DRM AND MODCHIPS: TIME FOR THE COURT OF JUSTICE TO DO THE “RIGHT” THING

Martina Gillen *

Abstract
This paper looks at three key cases; *UsedSoft* (C-458/13), *PC Box* (C-355/12) and *Grund* (C-458/13), on the topic of the extent and nature of a copyright holder's ability to constrain future uses of their copyrighted works in the field of software and critically considers the interaction between copyright and competition law in these judgements.

In *UsedSoft*, the Court of Justice of the European Union (hereafter CJEU) shook the common-law world by suggesting that under certain circumstances the licensing of a piece of software could constitute a sale, they achieved this by focusing on the balance of right between the user and the vendor and more importantly, on the “specific subject matter” of the right granted.

In *PC Box*, a more economically cautious judgement, but one with intellectual consonance with *UsedSoft*, the CJEU looked at the issue of ‘modchips’ to permit homebrew and other non-approved games to be played on Nintendo consoles. They decided that the TPM (technological protection measures) embedded in the consoles were analogous to the other more traditional methods of encryption and DRM (digital rights management) employed in standard software. However, the judgement also highlighted that the use of a balancing test with regard to the appropriateness of the TPM devices in consoles was necessary. Furthermore, the Court judged that the national courts should carry out a 'real world' market test to see if the use of modchips truly adversely affected the interests of the copyright holder i.e. how of then they were used for infringing as opposed to non-infringing uses.

Finally, we shall consider the key case that never was - *Grund*. This case was, and remains, something of an enigma as the preliminary reference questions were difficult to comprehend but nevertheless promised important clarifications in the law. However, we will consider it in this discussion largely because the reference was ultimately withdrawn because the parties were convinced that the issue was resolved.

* Senior Lecturer in Law, University of the West of England.
by the judgement in *PC Box*. Thus it offers an insight into the future utility of the *UsedSoft* and *PC Box* judgements.

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Introduction
This paper begins with an examination of the relationship between copyright and competition law and then considers a triptych of landmark cases from the ECJ and posits the hypothesis that they are indicative of a piecemeal attempt to ameliorate the effects of copyright by strengthening the competition law aspects of the jurisprudence interpreting copyright. Finally, we shall consider if these ameliorations by way of 'lex specialis' and innovative teleological interpretations are sufficient to achieve this aim or if a clearer, less complex statement of principle is required.

Copyright and Competition in EU Law: A Complex Interplay

Traditionally, at its most basic level, the demarcation between copyright and competition law is that copyright provides ex ante regulation of the use of goods. Its rules and rights are embedded in the legal system and therefore are comparatively certain and slow to change. Competition on the other hand provides ex post regulation which is responsive to market conditions and hinges around the prevention of abuse of dominant position to limit competition as outlined in Article 102 TFEU.\(^1\)

If properly understood however, this is not a collision of regulatory systems but an active collusion. It is the contention of this paper that recent decisions in the field of intellectual property are in fact relying on ideas from competition law. The first transplanted concept is the principle of specific subject matter (as we shall see in UsedSoft) which defines the nature and extent of an IPR. The second concerns the application of the principles behind Article 102, in particular the idea of “exercising an intellectual property in an abusive fashion”. Thus, the introduction of market share tests whilst relatively innovative in IP, has a strong pedigree in the field of competition and our consideration of PC Box shall highlight the resonances between the decision in that case and the history and jurisprudence of Article 102.

1: Oracle v UsedSoft

Oracle is a licensor of software, of which a large proportion is obtained through download. The terms of its licence are that, for a one-off fee, the customer receives a “non-exclusive, non-transferable” right to use the software “exclusively for [the customer’s] internal business purposes and for an unlimited period”. Oracle also provides maintenance services subject to payment of periodic fees. UsedSoft is a German company selling 'used' licences of Oracle software (where the maintenance services agreement was still on-going). The buyers of these 'used licences' then download the software directly from Oracle.

Oracle sought an injunction to prevent this practice claiming that its copyright was infringed. UsedSoft counter-claimed that Oracle’s rights in the copyright protecting the software were exhausted following the download and that UsedSoft’s actions amounted to distribution (permitted under the Software Directive (2009/24/EC)).

\(^1\) All references to the Treaties have been given in the post Lisbon form in this article. However, where a case is referred to in a quotation in another form, the post Lisbon form has been given in brackets to preserve both the original text and avoid confusion.
The decision in the Court of Justice of the European Union (CJEU) Case C-128/11 (*Oracle v UsedSoft*) on a reference from the Bundesgerichtshof (Germany) decided 3 July 2012 (hereafter *UsedSoft*) is essentially a tale of the interpretation of two directives. On the one hand the Information Society Directive 2001/29/EC which states that:

(Recital 28) Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article. The first sale in the Community of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object in the Community. This right should not be exhausted in respect of the original or of copies thereof sold by the rightholder or with his consent outside the Community...

(Recital 29) The question of exhaustion does not arise in the case of services and on-line services in particular. This also applies with regard to a material copy of a work or other subject-matter made by a user of such a service with the consent of the rightholder...²

Furthermore, the Information Society Directive also makes it clear that the rights to communication cannot be exhausted and the right of distribution cannot be exhausted except by first sale with consent.

On the other hand Article 4(2) of the Software Directive 2009/24/EC clearly states:

> The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.³

Thus, the question becomes, is software licensed for use when it is downloaded by a subscriber for use, or is it sold? The traditional response based, in part at least, upon the intangible nature of the product is that it is licensed not sold and therefore rights exhaustion cannot apply and the licensee will be bound by the conditions laid down by the licensor. Indeed this position is so ingrained that many common law lawyers in particular have criticised the *UsedSoft* judgement and worked hard to explain away its meaning and importance by labelling it a fact-specific aberration.⁴

In *UsedSoft*, however, the CJEU takes a step away from this situation. They assert that Article 4(2) of the Software Directive is an autonomous concept and they create a special and distinct meaning for it which they then apply to the facts of this case to find that a transfer of use for value for an unlimited period constitutes a sale. Furthermore, they state:

> It makes no difference, in a situation such as that at issue in the main proceedings, whether the copy of the computer program was made available to the customer by

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the rightholder concerned by means of a download from the rightholder's website or by means of a material medium such as a CD-ROM or DVD.\textsuperscript{5}

Finally, they echo the opinion of the Advocate General in asserting that:

...if the term 'sale' within the meaning of art 4(2) of Directive 2009/24 were not given a broad interpretation as encompassing all forms of product marketing characterised by the grant of a right to use a copy of a computer program, for an unlimited period, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor, the effectiveness of that provision would be undermined, since suppliers would merely have to call the contract a 'licence' rather than a 'sale' in order to circumvent the rule of exhaustion and divest it of all scope.\textsuperscript{6}

Thus, the CJEU took the bold step of by-passing the Information Society Directive in favour of the newer 2009 Software Directive, and then reinterpreting the 2009 Directive as a \textit{lex specialis} with a new meaning outside the scope of the pre-existing case law and commercial practice. From the face of \textit{UsedSoft} itself the reasons for this are less than clear. On the one hand there is a potentially very narrow reading of the case which suggests that the decision hinged upon the fact that the software could be downloaded gratis and that the licence was perpetual. As Advocate General Bot observes in para 59 of his opinion, if the term 'sale' within the meaning of art 4(2) of Directive 2009/24 were not given a broad interpretation, the effectiveness of that provision would be undermined, since suppliers would merely have to call the contract a 'licence' rather than a 'sale' in order to circumvent the rule of exhaustion and divest it of all scope.

However, this does not satisfactorily resolve why the CJEU and the Advocate General were so certain that it was necessary to find exhaustion in this case in the first place. The answer lies in the use of a very telling phrase that they are limiting Oracle's rights in accordance with the 'specific subject matter' of the right. It might be useful at this point to refer to an observation made by David Keeling on this topic of specific subject matter some time ago:

As I say, it is a very esoteric concept,... I think the thing that you have got to remember is that the Court of Justice drafts its judgements in French. The French for "specific subject matter" is \textit{objet spécifique}, and I think there is a little bit of a double meaning in the word \textit{objet} in French. It can mean, on the one hand, the core of essential rights that are granted by a patent or by a trademark, or by some other form of intellectual property. But it can have another meaning, a less descriptive meaning; it can imply the objective or the purpose of granting an exclusive right. I think that the second meaning is evident in the Court's definition of the specific subject matter of the patent right because the Court referred to rewarding the creative efforts of the inventor. That was the \textit{raison d'être}, the

\textsuperscript{5} \textit{UsedSoft} at para.47

\textsuperscript{6} \textit{UsedSoft} at para 49
objective, the purpose of the patent. This second meaning of the expression *objet spécifique* is of course lost in the English translation.\(^7\)

This interpretation of broader *raison d'etre* marries well with the policy goals being pursued by the EU and offers a strong counterpoint to a narrow reading of *UsedSoft*. A reading which has been borne out by the subsequent judgement in *PC Box*. A telling ancillary point, which supports the overall thesis of this present paper, is made in this regard by Longdin et al who note that:

“Under the competition laws of many jurisdictions, it is usually irrelevant whether a particular software distribution agreement (or provision therein) is conceptualized as a sale or a license or called a ‘service’ in the agreement. Restrictive terms imposed by a distributor may be found anti-competitive and assailable where the distributor enjoys a very high degree of market power in the market for the software in question”.\(^8\)

\(2:\ *PC Box*

C-355/12 concerns the creation and supply of modchips which allow games not authorised by Nintendo to be played upon consoles like the DS and Wii. The plaintiffs contention is that this facilitates the playing of pirated versions of their games upon these consoles. The question before the court was:

Must Article 6 of Directive 2001/29/EC be interpreted, including in the light of recital 48 in the preamble thereto, as meaning that the protection of technological protection measures attaching to copyright-protected works or other subject matter may also extend to a system ...

Should…the national court…adopt criteria in assessing that question which give prominence to the particular intended use attributed by the right holder to the product in which the protected content is inserted or, in the alternative or in addition, criteria of a quantitative nature relating to the extent of the uses under comparison, or criteria of a qualitative nature, that is, relating to the nature and importance of the uses themselves?\(^9\)

Commentators have found these questions difficult to dissect but in essence the Italian court is asking if the legal protection afforded to technological protection measures tends to permit manufacturers to effectively lock devices and what criteria should be relevant when considering whether this locking is permissible – i.e. how significant do non-infringing uses have to be before they can counterbalance the interests of the copyright holder.

The CJEU’s response is frustratingly brief but clearly demonstrates that the CJEU have turned their mind toward the competition aspects of this problem because it focuses on

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\(^8\) L Longdin, I Eagles and Pheh Hoon Lim, “Sale versus licence offline and online: can competition law bridge the doctrinal gap?” (2014) 22 International Journal of Law and Information technology 311-333 at 329

proportionality of protection in a real market context. On the one hand the Court explicitly recognised that the video game and its intrinsic elements, both separately and collectively, constituted a protected work. They also acknowledge that the concept of ‘effective technological measures’ is defined broadly and includes 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. Such a definition, moreover, complies with the principal objective of Directive 2001/29 which, as is apparent from recital 9 thereof, is to establish a high level of protection in favour of authors, which is crucial to intellectual creation. Furthermore, Article 6(3) of Directive 2001/29 lends weight to this interpretation, treating the objective of the ‘technological measures’ as being to prevent or to limit acts adversely affecting the rights of the holder protected by them.

On the other hand, however, the copyright protection mechanism can only be used to protect against unauthorised acts of reproduction, communication, public offer or distribution, for which authorisation from the copyright holder is required. This echoes strongly the language of the 'specific subject matter' in UsedSoft because by necessary implication technologies which prohibit uses for which the permission of the copyright holder is not required, i.e. those which go beyond the 'specific subject matter' of the right, cannot have legally enforceable anti-circumvention protection. This clearly suggests that rights holders cannot use TPM to enlarge their rights.

This limitation is further bolstered by the assertion that legal protection must respect the principle of proportionality. Furthermore, states were obliged not to prohibit devices or activities which had a commercially significant purpose or use other than to circumvent the technical protection for unlawful purposes (again note that circumvention for lawful purposes is permitted). It was observed that the scope of legal protection of technical measures must not be assessed according to the use of consoles defined by the holder of copyright, but that rather it was necessary to examine the purpose of devices provided for the circumvention of protection measures, taking account, according to the circumstances at issue, of the use which third parties actually made of them.

It is for the national court to determine whether other measures or measures which are not installed in consoles could cause less interference with the activities of third parties or limitations to those activities, while still providing comparable protection of the rightholder’s rights. Accordingly, it is relevant to take account, inter alia, of the relative costs of different types of technological measures, of technological and practical aspects of their implementation, and of a comparison of the effectiveness of those different types of technological measures as regards the protection of the rightholder’s rights, that effectiveness however not having to be absolute. That court must also examine the purpose of devices, products or components, which are capable of circumventing those technological measures. In that regard, the evidence of use which third parties actually make of them will, in the light of the circumstances at issue, be particularly relevant. The national court may, in particular, examine how often those devices, products or components are in fact used in disregard of copyright and how often they are used for purposes which do not infringe copyright.10

Again we see strong echoes of the principles and tests applied in a competition situation as shall be explored below. Tellingly, there is little or no precedent for this kind of test in the law of copyright.

2.1: Article 102: Principles and Tests

In order to examine the resonances between PC Box and Article 102\(^\text{11}\) we will first consider the wording of Article 102, then the *travaux préparatoire*, and finally the opinions and tests that it has given rise to.

The wording of Article 102 is *prima facie* fairly transparent:

Any abuse by one or more undertakings of a dominant position within the internal market or in a substantial part of it shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States. Such abuse may, in particular, consist in:

(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;

(b) limiting production, markets or technical development to the prejudice of consumers;

(c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;

(d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.\(^\text{12}\)

Article 102 clearly breaks down into two parts. The first seems to clearly state that abuse of dominant position is prohibited and the other part gives a non-exhaustive list of examples of what kinds of activities might be viewed as constituting such an abuse. However, one must remember that treaty articles, like the sections of statutes, must be read in context with the purposes of the document that contains them. This therefore raises some difficult questions in terms of Article 102 as we must consider the larger question of what the purpose of EU competition law actually is. To summarise the issue briefly (we shall be exploring it further below) there are essentially three basic positions:

1. What might be described as an 'ordoliberal' approach, the essence of which treats political and economic freedoms as inextricably linked and views the goal of competition law as to encourage an ideal economy where individual economic freedom is maximised through productive efficiency. This naturally leads to a rather ambivalent approach to state intervention. On the one hand it very much places a planned economy at the heart of the agenda and thus favours state action, but it also recognises that if taken too far that action could also become an impediment to market and to individual freedom. In practice this approach means that its advocates wanted competition law to have direct effect (allowing both structure and planning as well as enabling the greater European whole to police the potentially deleterious actions of the individual state) and to be specific and responsive to the


economic differences between different anti-competitive practices. This approach is often (though not necessarily accurately) associated with German economic policy and is broadly reflective of the approaches adopted by the German negotiators in the formation of the treaty of Rome. It is this model which is broadly said to have prevailed in the drafting of Article 102.\textsuperscript{13}

2. The second approach, often (again not necessarily accurately) described as the French approach, favours the announcement of relatively broad principles about competition which would be applied universally, but crucially gives individual states much broader powers of competition management internally. It can be viewed as rather dirigiste in the sense that it allows much greater scope for economic manipulation on the part of individual states within the broad framework. The broad framework supplied by EU competition law in this interpretation should apply the same basic principles to all abusive practices, not adopt a differentiated approach.\textsuperscript{14}

3. The final approach, typical of the teleological interpretative methods of the CJEU, views that the purpose of all the treaties, their articles and indeed of the whole Union, is the long term welfare of EU citizens and thus social welfare is the context in which Article 102 must be read. This is a particularly potent idea post-Lisbon. To put it another way, competition law is designed to ensure Europe’s competitiveness globally and its social welfare internally.\textsuperscript{15}

This allows for creative combinations of the various interpretations of the goals of competition law. It is this holistic approach which has bled through into the world of copyright in \textit{PC Box}.

If one examines the \textit{travaux préparatoire} one can see that there are elements of both 1 and 2 in the drafting of Articles 101 and 102. Naturally, every reiteration of the treaties has produced new \textit{travaux préparatoire}. However, in this paper we shall draw on those which have significantly focused on competition law rather than the internal market, or the union in general. Specifically, we shall consider the period at the inception of the Union and its substantial re-imagining at the treaty of Lisbon. Thus, we shall look at; the Schumann Declaration\textsuperscript{16} which was influential in the drafting of the ECSC; the Spaak Report\textsuperscript{17} prior to the implementation of the Treaty of Rome; and the consideration given to competition law in the drafting of the Lisbon Treaty. The idea is to forensically unearth the sources and principles at play in the tests ultimately applied in \textit{PC Box} which are reflective of fears not just about market distortion but also long-term social welfare.

\begin{itemize}
\item \textsuperscript{16} Schumann Declaration - 09 May 1950, available at \url{http://europa.eu/about-eu/basic-information/symbols/europe-day/schuman-declaration/index_en.htm} (accessed 05 Aug 2014).
\end{itemize}
2.2: From ECSC to the Treaty of Rome

Any understanding we may gain of the goals of competition law in the EU must be firmly rooted in an understanding of its growth in the Union and its predecessor the European Coal and Steel Community. The Community arose out of the Schumann Declaration, which suggested that the production of coal and steel in France and Germany be placed under the control of a High Authority with the participation of other European countries, and has served as a first step in 'European political federation'. The Declaration particularly aimed at the ending of cartels which sought to exploit national markets and at its heart was the rationalization of production.

...the application of a production and investment plan, the establishment of compensating machinery for equating prices, and the creation of a restructuring fund to facilitate the rationalization of production.

Competition rules were naturally at the heart of this endeavour because, as a later explanatory note highlighted, cartels were synonymous with the “...permanent elimination of competition resulting in the exploitation of markets by a particular profession.” It is therefore clear that the basis of the ECSC competition provisions was very much production efficiency but that the reason behind it was to fight cartels.

The same fight against cartels was at the heart of the negotiation behind the Treaty of Rome. The emphasis however was slightly different in that the context was the free global trading of goods, where not only did inter-state trade barriers have to be eliminated, but private restraints on competition also had to be controlled internationally through the establishment of an international trade organization with provisions on competition. Furthermore, the 1955 Spaak Report which was a key drafting document for the Treaty of Rome explicitly identifies that there is an existing tension between the goals of:

- Creation and attainment of a common market

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18 Chiriţă has offered an insightful historical review of the competition rules for those seeking a more detailed perspective on this area in A Chiriţă, “A Legal-Historical Review of the EU Competition Rules” (2014) 63.2 International and Comparative Law Quarterly 281-316.

19 ECSC was established by the Treaty of Paris and signed in 1951; it came into force on 23 July 1952, but expired on 23 July 2002.


21 In original French: “...l'application d'un plan de production et d'investissements, l'institution de mécanismes de péréquation des prix, la création d'un fonds de reconversion facilitant la rationalisation de la production (du charbon et de l'acier)” Schuman Declaration, 9 May 1950, Fondation J Monnet pour l'Europe Lausanne (Fondation Monnet) AMG 17/8/61 at 2.

22 “A l’opposé d’un cartel international tendant à la répartition et à l’exploitation des marchés nationaux par des pratiques restrictives et le maintien de profits élevés, l’organisation projetée assurera la fusion des marchés et l’expansion de la production” in “Note anti-cartel, jointe à la déclaration du 9 May 1950 ”. Fondation Monnet AMG 17/8/62. Translated as follows: “In contrast to international cartels, which tend to impose restrictive practices on distribution and the exploitation of national markets, and to maintain high profits, the organization will ensure the fusion of markets and the expansion of production”. Available at http://europa.eu/about-eu/basic-information/symbols/europe-day/schuman-declaration (July 2013) accessed (05 Aug 2014).

23 R Schulze and T Hoeren, see note 20, at 150.
Economic strengthening of the individual states after the war and the revival of the productivity and competitiveness of Europe and European countries in the global market.24

Although the text of the Spaak report was not wholly adopted it remains an important reference point in the drafting process and proved to be more influential than the competition rules already laid down in the ECSC.25

As the debate around the drafting of the competition provisions follows the dirigiste v ordoliberal schism we have briefly outlined above, this left an interpretative hole in the heart of Article 102.26 As Akman puts it:

It is unfortunately not possible to identify a coherent and unified approach to the standard of harm under Article 102. The legal concept of ‘abuse’ is sufficiently abstract and capacious to allow multiple conceptions of its goals. Arguably, clashing images of the goals of the provision have caused uncertainty about the future of the law in this area and this impedes the capacity of European judges and administrators to apply the law consistently and effectively.27

Given this vagueness built into the Article much depends on the interpretations favoured by the Court itself in building up an authoritative jurisprudence on the area.

2.3: Key Cases and the Lisbon Treaty

The case law on Article 102 has consistently emphasised the link between the prohibition of abuse of a dominant position as an essential element of the regulation of the internal market and as a key method of attaining the goals of the Union in general. So for example in Continental Can the Court held that undistorted competition was necessary “to promote throughout the Community a harmonious development of economic activities”.28 This approach was confirmed in Hoffmann-La Roche.29

The prohibitions contained in Articles 85 and 86 must be interpreted and applied in the light of Article 3 (f) of the Treaty which provides that the activities of the Community shall include the “institution of a system ensuring that competition in the Common Market is not distorted” and Article 2 of the Treaty which gives the Community the task of promoting “throughout the Community a harmonious development of economic activities”. By prohibiting the abuse of a dominant position within the market in so far as it may affect trade between Member States, Article 86 (102) therefore covers not only abuse which may directly prejudice

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24 See the foreword to the Spaak Report (17) for a discussion of its aims.
29 Judgment of the Court of 13 February 1979 Hoffmann-La Roche & Co. AG v Commission of the European Communities Case 85/76
consumers but also abuse which indirectly prejudices them by impairing the effective competitive structure as envisaged by Article 3 (f) of the Treaty. However, there has also been a trend in the case law to view competition as an end in and of itself. This probably reflects the fact that until the Lisbon Treaty Article 3 EC included among the permitted activities of the Community “the establishment of a system of undistorted competition” and some cases seem to have elevated the importance of this to the point that they equate a permitted activity with an objective. For example in United Brands the Court stated:

Article 86 (102) is an application of the general objective of the activities of the Community laid down by article 3 (f) of the treaty: the institution of a system ensuring that competition in the common market is not distorted.

Furthermore in Michelin v Commission the Court stated that:

Before the submissions and arguments regarding the assessment of Michelin NV’s position in relation to its competitors are examined more closely it should be recalled, as the Court has repeatedly held, most recently in its judgment of 13 February 1979 in Case 85/76 Hoffmann-La Roche v Commission [1979] ECR 461, that Article 86 of the Treaty is an application of the general aim of the activities of the Community laid down by Article 3 (f) of the Treaty, namely the institution of a system ensuring that competition in the common market is not distorted.

However, the thread of social welfare has not been lost, consider the Court’s discussion in TeliaSonera:

In order to answer those questions, it must be observed at the outset that Article 3(3) TEU states that the European Union is to establish an internal market, which, in accordance with Protocol No 27 on the internal market and competition, annexed to the Treaty of Lisbon (OJ 2010 C 83, p. 309), is to include a system ensuring that competition is not distorted.

Article 102 TFEU is one of the competition rules referred to in Article 3(1)(b) TFEU which are necessary for the functioning of that internal market.

The function of those rules is precisely to prevent competition from being distorted to the detriment of the public interest, individual undertakings and consumers, thereby ensuring the well-being of the European Union (see, to that effect, Case C-94/00 Roquette Frères [2002] ECR I-9011, paragraph 42).

Given these conflations it is perhaps not surprising that the Treaty of Lisbon removed competition form the explicit activities of the Union whilst still asserting that a legislative base for competition type actions still exists because of the internal market objective. Furthermore, against this complex backdrop of complimentary and competing goals, the

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30 Judgment of the Court of 13 February 1979 Hoffmann-La Roche & Co. AG v Commission of the European Communities Case 85/76 para 125.
33 Judgment of the Court (First Chamber) of 17 February 2011 Konkurrensverket v TeliaSonera Sverige AB Case 52/09 at paras 20-22.
Court has adopted a pragmatic approach refusing to create a definition in principle of what market distortion or a competitive structure would actually entail. Instead they have grounded their reasoning in concrete case examples resolved in the context of the Treaties. Thus we shall finally turn to the practical tests used to determine abuse dominant position that the Court has adopted to unite these diverse objectives. It is here that the Court's findings in PC Box will make most sense. One simply needs to read the case as raising both issues of potential abuse of position by a powerful market player and a long term social welfare question. The potent competition of these ideas combined with a more limited approach to copyright, as illustrated by UsedSoft, makes the opinion seem not only clear but predictable.

2.4: Key Tests

2.4.1: Proportionality

Proportionality is recognised as cornerstone of the framework for testing for abuse under Article 102 in both the case law and the official guidance. However, once again we have a slight difference between the two. A clear statement of the case law approach can be found in British Airways:

Assessment of the economic justification for a system of discounts or bonuses established by an undertaking in a dominant position is to be made on the basis of the whole of the circumstances of the case (see, to that effect, Michelin, paragraph 73). It has to be determined whether the exclusionary effect arising from such a system, which is disadvantageous for competition, may be counterbalanced, or outweighed, by advantages in terms of efficiency which also benefit the consumer. If the exclusionary effect of that system bears no relation to advantages for the market and consumers, or if it goes beyond what is necessary in order to attain those advantages, that system must be regarded as an abuse.

This resembles the test for breach of fundamental freedoms and can be broken down as follows:

1. Is there conduct giving rise to a prima facie competitive harm?
2. If there is such a prima facie competitive harm then five sub issues must be considered:

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34 This is pragmatic and mildly circular mode of reasoning is clear as early as Continental Can (see note 28); for example paragraph 26 states: “It is in the light of these considerations that the condition imposed by Article 86 is to be interpreted whereby in order to come within the prohibition a dominant position must have been abused. The provision states a certain number of abusive practices which it prohibits. The list merely gives examples, not an exhaustive enumeration of the sort of abuses of a dominant position prohibited by the Treaty. As may further be seen from letters (c) and (d) of Article 86 (2), (102(2)) the provision is not only aimed at practices which may cause damage to consumers directly, but also at those which are detrimental to them through their impact on an effective competition structure, such as is mentioned in Article 3 (f) of the Treaty. Abuse may therefore occur if an undertaking in a dominant position strengthens such position in such a way that the degree of dominance reached substantially fetters competition, i.e. that only undertakings remain in the market whose behaviour depends on the dominant one.”


a. Does the conduct produce efficiencies (or pursues some other legitimate objective)?

b. Is it a suitable method for achieving that objective?

c. Is it the least restrictive means of achieving the objective?

d. Do the benefits of the restriction for BOTH producers and consumers outweigh the potential competitive harm?

e. Does the conduct benefit consumers?

It is clear from this that the court must engage in a balancing exercise. This seems to mirror fairly precisely what occurred in *PC Box*. Even if one considers the slightly altered version of the proportionality test in the Commission’s guidance on Article 102, the same general framework applies. In fact it is slightly stricter than the *British Airways* test because in addition it adds a requirement that the conduct not eliminate effective competition.37 The case law goes on to consider the sub-issues raised by this test, however, we shall focus on two in particular due to their relevance here to the idea of the need to maintain “effective competition” and the notion of the special responsibilities of a dominant undertaking.

2.4.2: Effective competition and the special responsibilities of a dominant undertaking

It should be noted that effective competition is a transparent concept - it is not a philosophical or economic idealisation of what competition should be like - it is simply what the name suggests; workable actual competition. The clearest description of the concept can be found in *Metro I*:

> The requirement contained in Articles 3 and 85 of the EEC Treaty that competition shall not be distorted implies the existence on the market of workable competition, that is to say the degree of competition necessary to ensure the observance of the basic requirements and the attainment of the objectives of the Treaty, in particular the creation of a single market achieving conditions similar to those of a domestic market.

> In accordance with this requirement the nature and intensiveness of competition may vary to an extent dictated by the products or services in question and the economic structure of the relevant market sectors.38

If the specific subject matter of Nintendo’s copyright had been exceeded i.e. if all circumventions of their rights management technologies had been prohibited then this would have effectively extinguished any effective competition in that particular field.

Furthermore, we must consider the special responsibilities placed upon a dominant undertaking to avoid actions which would distort competition. This is an important concept because it recognises that an undertaking may be dominant in its market for perfectly legitimate reasons, but once in that position it has a special responsibility to preserve genuine competition. This was clearly outlined in *Michelin*.

37 The Commission guidance on applying Article 102: 2009 OJ C 45/02 7–20 particularly para 80-90. Available online at:

A finding that an undertaking has a dominant position is not in itself a recrimination but simply means that, irrespective of the reasons for which it has such a dominant position, the undertaking concerned has a special responsibility not to allow its conduct to impair genuine undistorted competition on the common market.  

This clearly places a duty on major players not to engage in distorting activities. In the United States this issue with regard to DRM has been resolved by developing a nascent right of fair access. No such provision exists in EU copyright therefore the CJEU has adopted a teleological approach and imported concepts and tests from competition law an action it may feel justified in taking when the overarching aim of promoting the internal market is considered. The difficulty with this approach however is that since many of the concepts are not clearly expounded there is a risk that future cases may not fully comprehend or develop these lines of reasoning, relying instead on more technical approaches to the application or distinguishing of previous cases.

The potential for the longevity of these developments leads us to the discussion of our final case Grund.

3: Grund and the future

The Grund case in many senses raised a substantially similar question to PC Box in that it concerned the application of the 'technological protection measures'. This time the case related not to specific work or other subject matter but to a computer programme. Grund and Others (C-458/13) asks:

Does Article 1(2)(a) of Directive 2001/29/EC (1) preclude the application of a provision (in this case Paragraph 95a(3) of the UrhG [Gesetz über Urheberrecht und verwandte Schutzrechte, Law on copyright and related rights] which transposes Article 6(2) of Directive 2001/29/EC into national law if the technological measure in question protects not only works or other subject-matter but also computer programs? 

This is a rather important question since it raises the issue of how to legally classify video games within the EU, in terms of copyright and technological protection measures, and whether the Software Directive or the InfoSoc Directive should be applied is not clear cut since parts of a video game can fall within the scope of both directives.

The primary appellant was Anders Grund as administrator in the insolvency proceedings of SR-tronic GmbH and the respondent was Nintendo Co. Ltd, Nintendo of America Inc. The premise was that the two directives are clearly separate and article 1(2)(a) of the InfoSoc Directive states that “this Directive shall leave intact and shall in no way affect existing Community provisions relating (a) to the legal protection of computer programs” and that subsequently article 6(2) of the InfoSoc Directive does not affect article 7 of the Software Directive as both provisions concern TPMs. Hence, the issue which arose for the referring

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court (the German Supreme Court) was: should TPMs protecting hybrid products, in particular video games, fall within either the scope of regulation specifically for computer programs or the general provisions of copyrighted works within the InfoSoc Directive? In reasserting the applicability of the *UsedSoft* line of cases in *PC Box*, however, the CJEU sides steps this question by reasserting the concept of *lex specialis*.

The *Grund* reference was withdrawn post *PC Box*. *Prima facie* this sends positive signals for the acceptance of the CJEU's approach. The question remains, however, how long will their complex and nuanced approach be tenable without an explicit statement of the underlying principle?

**Conclusion?**

The principles and ideas inherent in the judgements of this triptych of cases have a strong place in the heart of the CJEU’s thinking on the internal market as a whole, but their links to copyright are perilously nebulous. Whilst this teleological approach may allow this line of reasoning to flourish within the case law of the CJEU itself, the use of devices like the *lex specialis* or reliance on doctrines which have complex and unclear provenance, will render the application of these cases in domestic law problematic. This is particularly the case as the burden of determining the nature of the market situation has been left to national authorities. We have already seen hints of this with *UsedSoft* with many legal actors trying to limit its application. For example in the German case of Valve v VZVB:

In the reasons for judgement published now, the court makes it clear that the Steam service is not comparable to the situation that the ECJ had to assess in *UsedSoft*. In that case, a company purported to be selling only software licenses, which the ECJ permitted with its extensive application of the doctrine of exhaustion. But it also clearly stated that even this extensive interpretation did not apply to any services connected to the software, such as support or maintenance agreements. The Berlin judges consider the Steam service to contain a host of such additional services, such as matchmaking, provision of updates, and the operation of servers for the very multiplayer experience itself.

The court even goes beyond this reasoning, which, by itself, would have been enough to dismiss VZVB’s lawsuit. It also strongly hints that it does not consider the UsedSoft extension of the doctrine of exhaustion to intangible copies applicable to computer games at all.42

If the CJEU is to take copyright in this new direction then it must make its reasoning more transparent.