Stanford – Vienna
Transatlantic Technology Law Forum

A joint initiative of
Stanford Law School and the University of Vienna School of Law

Transatlantic Antitrust and IPR Developments

Bimonthly Newsletter
Issue No. 2/2010 (April 21, 2010)

Editor-in-chief: Juha Vesala, TTLF Fellow
Contributors: Gabriele Accardo, TTLF Fellow; Wim Helwegen, Researcher; and Juha Vesala, TTLF Fellow

Overview

U.S. DEVELOPMENTS

U.S. District Court allows Provigil reverse payment suits to proceed

On 29 March 2010 the U.S. District Court for the Eastern District of Pennsylvania rejected defendants' motions to dismiss in suits concerning reverse payment settlements between the brand name manufacturer of the pharmaceutical Provigil (Cephalon, Inc.) and several manufacturers of generic pharmaceuticals. The plaintiffs in the suits – including the Federal Trade Commission ("FTC") – claim, in particular, that the settlements delayed generic entry and violated U.S. antitrust laws.

The Court, upon reviewing existing case-law outside of its Circuit (3rd), adopted an analytical framework based on examining whether the challenged agreements extend beyond the scope of the patent in question. To justify this, the Court considered, first, that per se liability for reverse payment settlements – advocated by the FTC in particular – would ignore the exclusionary aspects of patents, whereas the scope of the patent framework strikes a proper balance between competing patent and antitrust principles. Second, the scope of the patent framework does not preclude claims raised in the suit that the patent was procured by fraud. Third, per se illegality would according to the Court tend to ignore a long-standing preference in law for settlements which also extends to patent infringement suits. Finally, the Court considered reverse payment settlements to be a natural consequence of the Hatch-Waxman Act (Public Law 98-417, 24 September 1984), as the Act reduces the risks of challenging patents, noting that per se illegality would reduce generic manufacturers' incentives to challenge patents in the first place.

The plaintiffs in the suits allege that the settlements extend beyond the scope of the concerned patent in four ways:

1) The patent in question was invalid, unenforceable, and/or not infringed – as known by the parties to the settlements and thus rendering the underlying litigation "sham" and extending the agreements beyond the scope of the patent;
2) An agreement among generic companies not to relinquish a 180-day exclusivity period based on first filing an Abbreviated New Drug Application prevents other generic entry beyond the scope of the patent;
3) The individual settlement agreements were part of a larger antitrust conspiracy among the defendants not to compete; and
4) The settlement agreements prevent the sale of generic versions of Provigil also outside of the scope of the patent.

The Court found that sufficient facts were alleged to establish that the agreements extend beyond the scope of the patent in question in the ways outlined above and thus rejected the defendants' motions to dismiss. [Juha Vesala]

U.S. District Court dismisses AndroGel reverse payment antitrust claims

On 22 February 2010 the U.S. District Court for the Northern District of Georgia (Atlanta Division) granted defendants' motions to dismiss antitrust claims brought by the Federal Trade Commission ("FTC") among others that reverse payments settlements and related commercial arrangements between the brand name manufacturer of AndroGel (Solvay Pharmaceuticals, Inc.) and several generic pharmaceutical manufacturers delayed generic entry and violated U.S. antitrust laws (see Newsletter 2/2009 p. 2).

Following the 11th Circuit's case-law, the Court applied an approach based on examining whether the challenged agreements extend beyond the scope of the patent concerned and, if so, result in anti-competitive effects. The Court rejected the idea of holding reverse payment settlements presumptively unlawful as inconsistent with the 11th Circuit precedents. Accordingly, as the plaintiffs according to the Court did not allege that the settlements extend beyond the claims and duration of the patent concerned, it dismissed the reverse payment claims.

The Court rejected the argument of the FTC and others that the scope of a patent also includes the *likelihood* of the patent holder prevailing in patent litigation as inconsistent with the 11th Circuit's reasoning. The Court expressed concerns that considering the likely outcome of patent litigation would — by creating uncertainty —tend to discourage settlements.

However, the Court refused to dismiss sham litigation claims based on the patent not being infringed and being invalid, as they were not precluded by the scope of the patent approach and sufficient facts were alleged to support the claim. Further, while not rejecting them as precluded by the scope of the patent approach, the Court dismissed a claim that the defendants participated in a scheme to monopolize the market for generic AndroGel, due to not identifying a combined effect of such a scheme beyond the alleged practices of improper Orange Book listing, sham litigation, and settlements. The Court also refused to consider a claim that generic companies conspired among themselves, outside the scope of any patent rights, due to the claim having been asserted too late.

In re Androgel Antitrust Litigation (No. II), No. 1:09-MD-2084-TWT, Feb. 22, 2010. [Juha Vesala]

U.S. District Court dismisses Novell's claims against Microsoft

On 30 March 2010 the U.S. District Court for the District of Maryland granted Microsoft's motion for summary judgment on Novell's claims that Microsoft violated U.S. antitrust laws by engaging in anti-competitive conduct in order to obtain and maintain its monopoly in the operating systems market and by entering into agreements that disadvantaged Novell's products.

The Court held that Novell does not own the claims anymore, due to an agreement involving the sales of the claims along with its operating systems business. The Court, nonetheless, addressed the substantive antitrust issues and considered that had the claims not been transferred, the monopolization claim would have survived the motion for summary judgment whereas the claim concerning restrictive agreements would not have.

In responding to Microsoft's argument that Microsoft did nothing beyond refusing to cooperate with Novell, the Court noted that it is not clear whether Microsoft merely refused to cooperate, as Novell presented evidence on Microsoft affirmatively misleading Novell and entering into anti-competitive agreements. Moreover, whether a mere refusal would be anti-competitive would be a question of fact, as Novell presented evidence on the predatory motives of Microsoft to sacrifice short-term profits in exchange of long-term anticompetitive effects. For instance, prior to the conduct alleged by Novell, Microsoft voluntarily cooperated with Novell. The Court was not convinced by Microsoft's argument that it had legitimate business reasons for its actions, as the Court did not see them as necessary for the alleged purpose of fostering innovation.

The Court, however, was not persuaded that Microsoft's agreements would have substantially foreclosed competition in the software application market or, more importantly, in the operating system market. These claims would thus not have survived Microsoft's motion for summary judgment even if Novell still had owned the claim. [Juha Vesala]

U.S. Department of Justice does not challenge proposed news registry

On 31 March 2010 the Department of Justice issued a business review letter concerning a proposed news registry that would be operated by The Associated Press. The proposed news registry essentially would allow content owners to register news items and the terms of licensing them for use on the Internet.

The Department of Justice considered that the proposed arrangement would not be likely to result in anti-competitive harm and can produce pro-competitive benefits. In particular, the proposed registry is not exclusive and does not constrain the participating content owners' ability to offer content outside of the registry, nor does it facilitate coordination among content owners. The registry may create pro-competitive benefits by, in particular, reducing transaction costs in licensing news for Internet content users. [Juha Vesala]

U.S. Department of Justice does not challenge online subscription news service

On 24 February 2010 the Department of Justice issued a business review letter regarding a proposed Internet media subscription news aggregation service (Global News Service) that would be operated by MyWire, Inc. The proposed service would aggregate content from content owners and allow publishers to show content blocks for related items next to their own content, accessible for free or for a fee.

The Department of Justice considered that the arrangement is not exclusive and does not restrict the prices that publishers can charge for their content, apart from requiring content not to be distributed for free in case it is offered for a fee in the service. Each publisher would continue to price its content unilaterally and MyWire would set subscription fees charged from consumers and per-click fees paid to publishers whose content is accessed through the service.

The service can produce pro-competitive benefits, in particular, by allowing broader access by consumers to related content with less effort and by allowing publishers access to expanded traffic and enabling them to better identify consumers interested in their content. [Juha Vesala]

U.S. Department of Justice does not challenge Cisco's acquisition of Tandberg

On 29 March 2010 the Department of Justice announced that it will not challenge the acquisition by Cisco Systems of Tandberg. The Department concluded that the transaction is not likely to be anti-competitive due to, in particular, the evolving nature of the videoconferencing market concerned and given the commitments Cisco made to the European Commission. The commitments facilitate interoperability of Cisco's telepresence products with those of others (see below p. 8 for details on the commitments and the parallel European Commission decision). [Juha Vesala]

U.S. In brief

- FTC seeks comments on proposed revision of the horizontal merger guidelines (21 April 2010)
- Rosch (FTC) speech "Monopolies, Innovation, and Predatory Pricing: Observations on Some Hard Questions in the Section 2 Context" (25 March 2010)
- Rosch (FTC) speech "Promoting Innovation: Just How "Dynamic" Should Antitrust Law Be?" (23 March 2010)
- DOJ and USDA Workshop "Agriculture and Antitrust Enforcement Issues in Our 21st Century Economy" (12 March 2010)

EU DEVELOPMENTS

ECJ: Google's *AdWords* has not infringed trademark law

On 23 March 2010, the European Court of Justice handed down its long awaited preliminary ruling in response to the questions referred to it by the French Cour de Cassation (French Court of Cassation) on the dispute between Google and French luxury brand owners. The ruling provides guidance as to how national courts should assess trademark disputes arising in the context of internet advertising, notably in relation to so-called referencing services, like Google's *AdWords*.

The *AdWords* referencing service enables any economic operator, by means of the reservation of one or more keywords, to obtain the placing, in the event of a correspondence between one or more of those words and that/those entered as a request in the search engine by an internet user, of an advertising link to its site. That advertising link appears under the heading "sponsored links", which is displayed either on the right-hand side of the screen, to the right of the natural results, or on the upper part of the screen, above the natural results.

While the ECJ ultimately leaves national courts to decide each dispute on a case-by-case basis, the principles it established appear to hint that Google has not infringed trademark law by allowing advertisers to purchase keywords corresponding to their competitors' trademarks. The ruling, which provides useful guidance to trademarks owners as to how they may restrict online use of their brands, comes just shortly before the publication of the Commission's revised Block Exemption Regulation and Guidelines on vertical agreements, which will include specific provisions on online sales.

As to the first of the two questions raised by the French Court of Cassation, the ECJ pointed out that, under the EU trademark rules, by purchasing the Google's *AdWords* referencing service and selecting, as a keyword, a sign corresponding to an existing trademark, it is the advertiser, and not Google, that actually *uses* the "sign". Conversely, the activity of an internet referencing service provider which consists in storing, as a keyword, a sign identical with a trade mark and organizing the display of ads on the basis of that keyword does not amount to "use" of that sign.

Accordingly, if a trademark has been *used* as a keyword, the trademark owner cannot, therefore, rely, against Google, on the exclusive right which it derives from its mark. On the other hand, advertisers themselves cannot, by using such keywords, arrange for Google to display ads which do not allow average internet users easily to establish from which undertaking the goods or services covered by the ad in question originate**.**

As to the second issue, the ECJ did not directly rule on the liability of Google as referencing service provider with respect to the data of its clients which it stores on its server. In fact, questions of liability are governed by national law.

Yet, the ECJ provided general guidance to the national court, saying that the liability of the referencing service provider may be limited if the role played by the service provider is neutral, in the sense that its conduct is merely technical, automatic, and passive, pointing to a lack of knowledge of, or control over, the data which it stores. In such a case, the service provider cannot be held liable for the data which it has stored at the request of an advertiser, unless, having obtained knowledge of the unlawful nature of those data or of that advertiser's activities, it failed to act expeditiously to remove or to disable access to the data concerned.

In this respect, the ECJ considers that certain factors, like the mere facts that the referencing service is subject to payment, that Google sets the payment terms or that it provides general information to its clients cannot have the effect of depriving Google of the exemptions from liability under EU law, while the role played by Google in the drafting of the commercial message which accompanies the advertising link or in the establishment or selection of keywords is relevant. [Gabriele Accardo]

European Commission clears Cisco's acquisition of Tandberg, subject to conditions

On 29 March 2010, the European Commission approved the proposed acquisition of Norway's Tandberg, a vendor of video communications systems, by Cisco Systems subject to conditions. On the same day, just one hour after the Commission issued its press release, the U.S. Department of Justice announced that it had also decided not to challenge the transaction due to the evolving nature of the videoconferencing market and the commitments that Cisco has made to the Commission to facilitate interoperability. The full Commission decision is not published yet.

While the transaction did not raise significant concerns regarding vertical (in the light of Tandberg's Multipoint Control Units) or conglomerate effects (owing to Cisco's networking products), the investigation focused on the horizontal overlaps in the markets for video conferencing solutions, in particular in relation to the market for high-end video conferencing solutions (dedicated-room solutions, also known as "telepresence"). The Commission had identified serious competition concerns due to interoperability issues between the solutions that Cisco could offer as a result of the merger and those of its competitors.

In order to address these concerns, Cisco committed to divest its rights to its proprietary Telepresence Interoperability Protocol ("TIP") to an independent industry body to ensure interoperability with Cisco's solutions and to allow other vendors to participate in the development and in the updates of such protocol. The remedy is designed in a manner ensuring that an independent industry body will elaborate an industry-based proposal for a standard protocol, which will then be submitted to a standard setting organization.

In principle, a royalty-free license may have reached the same goal, but the Commission's usual preference for structural solutions rather than "behavioral" mechanisms (like IP licensing) appears to have convinced Cisco to divest rather than license TIP, arguably to avoid a lengthy and in-depth investigation.

In fact, in its 2008 Remedies Notice, the Commission claims that a divestiture of technology or IP rights is the preferable remedy because it eliminates uncertainties linked to the lasting, ongoing relationship between the merged entity and its competitors, as well as the risks for disputes between them. Licensing arrangements may be acceptable where a divestiture would jeopardize ongoing research or where a divestiture would be impossible due to the nature of the business or when certain assets necessary to facilitate competitive entry cannot be duplicated.

As to the unfolding of the proceedings, it is noteworthy that EU Commissioner for Competition, Joaquín Almunia stated that he was *"…satisfied with the overall review process that was carried out in close co-operation with the US Department of Justice*", while Christine Varney, Assistant Attorney General in charge of the U.S. Department of Justice's Antitrust Division appeared more enthusiastic as she stated that "*This investigation was a model of international cooperation between the United States and the European Commission*" and that "*The parties should be commended for making every effort to facilitate the close working relationship between the Department of Justice and the European Commission.*" [Gabriele Accardo]

Will the European Commission launch a formal investigation into Google?

On 24 February 2010, the European Commission issued a statement on press reports on complaints against Google's conduct on search advertising, where the U.S. internet giant has a dominant position.

While the Commission confirmed that it has received and is examining three complaints (one apparently referred to it by the German Bundeskartellamt), it has not opened a formal investigation yet.

Google, informed by the Commission on the complaints, will provide comments on the allegations with the aim to prevent the opening of a lengthy formal investigation (and the imposition of sanctions) under Article 102 of the Treaty on the Functioning of the European Union, which prohibits abusive conduct by dominant companies.

The three complaints lodged by Ciao.de, a German subsidiary of Microsoft, as well as Foundem.co.uk, a U.K. price comparison site, and EJustice.fr, a French site specializing in legal search inquiries, appear to likely raise a similar grievance that Google's search algorithms somehow "penalize" their Web sites in Google's search results, allegedly because the three complainants are direct competitors as vertical search engines (unlike a general Web search engine like Google, a vertical search engine focuses on a specific segment of online content).

Yet, although market dominance is not, in and of itself, sufficient cause for antitrust sanctions, it is true that Google's search advertising business is increasingly attracting the attention of national competition authorities in Europe. The Commission stated that it is closely cooperating with national competition authorities. [Gabriele Accardo]

Dutch court addresses FRAND defense to patent infringement

In a judgment of 17 March 2010, the District Court of The Hague addressed whether the infringer of a patent right can rightfully claim that a patent cannot be enforced because the infringer meets the terms of a FRAND license.

Philips is the proprietor of European patent 0 397 238, relating, inter alia, to an information recording system and European patent 1 066 628, relating to a record carrier and apparatus for scanning the record carrier. The former patent is essential to the CD-R standard and the latter patent is essential to the DVD+R standard. SK Kassetten ("SK") had sold and offered for sale CD-R and DVD+R discs in the Netherlands until at least December of 2009. SK purchased these discs from its subsidiary Global Digital Disc GmbH & Co KG and from producers in Taiwan, China, and India.

Because SK did not have a license for either of the patents, Philips requested the District Court of The Hague for an injunction against SK. SK argued that it did not infringe the patents and that Philips could not enforce its patent rights because SK, in its own view, was entitled to a FRAND license. However, the court decided that SK infringed the patents and that the patents were enforceable. According to the court, Philips' patent rights would only be unenforceable if a license actually existed, either as a result of an agreement between Philips and SK or as a compulsory license granted a by a court. The court held that the mere claim by SK that it was entitled to a FRAND license because it complied with the requirements of such a license was not in accordance with the system for compulsory licenses as intended by the Dutch legislator. Compulsory licenses can only take effect after the coming into existence of the license or after being handed down by a court.

Moreover, the court noted that SK's reasoning would lead to legal uncertainty because disagreement can arise between parties on whether or not the terms are met. Finally, the court held that SK should have requested a FRAND license from Philips before bringing its infringing products to the market. In case Philips would have refused the license, SK should have brought the case before a court in order to obtain a compulsory license instead of entering the market with infringing products.

The decision clearly differs from the Orange Book judgment of the German Federal Supreme Court (BGH, 6 May 2009, KZR 39/06) (see Newsletter 3/2009 p. 4). However, the district court noted that the result would be equally unfavorable to SK if the German Federal Supreme Court's criteria would be applied because SK admitted that it did not pay any royalties or secure a payment for the royalties due, as required by the Orange Book judgment.

Koninklijke Philips Electronics N.V. v. *SK Kassetten GmbH & Co. KG.* District Court of The Hague, March 17th 2010, cases HA ZA 08-2522 and HA ZA 08-2524. [Wim Helwegen]

Italian Competition Authority widens investigation into Google

On 3 March 2010, the Italian Competition Authority ("ICA") decided to include Google Ireland in its ongoing investigation of last August 2009 (see Newsletter 5/2009 p. 10) to ascertain whether the contract conditions imposed by Google on Italian Web site publishers for *online* ad-serving breach Article 102 TFEU, which prohibits the abuse of a dominant position. The reason to extend the investigation is that the Web site publishers enter into the standard *AdSense* contract with Google Ireland.

The ICA's press release sheds further lights on the scope of the ongoing investigation. In particular, the ICA is concerned that the lack of transparency of and verifiability as to the revenue-sharing mechanism according to which Google calculates publishers' compensation, would have a serious impact on the commercial activities of Web sites publishers affiliated to the *AdSense* program. The compensation they receive, the ICA states, appears to be left entirely to Google's "discretion", to the extent that Google does not have any obligation to reveal the calculation methods it employs and may modify the formulas whenever it likes at its own exclusive discretion.

The ICA considers that clear, detailed, and verifiable information is fundamental for allowing Google services to be compared to competing offerings. [Gabriele Accardo]

OFT investigates Reckitt Benckiser's alleged abuse in the supply of prescription drugs to the NHS

On 23 February 2010, the UK Office of Fair Trading (OFT) has sent a statement of objections to Reckitt Benckiser setting out its preliminary findings alleging that pharmaceutical company abused its dominant position in the market for the National Health Service ("NHS") supply of alginate and antacid heartburn medicines.

In the UK, as soon as a patent expires, general practitioners can use their prescribing software to search for a well-known branded product and then provide patients with an "open" prescription that lists its generic name. Pharmacies that receive these open prescriptions can choose whether to dispense the branded medicine or its cheaper, generic equivalent. Clearly, this may enhance strong price competition between pharmaceutical suppliers, ultimately resulting in considerable savings to the NHS.

According to the OFT, Reckitt Benckiser sought to restrict competition to its Gaviscon brand by withdrawing and de-listing its NHS packs of Gaviscon Original Liquid from the NHS prescription channel. The withdrawal allegedly occurred just before the generic name for this product could have been assigned.

However, Reckitt Benckiser's Gaviscon Advance Liquid remains available in NHS packs in the NHS prescription channel, but, unlike the withdrawn/de-listed Gaviscon Original Liquid, it is still patent protected until 2016 and is therefore not subject to competition from equivalent medicines.

As a result, when general practitioners search for "Gaviscon" prescription packs they can only identify the patent protected Gaviscon Advance Liquid and not Gaviscon Original Liquid, for which an "open" prescription could otherwise be provided had Reckitt Benckiser not withdrawn and de-listed it. Both Reckitt Benckiser's products, Gaviscon Original Liquid and Gaviscon Advance Liquid, remain available for purchase over-the-counter. [Gabriele Accardo]

EU In Brief

- European Commission adopts new rules on distribution agreements (20 April 2010)
- Italianer (European Commission) speech "Challenges for European Competition Policy" (9 March 2010)

This and the previous issues of the *Transatlantic Antitrust and IPR Developments* can be accessed via its webpage on the Transatlantic Technology Law Forum website.