



# Stanford – Vienna Transatlantic Technology Law Forum

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## Transatlantic Antitrust and IPR Developments

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# U.S. DEVELOPMENTS

## **U.S. Department of Justice files antitrust suit against e-book publishers and Apple**

On 11 April 2012 the U.S. Department of Justice, Antitrust Division [filed an antitrust suit](#) against five book publishers and Apple. The suit alleges that publishers (with the help of Apple) entered into agreements that precluded e-book retailers from competing on prices by allocating the power to set prices with the publishers. By eliminating price competition among retailers, the cooperation allowed the publishers to raise prices for e-books.

Simultaneously with the filing of the suit, three of the publishers settled with the Department of Justice. The proposed settlements and the suit against the remaining publishers and Apple are ongoing at the U.S District Court for the Southern District of New York. [Juha Vesala]

## **U.S. District Court refuses to dismiss antitrust claims against Samsung**

On 14 May 2012 the United States District Court for the Northern District of California [denied](#) Samsung's motion to dismiss Apple's claims that Samsung engaged in unlawful monopolization by failing to disclose certain essential patents and to license them on fair, reasonable and non-discriminatory ("FRAND") terms. According to Apple, these deceptive practices allowed Samsung to unlawfully acquire monopoly power in relevant markets for technologies essential for the Universal Mobile Telecommunications Standard ("UMTS") and subsequently to exploit the monopoly power in various anti-competitive ways.

In late October 2011 the court initially dismissed the monopolization claims as Apple did not sufficiently allege facts to support the claimed antitrust violations (see [Newsletter 6/2011](#) p. 3), but allowed Apple to remedy this deficiency by amending its claim.

In the instant case, the court found that Apple's amended monopolization claims sufficiently allege specific facts to withstand a motion to dismiss. First, as to Apple's claim that Samsung's false FRAND licensing commitment constituted monopolization, the court found that Apple's amended claims sufficiently specify when, by whom and for which patents false FRAND declarations were made so as to meet the heightened pleading standard applicable to allegations of fraud.

Second, as to Apple's claim that Samsung's failure to disclose its essential patents constituted monopolization, the court found that Apple presented viable alternative technologies to each of Samsung's essential

technologies at issue and that the standard-setting organization would have adopted a different technology had Samsung's rights been known.

The court also rejected Samsung's arguments that Apple did not plead a relevant antitrust market and that Samsung possessed monopoly power on that market. Therefore, the court found that Apple had stated a claim for a violation of Section 2 of the Sherman Act (and corresponding California state law claims). [Juha Vesala]

### **U.S. Court of Appeals rejects antitrust claims by FTC against reverse payment settlement agreements**

On 25 April 2012 the U.S. Court of Appeals for the 11th Circuit [affirmed](#) a District Court decision dismissing antitrust claims concerning so-called reverse payment settlements.

In the suit, the U.S. Federal Trade Commission ("FTC") argued that a patent holder had entered into unlawful settlement reverse payment agreements with generic drug producers in order to protect its monopoly made vulnerable in preceding patent litigation. The District Court dismissed the antitrust claims because the settlements did not exceed the scope of the patent in question (see [Newsletter 2/2010](#) p. 3).

In its appeal, the FTC contends that its allegations were sufficient because the patent holder was not likely to prevail in the underlying patent infringement actions against generic producers. According to the FTC, the settlements therefore did exceed the scope of the patent because the patent does not have exclusionary potential when the patent holder is not likely to prevail in the infringement suit. The FTC proposed a general rule that reverse payment settlements should be unlawful, if at the time of the settlement it is more likely than not that the patent would not have prevented generic entry before the date agreed by the parties in the settlement.

The 11th Circuit rejected the FTC's approach in this case and as a proposed rule. According to the court, the likelihood that infringement claims would fail did not equate with the actual result that it would fail. The plain meaning of the word "likely" (more than 50% chance) meant that actually many infringement suits would in fact succeed. This diverged from the court's established case-law that was based on the potential exclusionary effect of patents, not their likely exclusionary effects. Moreover, the court noted that parties might have a motive to settle even when they were likely to win because of the high risks of losing. According to the court, it was therefore reasonable for the parties to settle even when they had substantial chances of winning or losing.

The court also considered the FTC's proposed approach to be problematic for practical reasons. In particular, the approach would require courts to estimate afterwards how likely the patent holder was to prevail at the time

of the challenged settlement. Predicting the likely outcome of patent infringement suits would be difficult and would impose a significant burden on the parties and courts. These practical challenges of the approach to settlements would deny much of the benefits of settling patent litigation and discourage settlements.

The court also voiced suspicions about patent holders ultimately being able to protect vulnerable patents from challenges by settling with generic producers. The court noted that the patent holder ultimately would not be able to avoid competition by sharing monopoly profits with generic producers as profits would be reduced with the greater number of generic producers the profits needed to be shared with. [Juha Vesala]

### **U.S. Court of Appeal redefines DMCA safe harbor's conditions (Viacom v. YouTube)**

On 5 April 2012 the U.S. Court of Appeal for the 2nd circuit issued an important [decision](#) which redefined the conditions of liability of Online Service Providers (OSP) for third party content.

In this case, the plaintiffs - including Viacom International, the Football Association Premier League and various film studios and television networks - had brought an action against YouTube for the unauthorized reproduction and display on YouTube's website of approximately 79,000 audiovisual clips, between 2005 and 2008 (specifically, before YouTube's implementation by of its "Content ID" feature).

In a very much commented [decision](#) issued on June 2010, the United States District Court for the Southern District of New York had granted summary judgment to YouTube, holding that it was entitled to DMCA safe harbor, primarily because it was not found to have sufficient knowledge of specific and identifiable infringement of particular items.

On appeal, the 2nd circuit found that although the District Court had interpreted correctly the knowledge standard (as requiring knowledge or at least sufficient awareness of specific infringing activity), the Court had erred in several instances.

#### *(1) Knowledge standard: further jury consideration*

First, the Court found, from the circumstances of the facts, that a reasonable jury might find that YouTube had actual knowledge, sufficient awareness or alternatively had made a "deliberate effort to avoid knowledge" (willful blindness) of specific infringing activity, making it liable for such activity.

To reach this conclusion, the Court relied notably on internal communications and reports exchanged between some YouTube's

executives referring to specific copyrighted material that was not subsequently taken down.

*(2) “Control” is different from “knowledge”*

The Court further held that the District Court had erred in interpreting the “control” standard (also triggering OSPs’ liability under the DMCA) as requiring “item-specific knowledge”.

For the 2nd circuit, the exercise, notably, of a substantial influence on the activities of users - without necessarily acquiring knowledge of specific infringing activity - should be sufficient to trigger the liability of a service provider for the users over which such level of control was exercised. The Court thus reversed the order and remanded to the District Court for further findings on this point

*(3) YouTube might not qualify as a “host” for all its activities*

Finally, the 9th circuit clarified that while three of the functions for which YouTube’s liability was searched (namely replication, playback and transcoding) unquestionably fell under the “hosting” safe harbor (since they indeed occurred “by reason of a storage”), YouTube might not qualify as a “hosting provider” when selecting and licensing specific copyrighted material to a third party (“third party syndication” function). The Court thus remanded the case to the District Court for further consideration of these key aspects of the case.

The decision of the District Court on remand, if the parties decided to pursue their judicial battle, might have decisive consequences on the activities and conditions of the liability of third party content platforms. [Béatrice Martinet Farano]

**U.S. Fourth Circuit revives the debate over Google’s keyword advertising practices (Rosetta Stone v. Google)**

On 9 April 2012, the U.S. Court of Appeal for the Fourth Circuit issued an important [decision](#) reviving the legal debate over Google keyword advertising’s practices.

In this case, Rosetta Stone, a well-known publisher of language learning software programs, had filed a trademark infringement action against Google before the Eastern District of Virginia, as a result of Google’s practice of selling Rosetta Stone’s trademarks as “advertising triggers” (AdWords) to third parties, alleging that such practices created consumer confusion by directing end users to Rosetta Stone’s competitors and/or misleading consumers into buying counterfeit Rosetta Stone products. In 2010, the District Court for the Eastern District of Virginia found that Google had committed neither direct or indirect trademark infringement, nor dilution of trademark and therefore granted summary judgment for

Google. This order was partially overturned by the Fourth Circuit on the following grounds.

(1) *Direct infringement*

On the issue of direct infringement, the Appellate Court found that there was sufficient evidence on the record to create a question of fact as to each of the three factors - "intent to confuse", "actual purchaser confusion" and "sophistication of the consuming public" – used by the District Court to conclude that no direct infringement existed.

To reach this conclusion, the Court relied, among others, on Google's own studies (suggesting that Google may have had knowledge of the confusion created by its practice) and on Rosetta Stone's survey and anecdotal evidence (consumers testimonies and complaints) showing actual consumer confusion between fake and genuine Rosetta Stone products.

(2) *Contributory infringement*

On the issue of contributory infringement, the Fourth Circuit also held that there was a question of fact as to whether Google had allowed known infringers and counterfeiters to bid on Rosetta Stone's trademarks. Absent clear and convincing evidence that it had no knowledge of such facts, Google could not be granted summary judgment.

(3) *Trademark Dilution*

The Fourth circuit also reversed the District Court's findings that Google was not liable for trademark dilution on the ground of the Federal Trademark Dilution Act's "fair use" defense, since it had not used Rosetta Stone's mark to identify its own good and services. Indeed, in the appellate court's view, for such an act to apply, the District Court should have first determined whether Google had used Rosetta Stone's mark in good faith.

(4) *Rejection of the functionality doctrine*

The Fourth Circuit finally reversed the District Court's findings that Google's use of Rosetta Stone's trademark would be "non infringing" based on the fact that it would have an "essential indexing function in providing essential information to users' queries". The Appellate Court stressed that the relevant test for a trademark to be deemed functional was not the use of this mark by a third party but its use by its owner. In the present case, the appellate Court ruled that Rosetta Stone's use of its marks was not "functional" and that this doctrine had thus been misapplied by the District Court.

It remains to be seen how these principles will be applied by the Court on remand and whether Google's keyword advertising practices might be impacted by this decision. [Béatrice Martinet Farano]

## EU DEVELOPMENTS

### **Almunia offers Google settlement talks**

Last 21 May 2012, Competition Commissioner Joaquin Almunia made a [statement](#) on the progress of the on-going investigation into Google's alleged abuse of dominance in the search engine market, which the Commission was investigating since November 2010 (see [Newsletter 6/2010](#), p. 4 and [Newsletter 2/2010](#), p. 9), following a number of complaints submitted by competing search engines that were specialised on specific topics.

Commissioner Almunia stressed that "these fast-moving markets would particularly benefit from a quick resolution of the competition issues identified. Restoring competition swiftly to the benefit of users at an early stage is always preferable to lengthy proceedings, although these sometimes become indispensable to competition enforcement."

The Commission identified four concerns where Google business practices might be considered as abuses of dominance under Article 102 of the Treaty on the Functioning of the European Union.

First, the Commission was concerned that in its general search results on the web, Google might be granting preferential treatment to its own vertical search services that compete with other players, which might be hurt as a consequence.

Secondly, the Commission was worried that by copying content from competing vertical search services, e.g. travel sites or sites providing restaurant guides, and using it in its own offerings, Google's conduct could reduce competitors' incentives to invest in the creation of original content for the benefit of Internet users.

The Commission was also concerned that Google was shutting out competing providers of search advertising intermediation services, insofar as the agreements between Google and the partners on the websites on which Google delivered search advertisements appear to result in *de facto* exclusivity requiring them to obtain all or most of their requirements of search advertisements from Google.

The fourth concern related to restrictions that Google put on the portability of online search advertising campaigns from its platform AdWords to the



platforms of competitors. According to the Commission, Google imposed contractual restrictions on software developers which prevented them from offering tools that allow the seamless transfer of search advertising campaigns across AdWords and other platforms for search advertising.

It appears that Google may avoid a statement of objection, precluding to an even lengthier investigation and potential fines and remedies, if it comes up with an outline of remedies which are capable of addressing the Commission's concerns and that may be made binding by means of a commitment decision. Any final proposal by Google will be market-tested before it is made legally binding by the Commission. [Gabriele Accardo]

### **Advocate General Mazák advises the Court to dismiss AstraZeneca appeal**

On 15 May 2012 Advocate General Mazák handed down its [opinion](#) in relation to AstraZeneca's appeal in the Losec case. The General Court partially annulled the Commission decision's that found that AstraZeneca abused its dominant position by preventing the market entry or the parallel imports of generic medicinal products competing with Losec, its anti-ulcer product, in breach of Article 102 of the Treaty on the Functioning of the European Union (See [Newsletter 4/2010](#), p. 6 and [Newsletter 5/2010](#), p. 7 for additional background information). The General Court substantially upheld the European Commission's decision. However it reduced the fine from Euro 60 million to Euro 52.5 million, because the Commission failed to prove restriction of parallel imports in two of the three countries concerned.

In its appeal, AstraZeneca claimed that lack of transparency was insufficient for a finding of regulatory abuse, notably to obtain supplementary protection certificates, but there should be a requirement for deliberate fraud or deceit. AstraZeneca further claimed that the withdrawal of marketing authorizations constituted the exercise of an unfettered right under Community law and should not be regarded as failure to compete on the merits and therefore did not constitute conduct that tended to restrict competition. The company also claimed that the relevant market had been defined too narrowly.

In essence, Advocate General Mazák said that contrary to AstraZeneca's claim, "in assessing whether a particular course of behavior is misleading, the General Court was not obliged ... to assess AZ's alleged subjective beliefs on an interpretation of law, bona fides or otherwise, but rather to examine their actual conduct", insofar as the concept of abuse was an objective one. Further, Mazák noted that requiring evidence of fraudulent action to prove such an abuse would essentially result in criminal evidential standards being applied to a procedure which was administrative rather than criminal in nature.

As to the second abuse, Advocate General Mazák opined that “[w]hile a pharmaceutical company may be free in accordance with Directive 65/65 to surrender a marketing authorization, this does not mean that such behaviour is free from scrutiny pursuant to other rules of EU law, including Article 102 TFEU.” Advocate General Mazák concurred with the Commission that “...the illegality of abusive conduct under Article 102 TFEU is unrelated to the compliance or non-compliance of that conduct with other legal regimes.”

The European Court of Justice may, in principle, depart from the Advocate General’s opinion. [Gabriele Accardo]

### **Administrative Court annuls Italian competition authority’s decision against Bayer Cropscience**

Last 16 May 2012, the Italian administrative court (“TAR Lazio”) published [its ruling](#) (available only in Italian) that annulled the decision of the Italian Competition Authority that fined Bayer Cropscience Srl and Bayer Cropscience AG (together “Bayer”) Euro 5,124 million for abuse of dominant position in the market for the production and commercialization of fosetyl-based fungicides in breach of Article 102 of the Treaty on the Functioning of the European Union (see [Newsletter 4-5/2011](#), p. 11, for additional background).

Bayer’s abuse consisted in the refusal to provide Sapec Agro S.A. (“Sapec”), and other companies grouped under the European Union Fosetyl-Aluminium Task Force (the “Task Force”, i.e. a group of companies formed to share the costs of the fosetyl-based products dossier required to obtain the market authorizations in Italy and in other EU countries) access to certain studies in its possession (“Bayer’s studies”). The Bayer’s studies were deemed an essential facility (EU and Italian laws prohibit duplication of studies on vertebrate animals where such studies had already been carried out) to which access was necessary in order to acquire market authorization for fosetyl-based products. According to the ICA, because of the lengthy negotiations with Bayer in relation to such studies, Sapec and the other companies belonging to the Task Force were forced out of the market insofar as their market authorizations in Italy had expired/been withdrawn in the meantime.

Contrary to the ICA, the TAR Lazio found that Sapec and the other companies belonging to the Task Force did not properly follow the procedures to obtain access to the Bayer’s studies, and that Bayer acted in accordance with the procedures, which did not put Bayer under a duty to facilitate or cooperate with competitors who did not follow such procedures. For instance, the TAR Lazio noted that Helm, another competitor, had followed the procedures and accordingly was granted access to the Bayer’s studies.

More importantly, the TAR Lazio held that at least before the withdrawal of the market authorizations in 2007, Sapec and the other companies belonging to the Task Force could have duplicated the required studies on vertebrate animals, which therefore could not be considered an essential facility. Besides, the TAR Lazio found that at a later stage the studies had in fact been duplicated in order to obtain market authorization in Portugal, which, in turn, would have allowed Sapec and the other companies to regularize the file to obtain market authorization in Italy.

Incidentally, the TAR Lazio criticized the market definition adopted by the ICA. In particular, the TAR Lazio questioned whether, despite the detailed market analysis, the ICA was correct in defining the relevant market with regard to a specific fosetyl-based product that could only be used to protect a specific plant (grapevines) from a specific parasite (peronospora).

The ICA may appeal the TAR ruling. [Gabriele Accardo]

### **French Supreme Court denies eBay hosting protection**

In three [decisions](#) (non official copy in French only) issued on May 3, 2012, the French Supreme Court (*Cour de Cassation*) has upheld three [decisions](#) of the Paris Court of Appeal of September 2010 (non official copy in French only), holding that eBay was not entitled to protection under the e-commerce Directive, as it could not be deemed a mere “hosting provider” .

To reach these decisions, the French Supreme Court specifically relied on the “active role” standard recently laid down by the ECJ in its [Google France](#) (ECJ Joined cases [C-236/08 and C-238/08](#), see [Newsletter 6/2011](#) p.7-8) and eBay decisions (ECJ case [C-324/09](#), see [Newsletter 4-5/2011](#) p.7-8). It held that in offering its online auction services, eBay had not limited itself to offering a mere hosting service but had, “regardless of the role played by its users, played an active role of such a kind as to give it knowledge of, or control over, the data relating to those offers”.

Among the factual circumstances relied upon by the Supreme Court to conclude that eBay had played “an active role” in the selling process of infringing products, the Supreme Court stressed the point already made by the Paris Court of Appeal, notably the role played by eBay in the assistance to the sellers and the promotion and fostering of the sales (follow-up, promotion, pro-active boosting sale policy).

The Supreme Court had however partially overruled the decision of the Appellate Court on a jurisdictional issue, holding that if French courts were indeed competent to rule on the liability of eBay for its activity on eBay.fr and eBay.uk, since these websites were “complementary” and “both targeted [...] the French public”, the jurisdiction of French court over the

U.S. company “eBay, Inc” and its website “ebay.com” was not sufficiently established by the claimants.

The case was thus remanded before the Court of Appeal of Paris, in a different form, to rule on the question of the possible liability of eBay France, eBay UK and eBay Inc., for the (possibly infringing) products sold by their users. [Béatrice Martinet Farano]

### **German Court holds YouTube partially liable for third party content on the ground of the German theory of “disturber’s liability”**

In a decision issued on 20 April 2012, the Regional Court of Hamburg (Landgericht) (see Court’s official press release in German [here](#)), has issued an important decision holding YouTube partially liable on the ground of the German theory of “disturber liability” (“*Störerhaftung*”) for not taking down immediately and/or filtering videos already flagged as infringing on its website.

In this case, the German collecting society GEMA had brought an action for direct and indirect copyright infringement against YouTube after finding that several videos infringing its rights had been posted, maintained and/or re-posted on YouTube.

The German Court first held that YouTube could not be liable on the ground of direct liability, since it had not directly committed any infringement. The Court however found that YouTube could be held liable on the ground of the German theory of disturber’s liability (“*Störerhaftung*”) for not taking down videos already flagged as “infringing” by right holders.

Specifically, the Court held that YouTube provided a video platform service which involved some behavioral and control duties for which it could be held liable to stop or prevent its users from committing further infringing activities, subject to the requirement that such duties were not excessive or disproportional. In this case, the Court found that requiring YouTube to take down material “without delay” and/or to filter out material already “flagged” as infringing, by using a filtering system that it had itself developed, was “reasonable”. The Court added that YouTube could not simply rely on its users to use these filters but had to implement them itself.

Although it has been reported that YouTube and GEMA have engaged in some negotiations following this decision, both parties have appealed the decision to preserve their rights. [Béatrice Martinet Farano]

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.