

Intellectual Property Bulletin

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Review of 2009

PATENTS

UPDATE ON A PAN-EUROPEAN PATENT SYSTEM

When we last commented on the proposals for a Community patent and patents court, in our Spring 2008 Update, it was uncertain whether they would survive the arguments over choice of language. The language difficulties remain for what is now called the EU patent but perseverance, particularly from the judiciary, has meant that the idea of a European patents court system is still on the political agenda and it has become more a question of when rather than whether it will come to fruition.

The European patents court

In March 2009, the Commission recommended the opening of negotiations on a Unified Patent Litigation System - now the European & European Union Patents Court (EEUPC). As this new name indicates, the agreement will be between the EU on the one hand and the other European Patent Convention contracting states on the other. The EEUPC will then have jurisdiction for both the current form of European patent and the proposed EU patent, if and when implemented.

The draft documentation necessary for creating the EEUPC, including procedural rules, has already been published and widely discussed. Further, on 4 December 2009, consensus was reached by the Competitiveness Council on the principal contentious issues arising from those documents, such as procedural language and having separate infringement and revocation proceedings. However, the European Court of Justice (ECJ) has yet to rule on whether the proposed agreement complies with the Lisbon Treaty. Assuming that the ECJ delivers a favourable opinion during 2010, the EEUPC agreement will then be opened for formal negotiation and signature. Final signature is unlikely before the end of 2012 and there will then be a 2 year ratification process. The EEUPC system will not, therefore, be up and running until at least 2015.

Returning to the procedural rules, the key points are that:

- there will be a court of first instance with central, regional and local divisions and a single, central court of appeal;
- standalone revocation claims must be brought in the central division whereas bifurcation of infringement and revocation proceedings will be at the discretion of the local or regional court;

Vancouver

Calgary

Toronto

Ottawa

Montréal

Québec City

London

Paris

Johannesburg

- the language of proceedings in local or regional courts will generally be the official language of the member state or one of the 3 official languages of the European Patent Office (EPO) whereas in the central division it will be the patent's language;
- the claimant will have to set out its evidence and arguments at the start and the trial should be one day only, with limited cross-examination; and
- there will be a 5 year transitional period in which patentees can opt-out.

The EU patent

A further version of the proposed regulation for the EU patent was issued in October 2009 and political agreement was announced in December 2009 on the main issues except, as indicated above, languages. The issue here is how to deal with the EU principle that documents should be in all official languages without making the EU Patent prohibitively expensive due to translation costs. If and when the language issues can be resolved, it is expected that the EU patent would take 1-1½ years to be introduced.

The need for a pan-European court

Meanwhile, inconsistent decisions between national courts in parallel actions on the same patent continue to highlight the need for a court such as the EEUPC. For example, in proceedings between Occlutech and AGA Medical¹, the German and Dutch courts reached diametrically opposing views on the construction of AGA's patent, the German holding that Occlutech infringed whilst the Dutch court found no infringement. The English High Court agreed with the Dutch. Similarly, in *Leo Pharma v Sandoz*², the English Court of Appeal upheld the validity of Leo Pharma's patent, which was consistent with the Dutch decision but not the German. In the judgment, Jacob LJ commented that this was "*an unfortunate state of affairs, curable only by a single European Patent Court*".

*Comment: it is sentiments amongst the judiciary similar to that expressed by Lord Justice Jacob that has helped keep the EEUPC proposal alive. Most sections of industry have also broadly supported the idea of a European patents court because of the convenience and costs savings to be obtained. After years of political delay, it now seems only a matter of time before it becomes a reality*³.

WASTED SPACE

In a case concerning airplane flat-bed systems⁴, the Court of Appeal has considered how much knowledge the skilled person would have of patent law and drafting conventions.

Virgin sued Premium Aircraft Interiors for infringement of its patent for aircraft flat-bed systems in which seats can be flipped over to form beds. Premium

¹ *Occlutech GmbH v AGA Medical Corp* [2009] EWHC 2013 (Ch)

² *Leo Pharma A/S v Sandoz Limited* [2009] EWCA Civ 1188

³ For an in-depth review of the subject, please see our December 2009 note "The Proposed European and EU Patents Court (EEUPC): Real Progress At Last" available on our website

⁴ *Virgin v Premium Aircraft Interiors* [2009] EWCA Civ 1062

counterclaimed that the patent was invalid in light of prior seat-bed designs. As the Court of Appeal observed in finding the patent valid and infringed, one might have thought that there was nothing more to say on how to construe a patent's claims after Lord Hoffmann's comprehensive treatment of the principles to be followed in *Kirin-Amgen*⁵. But the Court of Appeal considered that there were in fact several related points that were not dealt with and which were linked to the question: "*how much of the law and practice of the patent system is the skilled reader supposed to know and thus take into account when he is trying to work out what, by the words of his claim, the patentee was intending to mean?*"

One point was the use of numerals in claims that cross-refer to features in the patent's figures. They assist the reader in understanding the claim and, at least in European patents, are obligatory. Consistent with past decision, the Court of Appeal held that the numerals do not limit the claim but did so from the surprising angle that it would be "perverse" to say that the skilled person, probably with the benefit of skilled legal advice, would not know about the drafting convention. For the same reason, the skilled person should be taken to know about the drafting convention for two-part claims (that is claims with a "pre-characterising" part setting out the previously known features of the invention and a "characterising" part that sets out the features said to be new). Further, the skilled person would be "strongly inclined" to read a pre-characterising clause as describing old art if that prior art has been acknowledged in the patent's description. Again this is consistent in effect with prior decisions though the reasoning differs.

Obviousness

The decision is also interesting for one of the findings on obviousness. Virgin's flip-over design allowed space behind a seat to be used in the bed mode. In prior designs this had been lost space. The Court of Appeal held this would be strong prima facie evidence that the invention's arrangement was non-obvious absent some other explanation for the failure to adopt it in prior designs. There was no such explanation and, in the six years from the introduction of the first seat-bed combination unit by British Airways to the date of the patent, no other seat arrangement used that space. Six years was a long time in a competitive industry where space saving was important and accordingly the invention was not obvious.

While this aspect of the decision continues the apparent trend over the last few years for the English courts to be less inclined to find patents obvious, it does give unusual weight to "secondary evidence". As was said in *Molnlycke v Proctor & Gamble*⁶, "*it is the primary evidence of a properly qualified expert that matters ... Secondary evidence ... must be kept firmly in its place. It ... is no more than an aid in assessing the primary evidence*".

*Comment: in our view the Court of Appeal has tinkered with the law on the construction of patent claims but, much as it did a few years ago in Pozzoli*⁷ *when it reformulated the long-standing test for obviousness from the Windsurfing case*⁸, *to little, if any, material effect. Further, the notion that the skilled person would*

⁵ *Kirin-Amgen Inc v Hoechst Marion Roussel Limited* [2005] RPC 9 (HL)

⁶ [1994] RPC 49

⁷ *Pozzoli v BDMO* [2007] FSR 37

⁸ *Windsurfing v Tabur* [1985] RPC 59 (Court of Appeal)

have skilled legal advice and so be informed of drafting conventions seems at odds with Lord Hoffmann's view that, just like any other document, a patent should be read objectively to ascertain the contextual meaning of the language used and should mean the same to everyone irrespective of extrinsic factors. On the other hand, the role of secondary evidence on obviousness may be due for reassessment as what actually happened in the field can be a better guide to what was or was not inventive than the retrospective views of an expert, which can be tainted by hindsight.

OTHER PATENT DECISIONS

Combining documents on obviousness - there is a generally held view that, whereas in proceedings before the EPO it is permissible to combine the teaching in two or more prior art documents, it is not in UK proceedings. This point was addressed by the High Court in *Grimme v Scott*⁹, which concerned potato machines. Mr Justice Floyd stated that "It may be obvious to combine two pieces of prior art (what the European Patent Office refer to as a primary and a secondary reference). Obviousness is not a card game where the party attacking the patent only gets to play one card". Similarly a document suggesting a way of improving potato machines generally could be combined with any prior known or obvious machine. But the particular combination advocated by Mr Scott was not such an instance. The deformable rollers he was suggesting could be transferred from one prior machine to another were used for a limited, specific purpose only and would be seen by the skilled person as part of a highly specific design. There would therefore be no motive to use them to modify a second machine.

Test purchases and websites - since the late 1800s it has been the position that a person make a test or trap purchase for evidence of patent infringement should do no more than prompt what would be the intended defendant's normal commercial activity. In *Boegli-Gravures v Darsail-ASP*¹⁰ the claimant argued that this rule should apply to trap purchases of essential means for putting an invention into effect but failed because effectively the sales to the trap purchaser were to a person entitled to work the invention. They were therefore permissible sales under the Patents Act. But the sales did nonetheless evidence a threat to infringe.

The other interesting aspect to the decision was the finding that the defendant's website was not an offer to supply infringing goods in the UK. It was not aimed at the UK but was, at most, an offer to supply customers who included customers in the UK. In particular, there were no associated delivery terms so it could not be said that there would actually be a supply or offer to supply in the UK.

Experimental use defence - the High Court's decision in *Corevalve v Edwards Lifesciences*¹¹ gave a rare consideration, albeit obiter, of the experimental use defence to patent infringement. The judge noted that the mere fact that a defendant's purposes are commercial does not mean that the defence cannot apply. The judge then considered the German "Clinical Trials" decision, which had given the defence wider application than prior English decisions. That case concerned trials whose "immediate purpose was to generate scientific information by

⁹ *Grimme Landmaschinenfabrik v Derek Scott* [2009] EWHC 2691 (Pat)

¹⁰ *Boegli-Gravures v Darsail-ASP* [2009] EWHC 2690 (Pat)

¹¹ [2009] FSR 8

experimenting with the substance that was the subject of the patent claim". It was therefore squarely within the defence. In contrast, the immediate and preponderant purpose of Corevalve's programme had been to generate revenue and accordingly, had its artificial heart valve been within the patent's claims, it would have had no defence to infringement. The decision clarifies the approach where a defendant has mixed purposes behind its experiments as well as bringing the applicability of the defence more into line with the German position.

Stays and delays - stays of UK patent actions are sought fairly frequently, normally because of parallel EPO proceedings that could result in a patent being revoked rendering the UK action pointless. Less usually it is because another court in Europe is said to be first seised of proceedings involving the same cause of action and the same parties so that the UK court is obliged to stay its proceedings or to decline jurisdiction (so as to avoid irreconcilable judgements). This latter reason was raised recently in *Molnlycke v BSN Medical*¹². BSN argued that the UK infringement action against it should be stayed while the Swedish courts established whether they had jurisdiction to grant a declaration requested by BSN that it could market its product, a silicon wound dressing, in various countries including the UK without infringing Molnlycke's European patent. If the Swedish court considered it did have jurisdiction, then the UK court would have to decline to hear Molnlycke's infringement action.

The argument failed for the interesting reason that Molnlycke's UK subsidiary, the exclusive licensee under the UK part of the patent, was not a party to the Swedish action. This meant that its interests were not identical and indissociable from its parent's - while both wanted to prevent infringement, the UK subsidiary had a right to damages that could not be exercised through the Swedish courts. The UK and Swedish proceedings could therefore not be said to involve the same parties and the UK infringement action should proceed. The arguments, however, did not all go Molnlycke's way. Its application for an interim injunction was refused as it had delayed in bringing it for 8 months allowing BSN to launch and make significant sales. It had not behaved like a party needing the urgent protection of the court against competition from BSN and so the injunction was refused.

TRADE MARKS

THE SMELL OF SUCCESS

Consistent with its earlier decisions, in *L'Oréal v Bellure*¹³ the ECJ has given well-known marks wide protection against infringement and also held that the unauthorised use of trade marks in comparative advertising may infringe despite objective product features being compared.

Perfume maker L'Oréal brought trade mark infringement proceedings in England against several defendants, including Bellure, who all distributed cheap, imitation perfumes accompanied by comparison lists indicating which brand of fine fragrance they were intended to smell like. While the defendants had admitted at first instance that their products gave a "wink of an eye" to those of the claimants,

¹² *Molnlycke Health Care v BSN Medical* [2009] EWHC 3370 (Pat)

¹³ *L'Oréal SA v Bellure NV* (Case C-487/07) [2009] ETMR 55

it was accepted that neither retailers nor the general public were misled as to their origin.

For this reason the Court of Appeal referred various questions to the ECJ. It considered that neither the image nor essential function of L'Oréal's trade marks were being adversely affected by the defendants' activities. Nobody was deceived and nobody thought any less of L'Oréal's brands. The key questions for referral to the ECJ were therefore whether in such circumstances the defendants' comparison lists could infringe L'Oréal's marks directly or fall foul of the rules on comparative advertising by taking unfair advantage of L'Oréal's marks. A further, related question was whether the defendants' use of similar packaging and bottles to L'Oréal's, which were protected by well-known word and figurative trade marks, infringed those marks by taking unfair advantage of the reputation in them.

The ECJ addressed the last question first, noting that the protection given by the Trade Marks Directive for well-known marks is wider than for other forms of infringement. In particular, while it is necessary that at least a link between the well-known mark and the sign said to infringe it must be established in the consumer's mind there is no need for a likelihood of confusion. This is consistent with prior ECJ decisions such as *Adidas-Salomon v Fitness World*¹⁴. On the Court of Appeal's findings, there was such a link here. But that by itself was not sufficient for infringement. The Directive requires there to be injury in the form of detriment to or unfair advantage being taken of the mark's distinctive character or reputation as well. The ECJ considered that unfair advantage was being taken: the defendants were riding on L'Oréal's coat tails to benefit from the power of attraction, reputation and prestige of its marks without paying any financial compensation or making any marketing efforts of their own.

Turning to the comparison lists, the ECJ considered that their use of L'Oréal's trade marks could infringe if the lists failed to satisfy the Comparative Advertising Directive (by creating confusion, discrediting a mark, taking unfair advantage or presenting goods as imitations) and were liable to affect one of the functions of the trade marks. The ECJ specifically did not limit it to affecting the essential function of trade marks of guaranteeing the origin of goods. Wider functions include communication, investment and advertising.

As to whether the comparison lists complied with the Comparative Advertising Directive, the ECJ held that the bar on presenting goods as imitations applied to any goods, not just counterfeits, and that it was irrelevant whether the goods were said to be imitations of the branded product as a whole or of an essential characteristic only, such as smell. And, as "taking unfair advantage" should have the same meaning as under the Trade Marks Directive, the advantage gained by such unlawful advertising of imitations was unfair.

Comment: L'Oréal will have been pleased by the ECJ's decision as it has been a protracted battle starting back in 2004. But the decision is a boost for trade mark owners generally as it both adds to the body of decisions on the wide scope of protection afforded to well-known marks, particularly as there is no need to show confusion, and broadens infringement where a sign identical to a registered trade

¹⁴ [2004] FSR 21 (ECJ)

mark is used on identical goods and services by allowing effects on other functions of a mark to its role as a badge of origin to be taken into account. That said, the ECJ considered it unlikely that one trader benefiting from the use of another's mark would not be causing harm to that other but was bound to accept it in this case as a finding of fact by the Court of Appeal. Similar facts are unlikely to arise very often.

DOES KEYWORD ADVERTISING INFRINGE?

While the UK courts have tended to the view that the use of keywords, such as Google's AdWords, to get prominent placing in internet search results would not infringe trade marks for those words, courts elsewhere in Europe have thought differently. The issue is now to be decided by the ECJ.

In our Spring 2008 update, we reported the High Court decision in *Wilson v Yahoo*¹⁵ in which it was held that Yahoo had not infringed the Community trade mark MR SPICY through its use of "spicy" as a keyword to generate sponsored listing search results. Although a summary judgment decision, and so not a full consideration of the issues, it was consistent with earlier judicial views. During the last year or so, however, there have been a series of cases around the EU on the issue that have taken the opposite stance. In particular, the lower French courts in *Louis Vuitton v Google* considered that online service providers making registered trade marks available as keywords and providing sponsored links was infringing use of those marks. But the French Supreme Court decided to refer the issue to the ECJ¹⁶ and similar references followed from the Netherlands, Austria and Germany regarding search engine liability. In all, six references were made. On the same day in May 2009, the English High Court made two further references.

*The Interflora referral*¹⁷

In May 2008, Google ceased blocking the purchase of registered trade marks as AdWords in the UK and Ireland, but not the rest of the EU, provided that the marks were not actually used in the text of an advertisement. Marks & Spencer ("M&S") then purchased "Interflora" as an AdWord so that its flower delivery service would appear as a sponsored link whenever the word "Interflora" was entered as a search term. Interflora sued M&S, but not Google, for trade mark infringement. Despite the six existing references, Mr Justice Arnold considered that there was a real risk that all the questions necessary to resolve the Interflora dispute would not be answered so that it should be referred as well. The questions were:

- whether the selection, purchase and other related use (without display) of a trade mark as a keyword constitutes infringing "use" of that mark in respect of identical goods and services?
- whether such use in respect of dissimilar goods or services can be prevented by the owner of well-known marks?

¹⁵ *Wilson v Yahoo!* [2008] ETMR 33

¹⁶ *Louis Vuitton v Google* (C-236/08)

¹⁷ *Interflora v Marks & Spencer* [2009] EWHC 1095 (Ch)

- whether the presentation of a trade mark in the search bar or in the summary of the search results constitutes infringing “use” of that mark?
- whether a search engine operator has a defence under the E-Commerce Directive (2000/31/EC) which excludes internet service providers from liability for passively transmitting, caching or hosting information?

*The L'Oréal referral*¹⁸

This case concerned the sale of L'Oréal branded counterfeits as well as genuine products that were parallel-traded, testers or unboxed products on eBay's website and the use of L'Oréal's trade marks in eBay's sponsored links (on third party search engines such as Google, MSN and Yahoo). L'Oréal alleged that all of these acts amounted to trade mark infringement by eBay. Mr Justice Arnold disagreed. There was infringement by the third parties selling the counterfeits and parallel imports that originated from outside Europe but eBay was not jointly liable as it was under no duty or obligation to prevent that infringement. Further, while its policies neither favoured or encouraged sales of the products, they did actively encourage the listing and sale of goods from outside Europe and provided specific facilities to assist sellers in doing so. But this did not inherently lead to infringement as the facilities were capable of use in a non-infringing way.

As regards the sales of unboxed, tester and other not-for-resale products, it was not clear from previous ECJ decisions, or decisions by other national courts, whether dealings in them would amount to trade mark infringement even by the third party sellers. The fundamental question for tester products was whether L'Oreal could be said to have realised economic value from its trade marks by providing these products to distributors for promotional purposes without actually having sold them. If it had, then its trade mark rights were exhausted and there could be no infringement by the subsequent dealings in them. For unboxed products the issue was whether their sale damaged the reputation of L'Oréal's marks. As the correct answers to these issues were unclear, Mr Justice Arnold decided that they should be referred to the ECJ for clarification.

On the subject of whether eBay had infringed L'Oréal's trade marks by using them in sponsored links and on its sites, Mr Justice Arnold again took the view that clarification was needed from the ECJ to decide the issues. The questions he decided to refer focused on:

- whether there was “use” of L'Oréal's marks in a trade mark sense at all?
- whether any such use was “in relation to identical goods and services” when only some of the goods being sold by eBay infringed L'Oréal's trade marks?
- whether eBay would have a defence under the E-Commerce Directive as a passive information host?
- Whether L'Oréal was entitled to an injunction under the IP Enforcement Directive (2004/48/EC) against eBay to prevent it from acting as an intermediary to third party infringers?

¹⁸ *L'Oréal and others v eBay and others* [2009] EWHC 1094 (Ch)

*The Advocate General's Opinion*¹⁹

Shortly after the above referrals, in September 2009, the Advocate General of the ECJ gave his opinion in three conjoined references concerning AdWords. Essentially he considered that the use of AdWords corresponding to trade marks did not infringe. Their use was internal to Google and advertisers so that there was no product or service being sold to the public. Also, merely displaying relevant websites in response to a search gives no risk of confusion. Consumers will only make an assessment of the origin of goods or services from an advert or by visiting a website itself. But, were Google liable for infringement, the exemptions from liability under the E-Commerce Directive should not apply because of Google's pecuniary interest in AdWords.

Comment: as can be seen from the questions referred to the ECJ in the Interflora and L'Oréal cases, there are a raft of unanswered infringement issues that arise from the use of trade marks as keywords and for sponsored links. It is completely understandable why Interflora and L'Oréal should object to third parties taking advantage of their brands' reputations to promote competing services and there are clear parallels with the ECJ's finding in L'Oréal v Bellure (above) that riding on a mark's coat tails was taking unfair advantage of it. While the Advocate General's Opinion is not binding on the ECJ, it is not encouraging for trade mark owners as the ECJ tends to follow opinions. Answers to all of the references are unlikely to be available until 2011.

OTHER TRADE MARK DECISIONS

Bad faith bunnies - Lindt has been making chocolate Easter bunnies since the 1950s but did not sell them in Austria until 1994. In 2000 it applied for a Community trade mark covering the 3D shape and colours of its bunnies in the knowledge that similar looking bunnies were made by other companies. One company had been selling such bunnies in Austria since 1962. Despite these facts, Lindt sued for infringement. The Austrians counterclaimed for revocation on the basis that Lindt had applied for its mark in bad faith. The Austrian Supreme Court asked the ECJ for guidance on what constituted bad faith. The resulting judgment²⁰ is the ECJ's first decision on the point. It held that even knowledge of a long-standing use of a sign by another at the time of applying for registration of that sign as a trade mark is not by itself sufficient for bad faith. It would be dependent on the applicant's subjective intentions. If it was applying for the mark not for its own use, but solely to prevent others from using it, then there would be bad faith. On the other hand, obtaining a mark to prevent newcomers from copying it was a legitimate objective. The factors to be taken into account here would include the reputation of the mark and, for shape marks, the degree of technical freedom competitors had in choosing the shape of their own products.

At first glance this seems a straight-forward decision but it has the potential to undermine the 5 year period of non-use required for revocation of a mark by allowing any post-grant non-use to be relied on as invalidating a mark by giving rise to an inference of bad faith for lack of intention to use it.

¹⁹ C-236/08, 237/08 & 238/08 (Advocate General's Opinion dated 22.9.09)

²⁰ *Chocoladefabriken Lindt v Franz Hauswirth* (C-529/07)

Controlling distributors - in breach of its licence, one of Christian Dior Couture's licensees was selling Dior branded goods to discount stores. Dior sued for trade mark infringement. Siding with Dior, the ECJ²¹ noted that the exhaustive list of grounds in the Trade Marks Directive for which a trade mark owner can sue a licensee for infringement includes breach of licence provisions on the quality of the goods. The "prestigious image" of luxury goods was part of their quality and Dior had a legitimate interest in protecting that image from damage by discount sales. Further, a licence agreement is not an absolute and unconditional consent to all subsequent dealings in the goods once marketed. Therefore Dior's rights were not exhausted and it could use its trade mark rights to prevent the licensee from contravening its licence in the ways set out in the Directive.

In a similar vein, the UK High Court has held that Sun Microsystems' distribution agreements that required the distributors to buy Sun equipment, whether new or second hand, within the Sun authorised supply network whenever possible were not anti-competitive²². The restriction had not caused the disappearance of the secondary market in Sun products in Europe, which had led the defendant, M-Tech Data, to import products from the US instead thereby infringing Sun's trade marks. In any event, there was no connection between the restriction and Sun enforcing its trade marks so as to provide M-Tech Data with a defence to infringement.

COPYRIGHT & DESIGNS

WHAT IS A SCULPTURE?

On 16 December 2009, the Court of Appeal ruled that replica Star Wars "Stormtrooper" helmets were not protected by UK copyright because they were not 'sculptures' for the purposes of the Copyright, Designs and Patents Act 1988 ("CDPA"). The Court also overruled the High Court's decision that non-EU copyrights could be enforced through an English court²³.

In 1976 Lucasfilm had asked the defendant (a Mr Ainsworth) to make 'Stormtrooper' helmets and armour for use in the film '*Star Wars IV – A New Hope*'. The helmets and armour were based on drawings and clay models provided by Lucasfilm. Years later, in 2004, Mr Ainsworth started selling replica helmets and armour through a UK operated website, relying on the fact that they were made from the original moulds. Some sales were made to US customers. Lucasfilm sued for copyright infringement first in the US and then in the UK. In the US, Lucasfilm secured a default judgment as Mr Ainsworth took no part in the proceedings (other than to challenge the jurisdiction of the US courts). In the UK, Lucasfilm sought to enforce the US judgment or, if that was not possible, to enforce its US as well as its UK copyrights. The Court of Appeal's decision in the UK action is interesting for its finding on what constitutes a "sculpture" for the purposes of copyright law and for the decisions on the jurisdictional issues.

The point on sculptures was important because it determined whether there were assertable copyrights in the helmets and armour under UK law. On this, the Court

²¹ *Copad v Christian Dior Couture* (C-59/08; ECJ 23.4.09)

²² *Sun Microsystems v M-Tech Data* [2009] EWHC 2992 (Pat)

²³ *Lucasfilm Ltd v Ainsworth* [2009] FSR 2 & [2009] EWCA Civ 1328

of Appeal agreed with the High Court that there were not. In summary its reasons were that:

- (i) what constitutes a sculpture should be determined with regard to the normal use of the word, with no judgment as to artistic worth and bearing in mind that the essence of a sculpture is its visual appeal such that it could be enjoyed for that purpose alone, irrespective of whether it has any other purpose;
- (ii) most people would not regard soldier's helmets or armour as sculptures, they were primarily functional rather than being objects that should be admired for artistic quality – accordingly they were not sculptures protectable as artistic works under the CPDA²⁴; and
- (iii) as the items were not artistic works, the CPDA provided a complete defence to the infringement of other copyrights in them (the relevant provision, section 51, is to protect the spare parts industry by limiting the applicability of copyrights to industrially applied designs - the idea being that protection should be through shorter-lived and narrower design rights)²⁵.

On the jurisdictional issues, the Court of Appeal agreed with the High Court's decision that the US judgment was unenforceable through the UK courts. The mere selling of goods into another country did not establish a presence in that country giving liability under its laws, including where sales were through the internet (bearing in mind that Mr Ainsworth's website was UK not US operated). But the High Court was wrong to have enforced the US copyrights directly. There were good policy reasons as to why the UK courts should not enforce non-EU copyrights. These included that the infringement of an IP right (especially copyrights, which are largely unharmonised internationally) is essentially a local matter involving local policies and local public interest. Therefore enforcing foreign rights could involve a clash between different countries' IP policies and encourage forum shopping. Further, it was for international treaties not the courts to create any jurisdiction to enforce foreign copyrights.

As a result, Lucasfilm had no financial remedy against Mr Ainsworth in England. However, the Court of Appeal ended its judgment by reminding Mr Ainsworth that, if he made any further sales to the US, he would be in breach of its copyright laws.

Comment: it is difficult to agree with the finding that helmets were merely functional by equating them with military equipment in the real world. However, the net result is in line with past decisions, for example that fashion clothes are not works of art despite being made and bought for eye-appeal. Such decisions set a high standard for copyright protection in 3D merchandise, more or less limiting it to collectors' items. But this case is unusual because of the long gap between the

²⁴ Mr Ainsworth was also selling toy Stormtroopers which the Court of Appeal held were clearly not artistic works aimed at collectors but mass-produced playthings for children.

²⁵ Even if the helmets etc had been artistic works, section 52 would have provided a defence as it limits copyright protection in industrially applied designs to 15 (now 25) years.

creation of the helmets and armour and the alleged infringements. Where the time lag is shorter, unregistered design rights may well still subsist and allow the protection of non-artistic works, as would registered designs (if obtained).

A FAIR RESPONSE TO FILE-SHARING?

As has been widely reported in the press, the Government has published a Digital Economy Bill (“the Bill”) aimed at deterring online copyright infringement by enabling copyright holders and Internet Service Providers (“ISPs”) to impose sanctions directly on infringers.

The Bill was published on 20 November 2009 and followed the publication of the Digital Britain report (“the Report”) in June 2009. The Report considered there was evidence to suggest that most people would stop or significantly reduce illegal file-sharing upon receipt of a ‘warning’ from their ISP but recognised that, if this did not happen, further action would be needed from copyright owners and ISPs. It therefore proposed a two-step enforcement process for tackling online copyright infringement underpinned by an industry code of practice (the “Initial Obligations Code”).

In the first stage, the copyright owner will send a “copyright infringement report” to the relevant ISPs identifying, with evidence, internet addresses used to infringe copyright. The ISPs are then obliged to notify the subscribers whose IP addresses are identified in the report. The notification will contain all of the information provided to the ISP by the copyright owner and also information about copyright and its purpose, including advice on how to access copyright works lawfully, the idea being to educate subscribers and deter further infringement.

If a subscriber exceeds the threshold number of infringements set by the code, the copyright owner may apply to court to have the subscriber’s identity revealed to it by the ISP so that infringement proceedings can be brought. The proceedings will be civil not criminal.

Other provisions

To assist the Secretary of State monitor the extent of online infringement and the effectiveness of the enforcement procedures, Ofcom will be required to prepare interim (3 monthly) and full (12 monthly) reports. If the enforcement procedures are not proving effective, the Secretary of State can direct Ofcom to decide whether ISPs should impose technical measures against certain subscribers such as limiting the speed of their internet service, preventing access to particular material and suspending their service altogether.

Also, in response to the criticism that UK copyright laws are struggling to keep pace with the digital age, the Bill allows amendment by statutory instrument rather than requiring primary legislation.

Comment: although the Bill has been criticised as being heavy-handed, likely to significantly increase connection charges and in breach of human rights, the extent and ease of online infringement does seem to require tough measures to bring it under control. The Bill should therefore please copyright owners suffering from the effects of online infringement though how effective it is likely to be in practice will not be known until the proposed industry code is drafted as that

will set how many reports are required before a subscriber is determined a 'serious repeat infringer' subject to the full range of enforcement measures. There are also reports of file-sharers moving to new "safe havens" such as the Ukraine and China to remain beyond the reach of such laws. The Bill is expected to be implemented in summer 2010.

MISCELLANEOUS

CROSS-UNDERTAKINGS FOR DAMAGES

The High Court has ruled²⁶ that damages awarded under cross-undertakings can be assessed on an equitable basis - giving the court greater flexibility when awarding damages for companies wrongly enjoined at the interlocutory stage.

Four major pharmaceutical groups, Eli Lilly, Pfizer, AstraZeneca and Merck, brought proceedings against 8PM Chemist in late 2007 arguing that 8PM Chemist's receipt in the UK of branded pharmaceuticals from Turkey for onward posting to patients in the US (as part of the internet pharmacy trade) infringed their UK trade marks. All four groups applied for interlocutory injunctions, the first of which was granted to Eli Lilly in November 2007. Although the injunction was overturned on appeal in January 2008, it had already caused the loss of the Turkish supply business. 8PM Chemist and the Turkish Supplier ("8PM") sought compensation for the lost business under the cross-undertakings as to damages given by the pharma companies when obtaining their injunctions.

The court generally has considerable sympathy for parties that have been incorrectly enjoined and this case was no exception. Mr Justice Arnold, who heard the trial, found that the pharma companies were jointly liable to 8PM and in the course of his judgment made a number of interesting findings on the applicable law.

The first concerned the basis of assessment of damages under a cross-undertaking. It has generally been accepted that the contractual basis should be used but Arnold J noted that this has been doubted in a number of recent cases. This encouraged him to depart from the approach altogether and apply equitable principles instead. In particular, this allowed Arnold J to assess the damages as at the date of his judgment and so to take account of what had happened in the real world since the injunctions and how that would have affected the profits that 8PM would have made had the Turkish supply business continued. The greater certainty that this lent to the assessment, together with the principle of "liberal assessment" in cases of wrongful interim injunctions, made for a more generous award to 8PM than it would likely have achieved on a contractual basis.

A second interesting aspect to the decision was the pharma companies' argument that, as a matter of public policy, 8PM should not be able to recover for its losses because importing unlicensed drugs into the US is illegal, even for personal use by patients. This argument was rejected. Having undertaken to compensate 8PM if the injunctions turned out to be wrongly granted, the pharma companies could not

²⁶ *Lilly Icos v 8PM Chemist* [2010] FSR 4 (this decision was also reported in our Life Sciences Newsletter of October 2009) - Fasken Martineau represented 8PM.

now turn round and say that the undertakings were unenforceable. In any event, the US offences were not proven to have extra-territorial effect so that 8PM's acts, which were legal in the UK, were not made illegal by US law. But, even if they were, 8PM did not have to rely on those illegal acts in support of its claim for damages so that, following prior House of Lords authority, the public policy did not apply.

Comment: The decision highlights the sympathy the court will have for companies that have been wrongly injuncted and, if followed, will allow courts greater flexibility in assessing the losses suffered by them.

CUSTOMS DETENTIONS

In *Eli Lilly v 8PM Chemist*²⁷, the Court of Appeal followed ECJ case law that goods in transit through the EU could not be stopped for trade mark infringement under the Customs Regulation²⁸. We now report two related developments.

*Nokia v HMRC*²⁹

As a result, we believe, of the Eli Lilly action and other cases in which the ECJ line of authority was relied on, in early 2008 HMRC ceased detentions of IP infringing goods in transit, including counterfeits. This policy change led to it releasing a consignment of fake mobiles and accessories bearing Nokia's trade marks which it had detained in July 2008. Nokia applied for judicial review. With regret, the High Court rejected Nokia's application: since goods in transit did not infringe trade mark rights, the fakes were not "counterfeit goods" under the Customs Regulation and HMRC was not empowered or obliged to detain them.

Nokia appealed. Whilst the Court of Appeal considered the High Court's reasoning persuasive, it decided in November 2009 that questions on what constitutes "counterfeit goods" needed to be referred to the ECJ. A similar point concerning copyrights had been referred by a Belgian court only a few days before³⁰ and a highly respected judge in the Dutch court had come to a view effectively contrary to that of the High Court. The precise form of the questions had not been settled at the time of writing.

Change to HMRC Policy

Separately to the above, with effect from 22 June 2009 HMRC changed its procedures on the seizure of goods that infringe trade marks and copyrights in order to follow the Customs Regulation more closely. HMRC will now only detain potentially infringing goods pending the outcome of court proceedings, and will only seize goods where directed to do so by the court. The detention period is 10 working days, extendable by a further 10 days, or, for perishable goods, a non-

²⁷ *Eli Lilly & Co v 8PM Chemist Ltd* [2008] FSR 12 (see our Spring 2008 Update)

²⁸ Council Regulation (EC) No. 1383/2003

²⁹ *Nokia Corp v Her Majesty's Commissioners of Revenue & Customs* [2009] ETMR 59 (High Court) and Court of Appeal (not yet released)

³⁰ *NV Koninklijke Philips Electronics v Far East Sourcing Ltd* (AR No 02/7600/A)

extendable 3 days. To maintain a detention beyond these periods, the rights-holder must commence court proceedings for infringement.

Comment: the ability of customs to seize goods in transit has become a political issue over the last year or so due to the seizure by Dutch customs of generic medicines in transit from India to Brazil. Such seizures seem contrary to ECJ case law and have come close to provoking a trade war with India. The area of customs detentions is therefore due for review if only for consistency of approach around the EU. It is difficult though to see the ECJ changing its position on transit goods, one underlying reason being the negative effects on Europe as a transport hub if it allowed such goods to be seized. Meanwhile the UK policy change requires rights holders to obtain court orders for seizures in circumstances where they had not previously been necessary (such as when no consignee comes forward to claim the goods). But HMRC is introducing a new system for detained goods to be abandoned by agreement between the rights-holder and the owner, holder or declarant for the consignment so that proceedings can be avoided.

DATA PROTECTION

The Information Commissioner's Office ("ICO") is soon to be given greater powers to impose fines on organisations that commit "serious" breaches of the Data Protection Act 1998 ("DPA"). The changes follow recent high-profile breaches in the public and private sector with personal data being lost due to carelessness and non-compliance with data protection laws, including losing unencrypted data keys and laptops.

Currently, the ICO has the power to enforce breaches of the DPA for a number of offences, the main ones being those related to processing data without a registration and the unlawful obtaining of personal data. In very serious cases, the DPA creates criminal offences for which the ICO can prosecute data controllers and impose a fine of up to £5,000 in a Magistrates' court or an unlimited fine in the Crown Court. Other sanctions that the ICO is able to enforce against data controllers include enforcement notices, undertakings and inspections. These powers will continue to be an important regulatory tool for the ICO where an organisation has acted responsibly but has misunderstood or misapplied the DPA.

A key new power for serious breaches that is expected to come fully into force on 6 April 2010³¹ is for the ICO to be able to serve civil monetary penalty notices on data controllers, i.e. levy fines, of up to £500,000. The breach has to be of a kind likely to cause substantial damage or substantial distress which was either deliberate or was a risk that the data controller knew or ought to have known about but failed to take reasonable steps to prevent. In setting the amount of the penalty the Commissioner will take account of factors such as:

- the nature of the breach, its effect, whether the data controller notified the Commissioner and the impact that the breach had on the data controller's business; and

³¹ The power is being introduced by staged amendment to the DPA.

- the sector of the data controller, for example, whether it is a voluntary organisation, and also its size, financial and other resources.

A second power that was introduced by the Coroners & Justice Act 2009, but has not yet come into force, is the assessment notice. This is to allow the Commissioner to enter premises and conduct audits on compliance with the DPA without the data controller's consent. At present, this power is limited to audits of government departments and public authorities but in the future it could be extended to the private sector. A code of practice on the manner in which the power will be exercised is to be prepared by the Commissioner.

HUMAN RIGHTS AND INJUNCTIONS

A Maltese case in which a woman was injunctioned from hanging out her washing over her neighbour's property, and who had died by the time the dispute was resolved 7 years later, has led to a decision by the European Court of Human Rights that Article 6 of the European Convention on Human Rights should after all apply to interim measures such as injunctions. Article 6 is the guarantee to a fair and public hearing. It had previously been accepted that it did not to apply to interim decisions. The test for its application now laid down by the European Court is that (i) the right at stake in both the main and interim proceedings is civil; and (ii) the interim measure effectively determines the civil right or obligation at stake (irrespective of how long the interim measure will be in force). UK courts are obliged by the Human Rights Act 1998 to interpret legislation and act in accordance with the Human Rights Convention. The decision therefore has the potential to affect interim applications in the UK, particularly without notice injunction applications though we are not aware of it having been considered yet by our courts.

This Review is written by Ralph Cox, Yasmina Hadded and Tanvi Shah. For more information about any article or our IP practice please contact your usual Fasken Martineau contact or:

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