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France may cut iPod link to iTunes

By LAURENCE FROST
Associated Press

PARIS – Apple Computer faces a serious challenge in France as lawmakers move to sever the umbilical cord between its iPod music player and iTunes online store – threatening its lucrative hold on both markets.

Amendments to an online copyright bill, adopted early Friday, would give rivals access to the hitherto-exclusive file formats at the heart of Apple's music business model as well as Sony Corp.'s Walkman players and Connect store.

Thanks to the massive success of the iPod models, which account for two out of every three music players sold worldwide, iTunes has become the global leader in online music sales. The iPod is currently designed not to play music from rival services.

According to the latest amendments, however, copy-protection technologies like Apple's FairPlay format and Sony's ATRAC3 must work with competing services and players. Companies that refuse to share all essential information with any rival that requests it would be ordered to do so by a judge, under threat of fines.

The draft law could force Apple to let French iPod users buy their music from download sites other than iTunes. Owners of other music players would also be allowed to buy songs from iTunes France.

"Without guaranteed inter-operability, we run a major risk of captive client bases and an anti-competitive situation, with the consumer held hostage as a result," read the explanatory note accompanying one of the key amendments.

Lawmakers in the lower house voted to approve the amended text early Friday

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and will hold a further formal vote on Tuesday before sending the bill to the Senate for its final reading.

Although the draft law would also apply to Sony, "the implication is most serious for Apple" because of the phenomenal market penetration of the iPod and iTunes, said Roger Kay of U.S.-based research firm Endpoint Technologies Associates.

Apple spokesman Steve Dowling declined to comment on the law or say whether it could force the company to withdraw the iPod or iTunes from the French market.

Sony also refused to comment.

Although iTunes was initially driven by iPod sales, some analysts say the two offerings now reinforce each other.

Apple's large online music catalog, the result of its superior bargaining power, also boosts the iPod's appeal.

Breaking the exclusive link removes both advantages.

Critics of the draft law say legislators have no business forcing Apple to share its proprietary format, arguing that most customers know about its limitations when they choose to buy an iPod.

But consumer groups argue that the only way to give customers real choice is to end the restrictions.

"It's an essential condition for consumers and for the market itself," Julien Dourgnon, a spokesman for UFC-Que Choisir, France's main consumer organization, said.

UFC has already filed a lawsuit in French courts, attacking Apple's exclusive music format as a form of anti-competitive behavior.

"It's only by resisting interoperability that Apple is able to keep this dominant position," Dourgnon said. "Once there's interoperability, it's over."