



# Stanford – Vienna Transatlantic Technology Law Forum



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## Transatlantic Antitrust and IPR Developments

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## Antitrust

*United States*

# U.S. FTC files an amicus brief in the Court of Appeal urging to reverse the District Court finding in the Lamictal Direct Purchase Antitrust Litigation

*By Nicole Daniel*

On 28 April, 2014 the Federal Trade Commission (“FTC”) filed an [amicus brief](#) in the Court of Appeals for the Third Circuit in the *Lamictal Direct Purchase Antitrust Litigation* urging the court to reverse the District Court [finding](#) in this case.

In the *Lamictal Direct Purchase Antitrust Litigation* the plaintiffs allege that Teva Pharmaceuticals (“Teva”) was paid by GlaxoSmithKline (“GSK”) to forgo entry of their authorized generic version of the Lamictal drug in return for GSK’s promise not to compete. The district court decided that this agreement which included GSK’s commitment not to introduce an authorized generic does not violate antitrust laws under *FTC v. Actavis* since this agreement did not involve the exchange of cash.

In its amicus brief the FTC explains why

the conclusion of the District Court is wrong. In the *Actavis* case the Supreme Court held that reverse-payment patent settlements are to be evaluated using antitrust factors, i.e. they are not immune from antitrust scrutiny.

The District Court in the *Lamictal* case distinguished the agreement from the *Actavis* case as the compensation took the form of an agreement not to compete in contrast to compensation in cash.

The amicus brief explains that the commitment not to compete raises the same antitrust concerns which were identified by the Supreme Court in *Actavis*.

An empirical study by the FTC showed that consumers pay higher prices for the generic product if the brand company itself does not introduce an authorized generic during the exclusivity period for the first-filing generic under the Hatch-Waxman Act.

The amicus brief further states that in the *Actavis* decision no distinction between the forms of compensation for potentially problematic reverse-payment settlements is made. Accordingly the narrow reading of the District Court may serve to undermine the Supreme Court’s decision in the *Actavis* case and lead to potentially anticompetitive reverse-payment settlements being structured as to avoid cash and therefore antitrust scrutiny.

The FTC, in its amicus brief, additionally explains that the Supreme Court in the *Actavis* case affirmed that antitrust principles apply to agreements between a brand-name and a generic competitor

undertaking as well as settlements between potential competitors with reciprocal agreements not to compete.

It will have to be seen how the Court of Appeal will decide this issue.

## Antitrust

*United States*

# U.S. FTC modifies 1998 order against Toys “R” Us based on market changes brought about by e-commerce

*By Gabriele Accardo*

On 15 April 2014 the U.S. Federal Trade Commission [approved](#) a [petition](#) submitted by Toys “R” Us (“TRU”) to reopen and modify an [order](#) issued in 1998, which required TRU to refrain from certain actions in connection with its suppliers.

TRU claimed that the growth of Walmart and Target and the emergence of online retailers such as Amazon.com reshaped competition among purchasers and sellers of toys, so that such a change in the circumstances justified the modification of the 1998 order.

Yet, TRU did not seek to modify or set aside the final order’s core prohibition on facilitating or attempting to facilitate unlawful collusion, but “merely” to engage in procompetitive (or neutral) vertical conduct that could allow it to compete more effectively.

In fact, in 1996, the FTC took issue with

TRU’s series of agreements with major toy manufacturers which sought to prevent the toy manufacturers from selling to club stores the same products they sold to TRU. The FTC complaint also alleged that TRU facilitated agreements among the toy manufacturers to the same end. Ultimately, the FTC found that TRU had used its significant market power to orchestrate a “hub and spoke” conspiracy among its suppliers to restrict the supply of toys to certain warehouse clubs that would otherwise have competed against TRU. This was affirmed by the [Seventh Circuit](#), *Toys 'R' Us, Inc. v. FTC*, 221 F.3d 928 (7th Cir. 2000). The horizontal agreement among the toy manufacturers amounted to a violation of Section 1 of the Sherman Act both on a *per se* and a rule of reason analysis, whereas the vertical agreements between TRU and its suppliers further violated Section 1 of the Sherman Act on a rule of reason analysis.

The FTC concluded that TRU has met its burden in showing that changed conditions of fact justify modifying the order in the ways requested in the petition.

In particular, while the finding that the vertical agreements were anticompetitive was based on a rule of reason analysis that found that TRU had market power as a buyer and distributor of toys, the FTC held that TRU’s petition has demonstrated that it no longer has market power as a buyer of toys. In fact, Walmart and Target have overtaken TRU in competitive strength and market share across product categories. In 2013, Walmart was the market leader. In addition, Target operates twice as many locations as TRU, while Walmart has four

times as many. Interestingly, the FTC also took into account the fact that online sales, as a proportion of total toy sales, have almost tripled between 2002 and 2012.

Accordingly, the FTC modified the 1998 final order to set aside the provisions in Section II that restricted TRU's ability to enter into certain conditional supply relationships. In particular, Section II addressed the violation concerning the vertical agreements TRU entered into to prevent its suppliers from selling toys to club stores, and contained broad fencing-in relief, notably:

- Paragraph II.A. required TRU to cease and desist from “continuing, maintaining, entering into, and attempting to enter into any agreement or understanding with any supplier to limit supply or to refuse to sell toys and related products to any toy discounter”;
- Paragraph II.B. required TRU to cease and desist from “urging, inducing, coercing, or pressuring, or attempting to urge, induce, coerce, or pressure, any supplier to limit supply or to refuse to sell toys and related products to any toy discounter”;
- Paragraph II.C. required TRU to cease and desist from “requiring, soliciting, requesting or encouraging any supplier to furnish information to respondent relating to any supplier's sales or actual or intended shipments to any toy discounter”.

The order's core prohibition, i.e. the prohibition against facilitating, or

attempting to facilitate, unlawful collusion, remains in force.

## Antitrust

*United States*

# U.S. FTC notifies Facebook/WhatsApp of privacy obligations in light of acquisition of WhatsApp

*By Gabriele Accardo*

On 10 April 2014 the Federal Trade Commission's ("FTC") Bureau of Consumer Protection sent a [letter](#) to Facebook and WhatsApp to warn them about their obligations to protect the privacy of their users in light of Facebook's acquisition of WhatsApp.

In fact, following Facebook's announced intent to acquire WhatsApp, both companies made public statements indicating that the promises in WhatsApp privacy policies would be honored.

Nonetheless, while the transaction has been approved by the FTC's Bureau of Competition without raising any major competition concerns, the FTC's Bureau of Consumer Protection was concerned that, after the merger, WhatsApp would continue its current privacy practices. In fact, in 2011, Facebook settled FTC charges that it deceived consumers by failing to keep its privacy promises. Under the terms of the FTC's [order](#) against the company, Facebook must get consumers' affirmative

consent before making changes that override their privacy settings, among other requirements.

In the circumstances, the Bureau of Consumer Protection Director noted that while both Facebook and WhatsApp collect data from consumers, they make different promises and statements with respect to their consumers' privacy. WhatsApp's privacy policy clearly states, among other things, that users' information will not be used for advertising purposes or sold to a third party for commercial or marketing use without the users' consent, and such promises exceed the protections currently offered to Facebook users.

According to the Bureau of Consumer Protection, the statements in WhatsApp's privacy policy, combined with the recent public statements by both Facebook and WhatsApp, constitute clear promises to consumers about the collection and use of their data by WhatsApp and, following WhatsApp's purchase, by Facebook.

In particular, before changing WhatsApp's privacy practices, Facebook must:

- obtain consumers' affirmative consent before using data collected by WhatsApp in a manner that is materially inconsistent with the promises WhatsApp made at the time of collection;
- not misrepresent in any manner the extent to which Facebook maintains, or plans to maintain, the privacy or security of WhatsApp user data;
- offer consumers an opportunity to opt

out, if Facebook chooses to change the way it collects, uses, and shares newly-collected WhatsApp data, or, at least, make clear to consumers that they have an opportunity to stop using the WhatsApp service.

On those grounds, the Bureau of Consumer Protection Director concluded that *"...regardless of the acquisition, WhatsApp must continue to honor these promises to consumers. Further, if the acquisition is completed and WhatsApp fails to honor these promises, both companies could be in violation of Section 5 of the Federal Trade Commission Act [against deceptive practices] and, potentially, the FTC's order against Facebook"*.



## Antitrust

*European Union*

### ECJ clarifies EU customs rules concerning counterfeit or fake goods sold online from a non-Member State

*By Gabriele Accardo*

On 6 February 2014 the European Court of Justice issued a [preliminary ruling](#) concerning the interpretation of the rules on customs action against goods sold to a resident of a Member State from a website based in a non-Member State that are suspected of infringing certain intellectual property rights and the measures to be taken against such goods.

The case originated from an action brought by Rolex SA and Manufacture des Montres Rolex SA (“Rolex”) against Mr. Blomqvist, a resident of Denmark, concerning the destruction without compensation of a counterfeit watch which Mr. Blomqvist had bought online through a Chinese website which was seized by the customs authorities. The order was placed and paid for through the English website of the seller. The seller shipped the watch from Hong Kong by post. The parcel was inspected by the customs authorities on arrival in Denmark. Based on suspicions

that the watch was a counterfeit good, and that there had been a breach of copyright over the model concerned, the customs authorities suspended the customs clearance and informed Rolex and Mr. Blomqvist.

Rolex asked the Maritime and Commercial Court to issue an order seeking consent from Mr. Blomqvist for final seizure and destruction of the watch without compensation. The Court granted Rolex’s claim.

On appeal, the Supreme Court noted that in order for the Council Regulation (EC) No 1383/2003 of 22 July 2003 (the “customs regulation”) to take effect, first, there must have been a breach of a copyright or trade mark right protected in the Member State in which the goods were seized and, second, the alleged breach must take place in that same Member State. But the Supreme Court noted that Mr. Blomqvist had purchased the watch for personal use and thus had not himself breached Danish copyright or trade mark law.

Accordingly, in order to ascertain whether the seller infringed copyright or trade mark law in Denmark by selling and dispatching the watch to a private purchaser with an address in Denmark known to the vendor, the Supreme Court asked the ECJ whether that sale must be considered, in that Member State, as a form of “*distribution to the public*” or as constituting “*use in the course of trade*”. The Supreme Court also asked whether goods may be infringing merely by virtue of the sale or whether, prior to the sale, the watch must have been the subject of an offer for sale or

advertising *targeting* consumers in the Member State in question.

In brief, the ECJ held that the customs regulation must be interpreted to mean that the holder of an intellectual property right over goods sold to a person residing in the territory of a Member State through an online sales website in a non-Member State enjoys the protection afforded to that holder by that regulation at the time when those goods enter the territory of that Member State merely by virtue of the acquisition of those goods, without being necessary for the goods at issue to also have been the subject, prior to the sale, of an offer for sale or advertising that targets consumers of that Member State.

The reasoning of the ECJ builds upon existing case law. In particular, the ECJ recalled that EU law requires that the sale be considered, in the territory of a Member State, to be a form of distribution to the public within the meaning of the copyright directive, or use in the course of trade within the meaning of the trade mark directive and the Community trade mark regulation, and distribution to the public must be considered proven where a contract of sale and dispatch has been concluded. The ECJ clarified that such a situation is not comparable to that of goods on offer in an online marketplace (see [Newsletter 4-5/2011](#), p. 7, and [Newsletter 6/2011](#), p. 7, for additional background).

While there was no doubt that Rolex would have been entitled to claim an infringement of its rights if the counterfeit watch had been offered for sale by a trader established in that Member State (i.e.

Denmark), in the circumstances, the issue at stake was whether Rolex could claim the same protection for its rights where goods are sold from an online sales website in a non-Member State on whose territory that protection is not applicable.

In this respect, the ECJ recalled that the mere fact that a website is accessible from the territory covered by the trade mark is not a sufficient basis for concluding that the offers for sale displayed there are targeting consumers in that territory. Nonetheless, the intellectual property rights protected by EU law may be infringed where, even before their arrival in the territory covered by that protection, goods coming from non-member States are the subject of a commercial act directed at consumers in that territory, such as i) a sale, ii) offer for sale or iii) advertising.

Accordingly, goods coming from a non-Member State can be classified as “counterfeit good” or “pirated goods” where it is proven that they are intended to be put on sale in the EU, such proof being provided, *inter alia*, where it turns out that the goods have been sold to a customer in the EU or offered for sale or advertised to consumers in the EU.

Consequently, the ECJ held that the mere fact that the sale was made from an online sales website in a non-Member State cannot have the effect of depriving the holder of an intellectual property right over the goods which were the subject of the sale of the protection afforded by the customs regulation, without it being necessary to additionally verify whether such goods were, prior to that sale, the

subject of an offer for sale or advertising targeting EU consumers.

## Antitrust

*European Union*

# European Commission finds that *Motorola Mobility* misused standard essential patents

*By Gabriele Accardo*

On 29 April 2014, the European Commission [held](#) that it has adopted a decision which found that Motorola Mobility's ("Motorola") seeking and enforcement of an injunction against Apple before a German court on the basis of a smartphone standard essential patent ("SEP") constituted an abuse of a dominant position in breach of Article 102 of the Treaty on the Functioning of the European Union ("TFEU") (see also [Newsletter 2/2013](#), p. 14, for additional background).

The case concerned Motorola's SEP relating to the European Telecommunications Standardisation Institute's GPRS standard, part of the GSM standard, which is a key industry standard for mobile and wireless communications. Motorola had committed to license the SEP to third parties on fair, reasonable and non-discriminatory (or "FRAND") terms. Such a commitment is normally required by standards bodies to ensure effective access to a standard for all market players and to prevent "hold-up" by a single SEP

holder (insofar as it would not be otherwise possible to manufacture products to comply with a certain standard without accessing these patents).

The decision is important insofar as it affirms, first, that recourse to injunctions is generally a legitimate remedy for patent infringements and, second, that seeking of injunctions may be abusive when two conditions are met: **i)** a SEP holder has given a commitment to license on FRAND terms during standard-setting, and **ii)** the potential licensee is *willing to enter into a licence on FRAND terms*, i.e. the potential licensee has agreed to a determination of FRAND terms by a court or arbitrators and to be bound by such a determination in case of dispute.

In this respect, the Commission [clarified](#) that courts and arbitrators are well-placed to set FRAND rates in cases of disputes, and yet to the extent they deem necessary, national courts may seek guidance from the Commission on the interpretation of EU competition law.

In the specific circumstances, Apple had agreed with Motorola that in the case in dispute, the German courts would set the applicable FRAND rate and Apple would pay royalties accordingly. Nonetheless, Motorola persisted in using the threat of an injunction to force Apple into a settlement agreement with very restrictive conditions, which the Commission found abusive.

Thus, not only the decision established a safe-harbor for "willing" licensees against potentially abusive conducts by SEP holders, but the Commission further

clarified that a licensee should remain entitled to challenge the validity and infringement of the SEPs it has to licence. Accordingly, the Commission found it abusive that Motorola insisted, under the threat of the enforcement of an injunction, that Apple gave up its rights to challenge the validity or infringement by Apple's mobile devices of Motorola SEPs.

The Commission ultimately decided not to impose a fine on Motorola since this is the first case concerning the legality of SEP-based injunctions under Article 102 TFEU, whereas national courts have so far reached diverging conclusions on this question.

In a separate [memo](#), the Commission clarified that the 2009 *Orange-Book-Standard* ruling of the German Federal Court of Justice (see [Newsletter 3/2009](#), p. 4, for additional background), which did not specifically relate to SEPs, is not directly applicable to the Motorola case on which the Commission decided. In the *Orange-Book-Standard* case, the German Court held that a defendant in a patent infringement case may successfully raise an antitrust defense against the issue of an injunction provided that **i)** it has made an unconditional offer to license under terms that cannot be rejected by the patent holder without abusing its dominant position, and **ii)** it actually acted as if it had entered into a valid patent licence (thus in very broad terms, when a user pays or deposits a reasonable license fee).

Arguably, based on the "safe-harbor" principle established by the Commission, for such a defense to be successful in

cases concerning SEPs, it would suffice that the defendant be "willing to negotiate" a license on FRAND terms. These issues, however, will soon be addressed by the European Court of Justice, which has been asked to clarify whether a SEPs holder abuses its dominant position by requesting an injunctive relief, even if the infringer is willing to negotiate a license on FRAND terms, or whether the infringer is further required to comply with the contractual obligations that would exist under a FRAND license (see, the reference for a preliminary ruling by the Regional Court of Düsseldorf to the European Court of Justice in the SEP-based litigation between Huawei and ZTE, in [Newsletter 2/2013](#), p. 9, for additional background).

## Antitrust

*European Union*

# European Commission makes commitments offered by Samsung Electronics legally binding

*By Gabriele Accardo*

On 29 April 2014, the European Commission issued a [decision](#) (see also the related [press release](#)) which made legally binding the [commitments](#) offered by Samsung Electronics (“Samsung”) in relation to certain standard essential patents (“SEP”) relating to the European Telecommunications Standardisation Institute’s 3G UMTS standard, which Samsung committed to license on reasonable and non-discriminatory (so-called “FRAND”) terms (see [Newsletter 5-6/2013](#), p. 6, for additional background).

Back in April 2011, Samsung started to seek injunctions against Apple on the basis of its SEP. In December 2012, the Commission informed Samsung of its preliminary view that it considered Apple a “willing” licensee (i.e. a potential licensee is to be considered willing if, in case of dispute, it agrees to a determination of FRAND terms by a court) for Samsung’s SEP and that, in the circumstances, the seeking of injunctions against Apple based

on Samsung’s SEP in several EU Member States could constitute an abuse of a dominant position in breach of Article 102 of the Treaty on the Functioning of the EU (“TFEU”). In September 2013, Samsung offered commitments that were market tested and then amended (see [Newsletter 5-6/2013](#), p. 6 for additional background).

Based on the commitments, Samsung shall not seek injunctions for five years in Europe on the basis of its SEP for smartphones and tablets against any potential licensee who agrees to accept a specified licensing framework, which consists of **i)** a mandatory negotiation period of up to 12 months; and **ii)** if the negotiation fails, a determination of FRAND terms by a third party – either by a court or arbitration.

An independent monitoring trustee will advise the Commission in overseeing the proper implementation of the commitments by Samsung, based on the “safe harbour” established in the Motorola Decision, whereby a potential licensee is to be considered willing if, in case of dispute, it agrees to a determination of FRAND terms by a court and to be bound by such a determination.

Such a decision does not reach a conclusion on whether EU antitrust rules have been infringed by Samsung, but legally binds the company to respect the commitments. If Samsung breaches these commitments, the Commission can impose a fine of up to 10% of its annual worldwide turnover, without having to find an infringement of Article 102 TFEU.

In a separate [memo](#), the Commission clarified that the 2009 *Orange-Book-Standard* ruling of the German Federal Court of Justice (see [Newsletter 3/2009](#), p. 4, for additional background), which did not specifically relate to SEP, is not directly applicable to the Motorola case on which the Commission decided. In the *Orange-Book-Standard* case, the German Court held that a defendant in a patent infringement case may successfully raise an antitrust defense against the issue of an injunction provided that **i)** it has made an unconditional offer to license under terms that cannot be rejected by the patent holder without abusing its dominant position, and **ii)** it actually acted as if it had entered into a valid patent license (thus in very broad terms, when a user pays or deposits a reasonable license fee).

9, for additional background).

Arguably, based on the “safe-harbor” principle established by the Commission, for such a defense to be successful in cases concerning SEP, it would suffice that the defendant be “willing to negotiate” a license on FRAND terms. These issues, however, will soon be addressed by the European Court of Justice, which has been asked to clarify whether a SEP holder abuses its dominant position by requesting an injunctive relief, even if the infringer is willing to negotiate a license on FRAND terms, or whether the infringer is further required to comply with the contractual obligations that would exist under a FRAND license (see, the reference for a preliminary ruling by the Regional Court of Düsseldorf to the European Court of Justice in the SEP-based litigation between Huawei and ZTE, in [Newsletter 2/2013](#), p.

## Antitrust

*European Union*

# Nespresso offers commitments to lift barriers to entry for other coffee capsule makers in France

*By Gabriele Accardo*

On 17 April 2014 the French Competition Authority (“AdIC”) published a [press release](#) and a market test [notice](#) illustrating the [measures](#) that Nespresso proposed to lift barriers to entry for other coffee capsule makers in France. Following a complaint by two makers of coffee capsules the AdIC investigated certain exclusionary practices by Nespresso, consisting in particular of linking the purchase of Nespresso brand capsules to that of Nespresso-brand coffee machines, allegedly in breach of the antitrust rules on abuse of dominance. Nespresso has now proposed a number of commitments in order to close the investigation.

Based on a preliminary assessment, the AdIC considers that Nespresso may hold a dominant position in two complementary, yet distinct, markets, notably the market for single portion coffee machines and the market for coffee capsules compatible with Nespresso machines, where Nespresso’s market shares are 73% and 85% respectively. Accordingly, the AdIC reached

the preliminary conclusion that Nespresso may have abused its dominant position by linking the purchase of its capsules to that of its coffee machines, with no objective justification, thereby excluding manufacturers of competing capsules, notably engaging in the following practices to incentivize consumers to only use Nespresso-branded capsules:

- **Technical practices:** Nespresso made frequent changes in the design of its capsules and coffee machines to make capsules of competing manufacturers incompatible with the new models;
- **Legal practices:** Nespresso informed consumers on packaging and in product guarantee notices that the proper functioning of the coffee machines depended on using only Nespresso capsules;
- **Commercial practices:** Nespresso encouraged consumers to only use Nespresso brand capsules.

To address the competition concerns identified by the AdIC, Nespresso proposed the following commitments:

- It will notify competing capsule manufacturers who so request of all modifications that can affect the use of the capsule in the Nespresso machine, three months prior to such modifications coming into effect;
- Warranty conditions will be applicable to compatible capsules, unless Nespresso can prove that “the damage or malfunction is found to have been



caused by the use of such capsules”;

- Nespresso shall refrain from making any comment about competitors' capsules.

Consumers and competitors have until May 19 to react to Nespresso's proposed commitments. If the AdIC finds that the remedies, which will apply only in France, are appropriate to open up the coffee capsule market, the investigation will be closed without a finding of infringement, and the commitments would remain in force for a period of seven years.

## Antitrust

*European Union*

### Italian Competition Authority imposes hefty fines on *Roche* and *Novartis*

*By Gabriele Accardo*

On 27 February 2014, the Italian Competition Authority (“ICA”) issued a [decision](#) (in Italian only) finding that Roche and Novartis entered into an anticompetitive agreement in the market for ophthalmic drugs used to treat some serious vascular eyesight conditions, including age-related macular degeneration (“AMD”, which is the main cause of blindness in developed countries) in breach of article 101 of the Treaty on the Functioning of the European Union (“TFEU”) (see [Newsletter 1/2013](#), p. 11, for additional background). The ICA imposed fines totaling Euro 92 million and Euro 90,5 million on Novartis and Roche respectively.

The ICA started the investigation in February 2013 following complaints by an association of private hospitals and the Italian Ophthalmologic Association. The products concerned, Lucentis and Avastin, are both licensed by Genentech (Genentech and Novartis have jointly developed Lucentis for ophthalmic use), a wholly-owned subsidiary of Roche. However, Genentech was not considered

liable for the infringement.

According to the ICA, Roche and Novartis aimed at excluding the ophthalmic use of Roche’s Avastin in order to advantage the sales in Italy of Lucentis, which is distributed by Novartis. In particular, the decision found that since 2011 the two companies colluded to create an artificial product differentiation by claiming Avastin to be more dangerous than Lucentis, in order to influence the prescriptions of doctors and health services.

Such efforts appear to have intensified when a growing number of international scientific studies supported the equivalence of the two drugs in ophthalmic uses, the ICA held. In fact, Lucentis contains an active substance similar to Avastin’s, but it has been submitted for regulatory approval specifically for the eyesight conditions previously treated through Avastin. Yet since Avastin is only approved for anti-cancer treatments (which are reimbursed by the National Healthcare System) only a few doctors prescribe Avastin as an ophthalmologic drug for “off-label” use. The use off-label essentially requires that the product is pulled out from the original vial and then being injected into mono-use syringes, a process which must be carried out under strict safety measures.

According to the ICA, the economic interests of the two groups were aligned insofar as Roche collects significant royalties from the sales of Lucentis, which has been developed by its subsidiary Genentech, while Novartis benefits directly from Lucentis’ sales and holds some 33%

of Roche. In essence, Roche's decision not to market Avastin for ophthalmic use is due to the fact that Roche would gain higher royalties from the distribution of Lucentis, instead of selling its own Avastin.

In the aftermath of the ICA's decision, the Italian Health Minister stated that the Parliament may pass a law to allow off-label use of medicines "for economic reasons." Moreover, recent [news](#) indicates that the French Competition Authority is investigating the same practices by Roche and Novartis whereas the European Commission is also gathering information but no formal investigation has been started.

## Antitrust

*European Union*

### **Bundeskartellamt raises objections against ASICS's restrictions of online sale**

*By Gabriele Accardo*

On 24 April 2014 the Bundeskartellamt issued a [press release](#) stating that, based on preliminary investigation, it has found that ASICS Deutschland's selective distribution system restricts competition among its dealers in breach of competition rules.

In particular, the objections raised against ASICS are that ASICS prohibits its dealers without exception from using online marketplaces such as eBay or Amazon, as well as price comparison engines. Also, distributors are equally prevented from using ASICS's brand names on the websites of third parties, such as price comparison engines, and may not even guide customers to the online shop of an authorised ASICS dealer. Such hard core restrictions appear to constitute a de facto ban on Internet distribution, according to the Bundeskartellamt.

ASICS's network of authorised dealers is differentiated into over 20 categories of dealers, some of which are allocated a

different product range. In turn, dealers are bound by this categorisation even for cross-deliveries to other authorised ASICS dealers. Moreover, many of the authorised dealers can only sell a limited product range to final customers.

Andreas Mundt, President of the Bundeskartellamt, stated that *"...manufacturers can select their dealers according to certain criteria and can set quality requirements. However ...ASICS' distribution system in its current form primarily serves to control price competition in both online and offline sales."* Mundt further noted that ASICS is not only restricting competition among its dealers, but also restricting competition in the running shoes market in general because of its strong position in that market, and other major running shoes manufacturers are also restricting online business in a similar fashion.

While the Bundeskartellamt is also investigating sports goods manufacturer Adidas, it appears that many brand manufacturers are in the process of modifying their selective distribution systems to adapt them to online distribution.

Interestingly, although companies are conducting to self-assessments of their distribution practices, Bundeskartellamt officials are making themselves available for discussions with any manufacturers who may have specific questions on how to design their selective distribution systems in line with competition law or to examine any proposals in this respect.

ASICS will have until 10 June 2014 to reply to the objections raised by the authority.

## Intellectual property

*United States*

# U.S. Supreme Court rules that patent suit losers should pay the victors' legal fees

*By Nicole Daniel*

The Supreme Court rules in two closely watched cases that companies successfully defeating “unreasonable” patent lawsuits can get their legal fees paid by the suit loser.

The [first case](#) involved Octane Fitness LLC (“Octane”), a maker of exercise-equipment, seeking \$ 1.8 million in fees after defeating a patent suit by Icon Health & Fitness Inc. over a component in elliptical machines. Octane challenged the test for awards which was established in 2005 by the Court of Appeal for the Federal Circuit which allowed for fees only if the suit in question is “objectively baseless” and filed in bad faith.

The [second case](#) involved Highmark Inc. (“Highmark”), an insurer, seeking to reinstate a \$ 5 million fee award it won after defeating a patent suit by Allcare Health Management Systems Inc.

Both cases are regarding 35 U.S.C. § 285, the attorney fee-shifting provision, which states that in exceptional cases the court may award reasonable attorney fees to the

prevailing party.

The Supreme Court’s rulings give trial judges more power to impose fees in cases where they hold that the case in question stands out from others regarding the losing’s party conduct.

In the *Octane* case it was held that an exceptional case is one which stands out from other cases with respect to the strength of a party’s litigating position or the unreasonable manner in which the case was litigated. The determination of whether a case is exceptional was left to the district court judge.

In the *Highmark* case the ruling in *Octane* was followed and it was held that an appellate court should apply an abuse-of-discretion standard when reviewing all aspects of the district court’s § 285 determination.

This decision could benefit technology businesses like Apple and Google, which were both among the undertakings urging the court to ease the rules of fee determination. This is so especially since such companies are facing claims by patent trolls who sue for baseless infringement claims and who agree to quick settlements as many defendants fear the high costs of litigation.

Currently Congress is considering the introduction of introduce legislation which requires the loser to pay the victor’s fees in most circumstances.

## Intellectual property

*United States*

# Google and Apple agree to drop all global patent litigation between them

*By Nicole Daniel*

On 16 May, 2014 Google and Apple announced that they agreed to drop all global patent litigation between them; this includes litigation in the United States, Germany and other countries. They also announced to cooperate on patent reform. They jointly asked the Court of Appeals to dismiss the pending litigation between Apple and Google's Motorola Mobility ("Motorola"). In the next few days they are expected to jointly ask further US court filings and court filings in other countries to be dismissed.

This significant de-escalation move of their global patent litigation over smartphone technology comes after an US appeals court [revived](#) an Apple patent suit against Google's Motorola on 25 April, 2014 which had been dismissed shortly before the trial. The appeals court also revived a patent claim Motorola made against Apple where it had ruled that the former could not seek a sales ban of its own.

The Court of Appeal had been hearing two cases: In one case Apple accused

Motorola of infringing fifteen (initially three patents, then Apple amended its complaint) of its patents. In the second one Motorola accused Apple of infringing six of its patents, including an SEP for ensuring that smartphones are interoperable. These two cases were then consolidated at the District Court for the Northern District of Illinois and Judge Posner [dismissed](#) the case in 2012 before trial stating that the parties did not have sufficient evidence to prove their case.

Apple and Motorola appealed on a number of issues, for example whether sales bans should be put on infringing products or whether monetary damages were sufficient compensation for infringement.

The appeals court then decided on six patents in these two cases, i.e. three patents for each party to the lawsuit, and overturned parts of Judge Posner's decision.

This decision is especially interesting regarding the SEP in question. According to the majority opinion Judge Posner was wrong in applying a *per se* rule that injunctions are not available for such patents. However, the majority opinion affirmed his decision to deny the injunction since, among other things; Motorola's FRAND commitments suggest that monetary damages are adequate to compensate Motorola for any infringement.

Judge Rader dissented since the ruling went too far for him. He saw evidence that Apple was an unwilling licensee and SEP holders are only able to obtain an injunction if there is a refusal to pay which

is as disruptive and as likely as excessive demands. However, a FRAND royalty has to be identified first before making such a determination.

Judge Prost also dissented since the ruling did not go far enough for her. Even though she supported the affirmance of the denial of injunctive relief she disagreed with some parts of the reasoning. The undertakings implementing a standard should have the right to defend themselves against allegations of infringement before an agreement to pay for a license is made. There is no reason why pre-litigation conduct in license negotiation should then affect the availability of an injunctive relief. She stated that an injunction may be appropriate when the patentee is unable to collect the monetary damages it is entitled to.



## Intellectual property

*United States*

# U.S. District Court declines to hold CafePress an online service provider entitled to protection under the DMCA safe harbor

*By Béatrice Martinet Farano*

On 16 March 2014, the U.S. District Court for the Southern District of California issued an interesting [decision](#) against CafePress - a marketplace selling products bearing user-uploaded content - which could re-launch the debate over the definition of “service provider” under the DMCA.

In this case, Gardner, a wildlife photographer, decided to sue CafePress and internet user Beverly Teall on the ground that Teall had sold through CafePress a product displaying one of Gardner’s copyrighted image. CafePress moved for summary judgment on the complaint, arguing it was entitled to immunity under the DMCA safe harbor.

Although U.S. courts have adopted a broad definition of service providers under the DMCA (see e.g. *UMG Records v. Veoh*, [TTLF newsletter No. 2/2013 p. 8](#) and

*YouTube v. Viacom*, [TTLF Newsletter No. 2/2012 p.5](#)), the Court in this case observed that in addition to allowing its users to set up online shops and selling products bearing content uploaded by end users, CafePress allowed its users to make their product eligible for sale via CafePress’ marketplace, which CafePress ultimately curated and managed.

The Court also observed that CafePress was making these products available on Amazon and eBay, and selecting and fixing the price for such products.

The Court concluded that CafePress’ exclusive discretion to determine which user-uploaded images would be sold on its online marketplace, along with its ability to modify the design and set the retail prices for such products went beyond “storage” within the meaning of the DMCA.

As a result, the Court declines to find as a matter of law that CafePress was a service provider entitled to protection under the DMCA.

The Court finally remanded this case on the issue of whether, by stripping out metadata from these photos – an automated process which happened when users upload their content in connection with their proposed CafePress products - CafePress had interfered with a technical standard provision, thereby losing protection under the DMCA safe harbor.

Assuming the parties do not settle this matter before trial, the decision on the merit should bring interesting developments on these two issues.



## Intellectual property

*United States*

# Jury decides that Samsung owes Apple \$119.6 million in patent damages

*By Nicole Daniel*

On 2 May, 2014 a jury in San Jose, California decided ([amended verdict](#) on 5 May 2014) that Samsung has to pay Apple approximately \$ 119.6 million in patent damages.

Apple had sued Samsung for patent infringement and claimed \$2.2 billion for ten Samsung devices which allegedly infringing five of Apple's patents. Samsung counter-sued for \$6.2 million and targeted five devices by Apple. Accordingly the jury merely awarded Apple 5.4% of its original claim. Furthermore the jury awarded Samsung damages of approximately \$158 thousand, i.e. 2.5% of the original claim, for one patent which it was held that Apple had infringed.

This case deals with five patents by Apple and two patents by Samsung: All accused Samsung devices infringed Apple's 647 "quick links" patent; also Apple's 172 "autocomplete" patent was infringed. Regarding Apple's 721 "slide-to-unlock image" patent some Samsung devices were found to infringe the patent while

others were cleared. All Samsung devices were cleared regarding Apple's 959 "unified search" patent and no infringement was found regarding Apple's 414 "background synchronization" patent. Furthermore Apple was held to have infringed Samsung's 449 patent, a non-SEP, but not Samsung's 239 patent.

This is the second major trial between these two companies in the US. Apple was awarded nearly \$1 billion in 2012 in the first major trial between them which was about Samsung's Galaxy smartphones and tablets which Apple alleged looked similar to its iPhone and iPad.

## Intellectual Property

*European Union*

# ECJ confirms validity of blocking orders to be enforced by ISP

*By Béatrice Martinet Farano*

On 27 March 2014, the European Court of Justice (ECJ) issued a landmark decision in case [C-314/12, Constantin v. UPC Telekabel](#) confirming the validity of the increasing practice in Europe consisting of requiring ISPs to block access to infringing content.

In this decision, German and Austrian movie producers, Constantin Films Verleih (Constantin) and Wega Filmproduktionsgesellschaft (Wega), after becoming aware that their films could be viewed and downloaded without their authorization from the website kino.to, filed a motion under article 8(3) of the [EU Copyright Directive](#) (providing the possibility for a right holder to ask for an injunction against an intermediary “*whose services are used by a third party to infringe a copyright*”), and asked the Austrian Court to enjoin Internet Service Provider (ISP) UPC Telekabel from providing its customers with access to this website.

In response, UPC Telekabel argued that it could not be subject to this kind of injunction, since it did not have any business relationship with the operators of

kino.to and it was never established that its own customers acted unlawfully. It also argued that the blocking measures that were requested were not determined, could be technically circumvented and potentially excessively costly.

Hearing the case at last instance, the Austrian Supreme Court raised two main questions to the ECJ, pertaining to (i) the kind of intermediaries that could be subject to this kind of injunctions under article 8 (3) of the Copyright Directive and (ii) the kind of injunctions that could be granted against them.

### **1. Are ISPs subject to injunctions under article 8 (3) of the copyright directive?**

On the first question, the Court confirmed that a person who makes protected subject-matter available to the public on a website without the agreement of the right holders (i.e. the alleged infringer) is using the service of the business which provides internet access to persons accessing this content. Thus, an ISP, such as UPC Telekabel, which allows its customers to access content made available by a third party, is an intermediary whose services are used to infringe a copyright and is therefore subject to injunction under article 8 (3) of the Copyright Directive.

To this regard, the Court made clear that neither a contractual relationship with the publisher of the content, nor the showing of any infringing activity by the customers of the ISPs was necessary for the ISPs to be subject to this kind of injunction.

## **2. What kind of injunctions can be ordered against the ISP?**

The Court then moved on to the question of the types of injunctions that could be ordered against such ISPs. UPC Telekabel argued that by not specifying the measures it was supposed to take to bring such infringement to an end or preventing it, the plaintiff threatened its fundamental right and freedom to conduct a business. The Court observed that within the framework of such injunction, involving a necessary tension between right holders' copyrights, ISPs' freedom to conduct a business, and users' freedom of information, member states should ensure that they rely on an interpretation of EU law and their national law which allows a fair balance between those fundamental rights.

Turning more specifically to ISPs' freedom to conduct their business, the Court held that this kind of injunctions did not seem to infringe the substance of that right since (i) it left the ISP to determine the best measure to be taken in order to achieve the result sought as a function of its resources and abilities and (ii) it allowed the ISP to avoid liability by proving that it had taken all reasonable measures.

The Court concluded that such injunctions against ISPs are generally valid provided that :

(i) the measure taken by the ISP is strictly targeted to ensure that internet users' right to freedom of information be not curtailed more than necessary (no over-blocking) and

(ii) those measures have the effect of preventing – or at least making more difficult – access to unauthorized content (such injunctions do not have to be fool-proof).

There is no doubt that this decision will be widely welcomed by right holders.

## Intellectual property

*European Union*

# Towards harmonized trade secrets protection in the European Union

*By Anthony Bochon*

On 28 November 2013, the European Commission published its [proposal](#) for a *directive on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure*. In EU law, directives are legislation addressed to the 28 member States which have the obligation to enforce them into their domestic legal order. Typically, the European Commission proposes to harmonize rules through directives rather than regulations – which are directly binding and do not require the member States to transpose the rules in their legal order – when it is believed that member States will accept such harmonization if they have some margin of appreciation to adapt and/or adopt the rules into their domestic legal order.

The Commission's directive proposal on trade secrets is based on article 114 of the Treaty on the Functioning of the European Union ("TFEU") that allows the approximation of legislations. The Commission chose to rely on this general

provision rather than on provisions such as article 56 of the TFEU which served as the legal basis for several instruments protecting intellectual property rights.

The Commission's choice is however coherent for two reasons.

- First, trade secrets are not considered as the orphan category of intellectual property, despite their complementary role in the protection of innovation. Unlike all intellectual property rights which, in Europe, are exhausted after 70 years (for copyright), 50 years (for related rights), 20 years (for patents, with a 5-years extension possible for pharmaceutical patents) or 10 years (for trademarks and designs, if their registration is not renewed), trade secrets can be perpetual. Also, as opposed to most of the intellectual property rights – with the notable exception of copyright and related rights – trade secrets do not require any formal recognition or decision of an administrative body – a trademark or patent office – to establish the monopoly of their owner over their own use. In addition, trade secrets do not imply some form of creativeness – such as for copyright – or of distinctiveness – such as for trademarks – or of industrial application – such as for patents.
- Second, the choice of article 114 of the TFEU is explained by the fact that the directive aims at a maximal harmonization of the rules in this domain. In other words, the member States will have to adopt national rules which cannot go below or beyond the protection thresholds established by the directive.

This proposal follows the publication of a study conducted by an international law firm on behalf of the Commission and the

organization of a public consultation on this topic. Many stakeholders consider that the European Union has made significant steps towards greater protection of trade secrets with this proposal, completing thereby the record track of the current Commission which succeeded in adopting the unitary patent system during the current legislature that will terminate in mid-2014, after the European elections.

If adopted in its current form, the proposed definition of trade secrets would require the combination of three elements to be qualified as a trade secret: (1) the relative inaccessibility of the information within qualified circles; (2) the commercial value generated precisely by the secret character of the information and (3) the fact that the information has been subject to reasonable steps to keep it secret. This proposed definition corresponds to that of article 39 of the TRIPS agreement. The choice of the word “commercial” instead of “economic” could be subject to further discussions, as the commercial character would qualify the secret as a “trade” secret, while its economic character would qualify it as a “business” secret, potentially broader in terms of language meaning.

The proposal includes a set of civil action remedies, including interim measures to avoid the disclosure of protected information. Interestingly, the proposal contains a provision on the abuse of litigation procedures when the applicant has initiated action in bad faith with the purpose of delaying or causing harm to the defendant such as delaying or restricting its access to the market. This provision is uncommon as it addresses a concept (the

abuse of litigation) traditionally defined by the case law.

The proposal does not address the protection of trade secrets through actions based on unfair competition. This is not surprising because the European Union currently has no harmonized legal framework for unfair business-to-business (B2B) practices. Some developments in this area are expected to occur during the next two years.

This proposal on trade secrets arrived at a critical moment of the EU-US relationships, when governmental agencies have been facing accusations of serious violations of the private life of senior politicians and businessmen. There is no doubt that trade secrets will be extensively discussed during the negotiations on the Transatlantic Trade and Investment Partnership, as both the EU and the US have a common interest in the greater protection of companies' secrets in a digital environment where hackers and competitors can, more easily than ever, violate the integrity of a company's IT system to obtain access to sensitive information.

No developments on this directive proposal are expected to occur before the installation of the newly elected European Parliament after the European elections of 25 May 2014.

## Intellectual property

*European Union*

# No nano? EU parliament and some member States advocate for greater regulation of nanotechnologies

*By Anthony Bochon*

2014 will be a pivotal year for the future of nanotechnologies in the European Union. It will have a second member State – Belgium – adopting a national register for nanomaterials similar to the register existing in France since January 2013.

On 7 February 2014, the Belgian federal government announced that it has adopted the Royal Decree – a non-legislative text – creating the national register for nanomaterials which would normally enter into force in 2016. However, the government has notified again the legal text under TRIS – the European information system on national technical regulations – with 20 May 2014 as standstill date. Although the notification of the [draft legal text](#) in July 2013 did not raise any concerns or attract open criticism from stakeholders, this final draft has been commented on by the United Kingdom. Unlike France where the environmental legislation was amended through a regular

parliamentary procedure, Belgium chose to rely on existing legislation on product safety and workers' health protection to adapt an executive measure, without any debate at the federal parliament level. The Belgian register for nanomaterials will enter into force on 1<sup>st</sup> January 2016.

Similarly, on 5 November 2013, Denmark notified under TRIS a [draft Order](#) on a register of mixtures and articles that contain nanomaterials as well as the requirement for manufacturers and importers to report to the register. It was expected to enter into force on 18 March 2014. Four member States have decided to comment on this draft legislation, namely Austria, Poland, the Netherlands and the United Kingdom. The Commission sent questions to Denmark and the standstill period has been extended until 6 May 2014. There is currently no news about the date of entry into force of this Danish nano register.

The upcoming adoption of two additional national registers to control the placement on the market of manufactured nanomaterials calls in question the future of the European nanotechnology policy, as member States disagree about the creation of an EU-wide register on nanomaterials. The European Commission consulted on this project in mid-2013 ([see TTLF's news in the October 2013 issue](#)). The dissemination of national registers may interfere substantially, at some stage, with the proper functioning of the European internal market and push the Commission to harmonize existing legislation. It remains uncertain, however, if nanotechnologies will be discussed as part of the revision of



REACH – the European chemicals regulation – as from 2018.

The upcoming European parliamentary elections will also lead to increasing demands from members of the European Parliament towards, at least specific regulation for nanotechnologies, if not bans on their uses in certain sectors such as foods or cosmetics. A recent delegated regulation of the Commission has crystallized existing tensions around nanotechnologies. When regulation 1169/2011 on food information was adopted seven days after the publication of the Commission's recommendation on the definition of nanomaterial of 18 October 2011 (2011/696/EU), the regulation included a compromise definition which did not match the newly suggested definition. The Commission was however entrusted with the power to amend the food information regulation.

On 12 December 2013, it adopted the Commission Delegated Regulation (EU) No 1363/2013 of 12 December 2013 amending Regulation (EU) No 1169/2011 of the European Parliament and of the Council on the provision of food information to consumers as regards the definition of 'engineered nanomaterials'. This amendment was published in the Official Journal of the European Union on 19 December 2013. However, the next day, the same journal announced that the delegated regulation should be considered as null and void. Intense political pressure seems to have been exercised on the Commission to withdraw its delegated regulation. On 18 February 2014, the European Parliament adopted a motion

calling the Commission to re-draft its delegated regulation and take into account the objections of the parliament regarding health and safety concerns about the presence of nanomaterials in food. On 12 March 2014, the European Parliament adopted a resolution objecting to the Commission delegated regulation. It stressed that the Commission tried to circumvent the objectives of Regulation 1169/2011 on food information to consumers. The Parliament said that it *"considers that the Commission delegated regulation is not compatible with the aim and content of Regulation (EU) No 1169/2011 and that it exceeds the delegated powers conferred on the Commission under the latter."*

Nanotechnologies have already been discussed from the viewpoint of standards during the first talks about the Transatlantic Trade and Investment Partnership. The growing reluctance in the European Union towards nanotechnologies will enlarge the gap that already separates the EU and US approaches towards the "nano" phenomenon. The only field where reconciliation seems possible is intellectual property, as both EU and US stakeholders agree on the need to protect and stimulate innovation in this domain. Nanotechnologies may, like GMOs in the nineties, become a source of lasting conflict between the US and the EU, despite the numerous differences between nanotechnologies and GMOs.

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