France moves forward with law challenging Apple

PARIS (Reuters) - France's lower house of parliament passed a law on Tuesday that could challenge Apple Computer Inc.'s dominance of the online digital music market by making it open its iTunes store to portable music players other than Apple iPods.

French officials said the law is aimed at preventing any single media-playing operating system, such as Apple's iTunes or Microsoft Corp.'s Windows Media Player, from building a grip on the digital online music retail market.

"These clauses, which we hope will be taken up by other countries, notably at the European level, should prevent the emergence of a monopoly in the supply of online culture," Richard Cazenave and Bernard Carayon, National Assembly deputies from the ruling UMP party, said in a statement on Tuesday.

The new legislation would require that online music retailers such as iTunes provide the software codes that protect copyrighted material -- known as digital rights management (DRM) -- to allow the conversion from one format to another.

Apple responded on Tuesday night in California that if the law passes, it would only lead to increased piracy.

"The French implementation of the EU Copyright Directive will result in state-sponsored piracy," spokeswoman Natalie Kerris said from Apple headquarters in Cupertino, California. "If this happens, legal music sales will plummet just when legitimate alternatives to piracy are winning over customers."

Shares of Apple fell more than 3 percent to close down $2.18 at $61.81 on the Nasdaq on Tuesday.

"Any interested party can ask the court ... to get a supplier (of content) ... to provide information that is essential for 'interoperability,'" France's new copyright law states, so...
that content can be read on any hardware support.

It remains to be seen whether Apple would comply with the law, or just shut down the iTunes store in France, which would have a minimal effect on Apple's sales. Shaw Wu, an analyst at American Technology Research, estimates that less than 5 percent of Apple's overall revenue comes from sales of iPods and iTunes songs in France.

The new legislation would also allow consumers to use software that circumvents DRMs only if it were done to convert digital content from one format to another. Using such software is currently illegal in much of the world.

Currently, songs purchased from the market-leading iTunes service can only be played on iPods or Motorola Inc.'s iTunes mobile phone, and iPods are not compatible with music that uses DRM from rival companies such as Microsoft.

"There's no doubt that the fact it's a closed system has been a reason for Apple's success with the iPod," Wu said.

Consumers are prepared to pay twice as much for a song that can freely move between different devices, a recent study of the European Union project Indicare showed.

"The problem is that it may risk weakening systems that are used to protect against piracy," said Olivier Cousi, copyright lawyer at French law firm Gide Loyrette Nouel of the law.

"The impact on Apple is not clear yet," said Andrew Neff, an analyst at Bear Stearns in New York. "But the French are late; Microsoft and Apple are already dominating the market."

For its part, Apple said the law would actually likely increase iPod sales "as users freely load their iPods with 'interoperable' music which cannot be adequately protected."

Microsoft in France declined to comment.

"The vote today by French lawmakers is a direct attack on Apple's ability to design its own products and on the company's intellectual property rights, which will have a chilling effect on future innovation," said Jim Prendergast, executive director of Americans for Technology Leadership, a U.S. lobby group.

"Apple could immediately pull its iTunes product from France, giving consumers less choice when it comes to popular digital music," he added.

The law would affect other French online music stores as well, such as Fnac, part of retail group PPR; and Virgin, whose French retail operations are owned by media group Lagardere.

The government says the new law is designed to boost the legal digital music market and adapt the country's copyright rules to the rapidly changing online content market.

It was adopted by the National Assembly with 286 votes in favor and 193 against and will be examined in the upper house, the Senate, in May.

(Additional reporting by Emile Picy in Paris and Duncan Martell in San Francisco)
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