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Overview

U.S. DEVELOPMENTS

U.S. District Court rejects Google Books settlement

On 22 March 2011, the U.S. District Court for the Southern District of New York (Judge Chin) rejected a proposed settlement of a class action suit concerning Google's scanning of books and their uses in its services (*The Authors Guild Inc. et al. v. Google Inc).* The proposed settlement would have authorized Google, in particular, to continue to digitize books and sell subscriptions, access, and advertising to books on a non-exclusive basis, subject to paying rightsholders a share of the gained revenues (63%, subject to renegotiation by individual rightsholders) through a Book Rights Registry responsible for administering that task. Rightsholders would have been entitled to exclude their books entirely or from some or all uses authorized by the settlement (see Newsletter 1/2010 p.2 and 2009/5 p. 2 for details of the proposed settlement).

The Court considered a number of objections to the proposed settlement it received, including the appropriateness of the settlement under class action principles, conflicts with U.S. and international copyright laws, as well as antitrust concerns raised by the proposed settlement. The Court concluded that in view of several of these objections, the proposed settlement was not fair, adequate, and reasonable as is required for the settlement of class actions under Rule 23(e) of the Federal Rules of Civil Procedure and, accordingly, denied the final approval of the settlement.

A number of antitrust concerns were raised against the proposed settlement by the U.S. Department of Justice, including that the proposed settlement involved risks of horizontal price coordination and conferred on Google *de facto* exclusivity, thus strengthening Google's dominance in its search business (see Newsletter 1/2010 p.2 and 2009/5 p. 2). In its opinion, the Court focused on the latter type of concerns, noting that the proposed settlement would give Google a *de facto* monopoly over unclaimed works by giving it a right to digitize works without any risk of liability, which no other company has. Moreover, the proposed settlement would, according to the Court, arguably also entrench Google's market power in the online search market by giving Google the ability to deny its competitors' ability to search orphan books.

The rejection of the settlement is without prejudice to a revised settlement the parties may subsequently negotiate. The Court noted that switching from an opt-out to an opt-in settlement would ameliorate many of the concerns and urged the parties to consider revising the settlement accordingly. [Juha Vesala]

U.S. Supreme Court denies certiorari in reverse payment settlement suit

On 7 March 2011, the U.S. Supreme Court denied certiorari in the latest attempt to bring reverse payment settlements before the Court (*Louisiana Wholesale Drug Co., Inc., et al. v. Bayer AG, et al.*, see Newsletter 5/2010 p. 2 and 3/2010 p. 2 for background of the case).

The denial comes despite considerable criticism of the "scope of patent" standard applied by the Second Circuit (from the Court of Appeals that heard the case) and some other circuit courts pursuant to which reverse payment settlements that do not extend beyond the scope of the patent are held virtually per se legal under antitrust laws. The U.S. Department of Justice and the Federal Trade Commission have strongly questioned the appropriateness of such a standard (see e.g. Newsletter 5/2010 p. 2, 3/2010 p. 2, 4/2009 p. 2 for their *amicus curie* filings in the case before the Second Circuit).

In 2009, the U.S. Supreme Court also denied certiorari (see Newsletter 2009/4 p. 2). [Juha Vesala]

U.S. Senators announce antitrust subcommittee agenda and call for hearing on Google

In March 2011 the Chairman of the Senate Subcommittee on Antitrust, Competition Policy, and Consumer Rights – Senator Kohl (D-WI) – announced the Subcommittee's agenda for the new session of Congress.

The announced agenda includes a number of issues pertaining to intellectual property rights and high-technology industries. In particular, the Subcommittee will pursue legislation against reverse payment settlements and legislation against resale price maintenance. The Subcommittee will also examine challenges involved in the Internet distribution of content and allegations raised against Google that some e-commerce websites are treated unfairly in search rankings and in their ability to purchase search advertising. Senator Lee (R-UT) joined Senator Kohl in calling for antitrust oversight hearings on Google. [Juha Vesala]

U.S. In brief

- U.S. FTC publishes report on recommended improvements of the patent system (7 March 2011)
- Varney (DOJ) speech "Dynamic Competition in the Newspaper Industry" (21 March 2011)

EU DEVELOPMENTS

Advocate General advises European Court of Justice on Internet sales issues in the context of selective distribution

On 3 March 2011, Advocate General Mazák issued his opinion to the European Court of Justice ("ECJ") in the Pierre Fabre case regarding the compatibility of an absolute ban of Internet sales with the EU competition rules on anticompetitive agreements (see Newsletter 6/2009, p. 12, for background information).

The case was referred to the ECJ by the Paris Court of Appeal ("PCA") in late 2009. Previously, the French Competition Authority (Autorité de la Concurrence, or the "FAC") found that Pierre Fabre's absolute ban of internet sales infringed the French Commercial Code as well as EU competition law. If the ECJ follows the Advocate General's opinion, it would substantially confirm the conclusions of the FAC. Yet, the opinion and the ECJ judgment would constitute an important step in the direction of building up EU case law in the field of vertical restraints in the online space, which recently constituted the focus of the European Commission review of the rules applicable to vertical agreements (see Newsletter 3/2010, p. 4 and Newsletter 4/2009, p. 8). However, these new rules are not directly relevant to the present case insofar as they only entered into force in June 2010, after the case had been initiated.

In his opinion, the Advocate General first considers that a general and absolute ban on selling via the Internet in the context of a selective distribution network, which goes beyond what is objectively necessary in order to distribute goods in a way that preserves the aura and the luxury image of the products concerned, has the object of restricting competition and falls within the scope of Article 101(1) of the Treaty on the Functioning of the European Union ("TFEU"). The PCA shall therefore examine the proportionality of the ban in question once the case resumes before it. Under the circumstances, safety and public health reasons would not constitute a valid objective justification. In the same sense, claims relating to the threat of counterfeiting and the risk of free-riding (albeit constituting valid concerns), would appear unfounded, subject to verification by the referring court.

Second, the absolute ban imposed by Pierre Fabre on its distributors limits their commercial freedom to advertise and sell on the internet and restricts both active and passive sales and would therefore constitute a hardcore restriction that cannot benefit from the general exemption provided for by Regulation 2790/1999 (which was replaced by the new Regulation 330/2010 upon entering into force as of June 2010). In that connection, the opinion rejects Pierre Fabre's claim that Internet sales should be considered as operating out of an unauthorized place of establishment (thereby making the internet ban qualified for the exemption), and states that the Internet cannot be considered as a (virtual) establishment, but rather a modern means of communication and marketing goods and services.

Finally, owing to the insufficient evidence in the file, Advocate General Mazák was not able to provide guidance as to whether the distribution agreement at issue here would be eligible to an individual exemption in accordance to Article 101(3) TFEU. It will be for the PCA to determine whether the four conditions contained in that article are fulfilled in order to grant individual exemption. [Gabriele Accardo]

Advocate General advises European Court of Justice on use of a trademark as a keyword in Google AdWords

On March 24, 2011, one year after the Google France and Google decision (see Newsletter 2/2009 p. 7), Advocate General Jääskinen issued his opinion in a new case also relating to keyword advertising on an Internet search engine.

The case at issue here arose after Marks & Spencer plc ("Marks & Spencer") bought a paid referencing service through Google's AdWords for various keywords containing the trademark "INTERFLORA" to trigger ads for its flower delivery service, identical to the well-known rival service offered by Interflora, Inc. ("Interflora").

Served with a trademark infringement action by Interflora, the High Court of Justice of England and Wales (Chancery Division) referred no fewer than ten questions (which were then reduced to four) for preliminary rulings. Basically, the crux of the case raised the following two questions:

i. Whether the reservation by a trader of one of his competitor's trademarks to trigger advertising for his own benefit should be considered as a "*use*" "*in relation to goods and services for which the trademark is registered"* within the meaning of Article 5(1) of the Trademark Directive, and therefore could be prohibited by the trademark owner;
ii. Whether such use, assuming it was detrimental to the distinctive character of the trademark or takes unfair advantage of its reputation, could be prohibited under Article 5(2) of the Trademark Directive (granting additional protection to trademarks that have a reputation).

On the first question, Advocate General Jääskinen, not surprisingly, reiterated the position held by the ECJ in Google France and Google, and confirmed that:

i. The reservation by a trader of his competitor's trademark as a keyword is a "*use*" "*in relation to goods and services for which the trademark is registered*"; and
ii. That such *use* can therefore be prohibited by the proprietor of the trademark, but only "*where that ad does not enable an average Internet user, or enables said user only with difficulty, to ascertain whether the goods or services referred to in the ad originate from the proprietor of the trademark or an undertaking economically connected to it or from a third party."*

In the present case, Advocate General Jääskinen, highlighting that the INTERFLORA trademarks have gained a "*secondary meaning*" denoting a "*certain commercial network of florist providing a certain type of delivery service*," held that "*an association between the trademark of Interflora and an identical delivery service of flowers provided by Marks & Spencer is possible and even likely in the mind of an average consumer."* If the ECJ follows the Advocate General on this issue, Marks & Spencer's reservation of the Interflora trademark as a keyword to trigger its ads should therefore be considered an infringement.

On the second point, the Advocate General held that the use, as a keyword, of a competitor's trademark with a reputation in a paid-referencing service, can also fall under Article 5(2) of the Trademark Directive, but only if said trademark with a reputation:

i. is mentioned or displayed in the ad itself; <u>and</u>
ii. "*is either used as a generic term covering a class or category of goods or services"* (protection against dilution by blurring); <u>or</u>
iii. "*the advertiser attempts thereby to benefit from its power of attraction, its reputation or its prestige and to exploit the marketing effort expended by the proprietor of that mark in order to create and maintain the image of that mark*" (protection against free-riding).

By contrast, the Advocate General raised the point that keyword advertising using well-known third party trademarks should not be prohibited *per se* "*in the context of modern marketing relying on keyword advertising on the Internet*", especially "*in view of the need to promote undistorted competition and more information to consumers"*.

In this specific case, the Advocate General did not find Marks & Spencer's use of Interflora's trademarks diluted Interflora's trademarks because the latter's trademarks did not appear in the ad itself. However, the broad formulation retained by the Advocate General in defining this practice under trademark dilution should lead traders to be cautious when choosing their well-known rival's trademark as a keyword. [Béatrice Martinet Farano]

Commissioner Almunia addresses concerns over Apple's alleged anticompetitive practices

On 28 March 2011, Competition Commissioner Almunia replied to a question of Member of the European Parliament Arlene McCarthy regarding the Commission's approach to the new electronic goods market.

In particular, the question raised concerns as to the potential anticompetitive practices by Apple, owing to the relationship between Apple hardware products (e.g. iPhone, iPad) and its iTunes online store, which appear to make it difficult for consumers to purchase certain products in electronic format (e.g. songs, books, news services etc.) from sources or devices other than Apple's. Basically, Mrs. McCarthy asked whether Apple's tying practice may constitute an abuse of dominance under Article 102 of the Treaty on the Functioning of the European Union ("TFEU"), similar to Microsoft's tying of its web browser to its Windows operating system.

Mr. Almunia stressed that whether Apple's behavior concerning the link between its hardware products and software products constitutes a violation of Article 102 TFEU depends on a range of factual, legal, and economic elements, among which the finding of a dominant position in the relevant market(s) is a preliminary condition. Mr. Almunia noted that it is not clear that Apple (or any other company) holds a dominant position in the market(s) to which the iPod Touch, the iPhone and the iPad belong. The reason being that such products are still relatively new and evolving and there are, or will shortly be launched, a large number of devices that can provide similar functionalities. In contrast, the Commission found that Microsoft held a clear dominant position on the client PC operating system. Commissioner Almunia nonetheless emphasized that the Commission remains committed to ensuring the full respect of European competition rules. [Gabriele Accardo]

Acquisition of Novell's portfolio of patents re-filed with German Federal Cartel Office

On 23 March 2011, Novell submitted a Form 8-K filing with the U.S. Securities and Exchange Commission ("SEC") in relation to its sale of certain issued patents and patent applications to a consortium (CPTN Holdings) formed by Microsoft, Apple, Oracle and EMC (see Newsletter 1/2011 p. 6 for background information).

The filing states that on 30 December 2010, CPTN had voluntarily withdrawn its notification in Germany in order to provide the Federal Cartel Office ("FCO") with more time to review the proposed transaction. On 23 March 2011, CPTN made a new filing, following discussions with the FCO. The re-filing started a new one-month review period, during which the FCO can clear the transaction at any time. The investigation appears to concern the creation of the CPTN joint venture, and not the acquisition of the patent rights.

Additionally, Novell and CPTN appear to have complied with a second request for information from the Antitrust Division of the United States Department of Justice ("the DOJ"), and they have both agreed to provide the DOJ with additional time to review the patent sale and not to close the patent sale prior to 12 April 2011.

According to Novell's SEC filing, the clearance of the transaction (in the U.S. and in Germany) is a condition for the completion of the merger plan of Novell with Attachmate Corporation and Longview Software Acquisition Corp. [Gabriele Accardo]

Study on the overall functioning of the European trademark system published

On 8 March 2011, a study on the overall functioning of the trademark system in Europe - commissioned by the European Commission from the Max Planck Institute for Intellectual Property and Competition Law - was published on the European Commission's website. The aim of the study was to analyze current functioning of the EU Trademark Legislation and identify potential areas for improvement - in particular the Community Trademark Regulation ("CTMR") and the Trademark Directive ("TMD") - for the benefit of users and society as a whole.

As far as competition policy is concerned, the study recalls that the protection of trademarks is an intrinsic part of the system of undistorted competition. The study, however, points out elements in the CTMR that could have negative effects on competition, notably the protection of certain kind of trademarks, such as:

i. color marks (available only in limited quantity),
ii. shape of product marks (which lead to an exclusive right to the appearance of a specific product), and
iii. combination marks with a low level of distinctiveness (which should be afforded a narrow scope of protection).

The study highlights that the interests of all the stakeholders (proprietors, but also consumers and competitors) should be taken into account in the assessment of the validity of such trademarks and that they should only be registered if they have acquired distinctiveness through use in the market within the community.

The study also points out that registration of a sign exclusively consisting of features which confer on the proprietor a monopoly on technical solutions or functional characteristics which a user is likely to seek in the products of competitors should be excluded.

The study also includes other innovative proposals, such as the introduction in the CTMR and TMD of

i. a clause specifying that infringement claims are without prejudice to earlier rights (no such general provisions exist at present and it would settle a number of issues);
ii. a provision providing a better definition of the borderline between private and commercial use, which would take into account whether the use is made for commercial gain rather than private matter and whether it took place in the alleged infringer's own commercial communication;
iii. a broad clause exempting honest referential use (including for instance the use for purposes of parody, indicating replacement or service, and commentary and criticism) from infringement, or even the introduction of a fair use clause; and
iv. a clause providing for the liability of legal persons for acts committed on their behalf (in line with general rules of tort law or civil liability applicable in most if not all EU countries). [Béatrice Martinet Farano]

EU In Brief

- German Federal Cartel Office prohibits online video platform (18 March 2011)
- Competition Commissioner Almunia interview (March 2011)

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.