Stanford – Vienna
Transatlantic Technology Law Forum

A joint initiative of
Stanford Law School and the University of Vienna School of Law

Transatlantic Antitrust and IPR Developments

Bimonthly Newsletter

Issue No. 3-4/2016 (September 19, 2016)

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Antitrust

United States

ASCAP and BMI consent decrees: Review ends and struggles begin

By Martin Miernicki

On 4 August 2016, the U.S. Department of Justice (DOJ) announced the conclusion of its review of the consent decrees applicable to the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music, Inc. (BMI). The authority decided not to propose any modifications to the decrees. Furthermore, it set forth its (controversial) opinion that said decrees require ASCAP and BMI to offer "full work" licenses.[1]

Background

ASCAP and BMI are the most important performance rights organizations (PROs) for the management of performance rights in musical works in the United States and have for several decades operated under consent decrees negotiated with the DOJ. The organizations entered into these decrees due to claims based on antitrust violations of the Sherman Act. The current versions of the consent decrees date from 2001 (ASCAP) and 1994 (BMI). In 2014, the DOJ's Antitrust Division initiated a review in order to evaluate if these decrees needed to be updated. In the course of this review, numerous public comments were submitted to the DOJ.

The closing statement

In a closing statement, the DOJ explained its reasons for not modifying the decrees and prohibiting ASCAP and BMI from issueing "fractional licenses". With regard to the update of the decrees, the DOJ stated that "the industry has developed in the context of, and in reliance on, these consent decrees and that they therefore should remain in place" (page 22). However, it also suggested the need for comprehensive legislative reform. As for "fractional" licenses, the Antitrust Division interprets the language of the decrees and the case law based thereon as requiring PROs to provide access to "all works" in their repertoire, meaning that a license issued by such entity must eliminate the risk of infringement liability for the user. Thus, ASCAP and BMI may only i) offer licenses to the entire works, even if they represent not all co-owners; ii) include in their repertoires only works which they are able to license on such a basis.[2] Similarly,

[1] Under a "full work" license (or 100 percent license), a user obtains authorization to use a work without risk of infringement liability, whereas a "fractional" license covers only the rights which are controlled by the PRO issuing the license, implying the need for further licenses.

[2] Under U.S. copyright law co-owners of joint works are treated as tenants in common. Thus, each co-owner can issue a non-exclusive license to the entire work (unless an agreement

an amendment to the decrees to allow fractional licensing was found to be not in the interest of the public.

What can be expected?

The closing statement is in conflict with long-standing practices of copyright licensing in the United States. If enforced, it is likely to have a major impact on the music industry. It has also triggered a heated debate. The concerns expressed include the rise of administrative costs, a reduced royalty flow to right holders, and obstacles to creative production. Both ASCAP and BMI have announced that they will challenge the authority's reading of the consent decrees; ASCAP aims to induce a legislative reform while BMI plans to pursue litigation.

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stipulates otherwise), provided that she accounts for and pays to the other co-owners their pro-rata shares of the revenues.

Antitrust

United States

Sixth Circuit dismisses a predatory pricing complaint in the solar panel industry

By Valerio Cosimo Romano

On 18 August 2016 the United States Court of Appeals for the Sixth Circuit, dismissed a predatory pricing complaint filed by Energy Conversion, a solar panel manufacturer based in the United States, against three Chinese competitors.

Energy Conversion alleged that the defendants had conspired to drive their rivals out of business. More specifically, plaintiff claimed that the defendants, with the support of the Chinese government, had agreed to increase their export of solar panels to the United States with the intention of selling their solar panels below cost. It is also worth noting that, in a separate judgment, the Department of Commerce and the International Trade Commission found that the Chinese firms had harmed American industry through illegal dumping.

In their first argument, plaintiff alleged that the three defendants had charged below-cost prices for their products. Energy Conversion maintained that a predatory-pricing claim based on § 1 of the Sherman Act does not require a prospect of recoupment in addition to the mere below-cost pricing (that is, according to the plaintiff, Energy Conversion has only to prove that defendants engaged in below-cost pricing in order to drive it out of business and not that defendants are reasonably planning to recoup their losses by charging supra-competitive prices to the consumers once the rivals have left the market). According to the Court, however, predatory-pricing claims based on § 1 of the Sherman Act require below-cost pricing and a reasonable prospect of recoupment, which would be what makes rational the choice to "forgo profits." As plaintiff never alleged that Suntech, Trina, and Yingli had a reasonable prospect of recouping their losses, the Court dismissed the argument.

In its second argument, Energy Conversion went even further, explaining that the alleged conspiracy would be economically rational even if the conspirators never planned to make back their losses. The reason–plaintiff argued–is that defendants are all Chinese companies, and China is a "non-market economy." Thus, its commercial entities have little (if no) interest in making a profit. Rather, they intended to eliminate American competition. The Court disagreed, arguing that the Chinese companies, "impervious to the profit motive," were simply "happy to maintain low prices" as a "form of charity," and would not make use of monopoly power to lower production.

Third, plaintiff alleged that the low prices charged by the defendants amounted to an antitrust injury because these low prices led to reduced consumer choice and loss of innovation. The Sixth Circuit dismissed this argument as well. According to the Court, companies compete not only on the quality of their products but also on their prices. Innovation, thus, need not be solely about better technology but also about cost reduction. Therefore, even if a superior form of technology is removed from the market, the outcome might nonetheless represent “a triumph of consumer choice” and not a limitation on it.

This case has many interesting facets. In addition to reaffirming the necessity of recoupment for antitrust claims brought under § 1 of the Sherman Act, it gives hints on the interplay between antitrust and anti-dumping laws, highlighting their mutual independence. Further, it questions–at least potentially–the validity of antitrust arguments based on a market economy against other forms of economic governance. Lastly, it opens up the floor for further discussions regarding the pursuit of innovation through cost reduction.

Antitrust

United States

Samsung alleges that Huawei used FRAND promises to monopolize smartphone technology

By Nicole Daniel

In an ongoing dispute, Samsung accused Huawei of breaching its patent licensing commitments in order to gain control over the market for commonly used cellular technologies.

In May 2016 Huawei sued Samsung in the U.S. and in China for infringing 11 standard essential patents for smartphones. The technology covered by these patents is allegedly used in almost all of Samsung's cell phones. Huawei seeks damages in the U.S. proceeding; however merely seeks injunctions in the Chinese proceeding. In this regard, it must be noted that Chinese courts are becoming increasingly involved in patent disputes between big technology companies.

In July 2016 Samsung in turn sued Huawei in China for infringing six of its patents. In August 2016 Samsung responded to the U.S. lawsuit and filed antitrust counter-claims. Samsung accuses Huawei of breaching its promise to license the patents on FRAND terms thereby getting an unlawful monopoly over 3G and 4G wireless device technology. Furthermore, Samsung accused Huawei of patent infringement for 11 smartphone patents that may already be or may become essential to cellular technologies. Samsung also argued that two of Huawei's patent infringement claims should be dismissed, since the underlying intellectual property are unpatentable math formulas.

Samsung further argued that Huawei merely sued for injunctions in China to gain leverage in licensing negotiations in other areas of the world.

Samsung is seeking damages as well as injunctions to block the injunctions sought by Huawei.

At a court hearing on 13 September 2016 in San Francisco, District Judge William Orrick said that he was not inclined to break up the patent and antitrust dispute between the companies to allow Huawei to seek a court-ordered global FRAND license rate for its patent portfolios prior to litigation over the alleged patent infringement and Samsung's antitrust counterclaims. However, Judge Orrick allowed Huawei to argue for bifurcation by filing a five-page brief within the next week.

Judge Orrick then set a case schedule for a trial starting in two years on 17 September 2018. He also urged the opponents to settle the dispute sooner than that, noting that their plan to delay mediated settlement talks until deeper into the litigation proceedings was counterproductive. Furthermore, filing numerous lawsuits against each other to resolve their differences "is not the wisest way of dealing with the problem" that the companies have with each other.

Antitrust

European Union

The French Competition Authority holds that the relevant market for retail distribution of electronic product comprises both physical and online stores

By Valerio Cosimo Romano

On 18 July 2016, the French Competition Authority (FCA or the Authority) cleared the acquisition of Darty by the Fnac group, a move which will allow for the creation of France's largest electrical goods retailer. In a pioneering decision anticipated by a press release, the FCA held that the relevant market for retail distribution of electronic product includes both physical and online stores.

Fnac and Darty are France's two largest click and mortar retailers, respectively active in the music and book and consumer electronics markets.

When Fnac notified the FCA in February 2016 that it intended to acquire Darty, the Authority opened up an in-depth investigation to look into the competitive pressure exerted by online stores on retail markets of electronic products. As anticipated, for the first time in its merger cases history, the FCA considered that the retail distribution of electronic products through both physical stores and online channels forms a single relevant market. The FCA has indeed ruled that, on the basis of a change in consumers' habits, the competitive pressure exerted by online players (as comprising both pure e-commerce and websites belonging brick-and-mortar retailers) has now become significant enough to be integrated in one single market.

The Authority conducted its analysis on local-sized markets. After analyzing the competitive scenario on different areas, it observed that, despite a quite concentrated market, in the entirety of the markets located outside Paris, consumers will enjoy several alternatives for their shopping (such as large specialized supermarkets with significant aisles for electronic products or specialists in so called brown or grey products). The Authority concluded that Fnac will still face heavy competitive pressure outside the capital. However, FCA recognized that in certain areas the transaction carried competitive risks. For this reason, Fnac agreed to divest six stores in Paris and its suburbs to one or more retailers of electronic products, in order to ensure a variety of realistic choices for consumers, with the intent of maintaining competitive pricing and services conditions.

Further, FCA noted that manufacturers of electronic products are often global players enjoying a very strong negotiation power, which would maintain sufficient alternatives for the retailing of their products even after the occurrence of the proposed merger. Therefore, FCA could not identify any risk connected with the creation or enhancement of suppliers' economic dependency.

FCA's reasoning is groundbreaking and is destined to echo well outside national boundaries. With this leap forward, the French watchdog is not only signaling discontinuity with its traditional analysis on the matter, but is also paving the way towards the establishment of an innovative approach towards the identification of relevant markets, which is likely to spill over to the wider spectrum of competition matters.

Antitrust

European Union

The Competition Appeal Tribunal awards competition damages in UK's first final judgment on a stand-alone action

By Valerio Cosimo Romano

On 14 July 2016, the UK Competition Appeal Tribunal (CAT) ordered MasterCard to pay Sainsbury's £68.6m plus interest for infringing competition law in the setting of UK multilateral interchange fees (MIFs) for its credit and debit cards. This judgment is the first final one on stand-alone damages actions in the UK. In addition, it is the first UK case substantively dealing with the pass-on defence.

Interchange fees are transaction fees charged by the bank from which consumers receive their MasterCard (the "*issuing bank*") to the bank which permits the merchant to accept a card (the "*acquiring bank*"). When a customer of the issuing bank makes a purchase, the issuing bank forwards the full transaction amount minus an interchange fee to the acquiring bank, which in turn retains a charge for its services and forwards the resulting amount to the merchant. The issuing and acquiring bank may either agree on the respective amount of the fees, or they can make use of a certain value set by MasterCard under its UK MIF scheme.

In a lengthy opinion, the CAT ruled that the setting of the UK MIF between 2006 and 2015 amounted to a breach of competition law. It found that it amounted to an agreement or agreements between undertakings with the effect of restricting competition on the affected markets, namely the acquiring market, the issuing market, and the market between payment systems. The Court held that, absent MasterCard's scheme, bilaterally negotiated fees would have resulted in lower costs for merchants. In its defence, MasterCard claimed that the UK MIF scheme could benefit from the exemption for pro-competitive agreements provided for by Article 101(3) TFEU. However, the CAT found that none of the four cumulative conditions for obtaining an exemption under Article 101(3) TFEU had been met.

Further, MasterCard submitted to the Court an illegality defence against Sainsbury's. In the defendant's contentions, Sainsbury's claim ought to be barred by the fact that Sainsbury's Bank, a company linked with Sainsbury's, had taken part in the setting of the UK MIF. The argument was rejected by the CAT, which ruled that Sainsbury's and Sainsbury's Bank were not part of a single economic unit and that, in any event, no significant responsibility could be imputed to Sainsbury's Bank in relation to MasterCard the infringement of competition law.

Lastly, defendant argued that Sainsbury's was not entitled to recover the full value of the claim as it had passed the increased fees to its customers by increasing the prices of its products. The CAT dismissed this claim since no identifiable increase in retail price could be established, nor could MasterCard identify any class of claimant, downstream of Sainsbury's, to whom the overcharge has been passed on.

This judgment will prove useful for other claimants bringing actions related to interchange fees and, more broadly, for those bringing stand-alone damages actions. It also provides a useful guideline on pass-on defence under English law.

Antitrust

European Union

Impala criticizes EU decision approving Sony deal with the Michael Jackson estate

By Nicole Daniel

In August 2016 the trade body Impala heavily criticized the European Commission's decision to clear a deal between Sony Corporation of America and the Michael Jackson Estate, arguing that the deal reinforces Sony's market power.

Sony Corporation of America plans to buy the Michael Jackson estate's half of the music-publishing joint venture Sony/ATV Music Publishing.

The Commission conducted a preliminary investigation during which it also examined the views of competitors and consumers. Accordingly, Impala raised concerns that this transaction might lead to a reinforcement of Sony's market power, thereby creating serious competition issues. Impala even described the buyout as "transformative" and asked the Commission to impose tough remedies or open a Phase 2 investigation.

The Commission, however, was of the opinion that there would be no negative impact in any of the markets for recorded music and music publishing in the EEA from the transaction. Furthermore, the Commission found that compared to the situation prior to the transaction, the merger will not materially increase Sony's market power as compared to other digital music providers.

Intellectual property

United States

My other trademark dilution defense is the First Amendment

By Marie-Andrée Weiss

MOB, founded by Tara Martin, sells canvas bags featuring "My other bag …" on one side and a drawing of an upscale handbag, such as the Hermès Kelly bag, the quilted Chanel bag, or a Louis Vuitton bag, on the other side. The MOB bags retail for $35 to $55, depending on their size. In creating this product, Ms. Martin was inspired by the "My other car is a … [name of luxury car]" novelty bumper stickers.

French luxury accessory company Louis Vuitton (LV) did not appreciate this use of its trademark and copyright-protected designs and filed a trademark infringement, trademark dilution by blurring, and copyright infringement suit against MOB, which moved for summary judgment, claiming the bags are a parody. On 8 January 8 2016, Judge Furman of the Southern District of New York (SDNY) found the MOB bags to be parody and granted MOB's motion for summary judgment. LV then appealed the decision to the Second Circuit.

This case is interesting, as the Judge Furman found that parody was a successful defense against trademark dilution, trademark infringement, and copyright infringement claims. An amicus curia brief even argues that applying trademark dilution law to MOB's use of LV's trademarks would violate the First Amendment.

Trademark dilution claim

The Federal Trademark Dilution Act of 1995 (FTDA), 15 U.S.C. § 1125(c), was passed to give owners of famous trademarks protection against uses of their marks which would lessen their ability to identify and distinguish their goods or services, even if there is no likelihood of confusion. In *Tiffany (NJ) Inc. v. eBay Inc.*, the Second Circuit defined dilution by blurring as "the whittling away of the established trademark's selling power and value through its unauthorized use by others." Dilution occurs because consumers are developing new associations with the famous mark.

15 U.S.C. § 1125(c)(2)(B) enumerates six factors to be used to assess whether a particular use of a famous mark dilutes it: (1) the degree of similarity between the challenged mark and the famous mark; (2) the degree of distinctiveness of the famous mark; (3) the extent to which the owner of the famous mark is engaging in exclusive use of the mark; (4) the degree of recognition of the famous mark; (5) whether the user of the mark or trade name intended to create an association with the famous mark; and (6) any actual association between the mark or trade

name.

What is a parody?

15 U.S.C. § 1125(c)(3)(C) provides a parody defense against a trademark dilution claim if the use of a famous mark is made to "identif[y] and parod[y], criticiz[e], or commen[t] upon the famous mark owner or the goods or services of the famous mark owner." However, the FTDA does not define parody. Judge Furman quoted the Fourth Circuit *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC* case, where the Court explained that "parody must convey two simultaneous — and contradictory — messages: that it is the original, but also that it is not the original and is instead a parody. This second message must not only differentiate the alleged parody from the original but must also communicate some articulable element of satire, ridicule, joking, or amusement."

In *Haute Diggity Dog*, the Fourth Circuit had found that the "Chewy Vuiton" chew toys for dogs, which were small and rather crude imitations of Louis Vuitton bags, did not dilute LV's trademarks. The Court noted that "[t]he [LV] handbag is provided for the most elegant and well-to-do celebrity, to proudly display to the public and the press, whereas the imitation 'Chewy Vuiton' 'handbag' is designed to mock the celebrity and be used by a dog… The dog toy is a comment on the rich and famous, on the LOUIS VUITTON name and related marks, and on conspicuous consumption in general." Judge Furman also quoted § 31:153 of the McCarthy treaty on Trademarks and Unfair Competition which explains that a particular use of a trademark is a parody if it communicates to the public that is "separate and distinct from the trademark owner" and "is poking fun at a trademark or the policies of its owner." Judge Furman noted that "my other car" bumper stickers were "a joke — a riff, if you will, on wealth, luxury brands, and the social expectations of who would be driving luxury and non-luxury cars." He concluded that MOB's use of LV trademark was a parody.

Are MOB bags a parody?

On appeal, LV argues that a parody must be "directed at or 'upon' the trademark owner or its famous mark." For LV, the MOB parody does not target LV but instead makes fun of MOB itself, "at best," and is not even a parody, but, rather, a "social commentary" (LV reply brief p.8). LV cites the *Harley Davidson, Inc. v. Grottanelli* case, in which the Second Circuit held in 1999 that using a mark to "humorously… promote [one's] own products and services… is not a permitted trademark parody use" (*Harley Davidson* at 813). The Second Circuit, however, noted in *Harley Davidson* that it has "accorded considerable leeway to parodists whose expressive works aim their parodic commentary at a trademark or a trademarked product . . . but ha[s] not hesitated to prevent a manufacturer from using an alleged parody of a competitor's mark to sell a competing product" (*Harley Davidson* at 812). The Second Circuit found no parody in *Harley Davidson* because it found the use was not a comment.

MOB argues that "MOB's parody is communicated to consumers with a combination of features of the bags themselves, including, for example, the large stylized text 'My Other Bag . . .' on one side, the cartoonish depictions of designer handbags on the other side, the plain canvas material, and the bag-on-bag concept itself." MOB argued that, therefore, the parody is communicated by two simultaneous and contradictory message, within the meaning of *Haute Diggity*, "that it is the original, but also that it is *not* the original"(Appellee brief at 19) (emphasis in original).

The amicus curia brief filed by Professor Christopher Jon Sprigman and Professor Rebecca Tushnet argued that the "MOB bags are commenting humorously on society's obsession with owning status symbols, and with showing them off" (Amicus Curia brief at 4). Indeed, LV bags are not the sole source of inspiration for MOB. Some of its canvas bags also feature bags from Hermès, Chanel, or Fendi. The Fourth Circuit had noted in *Haute Diggity Dog* that the Chewy Vuiton parody was "enhanced by the fact that the 'Chewy Vuiton' dog toys are sold with similar parodies of other famous and expensive brands" such as "Chewnel No. 5" or "Jimmy Chew."

Trademark infringement

Judge Furman used the eight-factor *Polaroid* test used in the Second Circuit to assess whether an unauthorized use of the mark is infringing. He found that the trademark infringement claim "fail[ed] for much the same reasons that [the] dilution claims failed." As noted by the Fourth Circuit in *Haute Diggity Dog* (at 261), this is not surprising because "[w]hile it is true that finding a mark to be strong and famous usually favors the plaintiff in a trademark infringement case, the opposite may be true when a legitimate claim of parody is involved . . . In cases of parody, a strong mark's fame and popularity is precisely the mechanism by which likelihood of confusion is avoided." Consumers are not likely to be confused by a parody.

Interestingly, several celebrities who probably indeed own one or more LV bags, or, at least, could certainty afford to own one, have been seen carrying a MOB bag, some even using it as a grocery bag as envisioned by Ms. Martin when she first imagined the MOB bag. The Instagram account of MOB shows the picture of a woman carrying what appears to be an authentic quilted Chanel bag on one hand, and the MOB featuring the same Chanel bag on the other hand. These consumers are clearly not confused. MOB notes in its brief that LV "has admitted repeatedly… it knows that consumers are not confused" (Appellee brief at 46).

LV argues that there is post-sale confusion, which is recognized by courts, including the Second Circuit (*Lois Sportswear, USA, Inc. v. Levi Strauss & Co*.). For LV, "potential consumers or passersby could come to believe that MOB . . . is associated with [LV] or it at least consented to the use of its trademark" (Appellant reply brief at 21). However, as noted by the SDNY in *Gucci America, Inc. v. Guess?, Inc.*, "a post-sale confusion plaintiff must still establish a likelihood of confusion among an appreciable number of post-sale observers, taking into account all the vagaries involved with post-sale observation," further noting that "the fact that post-sale observers are removed from purchasing decisions makes post-sale trademark cases inherently difficult to prove, speculative, and subject to increased scrutiny" (*Gucci America* at 239). It remains to be seen if LV will meet this high standard. Professor Sprigman and Professor Tushnet noted in their brief that "the risks of post-sale confusion are lower with parody," adding that the MOB is obviously a parody, which appears to the consumer either pre-sale or post-sale (Amicus Curia brief at 18).

Copyright infringement

Judge Furman had also found that MOB's use of the LV trademark was fair use. As LV does not find that MOB bags are a parody, it argues that there is no fair use. Professor Sprigman and Professor Tushnet posit in their amicus curia brief that "LV did not file this case to protect its incentive to create new expressive works [but] to protect its brand from mockery," adding that "any effect on the value of [LV]'s trademarks… is not the kind of harm copyright aims to avoid" (Amicus Curiae brief at 23).

Is the TDRA unconstitutional?

Professor Sprigman and Professor Tushnet argued in their brief that the TDRA "creates a content-based right that applies to non-misleading commercial speech" (Amicus Curiae brief at 20). They note that the Second Circuit held in *United States v. Caronia*, applying the 2011 Supreme Court *Sorrell v. IMS Health Inc.* case, that "content-based suppression of non-misleading speech, including commercial non-misleading speech… must be shown to be narrowly tailored to serve compelling state interests" (Amicus Curiae brief at 19). They argue that Congress has not shown there was a compelling interest to enact the TDRA and that it did not used the least restrictive way available in order to prevent dilution of famous marks. Therefore, the TDRA violates the First Amendment.

We saw in another post that the Federal Circuit recently found the anti-disparaging provision of the Trademark Act violated the First Amendment. Now, the TDRA may be found unconstitutional. These leaves the lingering question: will the tension between the First Amendment and trademark law continue to increase or begin to diminish?

Intellectual property

European Union

ECJ: Posting a hyperlink to infringing content not a communication to public, unless…

By Marie-Andrée Weiss

Is providing a hyperlink to a work protected by copyright, which was published online without the authorization of the right holder, an infringement of copyright under European Union law? In order to answer this question, the European Court of Justice (ECJ) had to decide whether providing such a hyperlink is a communication to the public within the meaning of Article 3(1) of [Directive 2001/29 on the harmonisation of certain aspects of copyright and related rights in the information society]() (the InfoSoc Directive).

Article 3(1) provides that authors have the exclusive right to authorize or prohibit "any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them." The InfoSoc Directive does not define communication of the work to the public. Its Recital 23, however, specifies that such right "should be understood in a broad sense covering all communication to the public not present at the place where the communication originates."

The European Court of Justice (EJC) had ruled in 2014 in *Svensson and Others* (*Svensson*) that Article 3(1) must be interpreted as meaning that providing a hyperlink on one website to works made freely available on another website is not a communication to the public because "a communication . . . concerning the same works as those covered by the initial communication and made... by the same technical means [as the initial communication] must also be directed at a new public."

The ECJ defined "new public" as a "public which had not been taken into account by the copyright holders when they authorized the initial communication to the public." The ECJ concluded that making a work available by a clickable link does not communicate it to a new public (*Svensson* at 24), but did not specify if it would make a difference if the works had been made available without the authorization of the right holder.

The European Court of Justice (ECJ) answered that question on 8 September 2016 when it ruled in *GS Media BV v. Sanoma Media Netherlands BV, Playboy Enterprises International Inc., Britt Geertruida Dekker* (*GS Media*) that posting hyperlinks to protected works, if they were made freely available to the public but without the consent of the right holder, is not a communication to the public within the meaning of article 3(1). However, if the hyperlinks have been posted for profit, then it is presumed that it is a communication to the public, although that presumption is rebuttable (at 51).

Facts of the case

Here are the facts which led to *GS Media*. Sanoma publishes Playboy magazine. It commissioned Mr. Hermès, a photographer, to take nude pictures of Dutch starlet Britt Dekker. Samona has Hermès' full power of attorney to represent him in enforcng his rights in the photographs. GS Media operates the GeenStijl website. In October 2011 it published a report about the leak of Ms. Dekker's photos. The report included a hyperlink leading viewers to Filefactory, an Australian data-storage website, where, by clicking on another hyperlink, visitors could access a folder containing eleven photographs of Ms. Dekker. GeenStijl had been informed that these photos were available online by an anonymous tip, but had not published them itself on Filefactory.

Sanoma repeatedly asked GS Media to remove the GeenStijl hyperlink to Filefactory but to no avail. However, the photographs were removed from Filefactory. GS Media then published another report with a hyperlink leading to another site where the photographs were available. Playboy published Ms. Dekker's pictures in December 2011.

Samona sued GS Media for copyright infringement in the District Court of Amsterdam and won. On appeal, the Amsterdam Court of Appeal held that GS Media had not infringed the copyright of the photographer because the photographs had already been communicated to the public when posted on Filefactory. GS Media and Sanoma cross-appealed to the Supreme Court of the Netherlands.

Samona argued that, in view of *Svensson*, posting a link to a website on which a work has been published is a communication to the public, whether the work was published previously with the right holder's consent or not. The Supreme Court of the Netherlands stayed its proceeding and requested a preliminary ruling, asking the ECJ to clarify whether there is a communication to the public within the meaning of Article 3(1) if the copyright holder has not authorized to make the work available on the website to which the hyperlink directs.

AG Wathelet: Posting hyperlinks not communication to the public, unless circumvents restriction access

Advocate General Wathelet (AG Wathelet) delivered his opinion on the case on 7 April 2016. He reviewed the two cumulative criteria used by the ECJ in *Svensson* to analyze whether an act of communication is made to the public: there must be an "act of communication" of a work and such communication must have been made "to a public."

For AG Wathelet, posting a hyperlink on a site which directs to works protected by copyright that are freely accessible on another website is not an "act of communication" within the meaning of

Article 3(1) because it is not "indispensable" to post the hyperlink to make the protected works available to the public (AG Wathelet opinion at 60). The act which made the work available is the one made by the person who originally posted the protected work.

AG Wathelet also examined whether such communication is made "to a public" even though it was "irrelevant" to do so in this case (AG opinion at 61). AG Wathelet held that the "new public" criterion introduced by *Svensson* did not apply in this case because that criterion is only applicable if the copyright holder has authorised the initial communication to the public (AG opinion at 67). He noted further that, in *Svensson*, the ECJ had ruled (paragraphs 28 and 30) that if "there is no new public, the authorisation of the copyright holders is . . . not required for the communication to the public in question." For AG Wathelet, even if the ECJ would apply the "made to a public" criterion to *GS Media*, it would not be satisfied in this case because the ECJ clearly indicated in *Svensson* that there is a new public only if publishing the hyperlink was "indispensable" for making the protected work available to the new public (AG opinion at 69).

In this case, the photographs had already been made available by the file sharing site. AG Wathelet noted, however, that it was not clear from the facts whether the photographs were indeed freely accessible. He invited the referring court to verify whether the file sharing sites had put access-restrictions in place, and, if it had, verifying if the link posted on GeenStijl "merely facilitated access to a certain degree" (AG opinion at 71). If the GeenStijl hyperlink had allowed users to circumvent restrictions put in place by the third-party to limit access to protected works, then it was "an indispensable intervention without which those users could not enjoy the works . . . and . . . an act of communication to a public which must be authorised by the copyright holder pursuant to Article 3(1) of Directive 2001/29" (AG opinion at 73).

Therefore, for AG Wathelet, linking to content protected by copyright made freely accessible to the public, whether such publication had been authorized by the right holder or not, is not a communication to the public, unless the website publishing the content had put in place some restriction to access.

The ECJ ruling: Posting hyperlinks not communication to the public, unless made for profit

The ECJ did not entirely follow the conclusions of its AG and ruled instead that hyperlinks to protected works, which are freely available on another website without the consent of the copyright holder, are not a communication to the public within the meaning of Article 3(1), but only if the hyperlinks are "provided without the pursuit of financial gain by a person who did not know or could not reasonably have known the illegal nature of the publication of those works on that other website" (at 56). However, if the links are published for profit, then knowledge of the illegal nature of the publication must be presumed.

The ECJ explained that this ruling allows copyright holders to act against the unauthorized publication of their work on the website, to act against "any person posting for profit a hyperlink to the work illegally published," and also to act against any person who posted the links without pursuing financial gain, but who knew, or should have known that the work had been illegally published, or if posting such link circumvents access restrictions put in place by the website which originally published the work illegally (*GS Media* at 53).

Is GS Media a good decision?

GS Media is a good decision, but only because ruling otherwise, as noted by the ECJ at paragraph 46, would mean that individuals providing hyperlinks on their sites would have to check whether the content posted on the site to which they direct infringes the rights of copyholders. However, *GS Media* is also a potentially troubling decision as it leaves the door open to allowing right holders to sue individuals posting hyperlinks to works protected by copyright, without circumventing access protection, even if they did not post the link for profit.

Indeed, the presumption that an individual posting hyperlink not for profit "does not . . . [have] full knowledge of the consequences of his conduct in order to give customers access to a work illegally posted on the Internet" (at 48) is rebuttable (at 51). The right holder can rebut the presumption by proving that the individual knew that the work had been illegally published, but also by proving that he "ought to have known . . . for example . . . [if] he was notified thereof by the copyright holders" (at 49). But notification is presented as only one example of the ways it may be presumed that the individual posting the hyperlink "ought to have known" that the content had been posted illegally.

The next ECJ case about hyperlinks and article 3(1) will likely clarify the instances in which courts must rule that the individuals ought to have had such knowledge. Meanwhile, individuals posting hyperlinks to content protected by copyright illegally published, even for non-profit, remain vulnerable to, at best, cease-and-desist letters, and, at worst, lawsuits.

Other developments

United States

Is trading Twitter profiles a violation of Alabama Right of Publicity Act?

By Marie-Andrée Weiss

On 24 August 2016, Jason Parker and other Twitter users residing in Alabama filed a putative class action suit against Twitter and Hey Inc., the maker of the Stolen app, which allows players to use Twitter profiles, including those of the plaintiffs, to create profile cards to be traded online. Plaintiffs claim this is a violation of the recently enacted Alabama Right of Publicity Act, Alabama Code 1975 § 6-5-770, et seq.

According to the complaint, Hey entered into a partnership with Twitter around June 2015. The micro-blogging company allowed Hey to access its application programming interface so that information about Twitter's users accounts could be imported into the app. Hey then imported the identities of Twitter users, including their names and photographs, into the app, even though they had not consented to it.

Hey, Inc. started selling its "Stolen" app on October 2015, by invitation only or to everyone with a verified Twitter profile. Stolen users could buy and sell Twitter profile images online as if they are trading cards. They were given some virtual credit when signing up for the game and earned more credit when playing the game and could buy more credit using real-world currency.

Initially, the profile mentioned that the profile "belonged" to the Stolen user who "owned" the profile he had bought, but this was changed to show instead that the player had "stolen" the profile. To steal a profile meant that a user had bought a particular profile for a higher price than the one paid by another user.

Even more troublesome, users owning a particular profile on Stolen could alter the name of the profile, even by using derogatory terms. This led Representative Katherine M. Clark (D-MA5) to send a letter on 12 January 2016, to Jack Dorsey, Twitter's CEO, and to Tim Cook, CEO of Apple, which sells the app. Representative Clark was concerned about possible use of this app as a "tool to harass, bully and intimidate," particularly women and people of color.

The renaming function was deleted by Hey on 12 January 2016, but Representative Clark was also concerned about the use of the Twitter profiles without the consent of their owners. She asked Dorsey to "immediately suspend Stolen access to Twitter until nonconsenting profiles are removed and safeguards are implemented to ensure that no Twitter profile may be used by the [app] without clear, express consent."

Hey temporarily pulled the app from the

Apple's store the same day, posting on Twitter: "We've heard everyone's concerns and have decided the best thing to do is to shut down." It then launched a new app, "Famous: The Celebrity Twitter," which the complaint alleges is merely a re-brand of Stolen, because its "nature and core functionality (and look and feel) remain the same." The complaint further argues that the app continued to "allow its players to display ownership over real-life people by spending virtual currency," and that it is just "Stolen with a new name." They claim this a violation of Alabama right of publicity law.

The broad scope of the Alabama Right of Publicity Act

The Alabama Right of Publicity Act went into effect on 1 August 2015. It protects the right of publicity of individuals "in any Indicia of Identity," which is defined by Section 6-5-771 as "[i]nclud[ing] those attributes of a person that serve to identify that person to an ordinary, reasonable viewer or listener, including, but not limited to, name, signature, photograph, image, likeness, voice, or a substantially similar imitation of one or more of those attributes." The scope of the Alabama law is rather broad, as "indicia of identity" protects even representation merely evoking the person, if it is substantially similar, which is a concept open to interpretation.

The commercial use of the indicia of identity of a person without consent entitles this person to monetary relief, statutory and punitive damages, and injunctive relief. The use must have been "in products, goods, merchandise, or services entered into commerce in this state, or for purposes of advertising or selling, or soliciting purchases of, products, goods, merchandise, or services, or for purposes of fund-raising or solicitation of donations, or for false endorsement." In our case, there is little doubt that the Alabama Right of Publicity Act protects Twitter profiles, even if the profile does not feature a person's real name, but rather her avatar or other biographical element allowing for her identification.

There is no federal right of publicity law, and the states have their own laws, which differ in scope. New York right of publicity law, New York Civil Rights Law §§ 50 and 51, protects only the commercial use of a "name, portrait or picture." California law, California civil Code section 3344-3346, is broader than New York law as it protects against unauthorized commercial use of "name, voice, signature, photograph, or likeness," but is not as broad as Alabama law. Such difference in state right of publicity laws may lead to forum shopping. Indeed, the Alabama law would have favored Lindsay Lohan, who lost in September 2016 her New York right of publicity suit against the makers of the video game Grand Theft Auto, because the game "never referred to Lohan by name or used her actual name in the video game, never used Lohan herself as an actor for the video game, and never used a photograph of Lohan." Lindsay Lohan, however, may have won her case under Alabama law.

Black market for influencer marketing?

This case is interesting as it shows that social media profiles have monetary value, and for different reasons. In this case, Twitter was able to license their use for Hey's commercial gaming purposes. But profiles can also be used for marketing purposes. An article published online noted that if a player owns a profile on Stolen, he could then use it to promote his own products. Such use would create a sort of black market for influencer marketing, which occurs when companies are tapping into the influencing buying power of a social media star to promote their products or services. Even if, say, Kim Kardashian does not endorse a particular product on her various social media accounts, the company making the product could still "steal" her profile on Stolen and use it as a way to promote the product, as long as it is able to hold the profile. This complaint is only against Hey and Twitter. Could a complaint against one of the Stolen users also be successful, if filed?

Other developments

European Union

European Commission rules against Apple on state aid grounds

By Nikolaos Theodorakis

On a decision issued in the end of August, the European Commission concluded that Ireland granted undue tax benefits to Apple. These benefits are estimated to be up to €13 billion, which the commission has now ordered Apple to pay back. Apple and Ireland object to the decision and will likely appeal. The final developments in the case may determine the tax treatment that companies can expect to have in the European Union from now on.

It is important to note that the Commission has been actively investigating the tax ruling practices of Member States since 2013. In 2015, it concluded that Luxembourg and the Netherlands had granted selective tax advantages to Fiat and Starbucks, respectively. In the beginning of 2016, it concluded that Belgium granted selective tax advantages to more than 35 multinationals under its excess profit tax scheme, which violated EU state aid rules. Ongoing investigations include Amazon and McDonald's.

Commission's assessment

The Commission launched an investigation in June 2014 on the assumption that Ireland has substantially lowered the tax that Apple had to pay in the country since 1991. Irish court rulings allowed Apple to establish the taxable profits for two Irish incorporated companies of the Apple group (Apple Sales International and Apple operations Europe). The reportings from these companies did not, in fact, correspond to economic reality, and almost all profits were internally attributed to a head office, the Commission claimed. The head office was not subject to any country and as such, was not bound by any tax obligations. As a result, Apple paid a corporate tax rate of 0.005% in 2014 on the profits of Apple Sales International. In comparison, the usual tax rate for corporations in Ireland is 12.5%.

The Commission supported that such a selective tax treatment violates EU state aid rules since it gives Apple a significant advantage over corporations that follow national taxation rules. Recovery extends for up to ten years preceding Commission's initial request, i.e. 2003. This amount totals €13 billion, plus interest.

The Commission did not attack the tax rulings *per se*, which it found to be "comfort letters" used to facilitate the company to calculate its tax due or the use of special tax provisions. In finding the appropriate legal ground, it chose the EU state aid provisions that ensure Member States do not grant some companies a better tax treatment than others via any means, including tax rulings. State aid rules provide that profits must be allocated between companies in a corporate group in a way that reflects economic reality.

The Commission claims that these rulings endorsed an artificial internal allocation of profits within Apple Sales International and Apple Operations Europe, which had no factual justification. Instead of the profits being recorded and taxed with Apple's Irish branch, they were attributed to the head office, which had practically no operating capacity, no employees, and no office space. The only decisions taken, and which the Commission recognizes as profits of the head office, were administrative arrangements and distribution of dividends.

As a result of the above analysis, Apple was allowed to pay substantially less tax than other companies, which is illegal under EU state aid rules. The decision does not question Ireland's general tax system or corporate rate, on which Ireland has exclusive competence. Rather, it highlights the inconsistency that allowed undue preferential treatment.

Reactions from Apple and Ireland

Apple has warned that future investment by multinationals in Europe could be negatively affected by this record-breaking decision. In a letter to customers, Apple's chief executive claimed that the ruling could severely impact companies that might consider further investing in the EU. The U.S. Treasury also said that this ruling threatens to harm "the important spirit of economic partnership between the U.S. and the EU."

Apple claims that the Commission has targeted the company, jeopardizing investment and job creating in Europe. This ruling opens the Pandora's box for companies in Europe, which are suddenly subjected to the threat that they will be forced to pay retroactively taxes under laws that never existed. The Commission's decision overrides Irish law and disrupts the international tax system. Apple never asked for special treatment and, thus, it suggests that "[w]e now find ourselves in the unusual position of being ordered to retroactively pay additional taxes to a government that says we don't owe them any more than we've already paid."

The Irish government wants to reverse the ruling since it wishes to preserve its status as a low-tax base for overseas companies. The finance minister, Michael Noonan, said that he will seek cabinet approval to appeal the decision. The reasoning behind the appeal is to defend the integrity of Ireland's tax system, provide tax certainty to businesses and challenge the intrusion of EU state aid rules in taxation, which is governed by member states exclusive competence.

Apple and Ireland are, hence, working together to appeal against the ruling.

Further steps

In principle, EU state aid rules require that incompatible state aid is recovered in order to remove distortion of competition created by such aid. Such rules do not provide for fines nor sanctions, but rather a restoration of equal treatment. Ireland is charged with recovering unpaid taxes from Apple for the period of 2003 to 2014. Apple changed its corporate structure in Ireland in 2015 and the 2007 rulings, that allowed this preferential treatment, no longer apply.

The Commission clarified that the amount due (€13 billion plus interest) to Ireland would be reduced if: (a) other countries requested that part of Apple's profits should have been recorded and taxed in their jurisdiction, based on the Commission's findings or (b) if the U.S. requires Apple to pay larger amount of money to their U.S. parent company for the period in question, to finance research and development efforts.

Since all Commission decisions are subject to EU courts scrutiny, a Member State may wish to appeal this decision. It is likely that Ireland will appeal the decision and the EU courts will have to decide on the legitimacy of this alleged preferential treatment. Even so, the Commission would ask that the illegal state aid is recovered and placed in an escrow account, pending the court ruling.

Other developments

European Union

New EU-U.S. privacy shield in force

By Maria Sturm

On 12 July 2016, the European Commission issued its implementing decision pursuant to Directive 95/46/EC of the European Parliament and of the Council on the adequacy of the protection provided by the EU-U.S. Privacy Shield (Decision 2016/1250). This action became necessary after the ECJ declared the Safe Harbor policy of the EU commission concerning the USA invalid in the *Schrems* case.

Maximilian Schrems v Data Protection Commission (C – 362/14)

In this case, the ECJ held that the "Commission Decision (…) of 26 July 2000 pursuant to Directive 95/46/EC on the adequacy of the protection provided by the safe harbour privacy principles and related frequently asked questions issued by the US Department of Commerce" (Decision 2000/520) is invalid.

Art. 25 (1) of the Directive prohibits transfers of personal data to third countries that do not ensure an adequate level of protection for that data. The EU Commission declared in its Decision 2000/520, binding on the EU Member States according to Art. 288 (4) TFEU, that U.S. companies ensure such an adequate level if they comply with the principles set out in the decision.

However, the ECJ found, that no adequate level of protection was given, due to several reasons: first, U.S. public authorities were not required to comply with the principles. Second, only the adequacy of the level of protection was dealt with in Decision 2000/520, but not the measures by which the United States ensures an adequate level of protection.. Third, according to Decision 2000/520 there were to many exceptions since "national security, public interest and law enforcement requirements" had supremacy over the safe harbor principles. Fourth, the derogation rules were too general, as neither the sensitivity of the information nor the consequences for the persons affected were taken into account. Fifth, in the U.S., there were no rules limiting interference with the fundamental rights of the persons whose data is transferred from the EU. Finally, the efficacy of the legal protections were questioned, as the only enforcement measures which were possible were those before the FTC—which are limited to commercial disputes.

The new privacy shield

In response to this criticism, the new decision contains the following alterations:

First, more effective supervision mechanisms have been introduced to ensure that companies follow the rules. In particular, the Department of Commerce has been given stronger oversight authority and is tasked with regularly reviewing the participating companies. Second, U.S. authorities will have more limited access to personal data. There will no longer be indiscriminate mass surveillance, and persons affected by data access through U.S. authorities can now bring complaints to an independent Ombudsperson within the Department of State. Third, there are now several different redress possibilities for individuals: individuals can complain directly to the company, which is obliged to reply within 45 days; individuals can participate in alternative dispute resolution (ADR), free of charge for the individual; or individuals can lodge complains with the data protection authority in his/her home country that works together with the U.S. Department of Commerce and the Federal Trade Commission (FTC). Individuals can also contact the U.S. Department of Commerce or the FTC directly, and, as last resort, a new privacy shield panel has been created which will ensure that there are enforceable decisions. Finally, the adequacy of these provisions will be reviewed on a regular basis to make sure that data are protected even under changing circumstances.

The EU Commission and the U.S. government showed sincere interest in fulfilling the ECJ’s requirements, but only a new challenge to this privacy protection shield will show if Privacy Shield is sufficient under EU law. It will be interesting to watch to see which measures the Commission will take after its annual decision review in 2017.

Other developments

European Union

European Commission considers establishment of a Multilateral Investment Court

By Gabriel M. Lentner

On 1 August 2016, the European Commission published a so-called Inception Impact Assessment analyzing the establishment of a Multilateral Investment Court (MIC) for investor-state dispute settlement (ISDS).

This MIC, conceived as a permanent and centralized institution, would replace the current investment arbitration mechanism in place for the (about 1400) existing Bilateral Investment Treaties (BITs) of EU Member States. Further, the envisioned Investment Courts would be established through the new Free Trade Agreements (FTAs) negotiated between the EU and Canada (CETA) and EU and the U.S. (TTIP). The EU-Vietnam FTA should similarly be replaced by the single MIC.

The European Commission is considering several options for replacing the existing system with the MIC. A more limited approach would create a permanent appeal tribunal competent to hear appeals of ISDS awards rendered under the existing BITs of EU Member States and the EU agreements with third states. This would leave the current system of ISDS in place.

The more promising option is the proposal to establish a permanent Multilateral Investment Court with both a First Instance Tribunal and an Appeals Tribunal. This MIC should then replace existing BITs of EU Member States and the Investment Court System to be created under CETA, TTIP, and the EU-Vietnam FTA (which include this option in the negotiated treaty texts or in case of the TTIP in the textual proposal of the EU).

In order to replace the currently existing and negotiated ISDS mechanisms, the EU considers the adoption of an international agreement establishing the MIC, which applies to all existing treaties between countries that have ratified the agreement (through a negative or positive list of BITs to be excluded or included). This option borrows from the model of the Mauritius Convention, which makes the UNCITRAL Transparency Rules for Treaty-based Investor-State Arbitration applicable to existing agreements.

To be sure, many follow-up questions posed by the Commission remain unanswered. This includes the questions of how this institution will be financed and whether the MIC will be attached to existing institutions, such as the International Court of Justice or the Permanent Court of Arbitration.

Other developments

European Union

Spearheading the incubation of legal technology in the EU: A new role for bar associations?

By Irene Ng (Huang Ying)

As the legal community grapples with the influx of disruptive legal technologies, the Paris Bar Association had already started preparing itself for these developments through the L'incubateur du barreau de Paris, an arm of the Paris Bar Association that is tasked with "promoting and supporting legal innovation." L'incubateur does this in two different ways. Through the Innovation Award, L'incubateur supports the top two disruptive technologies of the year by rewarding them with a prize sum. Furthermore, the organization keeps track of regulatory developments, so as to ensure the provision of quality legal services and access to justice.

L'incubateur du barreau de Paris is one of the few bar associations in the EU at present that has decided to support and encourage legal technology. However, with the growing awareness of legal tech and as legal tech companies gain traction in the EU market, it would not be surprising to see other bar associations stepping in to promote or advocate the regulation of legal technology. In September 2016, Germany held a conference on the future of the legal profession vis-à-vis disruptive legal technology in Cologne (i.e. the Anwaltszukunftskongress), where speakers at the conference included representatives from the Federal German Bar Association and other stakeholders in the German legal industry.

These developments in the EU show that there are some interesting questions to consider. Firstly, will bar associations in other parts of France and the EU follow in the footsteps of the Paris Bar Association and launch their own local versions of L'incubateur? Legal tech contains a very broad spectrum of technologies, ranging from e-discovery to legal database searches to online dispute resolution ("ODR"). Some of these technologies improve efficiency in law firms, while others disrupt the legal industry by substituting tech for the traditional jobs of lawyers. Bar associations may thus find it more and more pressing to become involved in the legal tech scene to either ensure that legal services provided by such disruptive legal tech companies are of a good quality, and to help its members to remain competitive and innovative in this rapidly changing world.

The next question would be the extent in which bar associations should spearhead the incubation of legal technology. L'incubateur du barreau de Paris teamed up with Sciences Po's School of Law to produce a joint study on the innovation in the legal profession (published in French in December 2015 as l'innovation dans la profession d'avocat), while in Germany, Bucerius Law School worked with the Boston Consulting Group instead to produce a report on "How Legal Technology Will Change the Future of Law". As legal education at an accredited university is usually strongly linked to the successful admission of a lawyer to a bar association (since most lawyers are required to complete a prescribed legal education at an accredited university prior to admission), bar associations can consider partnerships with law faculties to promote legal tech awareness and involvement during the formative stages of a person's legal education.

Lastly, considering the overlap between the provision of legal services by legal tech companies and lawyers, bar associations in the EU may have to consider whether they should regulate unregulated legal service providers such as legal tech companies. The American Bar Association ("ABA") has released a letter seeking comments on an Issues Paper concerning such unregulated legal service providers, asking for data and information about such legal service providers and any efforts to regulate respectively. From a European perspective, the bar associations from the respective member states of the EU should consider whether such matters concerning the regulation of the provision of legal services should be done at the EU or the national level, and whether these new legal service providers should even be regulated to begin with.

In light of this growth in legal tech in the EU, it will be interesting to see how bar associations balance the need to promote legal innovation, while protecting their members amidst this increasing competition between disruptive legal tech and traditional law firms. We can expect to see more developments and initiatives by bar associations in the EU on this area as legal tech continues to grow and intersect with traditional lawyering.