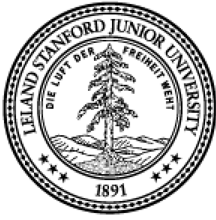

**Stanford – Vienna**
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# Transatlantic Antitrust and IPR Developments

**Bimonthly Newsletter**

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**Contributors:**
**Gabriel M. Lentner, Giuseppe Colangelo,**
**Martin Miernicki, Nikolaos Theodorakis**

**Editor-in-chief: Juha Vesala**

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# About the contributors

**Gabriel M. Lentner** is a Postdoctoral Fellow for European and International Business Law at the Danube University Krems. He holds a Ph.D. in International Law and is a Lecturer in Law at the University of Vienna School of Law. Gabriel received a diploma with highest distinction in European Studies from the University of Vienna in 2010 and a diploma in Law & Logic from Harvard Law School and the European University Institute in Florence in 2013. His main research interests lie in international investment and EU Law as well as public international law. As a TTLF Fellow, his current research focuses on the protection of intellectual property rights through international investment agreements.

**Giuseppe Colangelo** is a Jean Monnet Professor of European Innovation Policy. He is also an Associate Professor of Law and Economics at University of Basilicata, and an Adjunct Professor of Markets, Regulation and Law, and of Legal Issues in Marketing at LUISS Guido Carli in Rome, Italy. He graduated in Law from LUISS Guido Carli, earned an LL.M. in Competition Law and Economics at the Erasmus University of Rotterdam, and a Ph.D. in Law and Economics at LUISS Guido Carli. His primary research interests are related to innovation policy, intellectual property, competition policy, market regulation, and economic analysis of law. Giuseppe has been a TTLF Fellow since August 2017.

**Martin Miernicki** is a Research and Teaching Fellow at the Institute of Business Law at the University of Vienna. He received his doctorate from the University of Vienna in 2017. Furthermore, Martin holds a bachelor's degree in Romance Studies with a concentration in Spanish as well as bachelor's degree in Earth Sciences, both received from the University of Vienna in 2013 and 2017, respectively. He also earned a Technology Law Certificate in the course of his legal studies. As a student he worked at the University of Vienna's Center for Legal Informatics and participated in an exchange program at Santa Clara School of Law in California, where he studied U.S. intellectual property law and international law. His research interests include business law, technology law and antitrust law with a focus on the European and international dimension. He has been a TTLF Fellow since December 2015.

**Nikolaos Theodorakis** is a Lecturer and Fellow at the University of Oxford, and an Edmond J. Safra Network Fellow at Harvard University. Dr. Theodorakis also advises on international trade law cases with the Sidley Austin LLP office in Brussels. He holds an LL.B. from the University of Athens, an M.Phil. from the University of Cambridge, an LL.M. from University College London, and a Ph.D. from the University of Cambridge. His Ph.D. thesis focused on issues of Corporate Compliance, Liability, and Regulation. Prior to teaching at Oxford, Nikolaos taught and conducted research at the University of Cambridge, Harvard Law School, and Columbia Law School. He has worked for the U.S. Committee on Capital Markets Regulation, the Library of Congress, and the UK Sentencing Council, Ministry of Justice. Nikolaos has received fellowships and awards from, inter alia, the ESRC, the British

Academy, the Greek Parliament, the Greek State Scholarships Foundation, the EU Bursaries, and the Corfield Foundation. His research agenda currently revolves around three pillars: liberalization of trade in technology-related industries; effective regulatory regimes for antitrust law vis-à-vis banking institutions and corporations; and the nexus between open data and foreign direct investment. Dr. Theodorakis has been a TTLF Fellow since April 2015.

**Antitrust**
*European Union*

# The Ruling of the EU Court of Justice in *Intel*

*By Giuseppe Colangelo*

Almost ten years have passed since the Commission began its proceeding against Intel. However, the lawfulness of Intel's practices remains inconclusive. In its recent judgment (Case C-413/14 P), the Grand Chamber of the Court of Justice of the European Union (CJEU) set aside a previous ruling in which the General Court affirmed the decision of the Commission to prohibit Intel's practices, and referred the case back to the General Court.

The judgment turns on efficiency-enhancing justifications. The Grand Chamber of the CJEU, just as in *Post Danmark I* (Case C-209/10), reiterates that antitrust enforcement cannot disregard procompetitive effects even in the case of unilateral conduct, such as loyalty rebates. Although Article 102 does not reproduce the prohibition-exemption structure of Article 101, for the sake of consistency there must be room to allow unilateral practices as well. Therefore, like agreements restrictive by object, unilateral conduct which is presumed to be unlawful, as loyalty rebates are, can also be justified and rehabilitated because of the efficiency and consumer welfare benefits it can produce. The General Court's formalistic approach towards Intel's rebates demonstrated the need for the CJEU to clarify the role that assessing procompetitive effects must play in the analysis of dominant firms' practices.

To this end, the CJEU suggests 'clarifying' the interpretation of *Hoffman-La Roche* (Case 85/76), one of the totems of EU antitrust orthodoxy. Unfortunately, it accomplishes exactly the opposite. *Intel* clearly supports the economic approach by denying a formalist, or *per se*, shortcut to the authorities. The abusive character of a behavior cannot be established simply on the basis of its form.

In *Hoffman-La Roche*, the CJEU pronounced that it considered any form of exclusive dealing anathema. To make the link to the exclusive dealing scenarios depicted in *Hoffman-La Roche* apparent, the General Court introduced a class of 'exclusivity rebates' in its ruling on Intel's pricing practices. This is a new category of discounts different from the previously defined classes of quantity and fidelity rebates.

However, in its judgment the CJEU offers a different interpretation of the law on fidelity rebates. For those cases where dominant firms offer substantive procompetitive justifications for their fidelity rebates, the CJEU requires the Commission to proffer evidence showing the foreclosure effects of the allegedly abusive practice, and to

analyze: (i) the extent of the undertaking's dominant position on the relevant market; (ii) the share of the market covered by the challenged practice as well as the conditions and arrangements for granting the rebates in question, their duration and their amount; (iii) the possible existence of a strategy aimed at excluding from the market competitors that are at least as efficient as the dominant undertaking. As expressly acknowledged by the CJEU, it is this third prong – that is, the assessment of the practice's capacity to foreclose – which is pivotal, because it "is also relevant in assessing whether a system of rebates which, in principle, falls within the scope of the prohibition laid down in Article 102 TFEU, may be objectively justified."

The *Intel* ruling is also a significant step towards greater legal certainty. In addition to being able to effectively assert efficient justifications to overturn the presumption of anti-competitiveness, firms also know that for the CJEU the 'as efficient competitor test' (AEC test) represents a reliable proxy (although not the single or decisive criterion) of analysis that cannot be ignored, especially when used by the Commission in its evaluations.

The application of the effect-based approach to all unilateral conduct of dominant firms brings the European experience closer to the rule of reason analysis carried out under Section 2 of the Sherman Act. As indeed is explained by the Court of Appeals in *Microsoft* [253 F.3d 34 (D.C. Circuit 2001)], when it comes to monopolistic conduct, where the task of plaintiffs complaining about the violation of antitrust law is to show the exclusionary effects of the conduct at stake and how this has negatively affected consumer welfare, the task of the dominant firm is to highlight the objective justifications of its behavior.

## Intellectual property

*United States*

# Full-work Licensing Requirement 100 Percent Rejected: Second Circuit Rules in Favor of Fractional Licensing

*By Martin Miernicki*

On 19 December 2017, the Second Circuit handed down a summary order on the BMI Consent Decree in the dispute between the Department of Justice (DOJ) and Broadcast Music, Inc. (BMI). The court ruled that the decree does not oblige BMI to license the works in its repertoire on a "full-work" basis.

### Background[1]

ASCAP and BMI are the two largest U.S. collective management organizations (CMOs) which license performance rights in musical works. Both organizations are subject to so-called consent decrees which entered into force 2001 and 1994, respectively. In 2014, the DOJ's Antitrust Division announced a review of the consent decrees to evaluate if these needed to be updated. The DOJ concluded the review in August 2016, issuing a closing statement. The DOJ declared that it did not intend to re-negotiate and to amend the decrees, but rather stated that it interpreted these decrees as requiring ASCAP and BMI to license their works on a "full-work" or "100 percent" basis. Under this rule, the CMOs may only offer licenses that cover all performance rights in a composition; thus, co-owned works to which they only represent a "fractional" interest cannot be licensed. In reaction to this decision, BMI asked the "rate court" to give its opinion on this matter. In September 2016, Judge Stanton ruled against the full-work licensing requirement, stating that the decree "neither bars fractional licensing nor requires full-work licensing."

### Decision of the court

On appeal, the Second Circuit affirmed Judge Stanton's ruling and held that fractional licensing is compatible with the BMI Consent Decree. First, referencing the U.S. Copyright Act – 17 U.S.C. § 201(d) –, the court highlighted that the right of public performance can be subdivided and owned separately. Second, as fractional licensing was common practice at the time the decree was amended in 1994, its language does indicate a prohibition of this practice. Third, the court rejected the DOJ's reference to *Pandora Media, Inc. v. ASCAP*, 785 F. 3d 73 (2d Cir. 2015) because this judgment dealt with the "partial" withdrawal of rights from the CMO's repertoire and not with the licensing policies in respect of users. Finally, the

[1] For more information on the background *see* Transatlantic Antitrust and IPR Developments Issue No. 3-4/2016 and Issue No. 5/2016.

Second Circuit considered it to be irrelevant that full-work licensing could potentially advance the procompetitive objectives of the BMI Consent Decree; rather, the DOJ has the option to amend the decree or sue BMI in a separate proceeding based on the Sherman Act.

### Implications of the judgement

The ruling of the Second Circuit is undoubtedly a victory for BMI, but also for ASCAP, as it must be assumed that ASCAP's decree – which is very similar to BMI's decree – can be interpreted in a similar fashion. Unsurprisingly, both CMOs welcomed the decision. The DOJ's reaction remains to be seen, however. From the current perspective, an amendment of the decrees appears to be more likely than a lengthy antitrust proceeding under the Sherman Act; the DOJ had already partly toned down its strict reading of the decree in the course of the proceeding before the Second Circuit. Yet, legislative efforts might produce results and influence the further developments before a final decision is made. A recent example for the efforts to update the legal framework for music licensing is the "Music Modernization Act" which aims at amending §§ 114 and 115 of the U.S. Copyright Act.

## Intellectual property

*United States*

# International Investment Tribunal Accepts Jurisdiction over Trademark Dispute involving US-company

*By Gabriel M. Lentner*

### Background

On 13 December 2017, an international investment tribunal delivered its decision on expedited objections, accepting jurisdiction to hear the trademark dispute in the case of *Bridgestone v Panama*. The dispute arose out of a judgment of the Panamanian Supreme Court of 28 May 2014, in which it held the claimants liable to a competitor to pay US $5 million, together with attorney's fees, due to the claimants' opposition proceedings regarding the registration of a trademark (”Riverstone”). The claimants argued that the Supreme Court's judgment weakened and thus decreased the value of their trademarks (“Bridgestone” and ”Firestone”). The tribunal rejected most of the expedited objections raised by Panama. The decision is particularly interesting because it is the first detailed exploration of the question whether and under what conditions a trademark and license can be considered covered investments.

### Trademarks are investments

On this issue, the tribunal first followed the text of the definition of investment under the applicable investment chapter of the United States—Panama Trade Promotion Agreement (TPA) (Article 10.29 TPA). It held that the investment must be an asset capable of being owned or controlled. The TPA also included a list with the forms that an investment may take, including ”intellectual property rights”, as many BITs do (paras 164 and 166). However, the TPA also requires that an investment must have the ”characteristics” of an investment, giving the examples of commitment of capital or other resources; expectation of gain or profit; assumption of risk (para 164). The tribunal also noted that other characteristics, as those identified in the case of *Salini v Morocco*, are to be found, such as a reasonable duration of the investment and a contribution made by the investment to the host state's development. In this respect, the tribunal held that “there is no inflexible requirement for the presence of *all* these characteristics, but that an investment will normally evidence most of them” (para 165).

In deciding this issue, the tribunal reviewed the way in which trademarks can be promoted in the host state's market. The tribunal found that ”the promotion involves the commitment of resources over a significant period, the expectation of profit and the assumption of the risk that the

particular features of the product may not prove sufficiently attractive to enable it to win or maintain market share in the face of competition." (para 169) However, the tribunal noted that "the mere registration of a trademark in a country manifestly does not amount to, or have the characteristics of, an investment in that country" (para 171). According to the tribunal, this is because of the negative effect of a registration of a trademark. It merely prevents competitors from using it on their products and does not confer benefit on the country where the registration takes place. Nor does it create any expectation of profit for the owner of the trademark (para 171).

The exploitation of a trademark is key for its characterization as an investment (para 172). This exploitation accords to the trademark the characteristics of an investment, by virtue of the activities to which the trademark is central. It involves a "devotion of resources, both to the production of the articles sold bearing the trademark, and to the promotion and support of those sales. It is likely also to involve after-sales servicing and guarantees. This exploitation will also be beneficial to the development of the home State. The activities involved in promoting and supporting sales will benefit the host economy, as will taxation levied on sales. Furthermore, it will normally be beneficial for products that incorporate the features that consumers find desirable to be available to consumers in the host country." (para 172)

**Licenses are investments, too**

Another way of exploiting a trademark is licensing it, i.e. granting the licensee the right to exploit the trademark for its own benefit (para 173). The tribunal then brushes aside the following counter-argument raised by Panama:

"Rights, activities, commitments of capital and resources, expectations of gain and profit, assumption of risk, and duration do not add up an 'investment' when they are simply the rights, activities, commitments, expectations, and risks associated with, and the duration of, cross-border sales." (para 175)

The tribunal responded that Panama did not provide any authority for this argument and only rebuts that the "reason why a simple sale does not constitute an investment is that it lacks most of the characteristics of an investment." (para 176 It further noted that "[i]t does not follow that an interrelated series of activities, built round the asset of a registered trademark, that do have the characteristics of an investment does not qualify as such simply because the object of the exercise is the promotion and sale of marked goods." (para 176).

The problem with this argument is that it is precisely the point raised by Panama that the legal requirement for characteristics of investments were developed to distinguish an investment from a mere cross-border sale of goods. Arguably, the tribunal did not explain how the characteristics related to the trademarks at issue differ from those related to the marketing of ordinary sales

of goods.

Against this background, the finding of the tribunal that trademark licenses are also investments is even less convincing. Here the tribunal refers to the express wording of Article 10.29(g) of the TPA, which provides that a license will not have the characteristics of an investment unless it creates rights protected under domestic law of the host state (para 178). After reviewing the arguments and expert testimony presented during the proceedings, the tribunal concluded that the license to use a trademark constitutes an intellectual property right under domestic law (para 195), and is thus capable of constituting an investment when exploited (para 198). It reasoned that ”[t]he owner of the trademark has to use the trademark to keep it alive, but use by the licensee counts as use by the owner. The licensee cannot take proceedings to enforce the trademark without the participation of the owner, but can join with the owner in enforcement proceedings. The right is a right to use the Panamanian registered trademark in Panama” (para 195).

In conclusion, it will be interesting to see how future tribunals will deal with this question and react to the precedent set in this case.

## Other developments

*European Union*

# The Commission Launches the EU Blockchain Observatory and Forum

*By Nikolaos Theodorakis*

The European Commission ("Commission") recently launched the EU Blockchain Observatory and Forum ("Observatory") with the support of the European Parliament. The Observatory aims to highlight relevant developments and facilitate collaboration between the EU and involved stakeholders.

**What is the blockchain technology? What are its benefits?**

Blockchain is a distributed ledger technology. In essence, it is a database that keeps a final and definitive record of transactions that no one can penetrate or alter. As a result, Blockchain technology increases trust, traceability and security.

Distributed Ledger Technology ("DLT"), which is the backbone of blockchain technology, was introduced about a decade ago, aiming to develop new financial applications and facilitate decentralized data storage and management. The decentralization of the Internet has been an idea discussed for several decades since it allows for user freedom and democracy in the web. The implementation effort in practice involves avoiding one centralized location, and the need for intermediaries to perform transactions. Blockchain information is shared, verifiable, public, and accessible.

The abovementioned traits can increase accountability. Blockchain has the potential to lead this technological breakthrough. The enhanced trust that it creates can be used for legal services (e.g. smart contracts), financial services, transportation services (e.g. bill of lading disputes), energy, or healthcare issues.

Naturally, the European Commission wishes to further investigate blockchain's potential, consolidate expertise, and address the challenges created by new blockchain paradigms. To achieve this, it created the Observatory within the Financial Technology pillar, and plans to further help develop the single market, Banking Union, the Capital Markets Union and retail financial services.

As an example of blockchain's game-changing potential, 10% of global GDP could be stored, via digital assets, through this technology in less than 10 years.[2] This means that governments can take advantage of blockchain to issue IDs that cannot be replicated, or monitor taxation reporting in a unique and transparent way. Insurance companies can utilize automatic execution of contracts, financial bodies can secure money and financial asset

[2] World Economic Forum Surbey on Technological Tipping Points

transfers, and the intellectual property sector can distribute IP rights pertinent to music, videos or other protected content.

**Next Steps**

Even if only a fraction of the above benefits materializes, blockchain can significantly change the way digital services are communicated. The European Commission needs to assess, in the form of a feasibility study, whether this technology is fully compliant, particularly with EU law (more on this below). Despite recognizing blockchain as a key emerging trend, it is equally important to manage it in a compliant way.

In essence, the Commission wants to build on existing initiatives launched by the EU members that relate to offering blockchain-based solutions. The broader role of the Observatory is to help Europe fully grasp and exploit the opportunities that this technology offers and allow the continent to remain on the forefront of technological developments. The blockchain will enable cross border cooperation and regulator to discuss and develop new ideas to learn, engage and contribute in an open way.

In a nutshell, the Observatory aims to:

- map key existing initiatives in Europe and beyond;
- monitor developments, analyze trends and address emerging issues;
- become a knowledge hub on blockchain;
- promote European actors and reinforce European engagement with multiple stakeholders;
- represent a major communication opportunity for Europe to set out its vision and ambition on the international scene;
- inspire common actions based on specific use-cases of European interest.

**Smooth sailing?**

Despite the multiple benefits of blockchain, and its use for cryptocurrencies and multiple other options, this technology comes with a number of drawbacks. For instance, blockchain is in direct conflict with an upcoming EU privacy legislation (the General Data Protection Regulation), which has strict privacy requirements (including privacy by design and by default, encryption, enhanced subject rights etc.). Blockchain makes it more difficult to attribute liability, due to its decentralized nature, and practically impossible to comply with certain privacy rights, like the right to be forgotten (since the blocks cannot be erased, once generated). This direct conflict with EU regulatory standards may cause some bumps in the future development of this technology.

Further, other concerns pertinent to the use of blockchain relate to broader skepticism about security – and whether this technology can remain immune to attacks

in the long-run, lack of regulation that leads to unsafe exchange environments particularly regarding cryptocurrencies, and funding of illicit activities and circumvention of international sanctions.

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