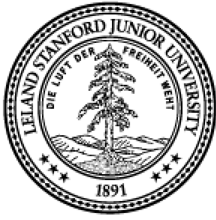

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Antitrust

United States

U.S. District Judge in Texas dismisses class action lawsuit against conspiracy by online travel agencies and hotels to fix the price of hotel rooms

by Gabriele Accardo

On 18 February 2014, U.S. District Judge Jane Boyle of the Northern District of Texas Dallas Division dismissed a class action lawsuit that online travel discount company Skoosh had filed against 12 dominant hotel chains in the United States (the "Hotel Defendants") and nine online travel agencies (the "OTAs Defendants"), including Expedia, Hotels.com, Travelocity.com and Orbitz. Skoosh had alleged that the hotels and travel agencies (collectively the "Defendants") had unfairly shut Skoosh out of the market and violated antitrust laws by agreeing to fix hotels room prices.

There were four claims that were filed against the Defendants': *per se* violation of Section 1 of the Sherman Act, 15 U.S.C. § 1; agreements unreasonably restraining trade (under the rule of reason or "quick look" test) in violation of Section 1 of the Sherman Act; violation of state antitrust laws; and violation of state consumer protection laws.

The class action lawsuit was consolidated with another antitrust lawsuit that alleged that the Defendants entered into an industry-wide conspiracy to impose "rate parity" across hotel room booking websites as early as 2003. In essence, according to the plaintiffs the conspiracy involved "an express or tacit agreement" among all Defendants. Within this broad conspiracy, the plaintiff claimed there were two sub-agreements: first, the OTA Defendants entered into a horizontal agreement not to compete with each other, apparently formed in the same sort of express or tacit way as the larger conspiracy; second, each Hotel Defendant signed vertical written contracts known as resale price maintenance ("RPM") agreements with each OTA Defendant.

A typical RPM agreement between each OTA-Hotel Defendant pair provided at least two restrictive terms. The first term mandated that the hotel would establish and publish the "Best Available Rate or "Lowest Rate" for a non-packaged room and that the published rate was the price the OTA could use when selling rooms to consumers. The second relevant term, the so-called the most favored nation ("MFN") clause, provided that the published rates offered by the OTA would be as favorable as the published rate offered to i) any OTA competitor and ii) the rates published on the Internet site operated by the hotel itself. In essence, each RPM agreement ensured first, that each OTA would not discount below each hotel website's published rate, and second, that each hotel was providing

each OTA with its lowest online rate.

However, Plaintiffs clarified that their antitrust claims were based on an industry-wide conspiracy, rather than either of the two individual sub-agreements holding the broader scheme together.

Accordingly, in dismissing the lawsuit, the judge agreed with the defendants that "*Plaintiffs' antitrust claims rest entirely on the circumstantial facts purportedly showing that Defendants entered into an 'express or tacit' industry-wide conspiracy not to compete*" and that "*Plaintiffs certainly may rely on circumstantial facts to establish the first element of their claim … but these facts must be enough to surmount the pleading bar set by the Supreme Court.*"

In other words, the complaint failed to provide any "*further circumstances pointing toward a meeting of the minds*," or "*further factual enhancements that pushed the allegations out of "neutral territory.*" Such "factual enhancements" in this context, according to the Court, may consist of "*parallel behavior that would probably not result*" absent an agreement or "*complex and historically unprecedented changes in pricing structure made at the very same time by multiple competitors, and made for no other discernible reason.*"

The judge noted that "parallel conduct" in the form of same prices of hotel rooms between online travel agencies and agreements made to protect room prices in the online marketplace did not amount to evidence of the existence of a conspiracy. Rather, the judge held that "*[T]he real 'nub' of the Complaint in this case is Defendants' parallel business behavior—the adoption of similar [resale price maintenance] agreements seen across pairs of [online travel agencies] and Hotel Defendants … Defendants' parallel adoption of similar business strategies is not suspicious or suggestive of an agreement. On the contrary, common economic experience and the Complaint itself offer a natural or 'obvious' explanation for why the Hotel Defendants on one side, and [online travel agency] Defendants on the other, individually entered into the same two-term [resale price maintenance] agreements*."

In fact, according to the Court, for the Hotel Defendants, an RPM agreement allowing them to control the prices at which their rooms were sold online made perfect economic sense. As a general matter, it is quite natural for a seller to want to control the online price of its product. This natural desire to control online pricing is even more apparent in the hotel industry. A fancy hotel, for example, may value the ability to control online pricing to protect its brand's high-end image. More generally, hotels across the industry may find that controlling minimum resale prices is the "only feasible" way to implement a profitable price discrimination strategy—that is, a strategy to "sell the same product [i.e., hotel room], costing the same to make and sell, at different prices to different consumers.

For OTA Defendants, the reason they would individually seek out the two-term RPM agreements on an individual basis is more obvious, the Court stated. Having given up the right to discount prices below

each Hotel Defendant's published rate, each OTA Defendant would naturally want an assurance that competitors will also be prohibited from offering a lower price than the published rate.

Besides, according to the Court, while both the Hotel and OTA Defendants would benefit from the elimination of price competition in the sale of hotel rooms online, these "common motives" just as well explain why the Hotel Defendants (because each wanted to control online prices for its own rooms) and the OTA Defendants (because each wanted an assurance the minimum price it must publish would not be undercut) individually entered into RPM agreements. In essence, just because Defendants' rational business interests can be recast in a suspicious light does not mean the allegations actually suggest a conspiracy was formed, the Court stated.

Interestingly, with regards to the possibility of whether certain circumstances may enhance a finding of a Section 1 conspiracy, the Court noted that a government investigation or finding of wrongdoing may be inference of conspiracy where the investigation or related case involves violations of the same laws and/or the same conduct in issue in the Section 1 claim. However, allegations of anticompetitive wrongdoing in Europe or some other foreign nation, absent any evidence of linkage between such foreign conduct and conduct at issue, is not relevant to the question of whether a Section 1 conspiracy has been properly alleged. The Court noted that the government investigations cited in the complaint involve European laws, which may prohibit conduct that is lawful under Section 1. Thus the Court observed that: "*[T]he [UK Office of Fair Trading] does not apply the rule of reason to vertical price agreements as required under U.S. law. Instead, it follows the rigid European precedent of subjecting vertical price agreements to 'de facto per se illegality.*"

Judge Boyle dismissed the claim without prejudice, thereby allowing plaintiffs to file a second consolidated amended complaint in an effort to overcome the deficiencies warranting dismissal.

Antitrust
United States

U.S. District Court holds that *Actavis* requires monetary payments for antitrust scrutiny to be applicable

by Nicole Daniel

On January 24, 2014 U.S. District Judge William H. Walls dismissed an antitrust class action against GlaxoSmithKline LLC ("GSK") and Teva Pharmaceutical Industries Ltd. ("Teva") regarding their agreement to postpone the production of a generic epilepsy and bipolar disorder drug since no reverse payment with cash was involved to keep the rival off the market. According to *Actavis* antitrust rules therefore were not applied to the case at hand.

In 2002 Teva filed an application to produce a generic version of the Lamictal drug to the U.S. Food and Drug Administration. GSK in turn sued Teva for infringing its patent. In 2005 the companies reached settlement under the following terms:

- Teva was allowed to start selling its generic Lamictal drug before the patent expired, i.e. chewables 37 months and tablets six months before the expiration of the patent,
- Teva agreed to withdraw the claim to challenge GSK's patent (one of the patents had already been declared invalid by court) and
- For an exclusivity period of 180 days GSK declared that it would not compete with Teva's generic drug by releasing its own generic drug once Teva's drug entered the market.

In February 2012 the plaintiffs Louisiana Wholesale Drug Company Inc. and King Drug Company of Florence Inc. filed suit against GSK and Teva regarding the aforesaid deal between them in 2005 and alleged that GSK tried to protect its patent on the Lamictal drug and its dominance on the Lamictal drug market.

In December 2012 Judge Walls dismissed the case holding that antitrust scrutiny only applied for deals that involve cash settlements where the competitor was being paid not to compete. Under the *K-Dur* decision it was held that cash settlements were presumptively anti-competitive. However, the exclusivity period in the present case did not amount to a reverse payment.

The plaintiffs appealed and in February 2013 the Third Circuit granted a defense motion to stay the case until a decision by the Supreme Court in the *Actavis* case. In the Actavis case the FTC appealed a ruling by the Eleventh Circuit which exonerated a deal Solvay Pharmaceuticals Inc. ("Solvay") struck with some drug makers to

prevent them from attempting to produce generic forms of their testosterone gel AndroGel. In the *Actavis* decision the quick-look test the Third Circuit spelled out in the *K-Dur* case was replaced with the rule of reason analysis, which is typically applied in antitrust cases.

A few weeks later the case against GSK and Teva was sent back to the district court after the new legal standard was articulated in the *Actavis* case. Judge Walls held *Actavis* requires antitrust scrutiny on patent settlements only if they contain reverse payments which must be monetary. Judge Walls disagreed with decisions by two other district judges (*In re Lipitor Antitrust Litig.* and *in re Nexium (Esomeprazole) Antitrust Litig.*) which held that *Actavis* also applied to non-monetary patent settlements. Furthermore, the *Actavis* ruling rendered specific forms of settlements explicitly exempt from antitrust review. The same type of exempted settlement, i.e. permitting the generic to enter the patent holder's market before the patent expires, was at issue in the present case.

Even if the appellate court might find that *Actavis* was not limited to settlements including the exchange of money Judge Wells concluded that the settlement satisfied the rule of reason spelt out in *Actavis*.

Judge Wells therefore affirmed its grant of GSK and Teva's motion to dismiss the claim.

In the present case the settlement was explicitly exempted from antitrust scrutiny according to *Actavis*; however it has to be seen how other district courts decide on this issue where the settlement is not explicitly exempted. Furthermore an interesting issue is what the appellate court and other district courts will hold on the issue of whether reverse payment settlements have to be monetary or not.

Antitrust
United States

U.S. DOJ closes its investigation of Samsung's use of its SEPs

by Nicole Daniel

On February 7, 2014 the Department of Justice ("DOJ") issued a statement declaring that it closed its investigation into Samsung Electronics Co. Ltd.'s ("Samsung") use of its Standards-Essential Patent ("SEP") portfolio to license industry participants to exclude certain iPhone and iPad models from Apple, Inc ("Apple") from the US market.

On January 8, 2013 the DOJ and the Patent & Trademark Office ("PTO") issued a joint "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments". In this policy statement they jointly explained that when SEP holders try to block their competitors from selling products which implement those SEPs a number of anti-competitive issues arise. Often there is a risk that the SEP holder may use the threat of an exclusion order to obtain more onerous licensing terms than justified by the value of the technology and thereby exploit their market power obtained through the process of standards-setting.

However the U.S. Trade Representative ("USTR") reviewed the exclusion order the U.S. International Trade Commission ("ITC") issued at Samsung's request against Apple in June 2013 where the import of some older iPad and iPhone models was banned and overturned it on the grounds that it was inconsistent with the public interest.

Accordingly the Antitrust Division decided that no further action is required and is closing its investigation; however it will continue to monitor developments in this area.

In its statement the DOJ emphasized that the Antitrust Division has worked closely together with the European Commission and that this cooperation underscores their common concerns that anticompetitive use of SEPs may harm competition. According to the European Commission a decision in a similar case is expected in April 2014.

Antitrust

United States

New York Attorney General reaches agreement with "Patent Trolls" to bar deceptive practices

by Nicole Daniel

The prosecutor's office announced that the New York attorney general ("NY AG") Eric Schneiderman has reached an agreement with MPHJ Technology Investments LLC ("MPHJ"), a so-called patent troll, to stop using deceptive practices to get businesses to buy patent licenses.

MPHJ had sent demand letters to small and nonprofit businesses that included misleading or baseless infringement allegations. These allegations may violate consumer protection laws. MPHJ had also filed suits against inter alia Coca-Cola Co., alleging the infringement of its patents when documents were scanned into e-mail.

The settlement only applies to the state of New York. However the NY AG plans settlements with other patent trolls on the same terms. He said that loopholes in the patent system are being exploited by patent trolls and that they drain critical resources from businesses.

MPHJ's practices are under investigation in a number of states, such as Nebraska, Vermont and Minnesota. Furthermore, their tactics are a motivation for new legislation that put limits on patent trolls, e.g. the Innovation Act.

It remains to be seen whether new legislation can bar the deceptive practices of patent trolls and whether other states will also settle with them.

Antitrust

European Union

Improved Google commitments (closer to) getting the thumbs up from the European Commission

by Gabriele Accardo

On 5 February 2014, the European Commission issued a press release and a memo concerning the improved commitments proposed by Google (the commitments were made public by Google itself). At a press conference, Competition Commissioner Joaquin Almunia further clarified how the improved commitments finally address the competition concerns raised during the investigation, and stated that the Commission "*will move forward towards a decision based on commitments*" (see Newsletter 5-6/2013, Newsletter No. 2/2013, Newsletter 2/2010, for additional background).

The Article 9 decision, as such a decision is known, will thus bring to an end the 3-year long investigation into Google's practices without a finding of an infringement of Articles 101 and/or 102 of the Treaty on the Functioning of the European Union ("TFEU"), and will spare Google from a fine that might top 10% of its annual turnover. However, if Google breaches the commitments (which have 5-year duration), the Commission may impose a fine of up to 10%, like it did last year when it imposed a Euro 561 million fine on Microsoft (see Newsletter No. 1/2013 for additional background).

This third package of commitments focuses on how Google will ensure that rival specialised search services can compete fairly with Google's services. In fact, as Competition Commissioner Almunia stressed, Google had already made significant concessions regarding the other concerns raised by the Commission:

- Google will give content providers an extensive opt-out from the use of their content in Google's specialised search services if they so wish, without being penalised by Google.

- Google will remove exclusivity requirements in its agreements with publishers for the provision of search advertisements; and

- Google will remove restrictions on the ability for search advertising campaigns to be run on competing search advertising platforms.

With regards to the concern relating to the way Google displays specialised search services (such as hotel, restaurant or flight search engines) on its own web search results pages, Google proposes to implement a threefold remedy for all its current and future specialised search services and for all search entry points (i.e. irrespective of how the search query is made):

- Users will be informed by a label of

the fact that Google's own specialised search services are promoted.

- These services will be graphically separated from other search results, so the distinction with normal web search results will be clear.

- For the relevant specialised search services, Google will display prominent links to three rival specialised search services in a format which is visually comparable to that of links to its own services. For instance, if the Google links have images, the rival links will have images as well, including on mobile devices.

Accordingly, whenever Google promotes its own specialised search services on its web page (e.g. for products, hotels, restaurants, etc.), the services of three rivals, selected through an objective method (see below), will also be displayed in a way that is clearly visible to users and comparable to the way in which Google displays its own services. This principle will apply not only for existing specialised search services, but also to changes in the presentation of those services and for future services.

A visual representation of how the commitments will change the way we will experience Google's search engine can be found here.

With regards to the selection of the services of three rivals, where Google does not charge for inclusion in its specialised search service, such as in local search, rivals will not be charged to participate in the rival links. Instead, they will be chosen based on their ranking in natural search. Conversely, where Google charges merchants for inclusion in its specialised search service, such as in Shopping, the three rivals will be chosen on the basis of a dedicated and transparent auction mechanism from the set of sites within the appropriate Vertical Sites Pool that have submitted a bid for the relevant keyword.

However, the winning bids will not necessarily be the bidders with the highest cost-per-click bids. For the purpose of selecting and ranking these sites, Google will multiply the sites' bids and the relevant position-independent predicted click-through-rate ("pCTR"). The pCTR for a given query will be calculated using solely a machine-learning regression model that will rely only on objective and verifiable explanatory features and will follow standard industry practices for such models as described in the scientific literature.

Interestingly, Competition Commissioner Almunia stated that the Commission's aim is not to artificially send traffic to sites that compete with Google, but to ensure that users are well informed of the existence of these competing sites and of their relevance to the user's queries, and are given the possibility to access them. This sends a clear signal to complainants and competitors that argued that Google should not automatically be allowed to show its own specialized search services and should not require them to pay to feature prominently on Google's page. In this regard, Competition Commissioner Almunia affirmed that the objective of the

Commission is not to interfere with Google's search algorithm, but to ensure that Google's rivals can compete fairly with Google's own services, and that the auction mechanism is an efficient way to select rival links. In brief, Google should not be prevented from trying to provide users with what they are looking for, Competition Commissioner Almunia stated. So be it.

Antitrust
European Union

Italy's Council of State reinstates the fine imposed on Pfizer for delaying a generic's market entry

by Gabriele Accardo

On 12 February 2014, Italy's Council of State (the "CdS") dismissed the ruling of the lower administrative court (the "TAR Lazio") which quashed the decision of Italian Competition Authority (the "ICA") that fined pharmaceutical company Pfizer EURO 10,6 million for an abuse of its dominant position to artificially extend the patent protection of its anti-glaucoma drug Xalatan and keep generic rivals out of the market in breach of Article 102 of the Treaty on the Functioning of the European Union ("TFEU") (see Newsletter 4-5/2012 p. 13, Newsletter 1/2012 p. 9, Newsletter 3/2011 p. 7 and Newsletter 6/2010 p. 8 for background information). Last year, the CdS reversed another ruling of the TAR Lazio and reinstated a fine on Bayer Cropscience in another abuse of dominance case (see Newsletter 1/2013 p. 8, Newsletter 3/2012 p. 10 and Newsletter 4-5/2011, p. 11 for additional background).

According to the TAR Lazio, Pfizer's conduct was legitimate, since the pharmaceutical company had done nothing more than exercising its rights. It stressed that in order to be regarded as anticompetitive, the practices under scrutiny had to be accompanied by a clear exclusionary intent and an additional anti-competitive element that goes beyond the existence of a simple set of legitimate actions carried out and brought before the competent administrative and jurisdictional authorities. In addition, the TAR Lazio held that Pfizer's proposed commitments were sound particularly in addressing ICA's main concern of allowing market entry by generics licensees to whom Pfizer would have granted a non-exclusive, royalty free license in Italy.

All these reasons were invalid, the CdS held. The ruling is instructive since the Court addressed for the first time the issue of the abuse of rights in a competition law context in Italy, notably in relation to the limits that a dominant company faces in exploiting the faculties attached to the protection of patents concerning pharmaceutical specialties.

First, the CdS noted that the conduct under scrutiny essentially relates to Pfizer's filing application for a divisional patent and its related Supplementary Protection Certificate (or SPC) concerning a class of molecules that included the active ingredient *latanoprost*, which was already protected by the main patent. Following the release of the divisional patent, however, Pfizer did not launch any new products other than those already available in the

market.

The CdS clarified that the dispute here is not about the authorization, granted through the regulatory framework, to file an application for a divisional patent for a product that is already patent protected, but rather the use made of such an authorization by Pfizer in the circumstances. The CdS stressed that it is irrelevant whether the divisional patent and the SPC have been legitimately requested/obtained by Pfizer, since the legal framework concerning the protection of an invention (the patent system), is different than the protection of competition. Thus, the CdS noted that the reasoning of the ruling is flawed insofar as, first and foremost, the TAR Lazio assessed the decision of the ICA from the perspective of the patent rules, whereas in the present case the issue is not whether the conduct was contrary to patent laws but rather what is the anticompetitive effect of a series of acts, which were legitimate on their own.

Accordingly, the CdS held that, in the circumstances, Pfizer's conduct of exploiting the authorizations attached to the main patent, as well as its market position, resulted in delays in the introduction of generic drugs that compete with *Xalatan*, without any actual use of the active ingredient for new products. Therefore the ICA was right to find that such a conduct had a further and different goal than patent protection (which was already in place). That conduct also had an overt and persistent anticompetitive goal, notably keeping generics out of the market for as long as possible, causing a significant damage also to the National Health Service.

As to the assessment of Pfizer's commitments, the CdS agreed with the ICA that they were manifestly incapable of removing the anticompetitive effects of Pfizer's conduct. Among the other considerations, the CdS noted that Pfizer had offered the commitments just a couple of months before its patent would expire, whereas the proposal to license the patent at issue for use in Italy, albeit royalty-free, would be likely to reinforce the abuse rather than facilitate generics entry. In fact, the production of generics based on an active ingredient whose patent protection has expired is quite different than the situation where the production is subject to the terms of a licence granted by the patent holder.

The CdS ultimately reinstated the EURO 10,6 million fine, but rejected -as inadmissible, the ICA's request to raise the penalty, based on the fact that the ICA cannot submit counter claims in its appeals.

Antitrust
European Union

UK Office of Fair Trading closes investigation into hotel online booking practices

by Gabriele Accardo

On 31 January 2014, the UK Office of Fair Trading ("OFT") accepted the commitments from online travel agents, Booking.com B.V. ("Booking.com", and its ultimate parent company priceline.com Incorporated) and Expedia Inc ("Expedia"), together with InterContinental Hotels Group plc ("IHG"), which will enable online travel agents (OTAs) and hotels to offer discounts on rates for hotel rooms. Such a decision closes a 3-year long investigation that was prompted by an independent investigation into complaints by OTAs in the UK and elsewhere in Europe and the U.S. alleging that they were being prevented by various hotel chains from offering discounted sale prices for room-only hotel accommodation (see Newsletter 5-6/2013 and Newsletter No. 4-5/2012 for additional background).

According to the OFT, the commitments address such competition concerns by allowing greater competition on prices between OTAs, and also between OTAs and hotels. They should also enable new online agents to enter the market or expand by offering attractive discounts.

In particular, all OTAs and hotels that deal with Booking.com, Expedia and IHG, will be able to offer discounts off headline room-only rates so long as customers:

- Sign up to the membership scheme of an OTA or hotel to be able to view specific discounts (i.e. become members of so-called "closed groups" to whom discounts are offered), and

- Make one undiscounted booking with the OTA or hotel in question to be eligible for future discounts.

It is worth noting that a "closed group" is a group which consumers must actively opt into to become a member, for which members must have completed a customer profile, and where any online or mobile interface used by members is password protected. This looks like a pretty cumbersome process and one may wonder how many consumers are ready to take these steps, and eventually become members of different closed groups.

The discounts offered by OTAs will be funded through their commission or margins. While OTAs should also be free to publicize discounts to members of closed groups, hotel owners can prohibit OTA partners publishing their discounts outside their closed groups.

However, the commitments do not appear to cover what is understood as being the crux of the complaint submitted by the

independent OTA: rate parity provisions in relation to offers published outside of the closed groups. In this respect FAQs documents (here and here), also issued by the OFT in this case, inform that "…*under the commitments principles OTAs should at least give hotels the freedom to discount freely to members of closed group scheme/s set up by you, who have made a single prior booking at full price. There should be no limit to the amount of discount a hotel can offer. As a [OTA/hotel], you should take advice to ensure that any rate parity provisions in place between you and your [OTA(s)/hotels] do not apply to discounts to such closed group members. Under rate parity provisions, a hotel agrees to provide an OTA with access to a room reservation (for the OTA to offer to consumers) at a booking rate which is no higher than the lowest booking rate displayed by any other online distributor*." (emphasis added).

Rate parity clauses would therefore be prohibited in respect to discounts offered to the closed groups. In this respect, the OFT states "…*if we become aware that rate parity obligations are being enforced against hotels in a way that makes it very difficult for hotels or their OTA partners to give discounts to members of closed groups who have made a prior full price booking, we will consider our options carefully*."

Actually though, the FAQs documents referred to above explain that hotel owners can prohibit OTA partners publishing their discounts outside their closed groups, whereas the commitments do not prevent an OTA requesting a hotel to provide them with a matching discounted rate for publication, if, a discounted rate that the hotel or another OTA partners is offering to closed group members is published to non-members. Arguably, it appears as if rate parity clauses can indeed be included in agreements between hotels and OTAs and would be enforceable in respect to discounts offered to non-members, i.e. the general public, unless such enforcement "*makes it very difficult for hotels or their OTA partners to give discounts to members of closed groups who have made a prior full price booking*".

Intellectual property

United States

U.S. Court of Appeals upholds finding of no dilution of Star-bucks's trademark (Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 736 F.3d 198 (2d Cir. 2013))

by Irene Calboli

The litigation in the case Starbucks Corp. v. Wolfe's Borough Coffee started in the early 2000s.[1] To briefly summarize the facts, Black Bear Micro Roastery manufactured a coffee named Mr. Charbucks, which was sold (in limited quantities) in supermarkets and at Black Bear's retail location. As Black Bear itself admitted, the company was aware of the Starbucks trademark and named its blend Charbucks in part because of how Starbucks roasts its coffee beans.[2] Despite Starbucks' request to stop using the name Charbucks, Black Bear continued to market Mr. Charbucks coffee and litigation ensued. Starbucks argued, *inter alia*, that Black Bear's use of Charbucks diluted the Starbucks mark by blurring.[3] In 2005, the District Court denied Starbucks' claim and ruled in favor of Black Bear because it could not find actual dilution.[4] On appeal, however, the Second Circuit vacated the ruling and remanded the case following the adoption of the Trademark Dilution Revision Act (TDRA) in 2006—according to which a finding of dilution can be based on a likelihood of dilution and not necessarily on actual dilution.[5]

On remand the District Court ruled again in favor of Black Bear and did not find dilution of the Starbucks' mark because even though some of the factors established in the TDRA[6] favored Starbucks, others did not.[7] Starbucks appealed, and the Second

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[1] Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 2004 U.S. Dist. LEXIS 19239, (S.D.N.Y. Sep. 28, 2004); Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 2005 U.S. Dist. LEXIS 35578, (S.D.N.Y. Dec. 22, 2005); Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 477 F.3d 765, (2d Cir. 2007); Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 559 F. Supp. 2d 472, (S.D.N.Y. 2008); Starbucks Corp. v. Wolfe's Borough Coffee., Inc., 588 F.3d 97, (2d Cir. 2009); Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 2011 U.S. Dist. LEXIS 148081, (S.D.N.Y. Dec. 23, 2011); Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 736 F.3d 198 (2d Cir. 2013).

[2] Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 736 F.3d 198, 201 (2d Cir. 2013).

[3] *Id.* at 207.

[4] Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 2005 U.S. Dist. LEXIS 35578, 26-7 (S.D.N.Y. Dec. 22, 2005); *see also* Mosely v. V Secret Catalogue, 537 U.S. 418, 432-33 (2003) (clarifying that trademark owners must prove "actual dilution" and not just a "likelihood of dilution.").

[5] 15 U.S.C.S. § 1125(c)(2)(B) (LEXIS through 1/16/2014).

[6] *Id.* § 1125(c)(2)(B)(ii)-(iv) (LEXIS) ("The degree of inherent or acquired distinctiveness of the famous mark. . . . The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark. . . . The degree of recognition of the famous mark.").

[7] *Id.* § 1125(c)(2)(B)(i), (v)-(vi) (LEXIS) ("The degree of similarity between the mark or trade name and the famous mark. . . . Whether the user of the mark or trade name intended to create an association with the famous mark. . . . Any actual association between the mark or trade name and the famous mark.").

Circuit again vacated the holding and remanded the case to the District Court.[8] This time, the Second Circuit ruled that the District Court had put too much emphasis on the first factor of the TDRA and erred when requiring bad faith to find intent in addition to requiring actual evidence of confusion to prove that there was a likelihood of dilution in the case.[9] Yet on remand, the District Court again ruled that Starbucks had not shown a case of trademark dilution because even though several factors weighed in favor of Starbucks, the marks were "only minimally similar" and the sixth factor—the "actual association" between the signs—"no more than minimally" weighed in favor of Starbucks.[10] Starbucks again appealed. In November 2013, the Second Circuit affirmed the District Court's ruling in favor of Black Bear.

Notably, the Second Circuit confirmed the holding from 2009 that "the Charbucks [m]ark[] [was only] minimally similar to the Starbucks [m]ark[].[11] Moreover, even though Black Bear seemingly wanted to create an association with the Starbucks mark, the court did not find that this immediately weighed in the plaintiff's favor for the sixth factor —the actual association between the signs.[12] In particular, the court found that the results of a survey commissioned by Starbucks to assess such association was not enough to find actual association because it only concerned the word Charbucks without any specific context, and because the survey also showed only a low percentage of consumers which associated this word with Starbucks.[13] Accordingly, the court found that there was no actual association between the Starbucks mark and the Charbucks mark even though there was an intent to create an association. Ultimately, the court found that Starbucks did not prove that the use of Charbucks diluted the Starbucks mark.[14]

This case helps to demonstrate that each of the six factors established by the TRDA for a finding of dilution by blurring continues to be relevant in any judicial analysis. The Second Circuit indicated that the importance of each factor may differ based on the specific facts of the case at issue, so it remains difficult to predict how the factors could be weighed by the courts in future cases. Still, this case illustrates the importance of looking at the marks at issue in context. It also illustrates that the fact of acting in good faith when associating with a famous mark may not insulate defendants from a finding of association, and thus a finding of dilution.

[8] Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 588 F.3d 97, 109-10 (2d Cir. 2009).
[9] *Id.* at 107-09.
[10] Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 2011 U.S. Dist. LEXIS 148081, 14 (S.D.N.Y. Dec. 23, 2011).
[11] Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 736 F.3d 198, 208 (2d. Cir. 2013) (quoting Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 588 F.3d 97, 106 (2d Cir. 2009)).
[12] *Id.* at 208-09.
[13] *Id.* at 209-11.
[14] *Id.* at 211-13.

Intellectual property

United States

Industry joint defense efforts against NPEs

By Borja Varela

Charter Communications Inc. v. Rockstar Consortium US LP, 14-cv-00055, U.S. District Court, District of Delaware (Wilmington)

On 17 January 2014 Charter Communications, Inc., ("Charter"), the fourth-largest cable operator in the United States, together with WideOpenWest Finance, LLC offering services under the name WOW! Internet, Cable & Phone, Knology, Inc., Cequel Communications, LLC doing business as Suddenlink Communications, and Cable One, Inc. (collectively "Plaintiffs") initiated legal actions against Rockstar Consortium US LP ("Rockstar"), Bockstar Technologies LLC ("Bockstar"), Constellation Technologies LLC ("Constellation") and Spherix Incorporated ("Spherix") (collectively "Defendants") for breach of contract as a result of the Defendants' refusal to honor their FRAND licensing obligations. The Plaintiffs sought various declaratory judgments by the Court, and damages for tortious interference and civil conspiracy (the "Complaint").

Rockstar claims to hold the rights to over 4,000 patents acquired from the bankruptcy of Nortel Networks Corporation, Nortel Networks Inc., and various of their subsidiaries (collectively, "Nortel") in Canada and the United States. Based on the information available on Rockstar's website the portfolio was transferred for $4.5B to Nortel's creditors, and established an initial set of founding licensees to the Rockstar portfolio. Except for EMC, the other five bidders for the portfolio are currently the main shareholders of Rockstar: i.e. Apple, BlackBerry (Research In Motion as was), Ericsson, Microsoft and Sony. The initial bidder, Rockstar Bidco, transferred part of the portfolio to Rockstar Consortium US LP, and this to Bockstar, Constellation and Spherix.

Rockstar directly, and also through Bockstar and Constellation, have initiated litigation against communications companies in the US to enforce various patents from the portfolio acquired from Nortel (e.g. On December 11, 2013, Constellation filed a patent infringement lawsuit against Time Warner Cable Inc. in the Eastern District of Texas, Case No. 2:13-cv-1079).

The Plaintiffs are a group of leading broadband communications companies in the United States, with which, according to the Plaintiffs, the Defendants have refused to enter into good faith negotiations to license certain patents to them on a fair, reasonable and non-discriminatory basis ("FRAND") according to the Complaint).

Further, the Plaintiffs argue that the Defendants have not identified all the patents in the portfolio that are subject to a potential license on FRAND terms or

infringement and that part of those patents which have been identified are under royalty-free based agreements with Standard Setting Organizations ("SSOs"). The Plaintiffs state that some of their vendors have entered into these royalty-free agreements with SSOs and therefore Plaintiffs are implied licensees of these technologies.

In the Complaint it is held that Nortel has committed to license standard essential patents under FRAND terms as stated in Letters of Assurance, one of which is attached to the Complaint. Furthermore, the Complaint also asserted that Nortel participated actively in standards promulgated by SSOs including the Institute of Electrical and Electronics Engineers ("IEEE"), the International Telecommunications Union ("ITU"), the Internet Engineering Task Force ("IETF"), and the 3rd Generation Partnership Project ("3GPP").

Pursuant to the allegations in the Complaint, Nortel also joined in the DOCSIS (i.e. Data Over Cable Service Interface Specification) patent pool under which participants to that pool grant to CableLabs and its members/sub-licensees (mainly cable operators), on a royalty-free basis, rights to any intellectual property owned by the participant to the pool to the extent that the practice of any DOCSIS specifications would infringe or otherwise utilize that property. DOCSIS specifications are intended for providing high-speed data service over cable networks, and were created by Cable Television Laboratories, Inc. ("CableLabs"), a non-profit consortium focused on the development of cable communications technologies.

The Plaintiffs allege that Rockstar has "misused and attempted to obtain exorbitant royalties from licensing the patents it purchased from Nortel" by means of avoiding the identification of all the relevant patents, "and instead broadly accusing companies of infringing the portfolio as a whole" (providing only an "exemplary" list of patents for evaluation); requiring the companies to sign non-disclosure agreements as a precondition to negotiating licensing agreements for the purpose of obtaining royalties in excess of its FRAND obligations; refusing to identify patents already licensed to vendors; and transferring essential patents to third parties in an attempt to obtain increased royalties and avoid its obligations to license the patents in the Defendants' portfolio that are essential to standards on fair, reasonable and non-discriminatory (FRAND or "RAND") terms.

In view of the foregoing arguments, the Plaintiffs request the Court to enter judgment against Rockstar by:

(i) Finding that Rockstar is liable to the Plaintiffs for breach of contract in connection with the commitments entered into by Nortel with the SSOs;
(ii) Declaring Rockstar's licensing obligations with respect to its FRAND encumbered communications patents and the corresponding unenforceability of those patents if not offered for license on FRAND terms;
(iii) Declaring the parties' respective

rights regarding the asserted communications technology portfolio;

(iv) Providing a declaratory judgment of license and exhaustion of patent rights whether implied in the royalty-free license under the DOCSIS patent pool or and/or exhausted with respect to Plaintiffs' use of vendor products or services;

(v) Declaring non-infringement by Plaintiffs of Rockstar patents whether these have been identified or not;

(vi) Finding that Rockstar, Bockstar, Constellation and Spherix have misused their patents and are liable to the Plaintiffs for entering into an illegal conspiracy (i.e. by Rockstar selling off standard essential patents to other entities with an active plan to seek royalty rates in excess of FRAND principles), and that Bockstar and Constellation are liable to the Plaintiffs for tortiously interfering with one or more contracts to which Plaintiffs are third-party beneficiaries, in all these cases assessing corresponding damages.

Allegations and actions against non-practising entities (NPEs) and defenses to potential patent infringement claims based on FRAND principles are also not new in Europe. Its use will probably increase when the unitary patent and the unified patent court are in place (Regulation (EU) No 1257/2012; Council regulation (EU) No 1260/2012). When this happens, there may be potential risks of legal injunctions which are enforced across a much wider territory.

However, the question remains as to whether competing industry players in Europe, specifically those in the telecommunications market, will in their common interest, as in this case, form joint defense alliances or their alternatives. There are also questions as to whether those companies will set up their own patent licensing entities for defensive (and even monetization) purposes, or rely on the support of existing defensive patent aggregators (which are created in response to NPEs or "patent trolls" solely focused on defending against patent litigation and the enforcement of patent rights).

Intellectual Property

European Union

ECJ states that linking to freely available content is not copyright infringement

by Béatrice Martinet Farano

On 13 February, 2014 the European Court of Justice (ECJ) issued its most awaited decision in Svensson (case C-446/12) bringing some welcomed resolution on the issue of linking.

In this case, four Swedish journalists had launched a copyright infringement suit against the operator of a website, Retriver Sverige, whose website provided hyperlinks to news articles that they had published online (specifically, on freely available newspapers).

While the Stockholm District Court had merely dismissed their action, the Svea Court of Appeal referred the issue to the European Court of Justice, asking, specifically:

(1) Whether providing "clickable links" to a work should be considered tantamount to "making [it] available" and therefore an "act of communication" to the public in the sense of the Copyright Directive,

(2) Whether the fact that the content linked to was freely available to the public (or, conversely, is access-restricted) should have any impact on the answer to question 1,

(3) Whether the fact that it was not apparent to the user that the content was hosted on a third party website should have any impact on question 1, and

(4) Whether Member State could give wider protection to authors' exclusive rights by extending the scope of their "communication to the public" rights.

As to the first question, i.e. the question as to whether linking was to be considered as an act of communication to the public, the Court first observed that the provision of clickable links to protected works was tantamount to making them available, since it effectively enable users to "access" such content. The Court therefore concluded that linking should be considered an "act of communication" in the meaning of the Directive.

As to the second question however, the Court held that for such act of communication to be infringing it had to be communicated to a *new public*, that is to say, to a public that was not taken into account when the copyright holder authorized the first communication to the public. In this case, because the work had been made freely available to all internet users in the first place, the ECJ held that this communication should not be considered infringing since it targeted the same public, i.e. potentially *all* internet users.

Alluding to the third question, the Court also made clear that the circumstances that it was not apparent that such content was actually hosted on a third party's website should not have any impact on this conclusion.

The Court finally addressed the fourth question and expectedly held that, in keeping with the rationale and objectives of harmonization and legal certainty of the InfoSoc/Copyright Directive, Member States should not be authorized to restrict, nor broaden the scope of any exclusive rights, including the right of communication to the public.

No doubt that this decision will be welcomed with enthusiasm by news aggregators, social media and bloggers around the world.

Intellectual Property
European Union

New EU Regulation offers better protection to IPR holders against the importation of infringing goods into EU territory.

by Béatrice Martinet Farano

Right holders will certainly welcome the adoption, on 1 January 2014, of a new Regulation 608/2013 (repealing former Regulation 1383/2003) improving their position with respect to the importation of infringing goods into EU territory by strengthening and streamlining customs procedures relating to the enforcement of IP rights at the borders.

The main provisions included in this new Regulation provide as follows:

(1) The simplified procedure –which allows customs to destroy imported goods suspected of infringing IP rights upon a mere agreement between the IP right holder and the owner of the detained goods without the need to initiate legal proceedings to establish whether an IP right was actually infringed– is now compulsory in all Member States. In addition, the new Regulation makes clear that a lack of answer from the owner of the suspected infringing goods within ten days from the notification of their detention shall be deem to be consent to their destruction. This provision will certainly be welcomed by the right holders of the Member States (about half of them) where this procedure had not been implemented.

(2) Customs authorities now have the option to intervene on a wider range of IP rights, including, in addition to copyright, trademarks (national or community trade marks ("CTM")), designs (national or community designs ("CD")), patents and geographical indications that were already covered by Regulation 1383/2003 - trade names (insofar as protected under national law), topographies or semiconductor products, utility models and TPMs (Technological Protection Measures) circumventing devices.

(3) Customs authorities have new powers to destroy small consignments (less than 3 units or two kilograms) of counterfeit and pirated goods without the explicit consent of the right-holder, provided however the right holder has selected this option in his original application and the owner of the goods consent and/or does not oppose such destruction.

(4) Right holders have now greater freedom to use information provided by Customs in relation to suspected infringing goods, including information concerning the nature and quantity of detained goods and the name and address of the owner of the goods. Specifically, the new regulation does not prevent a right holder from using

such information to launch proceedings against the owner of goods finally found to be outside the scope of the Regulation (e.g. parallel importation), in connection with criminal investigations or in order to obtain compensation or destruction directly from the owner of the goods.

(5) Right holders will have to provide more specific information to help customs determine whether the imported goods are infringing. Specifically, the new regulation lists a series of information that the right holder will have to provide with its original Application, including specific technical data concerning the authentic goods (bar codes, images, etc.), as well as information relevant to the customs authorities' analysis and assessment of the risk of infringement (authorized distributors, etc.)

(6) To facilitate the exchange of information between various Customs Authorities of the Member States, a central electronic database will be created by the European commission and be launched no later than January 2015.

It should be noted however that the following categories of good remain outside the scope of the regulation:

(1) parallel imports (goods manufactured with the consent of the right holder but placed on the market for the first time in the EEA without his consent),

(2) overruns (goods manufactured in excess by an authorized manufacturer), and

(3) non-commercial goods carried by passengers in person.

Finally, although the Regulation does not expressly address the situation of goods in transit between two non-EU Countries, right holders will welcome the vote by the EU Parliament on February 25, 2014 of an amendment, included in the review of the CTM Regulation, giving customs the power to stop fakes in transit. Until this resolution comes into force however, the situation of these goods in transit should continue to be regulated by the solution in ECJ Case C-446/09 Philips Electronics) for which the customs authority may retain goods in transit onto the EU only if they have a material suspicion that the goods will be diverted to EU consumers.

Intellectual Property
European Union

Lush obtains a judicial victory against Amazon in keyword advertising matter

by Béatrice Martinet Farano

On 10 February 2014, the English and Wales High Court (EWHC) issued an important decision in favor of Lush Ltd (Lush), the famous cosmetics manufacturer which apparently invented the "bath ball", in relation with the use by the UK division of Amazon (hereinafter Amazon) of its "Lush" brand in keyword advertising and other instances.

In this case, Lush, which had made clear to Amazon that it did not want them to sell their products for "ethical reasons", launched a trademark infringement action against Amazon, after noticing that Amazon was arguably using its brand without its consent.

Specifically, Lush argued that Amazon was using its brand, without its authorization, in the two following ways:

1. By bidding, or purchasing, on Google AdWords service, keywords including the brand "Lush" so as to trigger a sponsored link advertisement on the Google search engine results page (typically on the right hand side of - or above - what are known as the "natural" or "organic" results) whenever a consumer types "lush" into the search box; and

2. By featuring the "Lush" brand in a number of places on their own website, in response to consumer requests, while knowing that Lush had not authorized them to sell any products of its brand.

1. Use of the "Lush" brand in keyword advertising

With respect to the first type of use, i.e. use in keyword advertising, the Court first noted that, in keeping with established ECJ case law (see e.g. Case C-323-09 Interflora v. Marks & Spencer; Newsletter 6/2011 p.9), to establish infringement under Article 5(1) (a) of the Trademark Directive, Lush had to show (i) a use by a third party of a sign, (ii) identical to its mark, (iii) in relation to goods or services identical to those for which it is registered (iv) in the course of trade, (v) without the consent of the owner of the mark and (vi) that this use affect or is liable to affect one the functions of its trademarks.

As for factors (i)-(v), the Court first observed that, pursuant to the ECJ decision in *Google France* (see ECJ Joined cases C-236/08 and C-238/08, see Newsletter 6/2011 p.7), the purchase by an advertiser of a keyword identical to a third party trademark in order to display a link to a site on which he offers his goods or services for sales had to be considered a "use" of this third party's trademark, and this use has to be considered "in the course of trade" since this use was related

to the sale of products and services. Since Amazon used a sign identical to the "Lush" brand to offer its own goods or services as an alternative to those of Lush, the Court also held that this use was "in relation with identical products". As to factor (v) the Court simply observed that this use was not authorized.

The Court then went on to focus on whether such use affected the functions of the mark (factor vi). On this last point, the Court drew a clear distinction between two types of keyword advertising:

(i) Where the brand was *only* selected by the Advertiser as a sponsored keyword (the link neither features brands by the advertiser, nor does the ad link to, or includes any reference to the advertiser's brand), the Court stated that none of the functions (indication of origin, advertisement or investment) of the Trademark were affected. The Court reasoned that since consumers would now be familiar with sponsored ads, they would likely not be deceived into believing that a Lush-equivalent product (e.g. bath ball from another brand) sold by Amazon on its website should emanate from Lush for the mere reason that an ad for Amazon appears in the result when they type in the term "Lush" on a third party search engine.

(ii) Where, on the other hand, the Advertiser's brand was reproduced either on the link featured by the Advertiser, or in the advertisement linked to, the Court considered that this use affected the indication of origin function of the trademark. This was the case even if the ad itself did not include any reference to the brand. The Court reasoned that an average consumer, seeing a link such as "*Lush soap available on Amazon.co.UK*" would expect to find Lush soap available on Amazon and, even where not finding any of these products on the site, would at least "persevere somewhat before giving up".

2. Presence of the Lush Trademark on Amazon's own website in response to user's request

The Court subsequently went through the second category of use criticized by Lush, specifically the use by Amazon of its brand, in several places of its website in response to users' request.

With regard to the use of the brand "Lush" in its search box, the Court held that while Amazon could not be held liable when this use was the result of a user entering this term on Amazon search box (no use by Amazon), Amazon was on the other hand liable when it programmed its software so that they could *autocomplete* the brand "Lush" whenever a user entered the first letters (e.g. lu) or a misspelled version of this brand (e.g. sluch). Here again, the Court observed, for the same reasons stated above that this was an unauthorized use, in the course of trade, of an identical sign, to designate identical products. It went on to assess whether any of the functions of the brand had been affected. On this last point, the Court held that such use by Amazon of Lush Trademark not only affected the indication of origin function of their brand (since it made it difficult for the average consumer to ascertain whether the goods originates

from Lush or an entity linked to it), but also the advertising and investment functions of the Lush trademark since Lush had shown that (i) they relied on the reputation of their mark to attract consumer and (ii) it had built an image of ethical trading, incompatible in their mind with the sale of their products on Amazon.

Similarly, the Court observed that Amazon was making an unauthorized use of the Lush trademark when displaying, in response to user's request, products unrelated to Lush under categories such as "*Beauty-Lush*" or "*Related search: Lush Bath bomb, lush cosmetic*". The fact that these categories were automatically created by software based on the user request and/or on prior consumer behavior was deemed immaterial by the English Court. Moreover, the Court rejected Amazon's argument that its search facility would be of benefit to consumers by helping them to navigate its website, holding that "the right of the public to access technological development did not go as far as to allow a trader such as Amazon to ride rough-shod over intellectual property rights, by treating trademarks such as Lush as no more than a generic indication of a class of goods in which the consumer might have an interest.

This decision therefore provides important guidance on online advertising practices and could impact the way retailers use keywords for brands that they are actually not selling.

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