can be excluded on aftermarkets, but only if it is established that the consumer is not harmed, because she has alternatives to switch on the primary market.

The fact that the GC has accepted a shift from a rather structuralist definition of the relevant market to a definition that relies primarily on consumer behaviour and cross-price elasticities across primary and secondary markets is a step in the

¹¹¹ Case T-296/09 *EFIM v COM* [2011], 60,65,68.

¹¹² Case T-427/08 *CEAHR v COM* [2010], 105.

¹¹³ *Ibid.*

¹¹⁴ Opinion of AG Reischl in Case 22/78 *Hugin* [1979], 905-906, see also Section II.1. above.

direction of an economics-based approach that puts consumer welfare at the centre of its analysis.¹¹⁵ While the definition of the relevant market is not the ultimate step in deciding an IP-competition conflict, it is clear that wider market definitions will benefit IP holders because their behaviour is less likely to be scrutinized under Article 102 TFEU.

Abuse. The step of analysis in which IP holders' interests and competition concerns can be considered jointly is the moment of establishing whether there is an abuse under Article 102 TFEU. The early spare part cases on aftermarkets in general give little guidance whether the exercise of an IP right constitutes abuse.¹¹⁶ Similarly, in *EFIM v COM* and *CEAHR v COM*, the Courts did not discuss the issue of abuse in relation of IP rights.¹¹⁷ There was thus no legal reasoning in relation to possible IP-competition conflicts.

In the spare part cases on aftermarkets in the motor vehicle sector, however, the legal reasoning in the context of justification relating to the question of abuse can be readily qualified as a conflict-of-competences perspective on the IP-competition conflict.¹¹⁸ The Court applied the existence/exercise doctrine in light of the fact that "in the absence of Community standardization or harmonization of laws, the determination of the conditions and procedures under which protection of designs and models is granted is a matter for national rules".¹¹⁹ There was thus a sphere of national IP law that would remain unaffected by the application of EU competition

¹¹⁵ On the more economic approach in EU competition law, see Chapter 1 Section I.3.

¹¹⁶ See Section II.1. above.

¹¹⁷ The issue of IP rights could be of concern, however: in the cases of spare parts for watches we could find a similar situation as in the car cases. In the case of the inkjet printers there have been cases where printer manufacturers have tried to lock-in aftermarkets for independent ink cartridges producers by implementing authentication chips in their printers, in the US there has been litigation in this regard on the basis of the DCMA. See, for example, *Lexmark International, Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Circuit 2004).

¹¹⁸ See Chapter 2 Section III.3.

¹¹⁹ Case 238/87 *Volvo v Veng* [1988], 7.

law unless there was ‘certain abusive conduct’ involved, i.e. an additional abusive element to the mere exercise of IP rights was present.¹²⁰

As the matter of design protection covering spare parts for repair purposes continues to be a matter of national law, i.e. harmonization could not be achieved,¹²¹ *Volvo* and *Renault* have not been affected by the IP harmonization wave that swept through the EU after these judgments. The basis for adopting a conflict-of-competences perspective towards IP-competition conflicts when it comes to locking-in aftermarkets through a design right thus has not been eroded.¹²²

The existence/exercise dichotomy and the derived specific-subject matter concepts as tools to determine abuse under Article 102 TFEU can be criticized because any right, including the core of a national IP right, could be abused for anti-competitive purposes.¹²³ Giving immunity to such a right would thus be contrary to the system of EU competition law.¹²⁴ If strictly construed, the CJEU’s legal reasoning in *Volvo* and *Renault* would thus amount to an IP-trumps-competition normative approach. As discussed further below, a different reconstruction of *Volvo*, emphasizing the ‘certain abusive conduct’ part of the judgment as less of an exceptional circumstance, would lead to a more balanced approach.

1.2 Legal reasoning in the IP case law on aftermarkets

The legal reasoning in the context of justification of the CJEU in the IP law cases on aftermarkets is very much rooted in what is termed a private-law perspective on the IP-competition conflict in Chapter 2.¹²⁵ Both, the cases discussed under EU trademark law and design law rely on the aims of avoiding consumer confusion and

¹²⁰ Ibid, 8-9.

¹²¹ See Section III.2 above and Chapter 1 Section II.2.

¹²² In areas in which IP legislation has been harmonized, the basis for a conflict-of-competences type of legal reasoning is gone. See Chapter 1 Section I.2. and Chapter 2 Section III.3. and IV.

¹²³ Heinemann, Andreas (2002). *Immaterialgüterschutz in der Wettbewerbsordnung*, Tübingen: Mohr Siebeck, 553.

¹²⁴ Ibid.

¹²⁵ See Chapter 2 Section III.5.

protecting trademark owners against unjustified free-riding. These constitute well-established principles of unfair competition law.¹²⁶

In line with the legislative intent of EU trademark law,¹²⁷ EU Courts have confirmed that competitors in aftermarkets can use others' trademarks to indicate or advertise their products or services as compatible with branded primary products. In this sense, the CJEU has confirmed that undertakings implementing a razor-and-blade strategy cannot use their trademarks as a lock-in tool for secondary markets. At the same time, aftermarket competitors are not allowed to use others' trademarks free of all restraints. The use should be 'fair' towards the trademark owner, i.e. it should, for example, not denigrate or take unfair advantage of the reputation of the trademark.¹²⁸

Apart from the interests of trademark owners and aftermarket competitors, the CJEU took a third important interest into consideration: consumer interests. In all cases, the goal of avoiding consumer confusion is a further important factor in the balancing exercise. The interest of avoiding consumer confusion underlies, for example, the prohibition that third-party aftermarket competitors use the trademark of the manufacturer of the primary product in a manner that falsely suggests a commercial link between the two. Furthermore, the risk of consumer confusion was a reason for the CJEU in *Ford v Wheeltrims* not to allow an extension of the Italian repair clause covering designs to trademarks.¹²⁹ Otherwise it would have become very hard for consumers to distinguish original spare parts of car manufacturers from third-party spare parts.

Ford v Wheeltrims furthermore offers a *communautaire* approach in the legal reasoning of the Court. While the Court had to accept that EU design law still

¹²⁶ Manley, Catherine M. (2015). *The Trademark Paradox: Trademarks and Their Conflicting Legal and Commercial Boundaries*, Frankfurt a. M.: Peter Lang, 337. See also Chapter 2 Section III.5.

¹²⁷ Recital 27 Trademark Directive.

¹²⁸ Case C-63/97 *BMW v Deenik* [1999], 61-63; Case C-228/03 *Gillette* [2005], 41.

¹²⁹ On this point see discussion in Section III.2. above.

allows for fragmentation in the EU market for car spare parts,¹³⁰ the Court would not allow any further inroads in harmonized IP regimes, in this case trademark law, by national exceptions to IP protection for repair purposes.

2. Procedure

In the aftermarket case law in EU competition law discussed above, the type of procedure that led to the judgments appears to have influenced the legal reasoning of the EU Courts. The cases on aftermarkets in general all arose in the context of appeals to Commission Decisions. In these cases, GC and CJEU barely paid attention to the IP interests involved.¹³¹ The case law on aftermarkets for car spare parts, in contrast, stemmed from preliminary references from national courts that involved litigation by private parties. In these cases, the CJEU recognized that there were justified IP interests at stake and held that the exercise of IP rights blocking access of third-party competitors to aftermarkets would only be caught in exceptional circumstances under EU competition law.

As already mentioned in the previous case studies,¹³² this case study offers another piece of evidence for a possible pattern that the EU Courts are less likely to give importance to IP interests involved in IP-competition conflicts when they are reviewing Commission Decisions. It is possible that as a competition enforcer (i.e. as expert in competition law and not in IP law), the Commission is less likely to take IP interest in all their dimensions into account. This possible bias towards giving more prominence to competition interest in IP-competition conflicts is then reproduced at the level of judicial review by EU Courts.

In the preliminary references under EU trademark and design law, the CJEU took the interest of both sides to the IP-competition conflict into account, i.e. the

¹³⁰ See Heinemann for arguments that there is no room of judicial maneuver to overcome the fragmentation of the internal market caused by the freeze-plus of the EU Design Directive, Heinemann, Andreas (2002). *Immaterialgüterschutz in der Wettbewerbsordnung*, Tübingen: Mohr Siebeck, 552-553.

¹³¹ See also section IV.1. above.

¹³² See Chapter 3 Section IV.2. and Chapter 4 Section V.2.

trademark or design owners' interests and the aftermarket competitors' interests. This was likely conditioned by both, the fact that the applicable provisions in EU trademark law referred to both affected interests,¹³³ and by the fact that both sides of the conflict had an equal position in voicing arguments to support their interests.

V. Tensions in competition vs IP legal reasoning

At first sight, there seem to be no contradictions between the Courts' legal reasoning in IP-competition conflicts under EU IP law and EU competition law. They seem to converge in their focus on consumer interests. When considering the more recent, more economic, approach towards market definition and dominance in relation to aftermarkets under Article 102 TFEU, consumers and their behaviour have become the central point of reference in the Commission's and EU Courts' legal reasoning. Equally, in the case law on aftermarkets under EU design and trademark law, the avoidance of consumer confusion to ensure that consumers can make informed choices is a central element in the legal reasoning. In this sense, both EU competition law and IP law take consumer interests particularly into account when it comes to determining the legitimacy of razor-and-blade strategies.

Nonetheless, it is possible to identify some tensions. Within EU competition law, the case law on the one hand on aftermarkets in general, and on the other on aftermarkets for motor vehicles could be considered to be somewhat in tension, as the former gives close to no emphasis to IP interests at stake, whereas the latter very much focuses on the justificatory weight of design rights for restricting competition on aftermarkets. While this could be conditioned by the different procedures that led to the judgments on aftermarkets in general and on aftermarkets in the motor vehicle sector, there seems to be no good reason for

¹³³ Article 14 Trademark Directive states that a "trademark shall not entitle the proprietor to prohibit a third party from using, in the course of trade [...] [the trademark to indicate the purpose or use of a product or service] where the use made by the third party is in accordance with honest practices in industrial or commercial matters".

treating IP-competition conflicts on motor vehicle aftermarkets differently from all other aftermarkets.¹³⁴

1. Reactions by national courts

Despite the fact that there are arguably some tensions within the EU Courts' competition case law on aftermarkets, these have not caused any direct negative reaction by national courts as for example in the case of online selling restraints in selective distribution systems.¹³⁵ Nonetheless, the fact that the question of design protection for spare parts has not led to a uniform European legislative or judicial answer is still leading to complications in the practice of national courts.¹³⁶

One example is the ongoing uncertainty in Germany in regard of design protection for car spare parts. In theory, Germany has no repair clause, i.e. car spare parts receive design protection also for repair purposes.¹³⁷ Nonetheless, the German Association of the Automotive Industry (*Verband der Automobilindustrie*) declared that German car manufacturers would not to enforce design rights in car spare

¹³⁴ As Marco Colino shows, the Commission also treats the motor vehicle sector differently through a separate block exemption regulation from other industrial sectors, arguably without good reasons. See Marco Colino, Sandra (2010). "Recent Changes in the Regulation of Motor Vehicle Distribution in Europe – Questioning the Logic of Sector-Specific Rules for the Car Industry", *Competition Law Review* 6(2), 203-224,219. Contrary to the EU Courts' case law, however, which appears to be more favorable to car manufacturers and less to aftermarket competitors, the Commissions policy is the opposite; it is more favorable to aftermarket competitors than to manufacturers.

¹³⁵ See Chapter 3 Section V.1.

¹³⁶ *Ford v Wheelrims* probably laid to rest a longer battle between Italian courts on whether spare part producers could use car manufacturers' trademarks on their spare parts without violating trademark law. In particular the case law of the Court of Appeals of Naples had engaged in a broad reading of the repair clause in found that the repair clause in Art. 241 c.p.i. to ensure perfect competition on aftermarkets, see, for example, Court of Appeals of Naples (Corte d'appello di Napoli), Judgment no. 3678/2013 of 25 October 2013 – *BMW v ACAIA*.

¹³⁷ This was a submission by the Association of the Automotive Industry in the context of the reform of the German design law. The explanation for the new German Design Act of 2003 contained the following declaration for not introducing a repair clause: "Die Automobilhersteller haben insoweit ausdrücklich versichert, dass sie den Wettbewerb im Ersatzteilhandel nicht beeinträchtigen und den freien Werkstätten und dem freien Teilehandel durch Inanspruchnahme von Schutzrechten Marktanteile nicht streitig machen wollen. Auch diese Zusage ist Grundlage für eine Beibehaltung der Rechtslage, die das bisherige auskömmliche Nebeneinander der Marktteilnehmer nicht beeinträchtigen soll" (BT-Drucks. 15/1075, 1). See also Hartwig, Henning (2016). "Spare Parts under European Design and Trade Mark Law", *Journal of Intellectual Property Law & Practice* 11(2), 121-129, 121.

parts so as to restrict competition in the aftermarket.¹³⁸ When car manufacturers, regardless of the declaration, filed actions for design infringements before German courts against third-party spare part producers, the courts found the declaration of the Association not to be legally binding.¹³⁹ When a third-party spare part producer claimed in response that this conduct by the car manufacturers constituted an abuse of dominance, one Higher Regional Court stated that an action for an injunction based on a design right could not constitute an abuse under Article 102 TFEU as it constituted an essential characteristic of a design right.¹⁴⁰ The legal reasoning regarding the specific subject matter doctrine that originated in *Volvo* is thus simply reproduced by national courts, despite it having been criticized as an inadequate form of legal reasoning to decide IP-competition conflicts,¹⁴¹ unless it is fine-tuned to take into account both IP and competition considerations.¹⁴² This indicates that the legal reasoning of the CJEU on IP-competition conflicts occurring as a result of razor-and-blade strategies has a direct influence national courts. An improved legal reasoning by the EU Courts could thus also lead to an improved legal reasoning at national level.

VI. Would a different approach work better?

It has been noted above that the competition case law of the EU Courts on aftermarkets appears to be unbalanced in its assessment of abuse under Article 102 TFEU. It is either too much in favour of aftermarket competition (or aftermarket competitors) by neglecting the IP interests at stake,¹⁴³ or too much in favour of the interest of IP right holders.¹⁴⁴ EU IP law, in particular trademark law,

¹³⁸ *Ibid*, 123.

¹³⁹ See, for example, OLG Düsseldorf, judgment of 24 March 2015 – I-20 U 267/13 –, juris, OLG München, Judgment of 12 May 2005 – 29 U 2833/04 –, juris.

¹⁴⁰ OLG Düsseldorf, judgment of 24 March 2015 – I-20 U 267/13 –, juris. The Court simply referred to the Opinion of AG Wathelet in Case C-170/13 *Huawei* [2015] to dismiss the defendant's claim based on Article 102 TFEU.

¹⁴¹ See, for example, Heinemann, Andreas (2002). *Immaterialgüterschutz in der Wettbewerbsordnung*, Tübingen: Mohr Siebeck, 553.

¹⁴² See for example the suggestion in Chapter 3 Section VI.

¹⁴³ See Section V above.

¹⁴⁴ See Section IV.2. and V above.

in contrast, has adopted a quite balanced approach to reconcile the interests of IP right holders and aftermarket competitors. This difference is not very surprising. After all, the legal reasoning from EU trademark law is based on a provision of the EU Trademark Regulation¹⁴⁵ and EU Trademark Directive¹⁴⁶ that is explicitly designed to allow for the use of trademarks by aftermarket competitors producing consumables or offering spare parts or repair services. No such provision exists in relation to design rights in the framework of the EU Designs Directive.¹⁴⁷ There is thus not a legal basis in EU IP law that would help EU Courts in adopting a more balanced approach in the assessment of abuse under Article 102 TFEU when it comes to the practice of locking-in aftermarkets with the help of design rights. Furthermore, the competition case law on aftermarkets discussed above pre-dates secondary EU design legislation.

Nevertheless, the EU competition case law discussed in this Chapter contains some hints that would allow for a more balanced approach. This approach would consider a razor-and-blade strategy implemented by a dominant undertaking¹⁴⁸ that uses design rights in spare parts to lock-in consumers in aftermarkets as abusive if spare parts or the licenses for the designs in the spare parts were priced at excessively high levels.¹⁴⁹

We can see a first hint in support of this approach in the legal reasoning of the GC in *Hilti*. The GC found that Hilti had abused its dominant position in the market for Hilti-compatible nails and cartridge strips because it had requested a much higher price from aftermarket competitors for a license for Hilti cartridge strips than

¹⁴⁵ Article 14 Trademark Regulation.

¹⁴⁶ Article 14 Trademark Directive.

¹⁴⁷ See Section III.2 above.

¹⁴⁸ According to the new approach of defining the relevant market and dominance, See Section II.1. and IV.2.above.

¹⁴⁹ This would be essentially a variant of Article 102 (a) TFEU, which regards “directly or indirectly imposing unfair purchase or selling prices” as an abuse, while still taking into account that a design right holder may charge higher prices due to the existence of a design right. Anderman and Schmidt also consider that Article 102 (a) could impose restrictions on prices for IP protected products, but only in extraordinary situations. See Anderman, Steven, Schmidt, Hedvig (2011). *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation*, Oxford: Oxford University Press, 153.

ultimately set by the UK Patents Comptroller.¹⁵⁰ In this case, licenses of right, i.e. a form of compulsory license for payment, were already available for the design patents that Hilti held in its cartridge strips. This means that the IP right had already been transformed from a property right into a liability rule,¹⁵¹ i.e. Hilti was no longer entitled to exclude aftermarket competitors on the basis of an injunction but only by requesting a license fee.

Somewhat similarly, the CJEU held in *Volvo* that despite the existence of the design rights in spare parts, a mere exercise of which would not constitute an abuse under Article 102 TFEU,¹⁵² there could be an abuse if the design right holder fixed the prices of spare parts at an unfair level.¹⁵³ While the *Volvo* exceptional circumstances explicitly included excessive pricing as one of such exceptional circumstances, they evolved into the *Magill* exceptional circumstances test, which assesses whether innovation in a given market is harmed. In the case of aftermarkets, however, competition based on price might be the more relevant parameter of competition compared to competition based on innovation.¹⁵⁴ This is why repair clauses excluding design protection for spare parts for repair purposes have been introduced in many EU Member States. An abuse test with a central

¹⁵⁰ Case T-30/89 *Hilti* [1991], 99. See also discussion in Section II.1. of this Chapter.

¹⁵¹ Famously, Calabresi, Guido, Melamed, A. Douglas (1972). "Property Rules, Liability Rules, and Inalienability: One View of the Cathedral", *Harvard Law Review* 85(6), 1089-1128

¹⁵² Case 238/87 *Volvo v Veng* [1988], 8.

¹⁵³ Case 238/87 *Volvo v Veng* [1988], 9.

¹⁵⁴ This resonates with Carrier's argument discussed in Chapter 2 Section III.1., according to which rewards should be smaller on markets in which innovation works rather by competition than by IP protection, but in the case of aftermarkets the question is whether innovation plays a role at all when it comes to spare parts. Similarly, O'Donoghue and Padilla argue that competition intervention in excessive pricing cases should be restricted to markets where "firms compete in a mature environment, where investment and innovation play a little or no role", among other factors. See O'Donoghue, Robert, Padilla, Jorge (2006). *The Law and Economics of Article 82 EC*, Oxford: Hart, 638. For an overview of possible applicable tests suggested in literature to decide whether competition authorities should intervene in excessive pricing cases, see Motta, Massimo, De Streel, Alexandre (2007). "Excessive Pricing in Competition Law: Never say Never? In The Pros and Cons of High Prices", in Swedish Competition Authority (ed.), *The Pros and Cons of High Prices*, Kalmar: Swedish Competition Authority, 14-46, 21-22.

focus on excessive or unfair prices could thus be the most appropriate when it comes to IP-competition conflicts on aftermarkets.¹⁵⁵

It might be difficult to determine what an ‘unfair’ price is.¹⁵⁶ This is where the situation under EU design law that has enabled a fragmentation of markets for spare parts along the borders of EU Member States with a repair clause, and those without a repair clause could be of help.¹⁵⁷ An excessively high or unfair price could be determined, for example, by looking at the price for the same spare part in a Member State without a repair clause. While the manufacturer would still be able to charge more for her spare parts in a Member State which grants design protection over spare parts, it could be limited, for example, to a price that is not appreciably higher than the price that the same manufacturer charges for the spare part in a Member State with a repair clause.¹⁵⁸ The manufacturer should, of course, be allowed to bring forward reasons to justify objective dissimilarities between markets that explain the difference other than the IP right itself. This would be similar to the approach adopted by the CJEU in its case law on collecting societies’

¹⁵⁵ AG Mischo also recognized in his opinion in *Renault* that, generally, the logic that IP right holders should be able to reap profits above competitive levels in primary markets in order to maintain investment incentives does not fully apply to aftermarkets. He argues that “[a]s regards the bodywork components sold as spare parts the problem displays an unusual aspect in so far as part of that expenditure has probably already been recovered from the sale of new cars. It is therefore necessary, when fixing the prices of spare parts, to take due account of that factor”. See Opinion AG Mischo in Case 53/87 *CICRA v Renault* [1988], 63.

¹⁵⁶ On this point see Korah, Valentine (1988). “No Duty to Licence Independent Repairers to Make Spare Parts: the Renault, Volvo and Bayer & Hennecke Cases”, *European Intellectual Property Review* 10(12), 381-386, 383; Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 258-260. See also Opinion of AG Wahl in Case C-177/16 *AKKA/LAA v Konkurrences Padome* [2017] that provocatively starts with the question: “Is there any such thing as unfair prices?”.

¹⁵⁷ Hartwig mentions the examples of Belgium, Italy, Poland, Portugal, the Netherlands, and Spain as countries with repair clauses, and Germany and France as countries without repair clauses. See Hartwig, Henning (2016). “Spare Parts under European Design and Trade Mark Law”, *Journal of Intellectual Property Law & Practice* 11(2), 121-129, 122.

¹⁵⁸ This would be similar to the requirements established by the CJEU in *United Brands* where the Court held that to establish an unfair pricing abuse it must be ascertained “whether the dominant undertaking has made use of the opportunities arising out of its dominant position in such a way as to reap trading benefits which it would not have reaped if there had been normal and sufficiently effective competition”. See Case 27/76 *United Brands v Commission* [1978], 249. The comparator of a “normal and sufficiently effective competition” would be the pricing level of the same manufacturer in Member States without a repair clause (all else being equal).

fees that found geographical price comparisons appropriate as a method to assess whether the fees charged were unfair under Article 102 (a) TFEU.¹⁵⁹ In the context of aftermarkets, such an approach would do justice, both to the particular situation that, despite several attempts,¹⁶⁰ there is no harmonization in respect of design protection across Member States, while making sure that the price differences across national markets for spare parts do not diverge excessively.¹⁶¹

Without radically breaking with its previous case law, the EU Courts could thus adopt an approach that does not tip the balance wholly in favour or wholly against IP right holders implementing razor-and-blade strategies with the help of design rights. It would also be in line with the CJEU judgment in *Murphy* that made clear that charging different prices on the basis of territorial IP licenses across EU Member States could be tolerable, but it would not allow the IP holder to demand the highest possible remuneration on the basis of her right.¹⁶²

¹⁵⁹ See Joined Cases 110/88, 241/88 and 242/88, *Lucazeau and Others* [1989], 25; Case 395/87 *Ministère Public v Tournier* [1989], 38; C-177/16 *AKKA/LAA v Konkurences Padome* [2017], 38.

¹⁶⁰ As Riehle stresses, the EU Commission and Parliament were both in favor of including repair clause in the Design Directive that would have granted access to design rights for repair purposes in return for a fair and reasonable license fee. It was only the Council that, last minute, rejected the suggestion of Commission and Parliament and introduced the freeze-plus rule. See Riehle, Gerhard (1997). "Kapituliert Europa vor der Ersatzteilfrage? ‚Free-for-all‘ und das Künftige Europäische Musterrecht", *Europäisches Wirtschafts- und Steuerrecht (EWS)*, 361-366, 361-362. The Commission's attempt to amend the Design Directive to introduce a repair clause in 2004 failed, too. See also Chapter 1 Section II.2.1.

¹⁶¹ This would also ease the contradictory situation that there "exists a Common Market for automobiles but not for the necessary spare parts" ("dass es zwar einen Gemeinsamen Markt für Automobile, nicht aber für die dafür benötigten Ersatzteile gibt"). See Riehle, Gerhard (1997). "Kapituliert Europa vor der Ersatzteilfrage? ‚Free-for-all‘ und das Künftige Europäische Musterrecht", *Europäisches Wirtschafts- und Steuerrecht (EWS)*, 361-366, 366; cited in Heinemann, Andreas (2002). *Immaterialgüterschutz in der Wettbewerbsordnung*, Tübingen: Mohr Siebeck, 553.

¹⁶² Joined Cases C-403/08 and C-429/08, *Football Association Premier League v Murphy* [2011], 108, 145. It would also be in line with the original position of the EU Commission and the EU Parliament in the legislative process of the EU Design Directive that had envisioned the exclusion of design protection of spare parts for repair purposes in return for appropriate remuneration to the design owner of the original spare part. See Riehle, Gerhard (1997). "Kapituliert Europa vor der Ersatzteilfrage? "Free-for-all" und das Künftige Europäische Musterrecht", *Europäisches Wirtschafts- und Steuerrecht (EWS)*, 361-366, 362.

VII. Conclusion

This chapter has given an overview of how the legal reasoning of the EU Courts balancing the interests of IP owners, competitors, and consumers on aftermarkets has evolved over time. It has shown that in earlier competition case law, there was a stronger concern with the position of aftermarket competitors, at least when defining the relevant market. In contrast, the focus in today's competition enforcement on aftermarkets is much more on the consumer, which allows for wider relevant market definitions to the detriment of the interests of aftermarket competitors. This is not a problem as long as harmonized secondary IP law is designed so as to avoid that manufacturers implementing a razor-and-blade strategy are able to restrict or eliminate competition in aftermarkets with the help of IP rights. EU Trademark law is a good example of such a balanced approach.

When it comes to one of the most important IP regimes used to lock-in aftermarkets, namely design protection covering spare parts, there is no harmonized rule in place. Article 14 Design Directive allows Member State to keep or to exclude design protection for spare parts for repair purposes. In order to avoid that dominant undertakings implementing razor-and-blade strategies based on design rights overly restrict competition in aftermarkets,¹⁶³ the EU Courts could adapt their legal reasoning when testing whether there is an abuse under Article 102 TFEU. This would involve essentially construing IP rights used to restrict aftermarket competition not as property but as liability rules, and a test for excessive pricing that is rooted in judicial precedents of IP-competition conflicts on aftermarkets.

¹⁶³ In Member States that have no repair clause in their design legislation which excludes protection of spare parts for repair purposes.

Conclusion

The EU Courts have so far treated IP law and competition law as separate spheres. The reason for this separate treatment lies most likely with the uneven evolution of the IP-competition interface in EU law (Chapter 1). While EU competition law has been a competence since the Rome Treaties, the first areas of IP law only entered the catalogue of EU competences less than thirty years ago. Previously, EU Courts had only been confronted with IP-competition conflicts from an EU competition or internal market law perspective.

The IP-competition interface in the EU legal system has changed dramatically. By now, most areas of IP law have been harmonized and the CJEU has begun to receive preliminary references from national courts asking for interpretative guidance on secondary IP legislation. Furthermore, the protection of IP rights has received a fundamental rights status in the EU legal order through the CFR. The evolution of EU law has created an enabling environment for a holistic approach to the IP-competition interface in which both IP and competition interests are to be treated as equals.¹

How has and how could this evolution affect the legal reasoning of the EU Courts in IP-competition conflicts, both in EU competition law and EU IP law? Chapter 2 provides a taxonomy in response to this question. It provides five judicial lenses through which EU Courts have perceived the IP-competition interface in EU law over time: an economics, a conflict of laws, a conflict of competences, a constitutional and a private law approach. Since the EU legal system has evolved towards a system in which IP protection and competition interests have an equal status, the conflict of laws approach that would provide a rigid priority rule either

¹ See Chapter 2 Section II.1.3 for normative arguments why IP and competition interests are, at an abstract level, to be treated as equals within the EU legal system in its current form.

supporting the superiority of competition law or IP law is no longer appropriate. This leaves us with four possible types of legal reasoning that could be used in a holistic approach towards the IP-competition interface in EU law by the EU Courts: an economics approach, a constitutional approach with a proportionality test at its centre, a modified specific subject matter doctrine, and a private law approach that balances the interest of IP owners against those of competitors and consumers. These types of legal reasoning are not mutually exclusive; they could be combined. Proportionality analysis, for example, can be informed by economic data about the markets concerned. The modified specific subject matter doctrine can inform proportionality or the balancing of private economic interests by providing insights on the scope, function or core of the IP right involved. As the case studies show, however, none of the four types of legal reasoning actually provide coherent and uniform outcomes in IP-competition conflicts if the EU Courts do not fully engage with both, interests protected under competition law and under IP law.

The fact that the EU Courts have not placed IP and competition law in a dialogue in their case law might not be a problem per se, if it were not for signs of growing tension between the EU Courts' jurisprudence under EU competition law on the one hand, and EU IP law on the other when it comes to similar types of IP-competition conflicts.

The case studies give evidence of different possible types of tensions in the EU Courts' case law at the IP-competition interface. In the case of selective distribution systems (Chapter 3), we can observe a clear inconsistency in outcome in some of the most recent case law under Article 101 TFEU, *Pierre Fabre*, and under the Trademark Directive. While brand image protection could not justify a selective distribution system under Article 101 TFEU according to *Pierre Fabre*, the CJEU considered prevention of damage to the aura of luxury of a brand as a reason to expand trademark protection to allow a trademark owner to enforce her selective distribution system against third parties with the help of her trademark right. This tension has been now eased to some extent by the CJEU's judgment in *Coty* that

accepted brand image protection as a justification for a selective distribution system in cases that fall short of an absolute ban on internet selling.

The five different perspectives on the IP-competition interface help to highlight the differences in legal reasoning between EU competition law and EU IP law that can possibly lead to tensions. The *Pierre Fabre* Court, for example, followed proportionality analysis by testing the legitimate aim or purpose of the online selling ban at stake. It already stopped at this first step of proportionality analysis (brand protection not being considered a legitimate aim)² without taking into consideration that under trademark law, brand image protection was a legitimate aim to implement a selective distribution system. Under EU trademark law, in *Copad*, the Court focused very much on the trademark owner's interest to protect her goodwill, deciding the case more from an unfair competition or private law perspective. While proportionality analysis requires IP interests to meet appropriateness and necessity standards to be considered worthy of protection, an unfair competition approach takes IP interests *prima facie* as worthy of protection. Different types of legal reasoning can thus provide an explanation of why tensions between IP and competition law can build at the IP-competition interface.

In the case study on digital platforms and access restrictions (Chapter 4) there is no direct inconsistency in outcome under competition and IP law. Both, in the case law under Article 102 TFEU and under the provisions on protection against circumvention of TPMs in secondary copyright legislation, the outcomes were friendly towards interoperability. Nonetheless, this symmetry in outcome was not reached through a coherent form of legal reasoning. To the contrary, under Article 102 TFEU the EU Courts adopted a formal test based on economic efficiency considerations that paid no attention to the type of IP right involved. With its functional attitude, an approach rooted in economics risks overlooking valuable insights provided by IP law. Under EU copyright law, the CJEU's proportionality analysis determining the degree of protection of TPMs is not clear on how

² This position has now been revised by the CJEU in *Coty*.

competition concerns could be factored into the test. This risks proportionality analysis being turned on its head, all of the sudden requiring interests of free competition to meet the standards of legitimate aim, appropriateness, and necessity vis-à-vis IP interests.³ If the legal reasoning under Article 102 TFEU is blind towards the IP right involved when determining whether there is an obligation to grant access to achieve operability, and the legal reasoning under EU copyright law fails to explain how competition considerations could help to determine whether access can be legitimately denied through use of TPMs, there is room for potential inconsistencies in outcome in the future.

In the case study on aftermarkets (Chapter 5), potential tensions due to inconsistencies in the EU Courts' legal reasoning multiply. There are not only inconsistencies in the legal reasoning in IP-competition conflicts between the case law under Article 102 TFEU and secondary EU IP law, but also within EU competition law. Furthermore, inconsistencies vary over time.

The CJEU's legal reasoning in the trademark cases on aftermarkets achieved an informed balance between the interests of trademark owners, aftermarket competitors and consumers by excluding trademark protection as long as the trademark owner was not unduly harmed, and consumers were not confused.⁴ In these cases, the CJEU adopted a legal reasoning from a private law perspective⁵ to decide IP-competition conflicts that placed IP and competition interests on equal footing.⁶ The CJEU affirmed this balance in its design case law as well, where it found that exceptions in design law could not be extended to trademarks to avoid disrupting the balance struck under trademark law.

³ See Chapter 4 Section VII.2. for an extended discussion on why the IP-side should meet proportionality standards and not vice versa.

⁴ Secondary EU Trademark Legislation (Article 14 (1) (c) of the Trademark Directive and Article 12 (c) of the EU Trademark Regulation), however, prescribed this balance to the Court.

⁵ See Chapter 2 Section III.5.

⁶ In contrast to its interpretation in *Copad*, the Court did not overprotect the goodwill of the trademark owner.

To a certain extent, this well-balanced approach sits in tension with the early competition case law on spare parts in general, in as far as the very narrow market definitions could subject brand owners very easily to unjustified competition scrutiny, and the behaviour of consumers was not a determinant. This tension is remedied by the new approach to market definitions introduced in the Commission Notice on the definition of the relevant market, which allows for wider market definitions when consumers are able to easily switch between primary products when prices for secondary products rise. In contrast to earlier market definitions, consumer behaviour becomes central to determining the relevant market. The possibility of recognizing system markets as the relevant market was accepted by the EU Courts. This new approach also relieves IP owners from being subjected too easily under competition law scrutiny.

The tension remains, however, when it comes to the legal reasoning in the Article 102 TFEU case law on car aftermarkets. The overwhelming justificatory weight that the Court gave to the design rights involved to lock in aftermarkets by applying a conflict of competences legal reasoning,⁷ neglects the interests of aftermarket competitors and consumers. In addition, it fails to reflect that, by now, many EU Member States have repair clauses in their national design legislation, which exclude design protection of spare parts for repair purposes. Furthermore, the reasoning in the car spare part cases sits in tension with the EU Courts' Article 102 TFEU jurisprudence on spare parts in general. In these cases the Courts paid no attention to any IP rights involved, and thus did not attribute to them any justificatory weight. Neither a reasoning that leans by design heavily towards IP holders' interests, as in the car aftermarket case law, nor the total neglect of IP interests in the general case law on aftermarkets, achieves an adequate and informed balance between IP and competition interests.

The case studies furthermore exemplify that potential incoherencies and tensions in the legal reasoning in IP-competition conflicts can build at different stages under

⁷ Chapter 2 Section III.4.

EU competition law: at the moment of market definition, when assessing whether there is a restriction by object under Article 101 TFEU, in the assessment of abuse under Article 102 TFEU, or when evaluating an objective justification. Similarly, tensions can build at different points in EU IP law: when determining IP exhaustion, when construing exceptions and limitations, as well as when establishing the scope of protection for second-tier IP rights such as TPM protection.

The fundamental source giving rise to tensions and inconsistencies in IP-competition conflicts is the insufficient contemplation of one of the two sides to the conflict by the EU Courts.⁸ A holistic approach by the EU Courts that takes both sides to the conflict equally into account would help to ease the tensions identified. The EU Courts have chosen in several instances one of the perspectives identified as appropriate for a holistic approach towards the IP-competition interface in EU law. Tensions have built nonetheless because it is insufficient to choose the structure of a balanced approach, but not to fill it with content from both sides of the balance. In other words, a form of legal reasoning that could take all interests at stake into account in IP-competition conflicts will not yield a balanced outcome if, when applied to concrete cases, it fails to consider interests protected under either IP or competition law. This is why each case study chapter closes with a suggestion for an improved approach to treat the spheres of IP and competition law jointly.

In Chapter 3, regarding the approach under Article 101 TFEU towards selective distribution systems, a more balanced approach based on a modified specific-subject matter doctrine is suggested.⁹ To determine whether brand image

⁸ Metaphorically, the EU Courts are suffering from hemispatial neglect when deciding IP-competition conflicts; they fail to see half of the picture. Noto la Diega likens this blindness towards half of the equation to the neurological disorder of hemispatial neglect in the context of data protection and adjacent legal fields. See Noto la Diega, Guido (2016). "Hemispatial Neglect and Data Protection, Personal Data in Competition, Consumer Protection and IP Law – Towards a Holistic Approach?", Post-Doc Conference, Max Planck Institute for Innovation and Competition, Munich, 21 October 2016.

⁹ The approach suggested here is similar to the functionality test put forward by Govaere that would replace the existence/exercise doctrine. Govaere's functionality test would immunize the "use of

protection can constitute a legitimate aim in proportionality analysis or can function as objective justification under Article 101 TFEU, the EU Courts should recognize that EU trademark law is a relevant determinant. The way in which the Courts interpret the core of the trademark right under EU trademark law – either broadly, encompassing marketing and advertising functions, or narrowly, only in its origin indicator function - should inform the validity of brand protection as legitimate aim or objective justification under Article 101 TFEU. Conversely, competition considerations should inform the legal reasoning of EU Courts when establishing the scope of a trademark right to ensure that both legal fields are attuned.

In Chapter 4, different improved approaches are suggested to establish an abuse under Article 102 TFEU in cases of access restrictions to digital platforms on the one hand, and on the other to assess the proportionality of TPMs under the InfoSoc Directive. Considering that promoting interoperability is an essential component of the EU's copyright protection scheme for software, a different and less restrictive test than *Magill* exceptional circumstances should be applied under Article 102 TFEU. Whenever an EU IP law regime is based on a clear policy of excluding IP protection for certain purposes, the *Magill* exceptional circumstances test would be overly strict; its rationale of protecting the IP owner's interests is diminished in situations where IP protection would in any case be excluded under EU IP legislation. Furthermore, there could be room to include considerations about the intent of the dominant digital platform owner when closing access to one side of its platform to inform the assessment of abuse. As economic analysis cannot provide a conclusive answer on whether open or closed digital platform systems are more

the exclusive right in conformity with the function for which it was granted" from interference by EU competition or free movement rules. The function would be given a definition qua EU law. See Govaere, Inge (1996). *The Use and Abuse of Intellectual Property Rights in E.C. Law*, London: Sweet & Maxwell, 67,69.

beneficial to welfare,¹⁰ the intent of the dominant platform owner in closing her platform could be given a more prominent role in abuse analysis.¹¹

The improved approach to proportionality analysis when judging the degree of protection of TPMs used to restrict access to digital platforms would include competition considerations in several stages of the proportionality test. Firstly, courts should inquire whether the TPM at stake is actually meant to protect the copyright holder against unauthorized acts. If the TPMs are merely aimed at protecting an anti-competitive pricing scheme, no protection should be granted. To determine the competitive nature of the TPM at stake, the national NCA could be asked for a preliminary opinion. The second and third steps in the proportionality test, as suggested by the CJEU, should inquire into the appropriateness of the TPM (is it effective?) and whether the copyright owner could implement less restrictive TPMs. The fourth step would entail a balancing exercise between the IP owner's interest, the legitimate interests of the circumvention device producer, and the impact on consumers from providing (or denying) protection to the TPMs at stake. Such an interpretation of Article 6 InfoSoc Directive would avoid future outcomes that could potentially provide protection to anti-competitive TPMs.

Lastly, in Chapter 5, the improved approach to establish whether there has been an abuse under Article 102 TFEU when an IP right has been used to lock in an aftermarket differs from the improved approach suggested in Chapter 4. The reason for this difference is that the level of harmonization of the IP regime involved is different. While EU copyright law clearly intends to limit copyright protection to achieve software interoperability, EU design law leaves it to EU Member States to exclude design protection of spare parts for repair purposes. As a result, some Member States have introduced so-called repair clauses in their national legislation, while others have not. The improved approach would consider

¹⁰ See Chapter 4 Section II.

¹¹ This argument is also proposed in Parcu, Pier Luigi, Stasi, Maria Luisa (2017). "The Role of Intent in the Assessment of Conduct under Article 102 TFEU", in Monti et al (eds.), *Abuse of Dominance in EU Competition Law*, Cheltenham: Edward Elgar, 12-33, 21.

design rights as liability rules, which would allow for testing whether there has been an excessive pricing abuse in cases of aftermarket lock-in. It would offer a middle path between a completely new abuse test for harmonized limitations to IP rights as in the case of software interoperability, and the application of a strict test in situations of no limitations to the IP right involved *qua* EU IP law. Such an approach under Article 102 TFEU would also be in line with the CJEU's legal reasoning under Article 101 TFEU. In *Murphy*, the EU IP regime involved contained a limitation to copyright in the form of the country of origin principle for broadcasts.¹² The CJEU found that the IP right holder was not entitled to the highest possible remuneration from exploiting her IP rights by implementing a licensing scheme for broadcasts that provided absolute territorial protection with the help of TPMs in the form of decoding devices. In this case, IP protection could not constitute an objective justification for the territorial licensing agreements at stake.¹³ The justificatory weight of IP rights, and the degree of legitimate remuneration generated from IP rights under EU competition law should thus depend on the limitations in the IP regime involved.

The improved approaches make use of several of the different types of legal reasoning identified as appropriate for a holistic approach towards the IP-competition interface in the current state of EU law. They show that there are several different ways to consider the interests protected under EU IP law and EU competition law jointly. Studying the comparative advantages of each of these approaches would be an interesting extension of this research project.

¹² Article 1(2)(b) Directive 93/83/EEC on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission.

¹³ In a similar line of argument, Ibañez Colomo suggests that the absolute territorial protection in *Murphy* was not proportionate because there would have been no copyright violation in the country of destination of the signal. He also uses this argument to differentiate *Murphy* from *Cotidel II*. See Ibañez Colomo, Pablo (2015). Copyright Licensing and the EU Digital Single Market Strategy. LSE Law, Society and Economy Working Papers 19/2015, available at <http://ssrn.com/abstract=2697178>, 7. The CJEU, however, did not expressly refer to this circumstance in its legal reasoning.

While this is not the first study providing a taxonomy of different perspectives or possible approaches to deal with IP-competition conflicts, it provides a more comprehensive approach that adopts various perspectives internal to the EU legal system. In previous taxonomies, perspectives internal and external to the system of EU law are combined.¹⁴ Furthermore, there has been support for a “general balancing of interests”-approach to reconcile IP and competition interests.¹⁵ The taxonomy in Chapter 2 of this thesis specifies the precise balancing techniques offered by the evolution of the EU legal system. It therefore contextualizes appropriate balancing approaches within the EU legal order. While other taxonomies have been provided for the interaction of IP and competition law in the EU legal system, these have been provided strictly from a competition law perspective.¹⁶ The taxonomy provided in Chapter 2, and the analysis in the case

¹⁴ Lianos, for example, distinguishes between formalistic standards and economic balancing tests for the interaction at the IP-competition interface. Formalistic standards include the existence/exercise dichotomy and specific-subject matter doctrine, as well as intent-based tests from the US legal system. The economic balancing tests are those put forward by US scholars like Kaplow and Ordover, and the approach of the Commission in the *Microsoft* case. This taxonomy firstly does not explain which role US approaches should play for the EU legal system. Furthermore, it overlooks that the existence/exercise dichotomy has become obsolete with the evolution of secondary EU IP law. In addition, it does not account for the fact that EU law offers economic formalistic standards (as the *Magill* exceptional circumstances test), while there also exist non-economic balancing tests such as the constitutional and private law approaches discussed in Chapter 2. See Lianos, Ioannis (2016). “Competition Law and Intellectual Property Rights: Promoting Innovation”, Pre-published version of Chapter 13 in I. Lianos & V. Korah with P. Siciliani, *Competition Law: Analysis, Cases and Materials* (forth. Hart Pub. 2017), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2863814 (last visited 10 October 2017), 41-45. Rahnasto also discusses a wide range of possible rules and principles applicable to the IP-competition interface drawing from US approaches, EU approaches and legal theory. He also concludes by finding that a general balancing of interest is always appropriate to control for the negative external effects of IP rights. Rahnasto, Ilkka (2003). *Intellectual Property Rights, External Effects, and Anti-Trust Law: Leveraging IPRs in the Communications Industry*, Oxford: Oxford University Press, Chapter 2. Furthermore, while Rahnasto uses the communications industry as his main case study to exemplify his point (with a focus on copyright and patent) the case studies in this research project focus on different business practices and different IP rights (trademarks, designs, TPMs).

¹⁵ Rahnasto, Ilkka (2003). *Intellectual Property Rights, External Effects, and Anti-Trust Law: Leveraging IPRs in the Communications Industry*, Oxford: Oxford University Press, 206.

¹⁶ Heinemann focuses specifically on a taxonomy for the EU legal system. He follows Sack in his three theories on the relationship of IP and EU competition law. The first considers that IP-competition conflicts are to be judged without any regard of interests protected under IP law. The second advocates for complete immunity of IP law under competition law. The third is the specific subject matter doctrine. Heinemann suggests a fourth approach that would include IP law

studies, provide next to a competition law perspective an IP law perspective that is missing in existing taxonomies.

The first contribution by this research project is thus to offer a taxonomy of approaches to the interaction of IP and competition law that is specific to and contextualized in the EU legal system and its evolutionary path. The second contribution is to offer a taxonomy that is not only perceived from an EU competition law standpoint, but from both, EU competition law and EU IP law. This is important because, as discussed in Chapter 2, very similar IP-competition conflicts can arise both under IP and under competition law. To avoid a schism between IP and competition law in the EU legal system, two fields that are rapidly evolving and have a substantial impact on the EU economy, some form of synchronization is necessary that takes the particularities of the EU legal system into account. This research project offers one possible approach in this direction.

The third contribution is made in the field of studies on the legal reasoning of the CJEU. This thesis offers an analysis of the legal reasoning of EU Courts specifically on the IP-competition interface. It thus adds to a range of works that have sought to adapt general studies of the legal reasoning of the European Court of Justice,¹⁷ to specific areas of EU law¹⁸ or specificities of the EU legal system.¹⁹ One

considerations into the definition of anti-competitive agreements or abuses of dominance. In this sense, this research project follows a similar endeavor as Heinemann of placing IP and competition law in a dialogue. In contrast to Heinemann's approach, however, which focuses only on the side of EU competition law, this research project also includes EU IP law in the inquiry. In other words, while Heinemann's approach is one-sided, the approach in this research project aims at being holistic. See Heinemann, Andreas (2002). *Immaterialgüterschutz in der Wettbewerbsordnung*, Tübingen: Mohr Siebeck, 328-333. Sack, Rolf (1997). "Der »spezifische Gegenstand« von Immaterialgüterrechten als immanente Schranke des Art. 85 Abs. 1 EG-Vertrag bei Wettbewerbsbeschränkungen in Lizenzverträgen", *RIW* 1997 (6), 449-455. It must be noted that Heinemann's work is from 2002, i.e. a point in time where the harmonization of EU IP law had not yet progressed as far as by now.

¹⁷ For example Bengoetxea, Joxerramon (1993). *The Legal Reasoning of the European Court of Justice*, Oxford: Oxford: Clarendon Press; Beck, Gunnar (2012). *The Legal Reasoning of the Court of Justice of the EU*, Oxford: Hart.

¹⁸ For an application to EU citizenship law see Sankari, Suvi (2013). *European Court of Justice Legal Reasoning in Context*, Groningen: Europa Law Publishing. For an application to EU copyright law see Favale, Marcella et al. (2016). "Is There an EU Copyright Jurisprudence? An Empirical Analysis of the Workings of the European Court of Justice," *The Modern Law Review* 79(1), 31-75.

underexplored area in this respect is the difference in legal reasoning between appeal cases and preliminary references in EU competition law. In the case study on IP-competition conflicts related to razor-and-blade strategies (Chapter 5), there were inconsistencies within the EU competition law jurisprudence: while IP rights could justify restrictions of competition in the case of car aftermarkets, in other cases of aftermarket lock-ins on the basis of IP rights, the EU Courts gave no justificatory weight to IP interests. A possible hypothesis explaining this difference lies in the procedure through which the cases reached the EU Courts. In the case of car aftermarkets, the procedures were preliminary references, while all other aftermarket cases were appeals from Commission Decisions. To confirm this hypothesis, much further empirical testing would be necessary to assess whether EU Courts give less weight to IP interests in appeal proceedings against Commission Decisions than in preliminary reference procedures. As Advocate General Wahl notes, the CJEU defers policy decisions in appeal cases generally to the Commission, while it pronounces policy choices in the form of general principles of law in preliminary reference procedures.²⁰ The precise impact both on the EU legal system and on the practice of national courts having to implement both the CJEU case law from appeals and preliminary references would be an interesting research area for future projects.

¹⁹ See Paunio, Elina (2013). *Legal Certainty in Multilingual EU Law: Language, Discourse, and Reasoning at the European Court of Justice*, Aldershot: Ashgate.

²⁰ Wahl, Nils (2007). "Exploitative High Prices and European Competition Law – A Personal Reflection", in Swedish Competition Authority (ed.), *The Pros and Cons of High Prices*, Kalmar: Swedish Competition Authority, 47-87, 48-49.

Bibliography

I. Legislation

Charter of Fundamental Rights of the European Union

Treaty on European Union

Treaty on the Functioning of the European Union

Directive 87/54/EEC on the legal protection of topographies of semiconductor products

Directive 93/83/EEC on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission

Directive 96/9/EC on the legal protection of databases

Directive 98/44/EC on the legal protection of biotechnological inventions

Directive 98/71/EC on the legal protection of designs

Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society

Directive 2001/84/EC on the resale right for the benefit of the author of an original work of art

Directive 2002/22/EC on universal service relating to electronic communication networks and services

Directive 2004/48/EC on the enforcement of intellectual property rights

Directive 2006/115 on rental right and lending right and on certain rights related to copyright in the field of intellectual property

Directive 2006/116/EC harmonizing the term of protection of copyright and certain related rights

Directive 2009/24/EC on the legal protection of computer programmes

Directive 2011/77/EU amending Directive 2006/116/EC on the term of protection of copyright and certain related rights

Directive 2012/28/EU on certain permitted uses of orphan works

Directive 2014/26/EU on collective rights management and multi-territorial licensing of rights in musical works for online uses

Directive 2014/104/EU on antitrust damages actions

Directive 2015/2436 to approximate the laws of the Member States relating to trade marks

Regulation (EC) 6/2002 on Community designs

Regulation (EC) No 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty

Regulation 469/2009 concerning the supplementary protection certificate for medicinal products

Regulation (EU) 330/2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices

Regulation (EU) No 461/2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices in the motor vehicle sector

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