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U.S. FTC makes Actavis' acquisition of Forest subject to conditions

By Gabriele Accardo and Aurelia Magdalena Goerner

On 30 June 2014, the U.S. Federal Trade Commission ("FTC") stated that, in order to address the competition concerns raised by Actavis's proposed acquisition of Forest Laboratories, it has tentatively accepted the proposed settlement agreement between the FTC's Bureau of Competition and the two pharmaceutical companies.

In brief, under the proposed settlement agreement, Actavis and Forest agreed to sell or relinquish their rights to four generic pharmaceuticals that treat hypertension, angina, cirrhosis, and prevent seizures.

According to the FTC's complaint, the effects of the proposed acquisition, as originally proposed, would violate federal antitrust laws insofar as it may substantially lessen competition in the markets for three generic products that treat hypertension, angina and cirrhosis. In particular, the number of suppliers in the markets concerned would be reduced from three to two (for angina) and from four to three (for hypertension and cirrhosis), whereas market concentration would increase substantially post-merger.

Moreover, the proposed transaction would delay the introduction of generic competition against Lamictal ODT, the branded lamotrigine orally disintegrating tablets used to prevent seizures, manufactured by Forest and marketed by GlaxoSmithKline ("GSK"). No companies currently market a generic version in the U.S., whereas Actavis holds the only approved abbreviated new drug application to market generic Lamictal ODT. Thus, absent the proposed acquisition, Actavis is likely to be the first generic entrant and would be the sole competitor to Forest/GSK's branded Lamictal ODT product for a significant period of time.

In particular, under the proposed settlement agreement, the companies have agreed to relinquish their rights to market generic diltiazem hydrochloride to Valeant Pharmaceuticals International, sell generic ursodiol and generic lamotrigine ODT to Impax Laboratories, and sell generic propranolol hydrochloride to Catalent Pharma Solutions.

The proposed settlement will preserve competition in the markets for these important drugs and is part of the FTC's ongoing effort to protect U.S. consumers from higher heath care-related costs.

A description of the consent agreement package will be published in the Federal Register by the FTC shortly. Following a public consultation that will last until 30

July 2014, the FTC will decide whether to make the proposed consent order final. A monitoring trustee will then oversee the swift implementation of the consent order.

It may be recalled that last June 2013, the U.S. Supreme Court reversed the eleventh Circuit opinion in the landmark *FTC v. Actavis* case (see Newsletter 3-4 2013, p. 3 for more background), holding that reverse payment settlement agreements may violate federal antitrust laws but are not a *per se* violation, thus recognizing the impact that such settlement agreements would have on American consumers in the pharmaceutical market. Yet the validity of such agreements will still be tested under the rule-of-reason.

Antitrust

United States

Apple settles with U.S. states and consumers in the e-books price fixing case

By Nicole Daniel

According to documents filed in a New York court on 16 June 2014, Apple has reached an agreement in principle with state governments and consumers who filed a class-action lawsuit in the e-books price fixing case where it was alleged that Apple conspired to fix e-book prices.

This comes after District Judge Cote ruled in July 2013 that Apple had conspired with five major book publishers to fix the prices of e-books. They had done so to challenge Amazon's market power, which was similar to monopoly power. Apple engaged in this anti-competitive behaviour by pushing the adoption of the agency model, where the publishers set the e-book prices and pay the retailers commissions. Prior to this model and before Apple entered the e-book market, wholesale e-book pricing was common. The July finding concerned a separate lawsuit brought by the U.S. Justice Department. However District Judge Cote further ruled that her finding of liability was also a win for those states and consumers that had sued Apple in a separate lawsuit. They had sought damages of $840 million and claimed that the alleged price-fixing scheme had cost consumers millions of dollars.

Apple has asked the Second Circuit to overturn Judge Cote's ruling. Furthermore Apple was set to go on trial in the case against the states and consumers in August 2014. Apple had requested that the latter case to be stayed while it waits for the appeal decision. However this was refused by the Second Circuit in May.

The settlement is a "binding agreement in principle" and would spare Apple a trial to determine the amount of damages for price fixing. Importantly the settlement will only move forward if Apple loses the pending appeal.

Antitrust

European Union

General Court upholds the EU Commission's decision against Intel

By Nicole Daniel

On 12 June 2014 the General Court published its decision in the Intel case thereby upholding the Commission's 2009 decision finding that Intel had abused its dominant position and imposed a fine of EUR 1.06 billion.

On 13 May 2009 the Commission adopted a decision under Article 7 of Regulation 1/2003 (Antitrust Regulation) prohibiting Intel's anticompetitive conduct (for background see Newsletter No 5/2009, p. 5 and Newsletter No 3/2009, p. 4). According to the decision Intel had engaged in two types of abuse of its dominant position in the x86 CPU market (computer chips).

The first type of abuse was the grant of conditional rebates. Such rebates were granted to four PC and server manufacturers on the condition that they obtain all or almost all of their supplies from Intel. Furthermore payments to one downstream computer retailer were made conditional on the retailer's undertaking that it only sold computers with Intel CPUs.

The second type of abuse was the use of naked restrictions. According to the Commission Intel granted direct payments to three computer manufacturers to halt, delay or limit launching specific products which incorporated chips from AMD, Intel's only rival.

In its decision the Commission stated that Intel's anticompetitive behaviour had undermined competition and innovation. It ordered Intel to end this anti-competitive behaviour and imposed a fine of EUR 1.06 billion. Intel appealed the Commission's decision to the General Court.

The General Court upheld the Commission's decision finding that it had correctly demonstrated the anti-competitive behaviour in question. It held that Intel's attempts to conceal the anti-competitive nature of its practices and that the anti-competitive behaviour was an abuse of Intel's dominant position. Furthermore the fine imposed by the Commission was deemed appropriate.

Regarding the rebates the General Court stated that by their very nature exclusivity rebates granted by a dominant undertaking are capable of restricting competition. Therefore – contrary to Intel's claims – the Commission was not required to assess the circumstances of the case to show that the rebates had actually or potentially had the effect of foreclosing rivals from the market.

Similarly the General Court stated that the Commission was not required to assess whether in the light of the facts of this specific case the payments had restricted competition. The Commission was merely required evidence that Intel granted a financial incentive conditional upon an exclusivity condition.

The fine was appropriate and amounts for 4.15% of Intel's annual turnover and is therefore well below the 10% ceiling.

Antitrust

European Union

Motorola Mobility won't appeal the European Commission's decision on patent licensing

By Nicole Daniel

Motorola Mobility (Motorola) has decided not to appeal the European Commission's decision holding that it was abusing the way it licensed standard essential patents for mobile-phone standards.

The Commission had investigated technology companies since it was concerned that consumers are forced to pay more for phones or that phones may be withheld from the market if patent holders use their market power to get higher royalty rates for licensing their patents.

In April 2014 the Commission adopted a decision that found that seeking and enforcing an injunction in a German court against Apple regarding a smartphone standard essential patent constituted an abuse of its dominant position.

The Commission found that it was abusive of Motorola to both seek and enforce an injunction in Germany against Apple based on a standard essential patent that it had committed to license on FRAND terms and where Apple had agreed to licence the patent in question and even agreed to be bound by a determination of the German court of the FRAND royalties.

According to the Commission it was anti-competitive of Motorola – under the threat of enforcing an injunction - to insist that Apple give up its right to challenge the validity or infringement of Motorola's standard essential patents by Apple's mobile devices.

Since there is no case law dealing with the legality of standard essential patents based injunctions under Article 102 TFEU and there are diverging conclusions in national courts, no fine was imposed on Motorola. Motorola was ordered to eliminate the negative effects resulting from its anti-competitive behaviour.

As Motorola did not file a court challenge to the Commission's finding, this means that its decision stands and no judge will have a chance to scrutinize the Commission's approach.

Antitrust

European Union

ZTE files antitrust complaint with the European Commission against the patent-licensing practices of Vringo

By Nicole Daniel

On 18 June 2014 ZTE Corporation (ZTE) announced that it filed an antitrust complaint with the European Commission against Vringo Inc.'s (Vringo) patent-licensing practices.

ZTE alleged that it has been trying to negotiate a license on FRAND terms for telecom patents with Vringo since 2012. In ZTE's opinion Vringo, as the owner of numerous standard-essential patents on telecommunications standards, is required to license its patents on FRAND terms to safeguard competition in the EU telecommunications market.

ZTE and Vringo engage in technology innovation.

It will have to be seen how the Commission responds to that complaint.

Antitrust

European Union

French Competition Authority orders PMU to separate its online horserace betting activity from its physical point of sale network

By Gabriele Accardo and Aurelia Magdalena Goerner

On 25 February 2014, the French Competition Authority ("AdlC") issued a decision (available only in French) making legally binding the commitment of Pari Mutuel Urbain ("PMU"), the holder of a legal monopoly over horserace bets placed in physical outlets, to separate its online horserace betting activity ("Pmu.fr") from its point of sale network.

In essence, PMU has undertaken to separate, by September 2015, the pool of bets registered online from the pool of bets registered at physical outlets.

The investigation followed the complaint of Betclic a competitor in the online horserace betting space.

According to the AdlC, the aggregation of the bets, i.e. the fact that PMU can pool into a single pot all the bets made online and in physical outlets, strengthens the attractiveness of Pmu.fr's online horserace betting, by offering much higher winnings than its online competitors – to the extent of threatening their existence:

- PMU is the only operator able to offer an online bet on the arrival in order of five horses, known as the Quinté +, for which the potential winnings are very high.
- Because of its larger betting pot resulting from the aggregation of all online and offline bets, the PMU is in a position to guarantee online gamblers very stable odds and therefore to accept on Pmu.fr all bets by betters with no limits on amounts, which it could hardly do if only online bets are considered since a major bet can cause any change to the odds on any given horse;
- PMU is in a position to expand its online horserace betting offer without significant change to the betting pot of existing bets, and can thus preserve the stability of odds and winnings.

Conversely, Pmu.fr's competitors are unable to provide such an attractive offer because they do not have the resources at their disposal which the monopoly has over betting in physical outlets. In fact, PMU's market share of 85% in 2013 underlines its ultra-dominant position in the online horserace market.

According to the AdlC, the practice of

aggregation was therefore liable to lead to a risk of marginalization and the eviction of its online competitors, as well as becoming a barrier to entry into the online horserace betting market, possibly in breach of Article 102 of the Treaty on the Functioning of the European Union.

To address the competition concerns identified by the AdlC, PMU proposed the following commitments, which the AdlC has accepted following various rounds of consultations with stakeholders:

- By 30 September 2015, PMU shall separate the pool of bets registered online from the pool of bets registered at physical outlets.
- PMU will not use its database of clients at its physical outlets to induce them to place bets on its online site Pmu.fr.

Once the separation of the two betting pools has taken place, Pmu.fr and its competitors will only be able to use the respective horserace betting stakes of online gamblers. In particular, it will no longer be possible, as it is currently the case, for PMU to offer online winnings as high as on the Quinté +, winnings which could only be financed by the resources of the monopoly over the physical outlets.

Antitrust

European Union

Italian competition authority investigates online hotel bookings

By Gabriele Accardo and Aurelia Magdalena Goerner

On 7 May 2014, the Italian Competition Authority ("Agcm") initiated proceedings (decision only available in Italian) against Booking.com and Expedia in the online hotel reservations space. This is yet another case in the wake of similar investigations undertaken by other national competition authorities in Europe (see Newsletter 1/2014, p.15, Newsletter 5-6/2013, p.9 and 11, Newsletter No. 4-5/2012, p. 15, for additional background).

The Agcm is assessing, among other things, the compatibility with the antitrust rules on anticompetitive agreements and abuse of dominance by the use of the so-called most favored nation clauses ("MFNs") included in the terms and conditions of Booking.com and Expedia. MFN clauses would require hotels that want to appear on the respective platforms of Booking.com and Expedia to not offer their services at prices lower than or terms better than those made available to other booking agencies, and in general via all booking channels available (both brick-and-mortar and online) including the websites of the hotels themselves.

The Agcm is also investigating the application of the so-called Best Price Guarantee, which assures consumers about the convenience of the offer compared with similar ones offered, e.g., online. On the other hand, the clause requires hotels to apply the lower rate that may be found online, and eventually to provide a refund of the difference paid by the consumer, in case the reservation price was not the lower available.

According to the Agcm, these terms may result in substantial alignment of prices by reducing the incentives for hotel operators to compete, taking into account the fact that the failure to observe them would negatively affect the visibility of the hotels' own offers.

Antitrust

European Union

German Federal Cartel Office closes investigation into online sales ban required by adidas

By Gabriele Accardo and Aurelia Magdalena Goerner

On 2 July 2014 the German Federal Cartel Office ("Bundeskartellamt") announced that it has closed proceedings against adidas AG ("adidas"), following the commitment of the sport goods manufacturer to amend the conditions required for online sales and search engine advertising.

The investigation followed numerous complaints by sports retailers. The Bundeskartellamt is currently investigating similar practices by ASICS (see Newsletter No 2/2014, p. 20 for background information).

Whilst adidas sells its products to consumers only via authorized retailers, in 2012 it included a prohibition for retailers to sell via online market places such as eBay and Amazon, as well as other platforms like Rakuten.de, Yatego.de, Hitmeister.de and meinPaket.de. In addition, adidas restricted the use of adidas brand related terms as search words for search engine advertising such as Google AdWords, thereby further limiting the possibilities of using the online channel by retailers.

adidas has now amended its conditions of sale, removing the ban on sales via online market places and has also clarified that all authorized retailers are free to use adidas brand related terms as search words for search engine advertising. From now on, adidas' authorized retailers will be able not only to operate their own online shops but also to operate shops at online market places.

Andreas Mundt, President of the Bundeskartellamt stated that "…*proceedings against adidas and ASICS (which have not yet been concluded) serve as test cases because currently a number of brand manufacturers are contemplating similar measures…*"

Intellectual property

United States

U.S. Supreme Court rules that online television streaming Aereo is illegal

By Béatrice Martinet Farano

On 25 June 2014, the U.S. Supreme Court handed down its long awaited decision in American Broadcasting et al v. Aereo, holding that Aereo infringed the public performance rights owned by an association of broadcasters over their works.

Aereo is an online television streaming service that allows its subscribers to watch television programs over the internet at about the same time as the programs are broadcasted over the air. Because this retransmission is made through a complex system of thousands of small antennas, each of which is dedicated to the use of one subscriber at a time, Aereo argued that it did not publicly perform any of the copyrighted works and therefore did not infringe such works. While this argument was successful before the U.S. Court of Appeal for the Second District (see TTLF Newsletter No 2/2013 p.10-11), the Supreme Court reversed this decision and held that because Aereo had performed the broadcasters' rights publicly within the meaning of the transmit clause (17 U.S.C § 106(4)), Aereo had infringed the rights of these broadcasters.

To reach this conclusion, the Supreme Court observed that Aereo both (1) performed these works and (2) that this performance was public.

First, the Supreme Court argued that Aereo "performed" the broadcasters' work, rather than merely supplied equipment that allowed their users to do so. The Court considered that Aereo was in many ways akin to a pay TV provider, which pays for the right to air broadcasts, regardless of the technology it was based upon. These "behind the scenes technological differences", argued the Court, could not distinguish Aereo's system from cable systems, which Congress had made a point to include within the definition of the public performance clause. Because Aereo receives, by means of its technology, programs that have been released to the public and because it carries them by private channels to additional viewers, the Supreme Court argued that Aereo performed these works, regardless of the fact that the performance was actually commanded by a user.

The Court then held that this performance also had to be considered "public". Here Aereo claimed that because it transmitted from user-specific copies, using individually–assigned antennas, and because each transmission was available to only one subscriber at a time, this performance could not be considered "public". Taking another approach, the Supreme Court considered that when an entity communicates the same contemporaneously perceptible images and sounds to a large number of people who are unrelated and unknown to each other, it transmitted "a performance" to "a public", irrespective of whether it transmits such work using a single copy of the work or, as Aereo does, using an individual personal copy for each viewer.

The Supreme Court finally stressed that the scope of its decision was limited to the specific technology used by Aereo, with the aim of addressing the multiple concerns that had been voiced on the impact of this decision on the legality of multiple technologies, including cloud computing. After having repeatedly announced during trial that it would shut down its service should the Supreme Court hold its service illegal, Aereo finally announced on July 10 that it will seek a compulsory copyright license as a cable TV provider in order to continue its activity.

Intellectual property

United States

U.S. PTO Trademark Trial and Appeal Board cancels registration of marks containing name Redskins (Blackhorse, et al. v. Pro-Football, Inc., TTAB (June 18, 2014))

By Irene Calboli

On June 18, 2014, the Trademark Trial and Appeal Board (TTAB) of the U.S. Patent and Trademark Office (USPTO) wrote an important page in the dispute over the marks "Redskins" that has been ongoing for over two decades. Notably, the TTAB cancelled six federal registrations for trademarks that include the name "Redskins" that were registered by Pro Football Inc. between 1967 and 1990,[1] accepting the request brought forward by five Native Americans who argued that the name "Redskins" is disparaging for the Native American population and violates Section 2(a) of the Trademarks Act (Lanham Act), which prohibits the registration of marks that consist of matter that may disparage or bring into contempt or disrepute any person, institution, or belief.[2]

This decision comes after a similar decision by the TTAB in 1999,[3] where another group of Native Americans (seven prominent leaders) challenged the trademarks as disparaging under Section 2(a). Against the TTAB ruling, however, Pro-Football appealed to the District Court for the District of Columbia, which granted summary judgment in favor of the team and reinstated the cancelled registrations. The court held, in particular, that the Native American plaintiffs' claims were barred by laches since they were unjustifiably delayed in bringing the action when some of the trademarks had already been registered for as long as 25 years by the time of the lawsuit.[4] In contrast, in its 1999 ruling, the TTAB had ruled that laches did not apply because matters of broad public policy are not subject to the equitable defense of laches.[5] The district court's ruling in favor of Pro-Football was ultimately upheld by the Court of Appeals for the D.C. Circuit,[6] and Supreme Court denied petition for certiorari.[7]

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[1] Blackhorse, et al. v. Pro-Football, Inc., Cancellation No. 92046185 (June 18, 2014), *available at* http://ttabvue.uspto.gov/ttabvue/v?pno=92046185&pty=CAN&eno=199.

[2] Lanham Trademark Act of 1946 §2(a), 15 U.S.C. § 1052(a) (2006). The word "redskin" is generally understood to be a derogatory racial epithet referring to Native Americans. The term refers to scalping.

[3] Harjo v. Pro Football, Inc., 50 U.S.P.Q.2d (BNA) 1705 (T.T.A.B. 1999).

[4] Pro Football, Inc. v. Harjo, 284 F. Supp. 2d 96 (D.D.C. 2003).

[5] Harjo v. Pro Football, Inc., 30 U.S.P.Q.2d (BNA) 1828, 1833 (T.T.A.B. 1994).

[6] *See* Pro-Football, Inc. v. Harjo, 565 F.3d 880, 880–1 (D.C. Cir. 2009).

[7] Harjo, 565 F.3d 880 (D.C. Cir. 2009), *cert. denied*, 130 S. Ct. 631 (2009).

Hence, in 2006, a new group of five younger Native Americans petitioned the TTAB to cancel the six “Redskins” registrations.[8] In the decision at issue, the TTAB again found that the term “Redskins” was derogatory with respect to Native Americans, even though it was commonly associated with the Washington football team. The TTAB examined expert testimony and dictionary evidence, and concluded that at least 30 percent of Native Americans found the mark, in connection with professional football, to be offensive or disparaging.[9] The TTAB additionally revisited the issue of laches[10] and again ruled that the equitable defense does not apply where there is a broader public policy concern at issue.

Still, the June 2014 TTAB decision does not necessarily put an end to this dispute. The football team has already issued a statement expressing its confidence of a more favorable outcome on appeal.[11]

Nevertheless, should the team decide not to appeal due to public pressure or other reasons, or should the cancellation of the “Redskins” trademarks be affirmed by subsequent federal court review, Pro-Football will lose the legal benefits of federal registration of the marks.[12] This means that the team will lose the legal presumptions of ownership and of a nationwide scope of rights, the ability to use the federal registration symbol, and the ability to record the registrations with Customs and Border Protection in order to block the importation of infringing or counterfeit foreign goods.[13]

Last, but not least, Pro-Football will likely continue to retain common law rights in the marks—that is, its use-based rights will continue even in the case that the cancellation of its federal registrations would be upheld in federal courts. In this respect, Pro-Football could continue to invoke exclusive rights to the “Redskins” trademarks (and related merchandise) based on Section 43(a) of the Lanham Act.[14] Hence, the argument could be made that a cancellation based on Section 2(a) could also affect the ability of the team to enforce its common law rights based on Section 43(a), even though many signs that could not be registered have traditionally enjoyed the unfair competition protection of Section 43(a). To date, however, no court has ruled on the effect on Section 43(a) of a trademark cancellation based on Section 2(a)—i.e. in the case of a disparaging mark. We thus cannot exclude the possibility that the application of Section 43(a) could be preempted by a trademark cancellation based on Section 2(a) as a matter of public policy. In this case, it would be interesting to see whether the court in question would find that a sign that has been deemed

[8] Blackhorse, et al. v. Pro-Football, Inc., Cancellation No. 92046185 (June 18, 2014).

[9] *Id.* at 71 (finding that 30 percent was “without a doubt a substantial composite”).

[10] *Id.* at 73-4 (ruling that the enactment of the AIA, which changed the venue for appeals from the USPTO *inter partes* proceedings, meant that the previous laches decision by the U.S. District Court for the District of D.C. was not binding or persuasive).

[11] Statement by Bob Raskopf, Trademark Attorney for the Washington Redskins, Washington Redskins: Press Release (June 18, 2014), *available at* http://files.redskins.com/pdf/Statement-by-Bob-Raskopf-Trademark-Attorney-for-the-Washington-Redskins.pdf.

[12] *Id*.

[13] Lanham Act §42(a), 15 U.S.C. § 1124(a) (2006).

[14] Lanham Act §43(a).

unregistrable—because it is disparaging and offensive—could still be protected based on unfair competition principles under Section 43(a) of the Lanham Act.

Intellectual property

United States

Fair Use May Prevent Copyright from being Used as Censorship Tool

By Marie-Andrée Weiss

Judge Chris McAliley from the U.S. Southern District Court of Florida recommended on June 17, 2014, that the court grant summary judgment to a blogger who had used a photograph of a Florida businessman, to which he holds the copyright, to illustrate a blog post about him. The case is *Raanan Katz v. Irina Chevaldina,* 12-22211-CIV -KIN G/M CAL1LEY.

Plaintiff Raanan Katz owns shopping centers and a minority stake in the Miami Heat professional basketball team. Defendant Irina Chevaldina maintains two blogs highly critical of Plaintiff and his business practices. She used several times an unflattering photograph of Plaintiff to illustrate posts criticizing and deriding him. The photograph had been first published by the Israeli newspaper Haaretz, albeit the parties dispute whether it was first published in its online or offline edition.

After Chevaldina used the photograph on her blog, Plaintiff entered into a copyright assignment agreement with the photographer to assert his rights as a copyright owner. He then filed a copyright infringement suit against Chevaldina, and registered the copyright. When he notified Chevaldina of the copyright registration, she removed the photo from her blogs.

Chevaldina moved for summary judgment claiming fair use. Fair use is an affirmative defense to copyright infringement if the use is done for certain purposes such as criticism, comment or research. It is recognized by Section 107 of the Copyright Act which provides four factors that the courts may consider to determine whether a particular use was fair: (1) the purpose and character of the use, (2) the nature of the copyrighted work, (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole, and (4) the effect of the use upon the potential market. Fair use is however, always a mixed question of law and fact.

Judge McAliley found the first factor to weigh in Defendant's favor. He noted that the blog posts using the photograph all criticized Plaintiff and commented about him and, as such, were "criticism and commentary" under Section 107. He also found the use to be non-commercial and transformative. Judge McAliley quoted the Supreme Court's decision in *Campbell v. Acuff-Rose Music, Inc*., where the Court explained that the first factor central to the investigation must aim at determining whether the new work merely supersedes the original work or if the use is instead transformative. Judge McAliley compared Chevaldina's use of the photo with its other use, as made by Haaretz, the Israeli newspaper. Haaretz had used it to illustrate an article which had written favorably about the Plaintiff, whereas Chevaldina, "*in sharp contrast*," had used it to illustrate blog posts criticizing the Plaintiff, even derogatory posts. Therefore, Chevaldina had not merely used the photograph to identify Katz, her use was transformative. Judge McAliley cited the recent Northern District of California *Dhillon v. Doe* case, where Harmeet K. Dhillon, California Republican Party Vice Chairman, had sued an anonymous blogger who had used one of her headshots, of which she owned the copyright, to illustrate a post critical of her. The court had found the use transformative, noting that "*the defendant used the… photo as part of its criticism of, and commentary on, the plaintiff's politics. Such a use is precisely what the Copyright Act envisions as a paradigmatic fair use*."

Judge McAliley also found the second factor, the nature of the copyrighted work, to weigh in the Defendant's favor. The courts consider mainly whether the original work was factual or creative and whether it had been previously published. In this case, it had already been published by Haaretz, and Judge McAliley is of the opinion that the photo is factual, as that there is no evidence that the photographer had at all influenced the Plaintiff's pose or expression when he took the picture.

When considering the third factor, the amount of the work used, Judge McAliley noted that even though Chevaldina had sometimes used the entire photo, sometimes only a portion, he had "*copied only as much of the* [*p*]*hoto as was needed to further her criticism*." As the work is a photograph and thus it would not have been feasible for Chevaldina to copy less than the entire work, Judge McAliley found the third factor to be neutral.

Finally, the fourth factor, the effect of the use upon the potential market, also weighed in favor of Chevaldina. Katz had made no showing that there is a potential market for the photograph and he even testified that he had registered the copyright in order to "*stop this atrocity*" and to make a "*correction of a mistake that happened*." Even if Katz could one day change his mind and publish the photograph, that possibility was "*remote*" according to Judge McAliley.

For all these reasons, Judge McAliley concluded that Defendant's use of the photograph was fair and therefore recommended that the court grant Chevaldina's motion for summary judgment, and to deny the Plaintiff's motion for summary judgment.

Intellectual property

United States

The Curious Incident of Characters and Copyright at the Seventh Circuit

By Marie-Andrée Weiss

The Seventh Circuit Court of Appeals decided on June 16, 2014, that the famous Sherlock Holmes and Dr. Watson characters created by Sir Arthur Conan Doyle are no longer protected by copyright. The case is *Klinger v. Conan Doyle Estate, Ltd*., no. 14-1128.

The Appellee in this case was Leslie S. Klinger, the publisher of *A Study of Sherlock,* an anthology of contemporary short stories inspired by the Sherlock Holmes books and stories and featuring several characters created by Sir Arthur Conan Doyle. The publisher of the anthology, Random House, had entered into a licensing agreement with the Conan Doyle Estate, Ltd. ("CDE") after CDE had contacted the publisher to assert its exclusive rights over the Sherlock Holmes and Dr. Watson characters.

These two characters had first appeared in *A Study in Scarlet*, published in 1887 and first released in the United States in 1890. This story is thus in the public domain in the United States as are all works published before January 1st, 1923. But ten Sherlock Holmes short stories, also featuring the famous detective and doctor, were published after January 1st, 1923 and are thus still protected by copyright. Does that mean that the characters created by Sir Arthur Conan Doyle are also still protected by copyright?

Klinger was preparing a sequel to the first anthology, to be published this time by Pegasus. CDE asked again the publisher to obtain a license, and also threatened to prevent distribution of the book if the publisher did not obtain a license. Pegasus then refused to publish the anthology. Klinger sued CDE, seeking a determination that the Sherlock Holmes story elements were in the public domain and thus could be freely used. The Northern District of Illinois ruled in favor of Klinger and CDE appealed to the Seventh Circuit, which affirmed.

CDE argued before the Seventh Circuit that when a "*complex*" character is protected by copyright, it remains protected until the last work where this character appears falls into the public domain. It further argued that, while "*flat*" characters don't evolve, "*round*" characters do. CDE was also arguing that since the characters had continued to be developed throughout the ten short stories still protected by copyright, the characters themselves were still protected by copyright.

In *Silverman v. CBS Inc*. , 870 F.2d 40, 50, the Second Circuit had explained in 1989 the "increments of expression" principle, which is "*fully applicable to works that provide further delineation of characters* *already sufficiently delineated to warrant copyright protection*." In this case, Stephen Silverman wanted to use the Amos 'n' Andy characters in a Broadway musical comedy he had written. As in our case, some of the "Amos 'n' Andy" materials were in the public domain while others were still protected by copyright. The Second Circuit found that the Amos 'n' Andy characters had been *"sufficiently delineated"* in the radio scripts which were in the public domain and, as such, could be used by Silverman, However, he could not use *"any further delineation of the characters"* contained in the radio and television scripts and programs still protected by copyright.

The Seventh Circuit quoted *Silverman*, noting that "[*w*]*hen a story falls into the public domain, story element, including characters covered by the expired copyright, become fair game for follow-on authors*." The ten Sherlock Holmes stories still protected by copyright are derivative works and "*so only original elements added to the later stories remain protected.*"

The Seventh Circuit also noted that extending copyright protection to characters in the public domain appearing in works still protected by copyright would "*reduce the incentive of subsequent authors to create derivative works*" because, instead of being able to use works in the public domain for free, they would have to obtain a license. The Seventh Circuit also noted that it would also "*discourage creativity*" as authors might be tempted, instead of creating new characters, to use the characters they have already created again and again in order to prolong their copyright protection.

The "flat" and "round" characters theory presented by CDE failed to convince the Seventh Circuit, noting that "[*w*]*hat this has to do with copyright law eludes us*." Instead, the pertinent issue is whether the characters, as they appear in the work still protected by copyright, bear some original elements which are protected under the "increments of expression" theory. What ultimately matters is whether a particular character is sufficiently distinctive to be copyrightable. If it is, it is copyrightable. If it is then used by the author in another work, it is a derivative work and only the additional, original features added in the second work are protected by copyright.

The Second Circuit finally noted that it could imagine that CDE could be upset if an author would write a story where Sherlock Holmes would be disparaged. The Court paralleled that instance to trademark dilution, but it noted that "[*t*]*here is no comparable doctrine of copyright law."* Indeed, U.S. copyright law does not recognize a general moral right for all copyrighted works. While the Visual Artists Rights Act of 1990 protects the right of attribution and the right of integrity, its scope is limited to works of visual arts, which are defined by the Copyright Act as single copies of drawing, print or sculpture, or limited editions of 200 copies or fewer, signed and numbered by the author.

Sherlock Holmes and Doctor Watson are now part of the public domain in the U.S., and many new works featuring the famous characters will certainly be published in the years to come.

Intellectual property
United States

Massachusetts May Soon Have a Post Mortem Right of Publicity, Albeit Only for Personalities

By Marie-Andrée Weiss

On June 16, 2014, the Massachusetts Senate passed a right to publicity bill, S.2022, *An Act protecting the commercial value of artists, entertainers and other notable personalities* (the "Act"). It must now pass the House.

Right of publicity can be described as a property right and as a privacy right. It is a property right because it allows an individual to protect unauthorized commercial use of his identity. It is a privacy right because it protects the personality of an individual. This right is not, however, protected by any federal law. Instead, most U.S. states have their own right of publicity laws, whether statutory laws or common laws.

The Act would only apply to personalities, which are defined by the Act as individuals "*whose identity has commercial value*." Section 3A of Massachusetts General Laws already recognizes a right to publicity. It provides a civil cause of action if a third party has used the "*name, portrait or picture…within the commonwealth for advertising purposes or for the purposes of trade*" of "[*a*]*ny person*" without his or her written consent. The Act would strike 3A out and replace it with the Act. It seems therefore that individuals who are not personalities would no longer have a right to publicity in Massachusetts.

While the current version of Section 3A concentrates on the privacy aspect of the right of publicity, by detailing the elements of a civil cause of action for unauthorized use of someone's personality, the new version of Section 3A concentrates instead on the property aspect of the right of publicity. It is indeed an Act "*protecting the commercial value*" of personality. The Act also defines "*right of publicity*" as a "*property interest*." The unauthorized commercial use of a personality's identity, in advertising or for fundraising would be an "*infringing use*."

Under Section 3A(d)(1) of the Act, the right of publicity would be "*freely transferable*," for instance, by written contract, gift, or trust. An individual would be able to transfer only some parts of his "*personality's identity*" separately from other parts. That means it would be possible to license one's name to one entity, while licensing one's image to another entity. As such, licensing contracts would have to be drafted with great care.

The right of publicity could also be transmitted by testament or intestate succession. However, no right of publicity could escheat to any state or jurisdiction. Indeed, the Act would also provide a *post-mortem* right of publicity. Several States, such as California or Tennessee, already recognize such a right. The Act would extend the right of publicity by up to 70 years after the personality's death, if the personality was domiciled in Massachusetts at the time of his or her death. In order to be protected *post mortem*, however, the aspect or aspects of the personality's identity commercially exploited would have to have been transferred and such transfer would have to have been registered, either during the personality's lifetime or within 5 years of his or her death, Section 3A(d)(5).

The Act would provide for a cause of action for infringement of the right to publicity, and courts could award damages of $1,000 or, if greater than $1,000, the actual damages suffered as the result of the infringement, plus attorney's fees. The plaintiff would have to prove "*the gross revenue attributable to the infringement*." That requirement could lead to extensive discovery. This action would belong to either the personality or to the person or the persons collectively owning "*more than 50 per cent of the commercially used aspect of a personality's right of publicity*." This may lead to situations where the right of publicity of a personality has been infringed, but as a third party owns more than 50% of the infringed right of publicity and chose not to file suit, the personality could be left with no recourse. Therefore, agreements transferring more than 50 per cent of a personality's right to publicity should address this issue, for instance by adding a provision stating that the personality has to right to compel the owner of the right of publicity to bring suit, or that the personality would be compensated if the owner of the rights choses not to sue.

The Act provides some free speech protection. Section 3A(a) specifies that "*commercial use*" of identity does not include use of a personality's identity as part of a news report or commentary, or as part of an artistic or expressive work. Section 3A(c)(2) would provide a Safe Harbor for the owner of media which had published, broadcast or disseminated an infringing use, unless the owner had actual knowledge that this use was infringing.

As similar bills failed to be enacted in the past, it remains to be seen if the Act will pass the Massachusetts House.

Intellectual Property

European Union

Meltwater: CJEU confirms that online browsing does not require a license

By Béatrice Martinet Farano

On 5 June 2014, the CJEU handed down its long awaited decision in *Public Relations Consultants Association v. Newspaper Licensing Agency* (C-360/13), more commonly known as *Meltwater*, clearly stating that the mere browsing of online articles was covered by the temporary copies exception and therefore did not require an end-user license.

Meltwater is an online monitoring service which provides to its subscribers headlines and short excerpts of articles, along with a hyperlink to the original articles. The Public Relations Consultant Association (PRCA), an association of public relations professionals from the UK is one of their subscribers. Sometimes in 2009, the Newspaper Licensing Agency (NLA), a group of newspaper publishers in the UK, took the view that for Meltwater to provide access to excerpts of NLA's articles and for Meltwater's users to have access to such content, not only Meltwater but also its customers (including the PRCA) needed a license authorizing them to view such articles. The NLA notably argued that for users to access such articles, unauthorized copies of NLA's articles were necessarily made on the users' screen and servers (on-screen and cache copies). While this argument succeeded before the High Court and the Court of Appeal in England (see TTLF Newsletter No. 4/5 2011 p. 14-15), the UK Supreme Court strongly expressed the view that the temporary copies' exception should apply to on-screen and cached copies of copyrighted works generated in the course of ordinary browsing. In light of the importance of this issue to millions of internet users however, the UK Supreme Court decided to refer this question to the CJEU .

For the referring Court, this case raised the question as to whether internet users who viewed websites on their computers (without downloading or printing them out) were committing infringement of copyright by the sole reason of the creation of on-screen copies and cached copies on their computers. The CJEU gave a clearly negative answer to this question, holding that such copies were covered by the temporary copies' exemptions of article 5 (1) of Directive 2001/29 (the Infosoc Directive).

To reach this conclusion, the Court went through a full analysis of the criteria laid down in article 5(1) of the Infosoc Directive to conclude that on-screen and cached copies that were automatically created by an end-user while reading or browsing an online article were:

(i) *temporary*, since the on-screen copies were deleted any time the internet user moved away from the website viewed, even though cached copies could be retained for some time depending on the extent and frequency of internet use;

(ii) *transient or incidental*, in that their duration and purpose was limited to what was necessary for the technical process concerned to work properly;

(iii) *an integral and essential part of the technical process*, in that both the on-screen and cached copies were integral and essential to internet browsing, regardless of who activated the process.

The Court went on to consider whether to allow such exception would also satisfy Article 5(5) of the Directive, i.e. whether such copies would unreasonably prejudice the legitimate interest of the right holders. The court concluded that it would not. To this extent, the Court argued that for the work to be made available to the user, the publisher – who communicated the work to the public - had to obtain a license from the copyright holder. Yet, the Court argued, if a license is obtained from the publisher, there is no justification for requiring the internet user to obtain another authorization to access that same work. The Court finally concluded that such copies did not conflict with a normal exploitation of the work, arguing that the viewing of a website by means of the technological process at issue represented a normal exploitation of the work, making it possible for internet users to avail themselves of the communication made by the publisher. This decision will certainly come as a relief for online publishers and internet users at large.

Intellectual Property

European Union

EU trade secrets law moves closer to the U.S.

By Mark Owen

The likely final shape of the EU's Directive on Trade Secrets ("TSD") is becoming clearer. The draft Directive (previously reported in Newsletter 2/2014 p. 30) has recently been amended by the EU Council and, though some further adjustment will take place, this should now be very close to being a final draft. With the recent changes, it is notable how close the draft Directive now is to the United States' Uniform Trade Secrets Act ("UTSA"), adopted wholly or largely by most U.S. states. Both approaches are also close to that set out in the TRIPS agreement, and so means there is an increasing harmonisation of civil procedures and remedies around the protection of trade secrets. This short article provides an update on the changes made by the EU Council as well as highlighting some similarities with the UTSA approach.

Minimum standard

The TSD is now to provide a minimum level of protection for trade secrets, but Member States are largely free to impose stricter laws. While welcome for rights-owners and potentially allowing greater flexibility than a completely harmonised pan EU approach, this will inevitably mean that a fragmented approach continues.

Scope of protection – what does "trade secret" mean?

The TSD applies to information which is secret, has commercial value and in respect of which reasonable steps have been taken to keep it secret. The UTSA takes the same approach but in addition lists types of information which may be covered ("formula, pattern, compilation, program, device, method, technique, or process"), a list which while not expressed to be exhaustive notably omits business information of a less technical nature. In contrast, the TSD refers to "undisclosed know-how and business information", and so is potentially broader than the UTSA.

All three codes identify the same types of restricted act, namely unlawful acquisition, use or disclosure of trade secrets. But there are differences between how each deals with the question of whether a mental element needs to be proved, such as of dishonesty or of gross negligence as to where the information came from. The revised TSD has removed an earlier requirement that the rights-owner prove that the defendant had been acting “intentionally or with gross negligence”. TRIPS makes it harder for rights-owners, requiring that the conduct be "contrary to honest commercial practices" or has a "gross negligence" element. The UTSA adopts different language but a similar approach, requiring knowledge that it is a trade secret, or the use of "improper means".

Exceptions

One of the biggest areas of debate over the draft TSD has been around which acts should be permitted without the rights-owner's consent. A number of activities will not amount to a breach of the new trade secret right, including lawful observation or disassembly, or anything else which is in accordance with honest commercial practices. A lot rides on what "lawful" means here; for example if you have purchased a software licence but the licence contains terms barring observation for the purposes of creating competing software does that render the activity unlawful?

The UTSA includes a partial list of "proper means" for discovering a trade secret, which includes reverse engineering provided the acquisition of the product was done by fair and honest means. Suddenly of interest with the rise of drones is the UTSA's view that otherwise lawful airplane overflight to take pictures should not be regarded as "lawful means". This provides a neat illustration of the dangers of the use in legislation (or here in the guidance notes) of technology-specific examples. As custom, practice and the common view of what is acceptable evolves, such examples risk being overtaken. While some technologies may become less objectionable, the recent debates around online privacy show that others may become more problematic.

Procedure and remedies

The EU has been making determind efforts to implement a common range of both procedures and remedies for IP cases across the courts of Member States, largely through the IP Enforcement Directive (2004/48/EC). As trade secrets are not a universally recognised form of intellectual property, they were not subject to that Directive and so the TSD has its own regime. This bears close resemblance to the main features of the Enforcement Directive and includes all the usual remedies (damages, injunctions and destruction of infringing goods). One interesting remedy is that in appropriate cases the Court shall be free to publish the information in question, if it feels the attempts to protect have been abusive, something likely to make claimants think very seriously before threatening trade secret litigation under the TSD.

In common with the UTSA, the TSD now contains provisions ensuring the confidentiality of trade secret proceedings. The revised TSD also removes an issue of great concern to rights-owners which was a limitation period of only two years. This has now been extended to six, in line with other IP infringements.