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Contents

About the contributors

Gabriele Accardo is a lawyer and scholar who, after nearly twelve years of professional and academic experience, has developed a strong expertise in competition law and other complex areas of law that deal with business and innovation. In the early stages of his career he spent ten years in Brussels (until 2011), where he practiced EU and competition law at two leading international firms, Lovells and WilmerHale. Currently, he practices law in Rome, Italy. In 2009, his passion for research on international technology laws brought him to start collaborating as a Research Fellow at the TTLF. He recently co-founded Innoventually, a start-up that acts as the one-stop-shop for assisting public and private entities and individuals in the creation, management, protection, promotion, development and monetization of innovative solutions. Gabriele is a non-governmental advisor to the Italian Competition Authority in the ICN (Merger working group), and Director for Italy of the European Mediterranean Competition Forum.

Marie-Andrée Weiss is an attorney admitted in New York, with admission pending in France. Before becoming an attorney, she worked for several years in the fashion and cosmetics industry in New York as a buyer and a director of sales and marketing. She graduated from the University of Strasbourg in France with a M.A. in art history, a J.D. in business law, an LL.M. in criminal law, and an LL.M. in multimedia law. She also graduated from the Benjamin N. Cardozo School of Law in New York City with an LL.M. in intellectual property law. She is an attorney in New York and her solo practice focuses on intellectual property, privacy, data protection and social media law. As a TTLF Fellow her fields of research are freedom of speech on social media sites and the use of consumers' likenesses in marketing and advertising.

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Antitrust

United States

Antitrust Suit against Black & Decker and others revived by Fourth Circuit

By Nicole Daniel

On 15 September 2015 the Fourth Circuit revived an antitrust suit against Black & Decker Corp and others which accuses them of conspiring to boycott SawStop LLC's table saw safety technology. However, the court upheld the dismissal of claims that the defendants manipulated the standard setting process to exclude SawStop LLC's new technology.

In February 2014, SawStop launched its suit against Black & Decker Corp and other major toolmakers, claiming that the defendant manufacturers had colluded and thereby violated federal antitrust law. SawStop claimed that the defendants, through their industry organization Power Tool Institute Inc., refused to license a new safety technology created by SawStop. When a SawStop new technology blade detects contact between itself and a person the blade almost immediately retracts.

In its suit SawStop also accused the defendant companies of conspiring to change the standards of Underwriters Laboratories Inc., a company responsible for safety certification, to prevent a technology similar to SawStops' from being installed as industry standard. Allegedly, to limit their product liability claims exposure, the defendant manufacturers planned to [have Underwriter's Laboratories] implement an inferior safety standard; i.e. they wanted to implement a new standard through Underwriter's Laboratories

In June 2014 the district court dismissed the entire case. The Fourth Circuit, however, in a split three-judge panel, found that even though SawStop did not have enough evidence to show that the defendant manufacturers' participation in the process for setting safety standards for table saws went beyond cooperation that was ordinarily involved in such process, it did have enough evidence to go ahead with the alleged group boycott claim.

Judge G. Steven Agee for the majority wrote that the district court essentially committed two errors. The first error was to confuse standards for motion-to-dismiss and summary judgment. The second error was that a standard much closer to probability was applied even though the standard should have been closer to plausibility.

According to majority in the Fourth Circuit decision the district court applied the Supreme Court's *Iqbal* and *Twombly* rulings, which to move ahead with an antitrust proceeding, require from the plaintiff to allege something that goes beyond parallel conduct, too stringent;

especially given that the case in question was merely in the early stages.

Even though SawStop did not have enough details to plausibly allege that the defendants conspired to manipulate safety standards, SawStop put forward enough details to go ahead with the group boycott claim.

Therefore the Fourth Circuit revived the group boycott claim.

The Fourth Circuit further remanded the dispute over whether the plaintiff was harmed by the alleged anticompetitive behavior, or whether it was even necessary to show such harm since the alleged plot amounts to a per se antitrust violation. This issue was remanded since it had not been briefed sufficiently before the district court.

Importantly it was emphasized by the Fourth Circuit that its decision is not to be regarded as a “license for unlimited discovery” thereby noting that the district courts had power to restrict discovery.

Samsung Antitrust Complaint against Panasonic dismissed with Leave to Amend

By Nicole Daniel

On 30 September 2015, US District Court Judge Jeffrey White granted a partial dismissal of Samsung's third amended antitrust complaint against Panasonic Corporation, its affiliate Panasonic Corporation of North America and SD-3C LLC.

The dismissal concerned the market being described too broadly by Samsung. However, Samsung was given leave to amend its complaint.

In 1999 Panasonic and its partners developed SD cards as a modified format of the then-available flash memory cards. These are used in digital cameras and mobile phones. They also created SD-3C to license these SD cards to manufacturers. A standard license was created in 2003. In 2005 and 2006 two new forms of SD cards (the high capacity SD card and the microSD card) were developed, which were not covered by the 2003 license. Accordingly the SD Group met in the fall of 2006 to adopt an amended and restated license agreement.

Samsung started to manufacture the two new SD flash memory formats in 2006, and even though it refused to sign the 2006 license Samsung made the requested royalty payments to the defendants.

In June 2010 Samsung then filed suit alleging that the defendants conspired in order to monopolize the market for SD flash memory cards. Samsung also alleged that the licenses were anti-competitive agreements in restraint of trade.

The District Court granted two previous motions to dismiss in August 2011 and January 2012, since Samsung's claims were time-barred. These statute of limitations determinations were reversed and remanded by the Ninth Circuit in April 2014. The panel held that the four-year statute of limitations had not expired at the time Samsung filed its complaint in June 2010 since it was alleged that the new licensing agreement between Panasonic and its coconspirators was adopted in the fall of 2006.

Accordingly Samsung filed a Third Amended Complaint, followed by a motion to dismiss by the defendants in February 2015.

In his opinion Judge White stated that the alleged market, i.e. flash memory cards, was too broad as it did not distinguish between reduced-size and full-size memory flash memory cards. Samsung was given leave to amend its complaint to address the deficiencies described by Judge White. However, Judge White held that Samsung offered plausible allegations that the defendants agreed to refrain from competing and instead opted to create a new technology standard in which the defendants could share control.

Antitrust

European Union

Court of Justice of the EU clarifies when an action for infringement by SEP owner may amount to an abuse

By Gabriele Accardo

On July 16, 2015, the Court of Justice of the European Union ("CJEU") handed down its preliminary ruling following a reference by the Landgericht Düsseldorf ("Düsseldorf Regional Court") in the context of the dispute between Huawei Technologies ("Huawei") and ZTE Corp. ("ZTE") on 4G/Long-Term-Evolution ("LTE") technologies (see Newsletter 6/2014 p. 16 and Newsletter 2/2013, p. 9, for additional background).

Facts of the case

The issues at stake in the main case concerned the conditions of the "compulsory license defense" in standard-essential patents ("SEPs") disputes, or, conversely, on the availability of remedies to the SEPs' holder who has pledged to license them on Fair, Reasonable and Non-Discriminatory ("FRAND") terms.

Huawei is the proprietor of, *inter alia*, a European patent concerning method and apparatus of establishing a synchronization signal in a communication system. The European Telecommunications Standards Institute ("ETSI"), which granted SEP status, as the patent is essential to the LTE standard.

Huawei and ZTE engaged in discussions concerning the alleged infringement of the SEP and the possibility of concluding a licence on FRAND terms in relation to the products that ZTE put on the market and that operate on the basis of the LTE standard, thus using the SEP held by Huawei.

Huawei requested an amount which it considered to be a reasonable royalty, whereas ZTE sought a cross-licensing agreement instead.

Ultimately, no offer relating to a licensing agreement was finalized, whilst ZTE continued to sell its products without paying a royalty to Huawei or rendering an account to Huawei for past use.

Huawei brought an action for infringement against ZTE before the referring court, seeking an injunction prohibiting the infringement, the rendering of accounts, the recall of products and an award of damages.

Conflicting precedents

The Düsseldorf Regional Court considered

that a preliminary ruling was needed in the circumstances because there are conflicting precedents on the issue at stake, notably the German Supreme Court decision in the *Orange-Book-Standard* case (see Newsletter 3/2009, p. 4 for more background) and the case brought by the European Commission against Samsung (The case was recently closed with a commitment decision. See Newsletter 2/2014, p. 14 and Newsletter 6/2012, p. 11 for more background).

In the *Orange-Book-Standard* case, the German Supreme Court held that a defendant in a patent infringement case may successfully raise an antitrust defense against the issue of an injunction provided that (1) it has made an unconditional offer to conclude a licensing agreement under terms that cannot be rejected by the patent holder without abusing its dominant position, and (2) to the extent that the defendant uses the teaching of the patent before the applicant accepts the unconditional offer, it is compliant with the obligations that will be incumbent on it, for use of the patent, under the future licensing agreement, namely to account for acts of use and to pay the sums resulting therefrom.

Thus, in principle, under the *Orange Book* case law, the Düsseldorf Regional Court considered that it ought to uphold Huawei's action for a prohibitory injunction insofar as ZTE's offers to conclude an agreement could not be regarded as "unconditional" (the offer related only to the products giving rise to the infringement, whereas ZTE did not pay Huawei any royalty).

However, the CJEU noted that in the Samsung case the Commission basically held that, in principle, the abusive nature of a refusal to license a SEP may successfully be raised as a defense where the defendant is "willing to negotiate" a license on FRAND terms. In other words, the referring court wondered whether the bringing of an action for a prohibitory injunction may be deemed as unlawful under Art. 102 of the Treaty on the Functioning of the European Union ("TFEU"), where that action relates to an SEP, the proprietor of that SEP has indicated to a standardization body that it is prepared to grant licenses on FRAND terms and the infringer is itself willing to negotiate such a licence, thus being apparently irrelevant that the parties in question cannot agree on the content of certain clauses in the licensing agreement or, in particular, on the amount of the royalty to be paid.

Answer by the CJEU

In essence, the CJEU had to clarify whether, and in what circumstances, a SEP holder abuses its dominant position by requesting injunctive relief against an alleged infringer of its SEP.

As a threshold matter, the CJEU considered that the particular circumstances of the SEP case in the main proceedings distinguished that case from all other cases where a company seeks to exercise its right to defend its intellectual property, as set out in previous EU case-law. Unlike that case law, the case at issue

relates to the exercise of an exclusive right linked to a SEP established by a standardization body that has granted such SEP status only in return for the proprietor's irrevocable undertaking that it is prepared to grant licenses on FRAND terms.

Unlike all other patents, patents that have obtained SEP status allow their proprietors to actually control the market, by preventing products manufactured by competitors from appearing or remaining on the market, if an SEP holder should threat them by seeking an injunction.

Yet, the CJEU made it clear that under Article 102 TFEU, the proprietor of the SEP is obliged only to grant a licence on FRAND terms, and that the proprietor's irrevocable undertaking to grant licences on FRAND terms does not, in principle, negate the substance of the rights guaranteed to that proprietor by Article 17(2) and Article 47 of the Charter of Fundamental Rights of the European Union, including the right of access to a tribunal.

However, according to the CJEU, such "irrevocable undertaking" nonetheless justifies the imposition on that proprietor of an obligation to comply with specific requirements before bringing an action against an alleged infringer for a prohibitory injunction or for the recall of products. Specifically, the SEP owner would not abuse its dominant position, as long as**:**

- First, before bringing such an action, the SEP holder alerts the infringer of the infringement complained about by designating that SEP and specifying the way in which it has been infringed;
- Second, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, the SEP holder has presented to the alleged infringer a specific, written offer for a license on FRAND terms, specifying, in particular, the amount of the royalty and the way in which that amount is calculated.

In turn, the alleged infringer must respond to that offer in a diligent and serious manner.

Accordingly, if the alleged infringer does not accept the SEP holder's offer, it must promptly present the latter with a reasonable counter-offer that corresponds to FRAND terms, and has to provide a bank guarantee for the payment of royalties or deposit a provisional sum in respect of its past and future use of the patent, if that counter-offer is rejected. Where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay.

Conversely, if the conduct of the infringer is purely tactical and/or dilatory and/or not serious, an application for corrective measures or for an injunction does not constitute an abuse of a dominant position.

The CJEU thus clarified that the alleged

infringer may rely—as a defense—on the abusive nature of an action for a prohibitory injunction or for the recall of products, only if it has submitted a counter-offer.

Also, the alleged infringer cannot be held liable if, during negotiations, it reserves the right to challenge the validity and/or essential nature and/or use of that patent.

Finally, the CJEU held that the SEP holder does not abuse a dominant position in taking legal action to secure the rendering of accounts in order to determine what use the infringer has made of the teaching of an SEP with a view to obtaining a FRAND royalty under that patent, and in bringing a claim for damages in respect of past use of the patent, for the sole purpose of obtaining compensation for previous infringements of its patent.

Antitrust

European Union

EU Court of Justice's Advocate General issues opinion on circumstances where the use of an online booking system by travel agents may amount to a concerted practice

By Gabriele Accardo

On 16 July 2015 Advocate General Szupnar handed down his opinion following a request for a preliminary ruling by the Court of Justice of the European Union in a case concerning the implementation of a maximum discount by the administrator of the Eturas computer reservation system that is used by travel agencies in Lithuania.

Advocate General Szupnar opined that where several travel agencies participate in a common booking system and that system's administrator posts a notice informing its users that the discounts applicable to clients will be restricted to a uniform maximum rate, this notice being followed by a technical restriction on the choice of a discount rate, then such a situation may fall within the scope of Article 101 of the Treaty on the Functioning of the European Union ("TFEU"), notably in the form of a concerted practice among those travel agencies.

The Advocate General further clarified under what circumstances the travel agencies who become aware of the illicit initiative of the system's administrator and who continue to use the booking system, without publicly distancing themselves from that initiative or reporting it to the administrative authorities, may be held liable for the infringement of Article 101(1) TFEU.

The Advocate General first noted that the questions referred by the national court do not concern the liability of Eturas itself as a cartel facilitator (i.e. a third party which is not active on the relevant market or a related market, but serves merely as cartel secretariat). In fact Eturas is a contractual partner (licensor) of all travel agencies concerned, and it is also active on the market of licensing of online booking systems, which is related to the market of travel agents.

In order to establish the existence of concertation in circumstances which involve both an indirect communication via a third party and the absence of explicit response, the context of the interaction must be such that the addressee may be deemed to appreciate that the illicit initiative comes from a competitor or at least is also communicated to a competitor or competitors, who will rely on mutual action, even in the absence of response.

While undertakings using the same computerized system are not partners in a commercial dialogue, and therefore the sending of a message via the information notices field of a computerized system may not be fully treated as equivalent to other methods of communication in the business world, such as meetings or emails, the form of the communication may be relevant in assessing the context of the interaction.

In this respect, the Advocate General observed that the unusual nature of the method of communication in the main proceedings was counterbalanced by other circumstances:

- The system notice implemented by the system's administrator conveyed a clear message which could not be understood otherwise than as an initiative to engage in an illicit anti-competitive practice.

- The terms of that notice and the mode of communication were such that undertakings which became aware of the system notice, should have appreciated that—absent their expeditious reaction—the initiative would be automatically and immediately implemented with respect to all users of the system.

- The restriction of competition in question, i.e. the application of a uniform maximum discount rate by competitors, was clearly of a horizontal nature insofar as it required their mutual reliance, and an undertaking would comply with such an initiative only on the condition that the same restriction applies horizontally to its competitors.

Interestingly, the Advocate General rejected the contention of the applicants that the case at hand falls within the orbit of the so-called hub and spoke collusion, which involves exchange of information between competitors via a common trading partner in vertical relations, such as exchanges between distributors via a common supplier.

In such indirect exchanges, disclosure of sensitive market information between a distributor and its supplier may be considered as a legitimate commercial practice, whereas the present case concerns a message which was conveyed simultaneously to all undertakings concerned by their common trading partner and which, given its content, could under no circumstances be considered as forming a part of legitimate commercial dialogue.

Finally, the Advocate General considered under what circumstance the undertaking who became aware of the system notice and who continued to use the system, could escape antitrust liability.

Undertaking using an online booking system which is exploited as a platform for an anti-competitive practice, may have effective recourse to the two possibilities resulting from the Court's case-law in order to dissociate itself from that practice: it may publicly distance itself from the content of the illicit initiative or, otherwise, report it to the administrative authorities.

While it would be unreasonable to require an undertaking to express its opposition to all participants in the concerted practice (the identities of the competitors concerned may not be discerned immediately), the undertaking should have, at least, informed the system's administrator who announced the restriction and those other companies the identities of which might be known.

On the contrary, it would not be sufficient to ignore the communication or to instruct employees not to conform to the practice. Similarly, it would also be insufficient to oppose the practice by mere conduct on the market, for instance by giving individual discounts in order to counterbalance the general restriction, since, without public opposition such conduct could not be easily distinguished from mere cheating on other cartel members.

The case at hand ventures in somewhat unchartered territory of antitrust enforcement in the online commerce, to the extent that the Advocate General intends to apply case law on collusion arising in the context of meetings or other direct/indirect contacts among competitors to participation in a computerized system and failure to distance from an illicit "unilateral" measure implemented by the administrator of that system.

It may be recalled that last 6 April 2015, the US Department of Justice's Antitrust Division announced the first criminal prosecution against an online conspiracy, whereby certain companies selling posters on the Amazon Marketplace adopted specific pricing algorithms with the goal of coordinating changes to their respective prices and wrote a computer code that instructed algorithm-based software to set prices in line with the agreement (see Newsletter 2/2015 for additional background). Unlike in the case referred to the Court of Justice, the US investigation showed that conspirators entered into direct contacts and exchanged information.

Antitrust

European Union

European Commission investigates e-commerce sector

By Gabriele Accardo

On 26 March 2015, Competition Commissioner Margrethe Vestager announced the launch of a competition inquiry in the e-commerce sector. In early May, the Commission published a Communication, "A Digital Single Market Strategy for Europe," and an accompanying Staff Working Document with "analysis and evidence" setting out the action items the Commission intends to focus on in the next year and half.

Among others, the sector inquiry will address private—and in particular contractual—barriers to cross-border e-commerce in digital content and goods, since significant cross-border barriers to e-commerce still exist within the EU. Knowledge gained through the sector inquiry will also contribute to various legislative initiatives—including online platforms regulation—which the Commission plans to launch to boost the Digital Single Market.

But the work that EU officials intend to perform will be broader, as it will also include the establishment of a level playing field in the telecommunications sector, access to digital content, big data, interconnectivity, illegal content, and data protection.

In the past, the Commission has conducted competition inquiries in various sectors, including energy, financial services and pharmaceuticals. As a result of such inquiries, the Commission has carried out a number of individual investigations in the various sectors.

Barriers to intra-EU e-commerce

One of the issues the Commission will seek to address concerns territorial restrictions relating to online sales, specifically conducts that result in the denial of access to websites based in other Member States, or that, while allowing access to websites, still prevent completion of a purchase, or lead to the re-routing of consumers to a local website of the same company with different prices or a different product or service. Other geo-localizing practices that will be under scrutiny are those which result in different prices automatically applied on the basis of geographic location.

In 2010, the Commission updated the Block Exemption Regulation and the Guidelines on Vertical Restraints (see Newsletter 3/2010, for additional background), specifically focusing on non-price online restraints, notably territorial restrictions and selective distribution in the online space.

The Commission has now resolved to tackle the persisting problem in order to bring increased price transparency, more competition in cross-border e-commerce and greater availability and choice of products for consumers. In order to carry out its inquiry, the Commission will issue requests for information to suppliers and distributors of goods, and will likely rely on the assistance of National Competition Authorities.

Pricing restrictions

Another issue that the Commission will investigate concerns pricing restrictions between suppliers and distributors.

Price restraints in the online context were not included in the Commission's 2010 review of the Guidelines on Vertical Restraints.

In fact, recent cases—concerning for instance so-called Most Favored Nation clauses—have resulted in the need for more clarity and legal certainty on this hot topic. In fact, following the stream of cases in the hotel online booking sector, the Commission noted that "some platforms simply forbid companies from selling more cheaply elsewhere (including the seller's own website, other platforms and all offline distribution channels)." However, the inquiry will encompass not only online platforms, but all the players whose goods are distributed online.

Online platforms regulation?

A specific focus of the inquiry will be on online platforms, that is "…software-based facilities offering two- or even multi-sided markets where providers and users of content, goods and services can meet", according to the definition provided by the EC.

The Commission stated that "[g]iven the dynamics of the markets created and served by platforms, and the relatively short time that they have been in existence, more work is needed to gather comprehensive and reliable evidence on how different types of platform work and their effects on their customers and the economy as a whole."

While a better understanding of the new dynamics online platform bring in certain sectors is indeed welcome, the Commission has hinted at some forms of regulatory actions allegedly needed to fill, amongst others, the gap between EU and US internet platforms. This appears to be necessary due to the market power of some online platforms.

The Commission will thus carry out a comprehensive investigation and consultation on the role of platforms, including the growth of the sharing economy. The Commission's analysis will cover, among others, issues like those arising from the lack of transparency in the search results (involving paid for links and/or advertisement) and the way platforms use the information they acquire, possible issues relating to fair remunera-tion of rights-holders and limits on the

ability of individuals and business to move from one platform to another.

Germany's Federal Cartel Office finds ASICS' restrictions of online sales illegal

By Gabriele Accardo

On 27 August 2015, the Federal Cartel Office ("FCO") concluded its proceedings concerning certain anticompetitive restrictions in the distribution system of ASICS Deutschland ("ASICS"), and found that ASICS breached the EU competition rules on anticompetitive agreements, insofar as it restricted online sales of its small and medium-sized authorized dealers (see Newsletter 2/2014, p. 20 for more background).

The FCO took issue with ASICS' prohibiting its dealers from using price comparison engines for their online presence and from using ASICS brand names on the websites of third parties to guide customers to their own online shops.

While ASICS had already amended the clauses concerned, Andreas Mundt, President of the FCO, noted that if manufacturers prohibit their authorized dealers from using price comparison engines and online sales platforms or from using the manufacturers' brand names in their own search engine advertisements, it will *de facto* no longer be possible for consumers to find the smaller retailers, in particular, on the Internet. This in turn would allow manufacturers, such as ASICS, to control price competition in both online and offline channels.

The FCO also noted that while small and medium-sized distributors could not compensate for the sales lost due to the limited reach of their "shops" resulting from ASICS' prohibition, the online business will ultimately be concentrated in the hands of the manufacturers themselves and a few large retailers or leading marketplaces.

The FCO has not specifically ruled on the outright prohibition to use online marketplaces such as eBay or Amazon, due to the fact that the other online restrictions were found anti-competitive.

Interestingly, the FCO noted competition authorities have received numerous complaints from distributors about the conditions for online sales set by brand manufacturers, and that the European Commission's current sector inquiry into e-commerce will also possibly provide further insights on this issue. Not surprisingly, the FCO stated that further decisions by the authorities or the courts can be expected in this area.

Antitrust

European Union

Germany's Federal Cartel Office fines supplier of portable navigation devices for online RPM

By Gabriele Accardo

On 12 May 2015, Germany's Federal Cartel Office ("FCO") imposed a fine of 300,000 euros on United Navigation GmbH, Ostfildern, for enforcing resale price maintenance on retailers selling its portable navigation devices between 2009 and 2014. The investigation was launched upon an exchange of information with the Austrian Competition Authority.

During the relevant period, United Navigation monitored the prices of online retailers specifically, and requested they raise prices up to the indicated level, so-called "street price", as soon as prices dropped below the price level considered acceptable by United Navigation.

The FCO found that most of the retailers raised their prices after being contacted by United Navigation.

In other instances, United Navigation threatened to stop supplying the retailers or to bring legal claims for unauthorized use of copyright material. Otherwise, in order to induce retailers to raise prices, United Navigation granted retailers certain advantages or benefits, such as bonuses.

Intellectual property

United States

Dance Baby, Dance!

By Marie-Andrée Weiss

A Ninth Circuit panel held on 14 September 2015, that "[c]opyright holders cannot shirk their duty to consider- in good faith and prior to sending a takedown notification- whether allegedly infringing material constitute fair use."

The case, *Lenz v. Universal Music*, aka "The Dancing Baby Case," started in February 2007, when Stephanie Lenz uploaded to YouTube a 29-second video of her toddler son dancing to the song *Let's Go Crazy*, by Prince. This did not fare well with Universal, which was at the time enforcing Prince's copyright. It sent YouTube a takedown notification, which included a "good faith belief" statement, as required by 17 U.S.C. § 512(c)(3)(A)(v) of the Digital Millennium Copyright Act (DMCA), that it had "a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law."

YouTube removed the video and notified Lenz of the removal, who sent YouTube a counter-notification. The video was reinstated, but Universal protested, claiming that there was no evidence that Lenz had ever been granted a license to use Prince's song. Lenz sent another counter-notification to YouTube, which finally reinstated the video in July 2007.

Lenz filed a suit against Universal, alleging that it had misrepresented in its take-down notice that the video was infringing. Under the DMCA, 17 U.S.C. § 512(f), anyone who knowingly materially misrepresented that material or activity was infringing, or that material or activity was removed or disabled by mistake or misidentification, is liable for damages caused by such misrepresentation.

The District Court denied both parties summary judgment and they brought interlocutory appeal. On September 14, 2015, the Ninth Circuit panel affirmed.

Does the DMCA require copyright holders to consider whether the unauthorized use is fair use?

Lenz argued that the "good faith belief" statement of the complaining party required by 17 U.S.C. § 512(c)(3)(A)(v), "that use of the material in the manner complained of is not authorized by…the law," must be interpreted as including a belief that the use of the protected work is not fair use.

This question was an issue of first impression in all the U.S. circuits, and the panel held that the DMCA "unambiguously contemplates fair use as a use authorized by law," adding that "[f]air use is just not excused by the law, it is wholly authorized by the law." Section 107 of the Copyright Act provides four factors which are used by the courts to determine if an unauthorized use of a work protected by copyright is fair.

As such, fair use is indeed "authorized by law."

Universal had argued that fair use was not "authorized by law" but was a mere affirmative defense, which may excuse an impermissible conduct, but not authorize it. The panel disagreed, citing the Supreme Court *Sony Corp. of Am. V. Universal City Studios, Inc.* case, where the Court held that an individual "mak[ing] a fair use of the work is not an infringer of the copyright in respect to such use." The panel also cited a 2015 article by Lydia Pallas Loren, where the author argued that "Congress did not intend fair use to be an affirmative defense- a defense, yes, but not an affirmative defense." The panel concluded that even if "fair use is classified as an affirmative defense . . . [it is] for the purposes of the DMCA … uniquely situated in copyright law so as to be treated differently than traditional affirmative defenses."

The nature of the good faith belief that the use of a protected work is not fair use

That left the question of the nature of the "good faith belief" required by § 512(c)(3)(A)(v) that use of the material is not authorized by the law. The panel cited *Rossi v. Motion Picture Ass'n of Am., Inc.*, where the Ninth Circuit held that this requirement "encompasses a subjective, rather than objective, standard" and further held that "in § 512(f), Congress included an expressly limited cause of action for improper infringement notifications, imposing liability only if the copyright owner's notification is a knowing misrepresentation. A copyright owner cannot be liable simply because an unknowing mistake is made, even if the copyright owner acted unreasonably in making the mistake" (at 1004-1005).

For the panel, it is enough that the copyright holder has a subjective good faith belief that the use of the allegedly infringing work is not fair use. Therefore, Universal should be found liable only "if it knowingly misrepresented in the takedown notification that it had formed a good faith belief that the video was not authorized by law, i.e. did not constitute fair use," and this is a question of fact for the jury to determine. However, the subjective good faith belief must go beyond mere "lip service."

But consideration of fair use "need not be searching or intensive" either, as Rossi does not require "investigation of the allegedly infringing content." The panel was "mindful of the pressing crush of voluminous infringing content that copyright holders face in a digital age." The panel noted, "without passing judgment," that "implementation of computer algorithms appears to be a valid and good faith middle ground for processing a plethora of content while still meeting the DMCA's requirements to somehow consider fair use," citing *Disney Enters., Inc. v. Hotfile Corp*., 2013 WL 6336286, where the United States District Court for the Southern District of Florida was "unaware of any decision to date that actually addressed the need for human review" of DMCA takedown notices. In this

case, file storage company Hotfile had received some 400,000 DMCA takedown requests.

Willful blindness doctrine is applicable in DMCA context, but not in this case

The panel also held that the courts may use the willful blindness doctrine to determine whether a copyright holder knowingly materially misrepresented that it held a good faith belief the use of a work is not fair use. Indeed, the District Court had authorized Lenz to proceed to trial under a willful blindness theory. The panel cited the Second District *Viacom Int'l v. YouTube* case, where the court was the first to consider the application of the willful blindness doctrine in the DMCA context, and found it applicable. The panel, however, ruled that Lenz could not proceed to trial on this theory, as she had failed to establish the factors necessary to demonstrate willful blindness established by the Supreme Court in *Global-Tech Appliances v. SEB*, that is, (1), the defendant's subjective knowledge that there is a high probability that the fact exists, and (2) that defendant has taken deliberate actions to avoid learning that fact. Lenz had failed to establish that Universal subjectively believed, before sending the notification, that "there was a high probability that the video was fair use" and thus could not proceed to trial on a willful blindness theory.

As for the damages provided by § 512(f), the panel held that they are broader than the "monetary relief" defined by § 512(k) and that § 512(f) must not thus be narrowly constructed as requiring Plaintiff to prove she suffered monetary losses.

The case will now be tried. However, the district court's judgment, whether in favor of Plaintiff or Defendant, is likely to be appealed, as the case is now a *cause célèbre*.

Intellectual property
United States

The Batmobile is a Character Protected by Copyright

By Marie-Andrée Weiss

The Ninth Circuit held on 23 September 2015, that the Batmobile, Batman and Robin's vehicle of choice when rushing to save Gotham City, is entitled to copyright protection. The case is *DC Comics v. Mark Towle*, 2:11-cv-03934.

Appellant Mark Towle builds and sells replicas of the Batmobile, which was first featured in a Batman comic book in 1941. These comic books are published by Appellee, DC Comics. DC Comics had licensed its rights to ABC for the 1966 Batman television show and to Batman Productions in 1988, which in turn sub-licensed it to Warner Bros. which produced the 1989 Batman movie.

Real life models of the Batmobile were created for the 1966 Batman television show and for the 1989 Batman movie, although both of these versions of the Batmobile were not exactly replicating the Batmobile drawn in the comics. It is the 1966 and the 1989 versions of the Batmobile which Appellant produces and sells.

DC Comics filed a copyright, trademark infringement, and unfair competition suit against Towle in 2011, who claimed in defense that the Batmobile was not protected by copyright. The Central District Court of California held in 2013 that the Batmobile was entitled to copyright protection.

Characters are protected by copyright

As the Ninth Circuit court is located in California, Mickey Mouse's home state, it is not surprising that it had recognized in 1978 that characters are protectable by copyright, holding in *Walt Disney Productions v. Air Pirates* that Walt Disney characters are protected by copyright, because a comic book character "has physical as well as conceptual qualities [and is] more likely to contain some unique elements of expression." In *Air Pirates,* the Ninth Circuit distinguished comic book characters from literary characters, which it had found not to be protectable in 1954. In 1988, the Ninth Circuit recognized that television or motion pictures characters are also protectable by copyright.

However, the Ninth Circuit also held in *Halicki Films v. Sanderson Sales & Mktg* that only characters that are "especially distinctive" are entitled to copyright protection. In *Halicki*, the character of Eleanor the car, featured in the *Gone in 60 Seconds* movies, was found to be protected by copyright, as Eleanor was more a character than a mere automobile because of its "physical as well as conceptual qualities." So strong were these qualities that it did not even matter that

Eleanor was a 1971 Ford Mustang in one of the movies, and a 1967 Shelby GT-500 in another! Others courts have recognized that characters may be protected by copyright, if the character at stake was found to have persistent character traits and attributes. For instance, James Bond never asks for a Bloody Mary, or cringes at the thought of using a lethal weapon.

A three-part test to determine whether a particular character is protected by copyright

In order to find out if the Batmobile is a character protected by copyright, the Ninth Circuit established a three-part test to determine if a particular character can be protected by copyright: (1) the character must have "physical as well as conceptual qualities," (2) must be "sufficiently delineated" so that it will be recognized as being this particular character, and (3) must be "especially distinctive" and "contain some unique elements of expression."

Applying this test to the Batmobile, the Ninth Circuit found the Batmobile to be protectable by copyright. First, it has "physical as well as conceptual qualities," as it has appeared graphically in comic books and as a three-dimensional car in the television show and the movie. Secondly, it is "sufficiently delineated" to be recognizable wherever it appears, in comic books or on film. The Batmobile almost always looks like a bat, has bat-wings from its top or its back, features a bat emblem, and has a curved windshield. It is used to fight crime, and can be driven very fast, much more than the current 25MPH limit in New York City. The Batmobile is always equipped with the latest technology: in 1966, it already had a mobile phone! Thirdly, it is especially distinctive and "contains unique elements of expression" and "has [an] unique and highly recognizable name." The Ninth Circuit concluded that "the Batmobile is a character that qualifies for copyright protection."

Defendant's copies of the Batmobile

Defendant argued that he had copied the 1966 and the 1989 versions of the Batmobile, but not the comic book Batmobile, and that, therefore, Plaintiff lacked standing, as it does not own the copyright of these two Batman features. But the Ninth Circuit was not convinced, because Defendant had copied derivative works and thus had necessarily infringed the copyright of the underlying work, the Batmobile from the comics, citing *Apple Computer Inc. v. Microsoft Corp*, a case where the Ninth Circuit held that Apple could claim copyright infringement in both an original graphical user interface and a derivative thereof.

The Ninth Circuit concluded that Plaintiff owns a copyright interest in the 1966 and the 1989 Batmobile characters, and that Defendant had infringed Plaintiff's copyright in the Batmobile.

To the Batmobile©, Robin!

Intellectual property

United States

Copyright cannot be used to censor an unflattering picture

By Marie-Andrée Weiss

The Eleventh Circuit affirmed on 17 September 2015 the District Court for the Southern District of Florida, which had granted last year summary judgment to Appellee Chevaldina based on her fair use defense.

On September 17, 2015, the Eleventh Circuit affirmed a District Court summary judgment ruling in *Katz. V. Chevaldina*. Appellee Chevaldina had prevailed in the district court based on a fair use defense. Appellant Raanan Katz had filed a copyright infringement suit against her over the unauthorized use of a photograph (see here for a TTLF post about the 2014 ruling).

Registering a copyright in order to take down an unflattering picture

At stake was the use by Chevaldina, in several of her blog posts, of a photograph protected by copyright. Katz owns shopping centers and is a part owner of the Miami Heat basketball team. Chevaldina is a former tenant of Katz, and not a happy one. She created a blog to write about him and his allegedly unfair business practices, and used a photo of Katz she had found on Google image. to illustrate several posts in three different ways: without modifying it, by adding captions to it and by cropping and pasting it into cartoons mocking Katz.

The photograph had been taken by Seffi Magriso while Katz was watching a basketball game in Israel, and had been published on the web site of the Israeli newspaper Haaretz to illustrate an article about Katz. It shows Katz slightly sticking his tongue out and is rather unflattering. Indeed, Katz found the photo “ugly”, “embarrassing” and “compromising.” It is not surprising that Chevaldina used it to illustrate “several scathing blog posts” about Appellant and his business practices, and Katz took umbrage at this use.

When Katz discovered the blog and the use of the photo, which Chevaldina had found on Google Image, he filed a defamation suit against Chevaldina. He then had Magriso assign his copyright to him and filed a separate copyright infringement suit against Chevaldina. It seems that Katz had acquired the copyright of the photograph and registered it with the U.S. Copyright Office for the sole purpose of suing Chevaldina.

The defamation suit was ultimately tossed out by the Florida Court of Appeals, and so the copyright infringement suit was the only way left for Katz to have the photograph taken down. The district court granted summary judgment to Chevaldina. Katz appealed.

The photograph is protected by fair use

The Eleventh Circuit weighed the use of the photograph in the light of the four fair use factors of Section 107 of the Copyright Act: (1) purpose and character of the use, (2) nature of the copyrighted work, (3) amount of the copyrighted work used and (4) effect on of the use on the potential market or value of the copyrighted work, and the court found the use to be fair use.

As for the first factor, the purpose and character of the use, the Eleventh Circuit found that the district court had been right in finding the use to be noncommercial and transformative. The photograph was used to illustrate blog posts, which criticized Katz, his business and his attorneys. Chevaldina's purpose was not commercial, but rather was to educate others about "the alleged nefariousness of Katz." She did not gain financially from the blog posts, and, while having the intention to write a book about her dealings with Katz, this alone did not make the blog a commercial venture. Also, Chevaldina's use of the photograph was transformative, as "she used Katz's purportedly "ugly" and "compromising" appearance to ridicule and satirize his character." The first factor weighed in favor of fair use.

As for the second factor, the nature of the work, the Eleventh Circuit noted that the photograph "is merely a candid shot in a public setting, and there is no evidence…that Magriso…attempted to convey ideas, emotions, or in any way influence Katz 's pose, expression, or clothing." The Eleventh Circuit agreed with the district court that the nature of the copyrighted work was "primarily factual" and found the second factor to weigh in favor of fair use.

The third factor, the amount of the work, did not weigh for or against a finding of fair use, even if Chevaldina used the entire photograph without altering it, as copying less of the image "would have made the picture useless to [her] story that Katz is a predatory commercial landlord."

The fourth factor, the effect of the use on the potential market, weighed in favor of fair use, as "[d]ue to Katz's attempt to utilize copyright as an instrument of censorship against unwanted criticism, there is no potential market for his work." The Eleventh Circuit also noted that it was very unlikely that Katz would ever change his mind and decide to publish the photograph, considering how much he dislikes it.

As weighting of the four fair use factors "tilt[ed] strongly in favor of favor of fair use", the Eleventh Circuit affirmed the district court's grant of summary judgment.

A concerning trend, using copyright to censor speech

Will this case temper the ardor of some to use copyright as a way to censor speech? Indeed, we have recently seen several, fortunately unsuccessful, attempts to use copyright to take down online criticism, such as *City of Inglewood v. Teixeira*, or *Lee v. Makhenevich*. Copyright laws were

not enacted by Congress to suppress free speech. It is a concerning trend, which may fade away as plaintiffs realize that filing such suits only point the spotlight at the speech they are trying to suppress.

Intellectual property

United States

Recent Developments in the Apple-Samsung Dispute over iPhone Patents

By Nicole Daniel

A number of developments have occurred in Apple's patent and antitrust case against Samsung since May, when the Federal Circuit affirmed the awards of at least $548 million in damages.

In August, the Federal Circuit not only denied Samsung's request for an en banc hearing, it also denied Samsung's request that the appeals court stay its mandate. In the latter request Samsung cited its pending petition for certiorari to the Supreme Court.

Thereby the Federal Circuit essentially denied Samsung's requests to delay the enforcement of the May ruling concerning Apple's win over Samsung's copying of the iPhone. Accordingly the remanded parts of the decision, which regard the Apple's trade dress, will soon be back in district court.

In September Apple urged US District Judge Lucy Koh to enter an immediate judgment based on the Federal Circuit's mandate since the Federal Circuit has settled all liability issues in the case. Only a decision on the amount of damages remains. The judgment Apple wants shall include a partial final judgment amounting to $548 million in damages from Samsung. Apple also wants about $180 million in supplemental damages and $1.9 million in costs before the retrial starts. It comes as no surprise that Samsung disagreed with Apple's proposed approach.

A few days later, on 17 September 2015, the Federal Circuit vacated Judge Koh's order denying Apple's request for a permanent injunction against the infringing features in smartphones and tablets by Samsung. In short, in a 2-1 decision the court held that Apple properly established that irreparable harm would be caused by Samsung's continued infringement.

There was indeed a causal nexus between Samsung's patent infringement and Apple's lost sales. To prove a causal nexus some connection between the patented features and demand for the infringing products has to be shown. Therefore it was enough that the patented features were related to the infringement and also relevant to customers when examining which phone to purchase. There was no need for Apple to establish that these patented features were the reason why customers chose Samsung phones over Apple phones.

On 18 September 2015 Judge Koh entered partial final judgement of $548 million against Samsung and scheduled the start of the final trial for 28 March 2016.

The final trial will be a damages-only retrial for the five Samsung smartphones models for which the Federal Circuit vacated trade

dress damages in its May ruling. Accordingly the sole issue will be to determine what damages Samsung will have to pay for patent infringement on these smartphones models.

Apple commented that it will also seek the aforementioned $180 million in supplemental damages for Samsung's continued infringement during the period between the August 2012 verdict and September 2013, when it stopped selling the infringing models.

Another relevant issue in this regard is the '915 patent. Samsung states that Apple should not be allowed to seek supplemental damages for this patent since the US Patent and Trademark Office in 2014 invalidated that patent because of prior art. Samsung wants to stay the retrial during the US Patent and Trademark Office's re-examination of this patent and the connected appeals are ongoing. Judge Koh said she was "completely unconvinced" by Samsung's motions to stay the case.

Intellectual property

United States

Google and Microsoft agree to end Patent Battle

By Nicole Daniel

On 30 September 2015 it was announced that the five-year patent battle between Google and Microsoft has come to a close. The companies decided to end all patent infringement litigation against each other and drop around 20 lawsuits in the United Stated and Germany. No financial terms of the deal were disclosed; instead the companies pledged that they will work together on certain patent matters to strengthen the defense of intellectual property.

Since 2010 Google and Microsoft were clashing over a number of issues involving a variety of technologies including smartphones, WiFi, patents and royalties related to technology in the Xbox game console.

The most famous and bitter feud concerned litigation involving Motorola Mobility, which Google owned from 2012 until January 2014, when was sold to Lenovo Group Ltd, while Google kept many of its patents.. In 2010 Microsoft claimed that Android infringed some of its patents and demanded royalties from smartphone makers (Samsung, Motorola Mobility) for Android licensing agreements.

This is a further sign that the so-called worldwide smartphone wars are winding down. In 2014 Samsung and Apple agreed to drop all litigation against each other outside of the United States.

Other developments

European Union

EU Proposes Investment Court System for TTIP

By Nikolaos Theodorakis

On 16 September 2015, the European Commission proposed the establishment of an Investment Court System that will resolve disputes between investors and states in a transparent and efficient way. This system, if approved, will replace the existing investor-to-state dispute settlement (ISDS) mechanism in all ongoing and future EU investment negotiations. This proposal was introduced in the EU-US talks on a Transatlantic Trade and Investment Partnership (TTIP).

The idea on the Investment Court System stems from the feedback provided by the European Parliament, Member States, national parliaments and stakeholders through a public consultation regarding ISDS. It uses elements found on various domestic and international courts, and bodies like the World Trade Organization. Its primary aim is to achieve transparency and accountability. In fact, the current dispute settlement mechanism is often complicated and does not always promote transparency, an exception being the recently introduced UNCITRAL rules on transparency in Treaty-based Investor-State Arbitration.

The plan is that the Court System will be composed of fully qualified judges, proceedings will be accessible to public, and cases will be decided on clear rules. Additionally, the Court will be subject to review by a new Appeal Tribunal. The overall aim is to create consistency in rulings, coherence in the rule of law, and security to investors. The Commission suggested that the traditional form of dispute resolution suffers from a lack of trust, and thus a reform is necessary.

Benefits of the new system

The EU wanted to reform the current investor-to-state dispute settlement mechanism so that it delivers greater security to the investors. Knowledge of law and common expectations are major tools that will stabilize and further encourage investments. In that respect, the main advantage is that proceedings will be transparent and hearings will be open and accessible online. Complete transparency will engage society more with disputes that have public interest, and minimize incidents of corruption. Public scrutiny and openness of documents will help towards this direction.

The proposed Investment Court System will end the current practice of forum-shopping and multiple proceedings. Multiple proceedings are used by corporations who wish to maximize their chances of winning a case, and initiate multiple and parallel proceedings in

different jurisdictions. Hence, there is instability in the dispute settlement system, and multiple proceedings increase the cost, complexity, and time required to resolve a dispute. The Investment Court System will centralize all the relevant disputes and will eliminate any forum-shopping.

Similarly, the Investment Court System will act as a safeguard to any frivolous claims that investors may have. The Court will screen the claims as they come in and will dismiss the ones that have no legal basis. This is a cost and time efficient approach, since parties will not have to spend resources and time in a futile claim. Such an occurrence will also increase the quality of justice served and the trust that parties have in the dispute resolution system.

Lastly, the proposed System offers the benefit that there will be a clear distinction between international law and domestic law. Its functions will pertain to the field of public international law, and it will not substitute for domestic procedures. This offers clarity and security to both investors and states involved in a dispute.

Main points of reform

The proposal includes several improvements. The main ones are:

- A public Investment Court System that comprises a first instance Tribunal and an Appeal Tribunal;
- The Appeal Tribunal will have the same structure and scope as the WTO Appellate Body has in the WTO Dispute Settlement process;
- Judges who participate in the court will be publicly appointed, as is the case with other European Courts. They must possess distinguished qualifications comparable to the ones required for members of permanent international courts, such as the International Court of Justice;
- Governments will enjoy the right to regulate the provisions of trade and investment agreements in a protected environment with consistent rules and opportunities;
- Investors will be informed of the exact requirements and options they have in order to take a case before a tribunal. Cases like expropriation without compensation or denial of justice are the most common elements, however issues of targeted discrimination and similar violations will be equally important.

Next steps

This is an ongoing process since the Commission will now negotiate with the Council and the European Parliament. Once it is concluded, it will be presented as an EU text proposal in the EU-US trade talks and upon acceptance will be used in other ongoing and future negotiations.

In parallel to the TTIP negotiations, the Commission will aim to establish a permanent International Investment Court.

The aim is that over time the International Investment Court would replace all investment dispute resolution mechanisms provided in EU agreements. It would also replace EU Member States' agreements with third countries and in trade and investment treaties concluded between non-EU countries.

Overall, should the proposal for the establishment of an Investment Court System materialize, the international investment dispute resolution system will be more efficient, consistent, and transparent.