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Editor-in-chief: Juha Vesala, TTLF Fellow

Contributors: Béatrice Martinet Farano, Gabriele Accardo and Juha Vesala, TTLF Fellows

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U.S. DEVELOPMENTS

U.S. District Court dismisses Apple's antitrust claims against Samsung

On 18 October 2011 the U.S. District Court for the Northern District of California dismissed Apple's claims that Samsung violated Sections 1 and 2 of the Sherman Act by failing to disclose its patents that are essential to the Universal Mobile Telecommunications Standard ("UMTS") or, alternatively, by not honoring its commitment to license the patents on fair, reasonable and nondiscriminatory terms ("FRAND"). The allegations concern Samsung's conduct within the European Telecommunications Standards Institute ("ETSI") and other standard-setting organizations ("SSOs").

Apple argued that Samsung failed to disclose its essential patents in a manner that constitutes monopolization under Section 2 of the Sherman Act. However, while the court found that Apple sufficiently pled facts supporting Samsung's alleged failure to disclose essential patents in accordance with SSO policies, Apple failed to provide sufficient facts for the proposition that had Samsung properly disclosed its patents, a reasonable possibility exists that either another viable technology would have been incorporated into the UMTS standard or the relevant feature would not have been incorporated into the standard at all. For instance, without factual allegations that SSOs considered other technologies when the standards were set, Apple could not meet the pleading standard. Thus, the court granted Samsung's motion to dismiss Apple's claim concerning Samsung's alleged non-disclosure of essential patents.

Apple argued in the alternative that Samsung had made a false FRAND licensing commitment in violation of Section 2 of the Sherman Act. The court found that while Apple's theory did not appear legally defective, Apple's allegations still failed to meet the heightened pleading standard for fraud allegations as Apple did not specify when and who made the FRAND declarations and for which patents. Accordingly, the court granted Samsung's motion to dismiss Apple's claims that were based on a theory of false FRAND declarations.

Apple also argued that Samsung violated Section 1 of the Sherman Act by subverting the collaborative standard-setting process. The court found that Apple did not allege that any concerted action, necessary to state a claim under Section 1, occurred between Samsung and the SSO. Instead, the court found that Apple merely alleged Samsung's unilateral conduct in a collaborative environment. The court distinguished Apple's allegations of concerted action from cases in which courts found concerted action that involved an unwilling party to an alleged conspiracy.

The dismissal of Apple's antitrust claims was not final; the court allowed Apple to amend its claims to address the identified deficiencies. Moreover, the court found that Apple did not fail to allege antitrust injury with respect to its Section 2 claims. [Juha Vesala]

U.S. In brief

- U.S. Senate Judiciary Committee, Subcommittee on Antitrust, Competition Policy and Consumer Rights hearing on Google (21 September 2011)
- FTC announces a staff report on reverse payment settlements (25 October 2011)
- 9th Circuit rejects Psystar's appeal concerning Apple's alleged copyright misuse (28 September 2011)
- America Invents Act signed into law (16 September 2011)

EU DEVELOPMENTS

ECJ rules on Pierre Fabre's prohibition of online sales

On 13 October 2011 the European Court of Justices ("ECJ") answered the questions raised by the French Court of Appeal 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 and Newsletter 2/2011, p. 4, for background information).

In its judgment, the ECJ recalls that selective distribution systems benefit from the general exemption under EU competition law to the extent that: (1) resellers are chosen on the basis of objective criteria that is qualitative in nature, set forth uniformly for all potential resellers, and not applied in a discriminatory fashion, (2) the characteristics of the product in question necessitate such a distribution network in order to preserve the product's quality and ensure its proper use, and (3) the criteria set forth do not go beyond what is necessary.

The ECJ further recalled that the exemption does not apply to vertical agreements that have as their object the restriction of active or passive sales to end users by members of a selective distribution system operating at the retail level of trade. Accordingly, the ECJ held that a contractual clause that de facto—insofar as it stipulates that sales must be made exclusively in a physical space and in the presence of a qualified pharmacist—prohibits all forms of internet sales, as a method of marketing, has the object of restricting passive sales to end users who wish to purchase online and are located outside the physical trading area of the relevant member of the selective distribution system. Consequently, the block exemption would not apply to such a contract.

However, the ECJ did say that if the conditions of Article 101(3) of the Treaty on the Functioning of the EU ("TFEU ") are met, then such a ban may nonetheless benefit from an individual exemption.

While the Paris Court of Appeal alone must determine whether the conditions contained in Article 101(3) TFEU are fulfilled and an individual exemption may be granted, the ECJ has held that the need to provide individual advice to customers to ensure protection against the incorrect use of products or the need to maintain the prestigious image of a product do not constitute legitimate reasons for restricting competition. [Gabriele Accardo]

ECJ holds that licensing agreements prohibiting any cross-border provision of services breach EU competition law

On 4 October 2011 the European Court of Justice ("ECJ") handed down its preliminary ruling on the interpretation of EU law with respect to a number of questions referred to it by the High Court of Justice of England and Wales ("HCJEW") that arose in the context of two related legal actions brought by the Football Association Premier League ("FAPL") against pubs that screened Premier League matches by using Greek decoder cards and also against the suppliers of such decoder cards to the pubs.

The questions referred by the HCJEW touched upon various issues of EU law, including EU competition law issues, that were raised by the license agreements between the FAPL and broadcasters.

With regard to the competition law question, the ECJ was essentially asked whether the clauses of an exclusive license agreement formed between a holder of intellectual property rights and a broadcaster constitute a restriction on competition prohibited by Article 101 of the Treaty on the Functioning of the EU where they oblige broadcasters not to supply decoding devices to persons who wish to watch their broadcasts (i.e. the rights holder's protected subject-matter) outside the Member State for which the license was granted.

The ECJ recalled that the FAPL runs the Premier League, the leading professional football league in England, and markets the television broadcasting rights for Premier League matches. The FAPL grants broadcasters, under an open competitive tender procedure, an exclusive live broadcasting right for Premier League matches on a territorial basis, which generally corresponds to a single Member State. Thus, television viewers can only watch the matches transmitted by the broadcasters established in their respective Member States.

In order to protect such territorial exclusivity and to prevent the public from receiving broadcasts outside the relevant Member State, each broadcaster undertakes, in its licensing agreement concluded with the FAPL, to encrypt its satellite signal and to transmit the encrypted signal by satellite solely to subscribers in the licensed territory. Consequently, the license agreement prohibits broadcasters from supplying decoder cards to persons who wish to watch their broadcasts outside the Member State for which the license is granted.

However, certain pubs in the United Kingdom have begun to use foreign decoder cards, issued by a Greek broadcaster to subscribers resident in Greece, to access Premier League matches. In essence, the pubs buy a card and a decoder box from a dealer at prices lower than those of Sky, the holder of Premier League broadcasting rights in the United Kingdom.

The FAPL claimed that such activities circumvent and undermine both the exclusivity of the television broadcasting rights for Premier League matches and the value of those rights.

According to the ECJ, the actual grant of exclusive licenses for the broadcasting of Premier League matches is not called into question; EU competition law does not, in principle, preclude a rights holder from granting an exclusive right to a sole licensee to broadcast protected subject-matter by satellite during a specified period from a single Member State or a number of Member States.

However, the ECJ held that the additional obligations in the license agreements designed to ensure compliance with the territorial limitations upon exploitation of these licenses, such as the obligation for broadcasters to not supply decoding devices to persons who wish to watch their broadcasts outside the Member State for which the license is granted, actually prohibit broadcasters from effecting any cross-border provision of services relating to those matches. As a result, the license agreement partitions the national markets in accordance with national borders, enabling each broadcaster to be granted absolute territorial exclusivity in the area covered by its license; thus, all competition between broadcasters in the field of these services is eliminated,

Accordingly, the ECJ concluded that a system of exclusive licenses is contrary to EU competition law, and is a restriction by object, if the license agreements prohibit the supply of decoder cards to television viewers who wish to watch the broadcasts outside the Member State for which the license is granted. [Gabriele Accardo]

Commission market tests IBM's commitments in alleged abuse, closes parallel probe

On 20 September 2011 the European Commission published a draft of the summary commitments offered by IBM to address its concerns that IBM may have imposed unreasonable conditions for supplying competing mainframe maintenance service providers with certain spare parts and technical information (Machine Code Updates). The Commission opened an investigation in July 2010 concerning whether IBM abused a dominant position in breach of Article 102 of the Treaty on the Functioning of the EU by imposing "unreasonable" supply conditions for such inputs (see Newsletter 4/2010 p.7 and Newsletter 4-5/2011 p.10 for background information).

In essence, IBM committed to ensuring the expeditious availability of certain spare parts and technical information to Third Party Maintainers ("TPMs") in the EEA, on reasonable and non-discriminatory terms and conditions over a five-year period. To facilitate dealings with TPMs, IBM created the position of an EU-wide TPM relationship manager tasked with assisting TPMS and coordinating all TPM-related issues within IBM.

Once the Commission reviews comments by interested parties, the Commission may make IBM's commitments legally binding, without concluding whether there was an infringement of EU competition rules.

Separately, the Commission has decided to close the parallel investigation on the alleged tying of IBM's mainframe hardware with its operating system due to the withdrawal of complaints made by rival software vendors T3, Turbo Hercules and Neon Enterprise Software. [Gabriele Accardo]

European Commission probes alleged anticompetitive agreement between Johnson & Johnson and Novartis

On 21 October 2011 the European Commission issued a press release stating that it is investigating whether contractual arrangements between US-based pharmaceutical company Johnson & Johnson and the generic branches of the Swiss-based company Novartis had the object or effect of hindering market entry of generic versions of Fentanyl, a pain killer for chronic pain, in The Netherlands.

The Commission is paying particularly close attention to business practices in the pharmaceutical sector, especially with respect to pay-for-delay agreements, between so-called "originator" drug companies and generics companies, that may delay market entry of generic medicines (see Newsletter 1/2011 p. 6 Newsletter 1/2010 p. 6, and Newsletter 4/2010 p. 7, for more background). Last April 2011, a similar investigation took place concerning an agreement between US-based Cephalon and Israel-based generic drugs firm Teva (see Newsletter 3/2001 p. 7).

ECJ rules on the purchase of a competitor's trademark as an AdWord

On 22 September 2011 the ECJ issued its long awaited decision in **Case C-323/09** Interflora v. Marks & Spencer.

In this case, Marks & Spencer bought the word "Interflora" as an AdWord, the keyword advertising service offered by Google, to advertise its own flower delivery service. As a result, when Internet users entered the word "interflora" in their Google search engines, a Marks & Spencer advertisement appeared under the "sponsored links" heading. In response, Interflora sued Marks & Spenser for infringement, dilution and free riding of its trademark before the High Court of Justice of England. The High Court subsequently referred the case to the ECJ.

Essentially, the case considered whether the purchase by a trader of a competitor's trademark as a keyword to trigger an advertisement for its own benefit could constitute:

1. use in the course of trade amounting to trademark infringement (as defined by article 5(1) of the trademark Directive) and/or
2. dilution and/or taking an unfair advantage of the distinctiveness of well-known marks (as defined by article 5(2) of the trademark Directive.)

The ECJ decision broadly follows the opinion of the Advocate General (see Newsletter 2/2011 p. 5-6).

Trademark infringement

On the first point, the court affirmed its well-established case law that use of a competitor's trademark as a keyword in a referencing service is "use in the course of trade" and use "in relation to the advertiser's goods and services". The courts added that such use will, therefore, be prohibited where it "adversely affect(s) one of the function(s) of the trademark" (see ECJ joint Case C-236/08 and C-238/08 Google France and Google, reported in Newsletter 2/2009 p. 7, and ECJ Case C-278/08 BergSpechte).

The court then identified three different functions of the trademark, namely: (1) the indicating origin, (2) the advertisement, and (3) the investment functions. The court then assessed whether the purchase of a competitor' trademark as an AdWord may adversely affect any of these functions.

With respect to the **indicating origin function**, the court held, in line with its Google and Google France decision, that this function may be adversely affected when the advertisement "does not enable reasonably well-informed and reasonably observant internet users, or enables them only with difficulty, to ascertain whether the goods or services referred to by the advertisement originate from the proprietor of the trademark or an undertaking economically connected to it or from a third party."

With respect to the **advertisement function**, the court also affirmed its position in Google France and Google that the use of a competitor's trademark in a referencing service does not have an adverse effect on this function of the trademark; it merely enables competitors to offer consumers alternatives to the goods or services offered under the trademark.

WIth respect to the **investment function**, the ECJ finally held that this function may be adversely affected when a competitor, by using a word or symbol identical to a trademark that already enjoys a reputation in relation to the same goods or services, interferes with the capacity of the trademark owner to "acquire or preserve a reputation capable of attracting consumers and retaining their loyalty."

Dilution or free riding of a well-known trademark

On the second point, the court held that the proprietor of a trademark is entitled to prevent a competitor from using its mark in an internet referencing service, where: (1) the advertising is detrimental to the distinctive character (dilution) or the repution (tarnishment) of the trademark, and/or (2) the competitor takes unfair advantage of this distinctive character or repution (free-riding).

With regard to **dilution**, the court held that the mere use of the trademark as a keyword in the Google AdWords program does not necessarily contribute to dilution. The key consideration is whether the advertisement enables a reasonably well-informed user (referred to above) to assess the origin of the goods or services covered by the mark. Moreover, the court added that such use would also constitute dilution if one could provide evidence that it contributed to transforming the trademark into a generic term.

With regard to **free riding**, the court held that the mere use of a competitor's trademark as an AdWord, although unquestionably taking advantage of the distinctive character and repution of the trademark, will not be considered "without due cause" or "free riding" if it is aimed at offering alternative goods or services to those offered by the trademark owner. By contrast, if a competitor takes advantage of a trademark, and its reputation, to offer for sale imitations of these goods or services, then such use will be considered free-riding. [Béatrice Martinet Farano]

French court denies preliminary injunction against a music streaming service on grounds of a potential abusive termination of a copyright license agreement

In a summary judgment (available in French only) issued on 5 September 2011, the Tribunal of First Instance of Paris ("Tribunal de Grande Instance" or "TGI") dismissed Universal's motion for a preliminary injunction against French streaming music service Deezer on the grounds that Universal may have abused its dominant position when it terminated its license agreement with Deezer.

In this case, the record company Universal France (Universal) and Blogmusik, the publisher of the French streaming music service Deezer, entered into a license agreement that was supposed to expire on 31 December 2010. In October 2010, the parties decided to renew the contract. However, since discussions on the new terms of the contract were still ongoing after the expiration date, Universal agreed to extend the former license until after the signing of a new agreement. In April 2011, Universal sent Deezer a draft license agreement featuring new licensing terms aimed at enhancing the conversion rate of free users to paying subscribers.

After Blogmusik refused to agree to Universal's conditions, Universal terminated the license and brought summary proceedings against Blogmusik to prevent it from using the Universal catalogue.

In response, Blogmusik argued that Universal could not claim that continuing to allow streaming of Universal's catalogue presented a manifestly illicit character—a condition necessary to obtain a preliminary injunction under French law—since: (1) Universal held a dominant position in the French online music market by owning more than 30% of the market share and 50% of the top 100 songs, and (2) the unilateral termination by Universal of the license would constitute an abuse of this dominant position.

The court held that, at this preliminary stage, Deezer adequately alleged that Universal may be abusing its dominant position. Thus, the court denied Universal's motion for summary judgment. [Béatrice Martinet Farano]

German Federal Supreme Court finds that Google's image search does not infringe the rights of copyright holders

On 19 October 2011 the German Federal Supreme Court (Bundesgerichtshof) affirmed its decision issued last year in Vorschaubilder I (case reference I ZR 69/08 of 29 April 2010) that Google's image search does not infringe the rights of copyright holders (decision not yet available, but official press release available here in German).

In this case, the claimant was a photographer whose photos had been reproduced by unauthorized websites and indexed in Google image's search results as preview pictures (thumbnails) with a link to such websites. However, this case differed from Vorschaubilder I in that the original photos had not been uploaded to the Internet by the copyright owner; instead, the images were uploaded by websites that had been granted the right to publish the photo. The claimant brought action against Google, claiming that he had never consented to the exploitation of his photographs by Google or the websites to which Google referred in its

Google image search.

As in Vorschaubilder I, the Bundesgerichtshof held that Google was not liable for copyright infringement; either the rights holder or the websites that were granted the right to publish these photos could have implemented any of the technical means Google provides to prevent a website or file, including a photo, from being indexed on Google's image search. By not using this option, the rights holder had, therefore, implicitly consented to the reproduction of his images as thumbnail preview pictures. [Béatrice Martinet Farano]

European Commission opens investigation into standardization of e-payments

On 26 September 2011 the European Commission announced that it opened an investigation into the standardization process for payments over the internet (e-payments).

The investigation concerns standardization undertaken by the European Payments Council ("EPC"), a coordination and decision making body of the European banking industry. The EPC is involved in the creation of an integrated payments market under the Single Euro Payments Area project endorsed by the European Commission.

The Commission intends to investigate whether the standardization process unduly restricts competition by. For instance, the Commission will investigate whether the payment system excludes new entrants and payment providers who are not linked to a bank. [Juha Vesala]

EU In Brief

- Preliminary injunction sought by Samsung against Apple denied (decision only available in Dutch) by a Dutch court due to Samsung's FRAND commitment (14 October 2011)
- Spanish Competition Authority opens an investigation concerning alleged limitation of resale of Microsoft software licenses (20 September 2011)
- Stakeholder agreement reached on increasing the availability of out-of-commerce books (20 September 2011)
- ECJ addresses the patentability of process involving human embryos (18 October 2011)
- European Commission approves acquisition of Skype by Microsoft (7 October 2011)

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