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Antitrust

United States

NY Attorney General reaches settlement with two leading online food ordering services in Manhattan

by Gabriele Accardo

On 5 August 2013 NY Attorney General stated that he reached a settlement with Seamless North America, LLC and GrubHub, two leading online food ordering services in Manhattan, in order to address concerns that their proposed merger would improperly undermine competition in the online food ordering business.

The package of commitments seeks to ensure that alternative online food ordering platforms can compete through equal access to key Manhattan restaurants and business partners, and allow consumers and restaurants the freedom to do business with the website or app of their choice.

According to the Attorney General, the proposed merger of Seamless and its key competitor GrubHub raised the possibility that the merged parties would aggressively enforce their exclusivity provisions with Manhattan restaurants and use their strong market position to coerce additional restaurants – or key partners, such as Yelp – to do business with them exclusively. This would create a significant risk that the transaction would have anticompetitive effects in Manhattan.

The settlement has three elements:

- *Waiver of existing exclusive rights with restaurants.* The merged parties shall waive the exclusivity provisions with restaurants, which will be free to contract with the combined firm's competitors and to participate in any new platforms.
- *Prohibition of future exclusive contracts with restaurants.* With limited exceptions, the parties agree not to enter into new exclusive deals with Manhattan-based restaurants for 18 months.
- *Prohibition of any future exclusive agreement with Yelp.* The parties agree that if the merged company enters into a business relationship with Yelp in the next 18 months relating to online food ordering in Manhattan, that relationship will not be exclusive and will not force Yelp to cease doing business with Seamless/GrubHub's competitors.

The proposed commitments will last for 18 months.

Antitrust

European Union

European Commission not convinced by improved commitments offered by Google

by Gabriele Accardo

On 21 October 2013 Google offered improved commitments to the European Commission in order to close the three-year long investigation into four practices that the Commission considered had amounted to a possible abuse of dominance in breach of Article 102 of the Treaty on the Functioning of the European Union. Albeit not made immediately available to the public, the commitments have been leaked by a consumer association in the U.S (see Newsletter No. 2/2013 for additional background). The Commission sent a set of questions to the complainants and other relevant market participants to assess whether the improved commitments would be enough to settle the case without formal charges.

However, news reports as recent as last 20 December 2013 indicate that Competition Commissioner Joaquin Almunia is not happy about the improved commitments, in particular regarding the way Google's rivals in vertical search are being treated. It appears that Google may have little time left to avoid a statement of objections (i.e. the opening of formal proceedings) by the Commission and potentially huge fines.

At a hearing before the European Parliament held on 1 October 2013, Commissioner Almunia briefly sketched the improved commitments that Google would be like to offer, without disclosing aspects protected by confidentiality, as was stressed by Almunia's spokesperson.

While Almunia recalled that this is the first investigation in the online search space, he stressed also that this sector is particularly fast moving. Since the investigation was launched in November 2010, the way search results are presented and the kind of services provided have changed many times. Besides, the initial complaints focused on static devices, but in the meantime mobile devices have become more and more relevant, which led not only to the introduction of new search services but also to changes in the way users access and interact with existing services.

According to Almunia, the new proposal sought to more properly address the need for commitments to cover future developments, and in fact it relates to queries entered in Google in whatever form - whether they are typed or spoken – and irrespective of the entry point or the device.

Specialized search. With regards to the first concern, notably about specialised "vertical" search, Google's improved proposal aims at making links to rival vertical search websites more visible. As in the original proposal, Google shall clearly label its "promoted" links, and even separate them from other web search results by clear graphical features, whereas it shall display links to three rival specialized search services close to its own results, in a place that is clearly visible to users. The three rivals would be selected from a set of sites within the "appropriate" Vertical Sites Pool (i.e. vertical search websites that meet specific standards) that have submitted a bid for the relevant keyword. An improved selection mechanism, which includes the option to bid for each specific query, shall determine the rivals' ranking and ensure that even smaller specialized search operators can be displayed (i.e. the winning bids will not necessarily be the bidders with the highest cost-per-click bids). Google would allocate a larger space of the Google search result page to the three vertical links, whereas rivals will have the possibility of displaying their logo next to the link, and there will be a dynamic text associated with each rival link to better inform the user of its content.

Content usage. In order to address the Commission's concern relating to the use of content produced by others, website owners will be able to opt out of display of content crawled by Google's search user agents for their entire domain or for one or several of their sub-domains. Google commits not use the fact that a site has exercised this opt-out as a signal for determining ranking in generic search results, although it could not exclude indirect effects resulting from a certain parameter that is taken into account by Google's Generic Search Ranking algorithms. Websites that have opted out may later opt in again. Specific opt out exclusion mechanism appear to be foreseen for "product", "local", and "travel" search sites as well as "news" sites.

Exclusivity requirements. Google has committed to no longer include any provisions or impose any unwritten obligations on publishers that would require them to source their online search advertisements exclusively from Google for queries from users based in the European Economic Area. The new proposal improves the safeguards against possible circumventions.

Finally, Google's improved commitments would allow advertisers to manage search advertising campaigns across Google's services and port their campaigns to competing services. Stronger guarantees against circumvention mainly relate to technical features of the commitment.

As stated by Commissioner Almunia, the ball is in Google's court.

Antitrust

European Union

European Commission tests Samsung's proposed commitments to close UMTS standards essential patents investigation

by Gabriele Accardo

Last 18 October 2013, the European Commission advised (see also here) that it is testing the commitments Samsung offered in connection with investigations into the alleged abuse of its UMTS standard essential patents ("SEPs") in breach of Article 102 of the Treaty on the Functioning of the European Union, notably in respect of injunctions it sought against Apple on the basis of its mobile SEPs (see Newsletter No. 1/2013 for additional background).

In particular, while the Commission considers that seeking injunctions before courts is generally a legitimate remedy for patent holders in the case of patent infringements, an abuse may arise if the injunction sought is based on SEPs, the SEP holder has given a commitment to license its SEPs on Fair Reasonable And Non-Discriminatory (FRAND) terms and the company against which an injunction is sought is willing to enter into a licence agreement on FRAND terms.

The rationale underlying the Commission's stand is that in such circumstances Samsung could impose royalty rates or other licensing terms which a licensee would not agree, absent the threat of having its products excluded from the market. However, the case at issue did not concern the reasonableness of the royalty or the royalty base.

Otherwise, licensing negotiations may be unduly distorted and cause harm to consumers by increasing prices, reducing product choice and stifling differentiating innovation in the markets for smartphones and tablets.

To address the Commission's concerns, Samsung proposed not to seek any injunctions on the basis of any of its SEPs, present and future, that relate to technologies implemented in smartphones and tablets against any company that agrees to a particular licensing framework, which consist of: (i) a negotiation period of up to 12 months and (ii) if no agreement is reached, a third party determination of FRAND terms by either a court or an arbitrator, as agreed by the parties. In the case of disagreement, the parties agree to submit to arbitration.

The proposed commitments would be valid for five years and be monitored by an independent trustee.

Antitrust

European Union

EU Court upholds the Commission's decision on the Microsoft/Skype deal

by Gabriele Accardo

On 11 December 2013 the EU's General Court (the "Court") handed down its ruling concerning Microsoft's acquisition of Skype. The Court held that the Commission rightly considered that the transaction does not restrict competition either on the consumer Internet-based communications market or on the business Internet-based communications market, and is therefore compatible with the internal market.

In their appeal, Cisco Systems and Messagenet claimed that the Commission was wrong in its assessment of the internet visual communications market and the effect of the interoperability between Skype and Microsoft's business videoconferencing service, Lync.

First, the Court notes that the Commission confined itself in its decision to differentiating internet-based communications for the general public ("consumer communications") from communications for businesses ("enterprise communications") and found that the concentration from the proposed acquisition did not give rise to competition concerns even in the narrowest markets. In particular, according to the Court, high market shares (some 80 to 90%) and high degree of concentration in the market for video communications made on Windows-based PCs (a segment of the consumer communications market) are not indicative of a degree of market power which would enable Microsoft to significantly harm effective competition in the internal market.

The consumer communications sector is a recent and fast-growing sector characterised by short innovation cycles in which large market shares may turn out to be ephemeral. Moreover, Microsoft is less present on increasingly important operating devices for consumers, such as tablets and smartphones, so that any attempt to increase prices of communications for users of PCs might encourage consumers to switch to alternative devices. Furthermore, a commercial policy of making users pay would run the risk of encouraging them to switch to other providers who continue to offer their services free of charge. Besides, on devices other than Windows-based PCs, competing operators have sufficiently large market shares to constitute communication networks whose level of use and attractiveness for users are at least comparable to those of Skype and Microsoft, taken together.

Second, the Court held that the harm to competition alleged in the internet-based enterprise communications market was purely speculative, dismissing the appellants' claim that the Commission did not take account of the foreclosure strategy that the new entity could follow in the enterprise communications market by creating exclusive or preferential interoperability between Lync products and Skype's large customer base.

In this respect, the Court held, first, that to achieve interoperability between Lync and Skype and to successfully marketing this new product still depends on a number of factors, and it is therefore too uncertain to be considered a direct and immediate effect of the concentration.

Also, according to the Court, the applicants have failed to explain why business users might wish to specifically communicate with users of Skype, since the latter, in fact, are not necessarily their potential customers.

Finally, in the event that the product resulting from the integration of Lync with Skype gives Microsoft a real commercial advantage, Lync would still face competition from other large players on the enterprise communications market, including Cisco, which alone holds a larger share of the market than Microsoft. Competitors could adjust their prices, the quality or functionality of their products or have recourse to the services of other large providers of consumer communications services, such as Facebook, Twitter and Google, thereby countering Microsoft's alleged market foreclosure strategy. That circumstance considerably reduces Microsoft's ability to impede competition in that market.

In that respect, the Court further noted that the fact that Lync could be sold in conjunction with other products from Microsoft does not alter that finding, since such a sales strategy is not dependent on the concentration of the market under consideration.

Antitrust

European Union

UK OFT weighs revised commitments in the online hotel accommodation bookings

by Gabriele Accardo

On 20 December 2013, the United Kingdom's Office of Fair Trading ("OFT") opened a consultation on the revised commitments proposed by Booking.com B.V. ("Booking.com"), Expedia Inc ("Expedia") and InterContinental Hotels Group plc ("IHG") to address concerns that Booking.com and Expedia have each entered into separate agreements with IHG which restricted Online Travel Agents' ("OTAs") ability to discount the rate at which room-only hotel accommodation bookings are offered to consumers, allegedly in breach of the UK Competition Act 1998 and of Article 101 of the Treaty on the Functioning of the European Union (see Newsletter No. 6/2012 for additional background).

Following a previous consultation of last 9 August 2013 concerning the original commitments proposed by the undertakings under investigation, the OFT received a number of queries about the extent to which the original commitments have an impact on hotels' ability to offer discounts.

It may be recalled that the OFT's investigation did not include a specific issue pointed out by an independent OTA, which is the impact of so-called Most Favoured Nation provisions ("MFN") on competition. Pursuant to a MFN provision a hotel agrees to provide an OTA with hotel accommodation for offer to end-users at a booking rate which is no less favorable than the lowest booking rate displayed by other online distribution outlets. In practice, MFN guarantees the OTA the lowest booking rate at least in relation to its distribution channel, i.e., the OTA cannot be undercut.

Under the original commitments an OTA would have been able to offer discounts, in respect of rooms at hotels located in the EU, but only to members of so-called "closed user groups", i.e. members who are UK residents and who have made at least one prior booking with that OTA. The discount would be funded with the OTA commission revenue/margin (the "commission cap"). OTAs would be free to publicise information regarding the availability of discounts, through, among others, price comparison websites and meta-search sites, but they cannot publicise to non-members information regarding the specific level of discounts for any IHG hotel room (for example, the amount/percentage discount offered which would allow a discounted rate to be calculated). Similarly, other (non-IHG) hotels may prevent OTAs from publicizing to non-members information regarding the specific level of discounts for a particular hotel room.

The revised commitments clarify that hotels will be allowed to offer discounts in an equivalent manner to OTAs, i.e. they may provide discounts to the closed user groups without publicising information regarding the specific level of discounts for a particular hotel room. To this end, OTAs shall not enter into or enforce any MFN or equivalent provisions in respect of reductions off headline room rates offered by hotels to their closed group members. Yet, unlike OTAs, which under the proposed commitments may only use their commission revenue/margin to fund discounts, discounts offered by hotels to closed group members would not be subject to such a commission cap.

The public comment period expires on 17 January 2014.

Antitrust

European Union

German Federal Cartel Office bans use of MFN clauses by HRS and opens new proceedings against Booking.com and Expedia

by Gabriele Accardo

On 20 December 2013, Germany's Federal Cartel Office ("FCO") issued a press release concerning its decision to prohibit the hotel booking portal HRS from continuing to apply its "best price" clause (Most Favored Nation clause) and ordered the company to delete it from its contracts and general terms and conditions by 1 March 2014 as far as the clause affects hotels in Germany.

On 25 July 2013, the FCO revised the statement of objections sent to HRS based on concerns that the company was violating European competition law (besides the German Act against Restraints of Competition) insofar as HRS obliged hotels to always offer their lowest room price, maximum room capacity and most favorable booking and cancellation conditions available on the Internet via the HRS booking portal. At some point, hotels have also been prohibited from offering travelers better conditions if they booked directly at the hotel's reception desk.

Andreas Mundt, President of the FCO stressed that the clauses at stake concern an essential issue for internet business via platforms, noting that best price clauses only seem to be to the benefit of consumers, but in reality *"…they hinder competition for better offers between the portals by virtually eliminating competition for lower room prices between the hotel booking portals in Germany*" and "…*make the market entry of new suppliers … more difficult as these new competitors are not able to offer hotel rooms at better rates.*" Mund also observed that "*…competition between the hotels is also hindered because they are not free to set their prices independently and cannot respond flexibly to new competition developments.*"

The FCO has now opened proceedings against Booking.com and Expedia because the contracts concluded by these companies with hotel partners contain similar clauses.

Antitrust

European Union

Amazon Marketplace ends price parity

by Gabriele Accardo

On 26 November 2013, Germany's Federal Cartel Office ("FCO") issued a press release stating that it has closed the investigation into Amazon's "price parity" clauses applied in agreements with traders that operated on its Marketplace platform. In fact, on 27 and 29 August 2013, Amazon had already informed the FCO as well as the UK's Office of Fair Trading ("OFT") that it intended to no longer enforce price parity on its Marketplace platform. Price parity clauses essentially prohibited Amazon's sellers from selling products offered on Amazon Marketplace cheaper on any other online channel.

Amazon has now fulfilled these requirements and the sellers on Amazon Marketplace have already confirmed this to the FCO.

In October 2012, the OFT launched a formal investigation into whether the price parity requirement contravenes Chapter I of the Competition Act 1998 and/or Article 101 of the Treaty on the Functioning of the European Union. In particular, the OFT was concerned that such policy may raise online platform fees, curtail the entry of potential entrants, and directly affect the prices which sellers set on platforms (including their own websites), resulting in higher prices to consumers. On February 2013, Germany's Federal Cartel Office had launched a survey to examine the effects of the price parity clause used by Amazon.de for its Marketplace sellers (see Newsletter No. 1/2013 for additional background).

In its press release the OFT specified that Amazon will: (i) discontinue enforcement of contractual price parity obligations for all European Union Marketplace sellers; (ii) remove the Marketplace price parity policy clauses from all current versions of Amazon's click-through agreements across the European Union; and (iii) notify all other current European Union Marketplace sellers on individually negotiated agreements that it has ceased enforcement of the price parity obligations with the intention of removing them from future agreements. The OFT recommended that other companies operating similar policies review them carefully. In light of Amazon's decision, the OFT has closed its investigation on grounds of administrative priority.

The two authorities, the FCO and the OFT, closely co-operated during their parallel investigations, and have ultimately ensured the abandonment of the price parity clauses EU-wide by Amazon. Yet, it appears that Amazon's Marketplace price parity policy remains in place elsewhere, such as in the USA.

Antitrust

European Union

German Federal Cartel Office spares Sennheiser's online policy from scrutiny

by Gabriele Accardo

On 24 October 2013 the German Federal Cartel Office ("FCO") stated (available only in German) that it will not open formal proceedings against Sennheiser, a manufacturer of consumer electronic products, following recent changes to the terms of Sennheiser's online distribution agreements with its authorized dealers.

In April 2013 Sennheiser subjected its authorized online distributors to the same conditions as operators of traditional brick and mortar stores which meet specific quality criteria. Moreover, authorized distributors were prohibited from selling Sennheiser products via certain third party online platforms such as eBay and Amazon Marketplace.

In this respect, the FCO stated that Sennheiser could not prevent its authorized traders from selling over Amazon Marketplace, because Amazon itself is an authorized dealer, so the ban could not be justified by reasons such as over service levels and product display. Specifically, the FCO noted that the ban concerning a third party online platform would not be justified, if such a platform is fully integrated into the online distribution system of another authorized dealer (i.e. Amazon).

Interestingly, in its press release the FCO questions whether Amazon can be considered both an authorized dealer of a selective distribution system as well as "a third party" under the meaning of recital 54 of the Commission Guidelines on Vertical Restraints.

The FCO expects the above solution to be applied to eBay and other online market places.

Antitrust

European Union

Germany’s Federal Cartel Office closes two investigations into dual pricing practices

by Gabriele Accardo

On 28 October 2013, Germany’s Federal Cartel Office (“FCO”) stated that it has closed its investigation into Gardena’s dual pricing practices, which, according to the FCO, sought to limit online distribution of its gardening products.

The investigation was prompted by online distributors of Gardena products, based on the claim that Gardena’s discount system favored traditional retailers since Gardena only granted full discounts to them.

As a result of the investigation, Gardena has scrapped its dual pricing system and decided to grant the same level of discounts to both brick-and-mortar and online retailers.

On the other hand, on 23 December 2013, the FCO stated (and here) that it has closed the investigation into a similar discount system put in place at the beginning of 2013 by Bosch Siemens Hausgeräte GmbH, since the household appliances manufacturer intends to discontinue such a rebate system and grant the same rebates to all its retailers.

Under the rebate system, hybrid dealers, i.e. those who sold household appliances both in a brick-and-mortar shop and via a webshop, received a smaller discount in case they generated a higher turnover online. The FCO received numerous complaints from hybrid dealers who were in fact put a disadvantage vis-à-vis traditional retailers.

Andreas Mundt, President of the FCO stated that “…*if the granting of turnover-based purchase rebates restricts dealers in their choice of a sales channel, this is unacceptable. The rebate system created incentives for dealers to limit their online sales. As a result, competition through online sales was reduced*.”

Antitrust

European Union

Berlin court of appeals forbids ban on online sales through third party platforms

by Gabriele Accardo

On 19 September 2013, the Berlin Court of Appeals upheld (news only reported in German) the judgment of the Regional Court Berlin which ruled that Alfred Sternjakob GmbH, a manufacturer of Scout and 4You brands satchels for schoolchildren is prohibited from subjecting the supply of the products to a retailer to the condition that prohibited the retailer from re-selling the products over third party open platforms and marketplaces, such as eBay or Amazon. The text of the judgment is not yet available.

Antitrust

European Union

Italian Competition Authority prohibits online distribution of drugs in Italy

by Gabriele Accardo

On 18 September 2013, the Italian Competition Authority ordered (available only in Italian) the online seller Hexpress Ltd to suspend on-line sales of prescription drugs for the treatment of erectile dysfunction (e.g., Viagra etc.), to Italian consumers via websites accessible from Italian territory. The practice was held to be in breach of the Italian Unfair Commercial Practice Code.

According to the Authority, Italian law prohibits the online sales of medicines.

In particular, Article 122 of the Royal Decree No 1265/1934 provides that "*the sale of medicinal products to the public in any form or dose is permitted only by pharmacists and must be carried out within a pharmacy under the responsibility of the owner*", while Article 5 of Decree No 223/2006 provides that the sale of over-the-counter medicines in drugstores ("parafarmacie") may be permitted if sales occur in a dedicated area under the assistance of one or more qualified pharmacists. In any event, some drugs require a prescription by a doctor, and under Italian law there is a general advertising ban concerning prescription drugs.

The Authority stated that such a conclusion is currently not affected by the future entry into force of EU Directive No 2011/62 which allows for the online sale of over-the-counter drugs under certain conditions.

Intellectual property

United States

Google wins book-scanning case in the US: Judge finds fair use

by Béatrice Martinet Farano

In a ruling issued by the Southern District of New-York on 14 November 2013, Google won a huge victory in its eight-year battle against the Authors Guild over its Google Books Project.

In this case, the Authors Guild commenced a copyright infringement action against Google after it started scanning more than 20 million books from libraries to make them available on the Internet (although only by "snippets").

After many years of litigation and an aborted global settlement agreement (rejected by Judge Chin - then sitting at the second circuit - as "unfair"), Judge Chin, now sitting as the District Court Judge, granted summary judgment to Google on the ground of fair use.

To reach this result, Judge Chin conducted a thorough analysis under the four factors of the fair use doctrine and concluded that only the third factor (amount and substantiality of portion used) weight "slightly" against Google since the books were scanned in their entirety.

As for the other three factors, Judge Chin found that :

(i)The first factor, namely the purpose and character of the use, weighted in favor of Google. In this regard, the Judge held that Google's use of the copyrighted work was "highly transformative" in that Google had transformed book text into data for purpose of substantive research. Moreover, Judge Chin observed that Google Books did not supersede or supplant books since it was not a tool to read books (since they were only delivered through snippets) and insisted that even if Google was a for-profit entity, it still served several important educational purposes.

(ii) the second factor, namely the nature of copyrighted works, also favored a finding of fair use since most scanned works (93%!) were non-fiction books and the books were published works

(iii) Finally, the fourth factor, namely the effect of use upon potential market or value, also weighed in favor of Google. The Judge stressed that Google did not sell its scans and concluded that a reasonable fact-finder could only find that Google Books enhanced the sales of books to the benefit of copyright holders in that it provided a way for author's works to be noticed, much like traditional in-store book displays.

In view of this analysis Judged Chin concluded that Google Books provided significant public benefits and granted Google's motion for summary judgment.

The Authors Guild has already made clear that they will appeal the decision.

Intellectual Property
United States

The second judicial determination of F/RAND rates

by Nicole Daniel

On 27 September 2013 the second judicial determination – after Judge Robart's ruling in *Microsoft v Motorola* – on F/RAND royalty rates was handed down by Judge Holderman.

Innovatio IP Ventures LLC owns several patents essential to the 802.11 standard, i.e. Wi-Fi, and had originally filed a lawsuit against several respondents like coffee shops, restaurants and hotels using wireless internet access internally or offering it to customers. This was followed by a suits seeking declaratory judgment against a number of manufacturers of electronic devices, like Motorola, Hewlett-Packard and NetGear. These respondents allege that no infringement took place and that Innovatio's patents were invalid. Innovatio in turn claimed that the plaintiff's devices infringed its SEPs.

The parties waived their right to a jury determination of damages and agreed with the court to assess potential damages first before determining the validity of the SEPs and alleged infringements.

The 89-page opinion by Judge Holderman sets out a fact-specific and evidence-based approach to determine the royalty rate for RANDs:

1. The Framework

At first Judge Holderman reviewed Judge Robart's method which is based on the simulation of a hypothetical negotiation between the owner of a SEP and a potential licensee at the time when the infringement started. Judge Holderman identified the relevant Georgia Pacific factors, modified them and described a three-step process where a judge has to evaluate

(i) the importance of the patent portfolio to the standard,
(ii) the importance of the patent portfolio as a whole to the products of the alleged infringer and
(iii) other licencing agreements which are potentially comparable.

Then the court modified this methodology to fit the specific facts of the case at hand. Firstly, in contrast to *Microsoft v. Motorola*, where a RAND range for further consideration by a jury was set, the court defined a single F/RAND rate for calculating the damages. Secondly, the F/RAND rate was not adjusted to take account of the pre-litigation uncertainty regarding the essentiality of the patent in question, since it was already determined in a separate proceeding that the patents in question were standard-essential. Thirdly, the court decided to use the Wi-Fi chip as the basis for calculating the royalty and not the end products. Accordingly, it was not necessary to determine the importance of

Innovatio's patent portfolio to the alleged infringers' products.

Judge Holderman also considered some of the issues commonly surrounding the determination of F/RAND royalty rates, namely hold-up, royalty stacking and reverse hold-up.

He concluded that "patent hold-up is a substantial problem that RAND is designed to prevent" and that the RAND rate must "reflect only the value of the underlying technology and not the hold-up value of standardization". The ease with which a patent can be adopted into a standard is part of its intrinsic value and this should be taken into account when determining a royalty rate.

Judge Holderman also wrote that courts should ensure that "the asserted patents are not overvalued compared to the technological contribution they make to the standard. Furthermore, the overall royalty rates for SEPs included in the standard do not prevent its widespread application. Using numeric proportionality to assess F/RAND rates was rejected.

The court did not give special consideration to reverse hold-up "beyond what it receives in a typical patent case".

The date for the hypothetical negotiation was set to 1997, i.e. the date of adoption of the 802.11 standard.

2. The calculation methodology

The parties disagreed on the methodology to determine the royalty rate. Innovatio argued that the RAND royalty should be calculated based upon

(i) the average selling price of the products manufactured by the accused infringers discounted by the "Wi-Fi Feature Factor" accounting for the value of the product attributed to the Wi-Fi functionality Fi and
(ii) a 6% licensing rate based upon allegedly comparable licenses.

The manufacturers on the other hand argued that the appropriate base is the weighted average selling price of Wi-Fi chips, which provide the 802.11 functionality to the products in question. They further argued for using a top down approach equal to

(i) the weighted average selling price of Wi-Fi chips,
(ii) multiplied by the industry average profitability of Wi-Fi chipmakers and further
(iii) multiplied by one of the ratios proposed, depending on the court's determination of the technological importance of the patents.

The court rejected Innovatio's calculation method and went for the top down approach. However, it adjusted the formula from the weighted average chip price to the average price of a Wi-Fi chip over the life of Innovatio's patents. The court further found Innovatio's analysis, especially as the "Wi-Fi Factor", to be unreliable, "speculative and subjective".

3. The courts' application of the top down approach

The court applied the top down as follows:

(i) It identified the average price of a Wi-Fi chip from 1997 to 2013, the average profit margin and the total number of patents essential to the 802.11 standard.

(ii) Then it assessed the value of Innovatio's portfolio to the standard in relation to the other SEPs. They "are likely among to top 10% of all patents essential to the 802.11 standard" since "84% of the value in electronics patents is found in the top 10% of electronics patents".

(iii) It then multiplied the average chip price by the profit margin to identify the average profit. The average profit was then multiplied by the value attributable by the top 10% of the 802.11 SEP. The result was then divided by the number of essential patents included in the top 10%. The resulting pro-patent share was then multiplied by the number of patents included in Innovatio's portfolio.

The result was 9.56 cents per Wi-Fi chip. According to the court this royalty rate is within Judge Robart's range for a RAND rate and the difference to the rate set for Motorola's patents was justified due to the moderate to moderately-high importance to the standard of Innovatio's patents. Motorola's patents only provided for minimal value to the standard.

Intellectual Property

United States

U.S. ITC reviews the ALJ's entire initial determination in the LSI-Realtek 337 case

by Nicole Daniel

On 17 October 2013 the International Trade Commission (ITC) issued a Notice determining that it will review the final initial determination (ID) issued by the presiding administrative law judge (ALJ) of 18 July 2013 in its entirety. In his ID Judge Shaw found no infringement of LSI's 802.11 and H.264 SEPs and rejected RAND defences.

The ITC started this investigation on 11 April 2012 based on a complaint by LSI Corporation and Agere Systems Inc. (collectively LSI). In this complaint violations of section 337 of the Tariff Act of 1930, by reason of infringement of various claims of US patents were alleged. The ITC's notice of investigation named a number of respondents, referred to here as Funai and Realtek.

On 18 July 2013 the ID was issued by the ALJ. The ALJ found a violation of section 337 as to certain audiovisual components and products containing such, namely claims 1, 5, 7-11 and 16 of the '087 patent. However, the ALJ found no violation of section 337 in connection to any claims regarding the '958, the '867 and the '663 patents. The patents were not invalid and the domestic industry requirement for the patents was satisfied. Furthermore, the ALJ rejected equitable, reasonable and non-discriminatory (RAND) defenses.

On 31 July 2013 the ALJ then made recommendations for appropriate remedies and for requiring the posting of a bond in case the ITC should find a violation of section 337.

On 5 August 2013 the LSI and Funai filed their petitions for review of the final ID and Realtek filed a contingent petition for review of the final ID.

The ITC has decided to review the ALJ's final ID in its entirety. The Notice requests additional information from the parties about specific issues in the final ID, e.g. evidence of direct infringement. It further asks for "any record evidence of the standard essential nature of the '663, the '958 and the '867 patents".

Additionally, the ITC seeks written submissions addressing public interest factors since the review could find a violation of the alleged SEPs and a remedy must consider public interest factors.

The information the ITC is seeking seems to be directed at information which Froman, the US Trade Representative, found lacking in the ITC's exclusion order in the Samsung-Apple case. He requested the ITC to ask the parties to develop a comprehensive factual record regarding the standard-essential nature of the patent in question and information on the presence or absence of patent hold-up or reverse hold-up.

On 1 November 2013 written submissions from the parties and other interested parties were due and according to the Corrected Notice reply submissions were due on 12 November 2013.

Intellectual Property

United States

Employee's interactions with infringing videos may disqualify VIMEO from DMCA hosting safe harbor

by Béatrice Martinet Farano

On 18 September 2013, the US District Court for the Southern District of New York granted in part and denies in part Vimeo's summary judgment motion for safe harbor protection under the DMCA.

In this case, Capitol Records LLC and various other broadcasters brought a copyright infringement action against Vimeo, a well-known video-sharing website, for videos containing plaintiff's copyrighted music.

The plaintiff argued that (1) Vimeo was not eligible under the DMCA safe harbor and that (2) even if it was eligible under this safe harbor, Vimeo could not claim the benefit of the safe harbor as (a) some the videos had been downloaded by Vimeo's employees, rather than "stored at the direction of the users" and (b) Vimeo had knowledge of the infringing character of some of these videos as a result of its employees' "interaction" with some of these videos.

Vimeo filed a motion for summary judgment arguing it was protected under the hosting safe harbor. The District Court granted in part and denied in part this motion.

1. Eligibility under the DMCA hosting safe harbor

On the issue of Vimeo's eligibility under the hosting safe harbor, the Court first ruled that Vimeo met the general requirement to be eligible under the hosting safe harbor.

Specifically, the Court held that;

(1) Vimeo was a "service provider" within the meaning of the DMCA. The Court confirmed the definition of service provider given in Viacom (see Newsletter No. 3/2012 p. 5) confirming that this term was defined to cover "more than mere electronic storage lockers"

(2) Vimeo had adopted and reasonably implemented a policy against repeat infringers. In this regard, the Court confirmed that this policy did not have to be perfect and that the presence of some videos posted by repeat infringers could not bar Vimeo from the benefit of the safe harbor

(3) Vimeo had not interfered with Standard Technical Measures (or TPM) used by copyright holders to monitor and protect their work. In this regard the Court pointed out that a privacy setting preventing copyright owners from collecting information needed to issue takedown notice could not be analyzed as a dispositive to circumvent DRM.

2. Conditions to avoid liability under the DMCA safe harbor

The Court then examined whether Vimeo had met the requirement for safe harbor protection under the DMCA. In this regard, the Court analyzed the four specific conditions laid down by the DMCA and found that there were two specific triable issues:

(1) Storage at the Direction of the user

Here, the Plaintiff argued that Vimeo could not claim protection under the DMCA for 10 of the videos that had been downloaded by its employees, as the DMCA safe harbor was limited to third party content (stored by the service provider "*at the direction of the user*"). For the Court, this raised a triable question as to whether the employees who had uploaded these videos should be considered independent employees - in which case their acts could not be attributable to the company - or as acting on behalf of their company, making their company potentially liable for their acts.

(2) Knowledge or sufficient awareness

According to the plaintiff, another reason for making Vimeo liable for these videos was that Vimeo had necessarily knowledge of these videos as a result of Vimeo's employees (i) liking, (ii) commenting, (iii) reviewing, (iv) placing on channels, (iv) white-listing or (v) "burring" of these videos.

The Court found that this "interaction" of Vimeo's employees with some of the infringing videos raised another triable issue as to whether Vimeo acquired actual or "red flag" knowledge of the infringing content.

(3) Right and ability to control infringement and (4) lack of benefit from it

On the other hand, the Court considered that there was no triable issue of fact that Vimeo had neither the right and ability to control infringement nor that it benefited from it.

In this regard, the Court stressed that the right and ability to control infringement meant something more than the mere ability to remove or block infringing content and that it should amount to a *substantial influence over the infringing content* through the use *of a monitoring program* or *inducement of infringement*, neither of which was present in this specific case.

Intellectual Property

European Union

UK High Court issues another blocking order against operator of live sports indexing website

by Béatrice Martinet Farano

On 16 July 2013, in the wake of the wave of blocking orders that have recently been issued in Europe against an increasing number of websites arguably dedicated to infringing content, the UK High Court ordered the major ISPs of the country to block access to FirstRow, a website providing its users with links to live sports events.

What was different from preceding blocking orders issued by this Court (see Newzbin and The Pirate Bay, Newsletter No. 2/2012 p. 9-10), was that in this case, FirstRow only provided links – rather than direct access to – the unauthorized streams.

The Court however held that by (1) aggregating a large number of streams from a variety of streamers, (2) indexing them for user convenience and (3) providing for the use of a simple click through mechanism to access each stream, the operator was either directly – or at least indirectly - responsible for the *communication of* these unauthorized streams to the public. To that extent, the Court also stressed that FirstRow (1) only accepted embedded codes from trusted streamers and (2) none of the streams were provided by an official source. Relying on the ECJ decision in TV Catchup (see Newsletter No. 2/2013 p. 10), the Court then observed that this communication did not have to be made to a *new public* to be considered an infringing communication. The Court finally observed that this communication had taken place in the UK since FirstRow, by offering a service in English, used by English users, did target the English public. The Court concluded that FirstRow (which did not appear in this case) directly or at least indirectly infringed the rights of FAPL, owner of the rights over these sporting events.

Intellectual Property

European Union

German court rules that SAP can't restrict software resales

by Nicole Daniel

On 25 October 2013 the Hamburg Regional Court ruled that SAP can no longer require their customers to get written permission before reselling SAP software to third parties in Germany.

Susensoftware, a German reseller of pre-owned SAP and Microsoft software licenses sued SAP after SAP blocked a deal worth EUR 30,000.

The court ruled that two clauses of SAP's terms and conditions were anti-competitive as they required written permission for resale and required the purchaser to ask permission from SAP before using the license in question in a manner that was more extensive than the original purchaser of the SAP software.

Accordingly, the vendor's permission is no longer necessary when reselling SAP software in Germany.

This decision follows a decision by the European Court of Justice (ECJ) which determined in July 2012 the legality of the trading of used software and held that the author of the respective software cannot oppose the resale of it (See Newsletter No. 4-5/2013 p. 5). This is so because the exclusive right of distribution of a copy of a computer program which is covered by a licence is exhausted on the first sale. This ruling is applicable to both software bought on a CD or DVD and downloaded software.

FORTHCOMING CONFERENCES:

- *Advanced Antitrust U.S.*, 6 February 2014, San Francisco. For details regarding the conference please visit http://www.ibclegal.com/FKW82425TTLF (see link in the right hand corner)