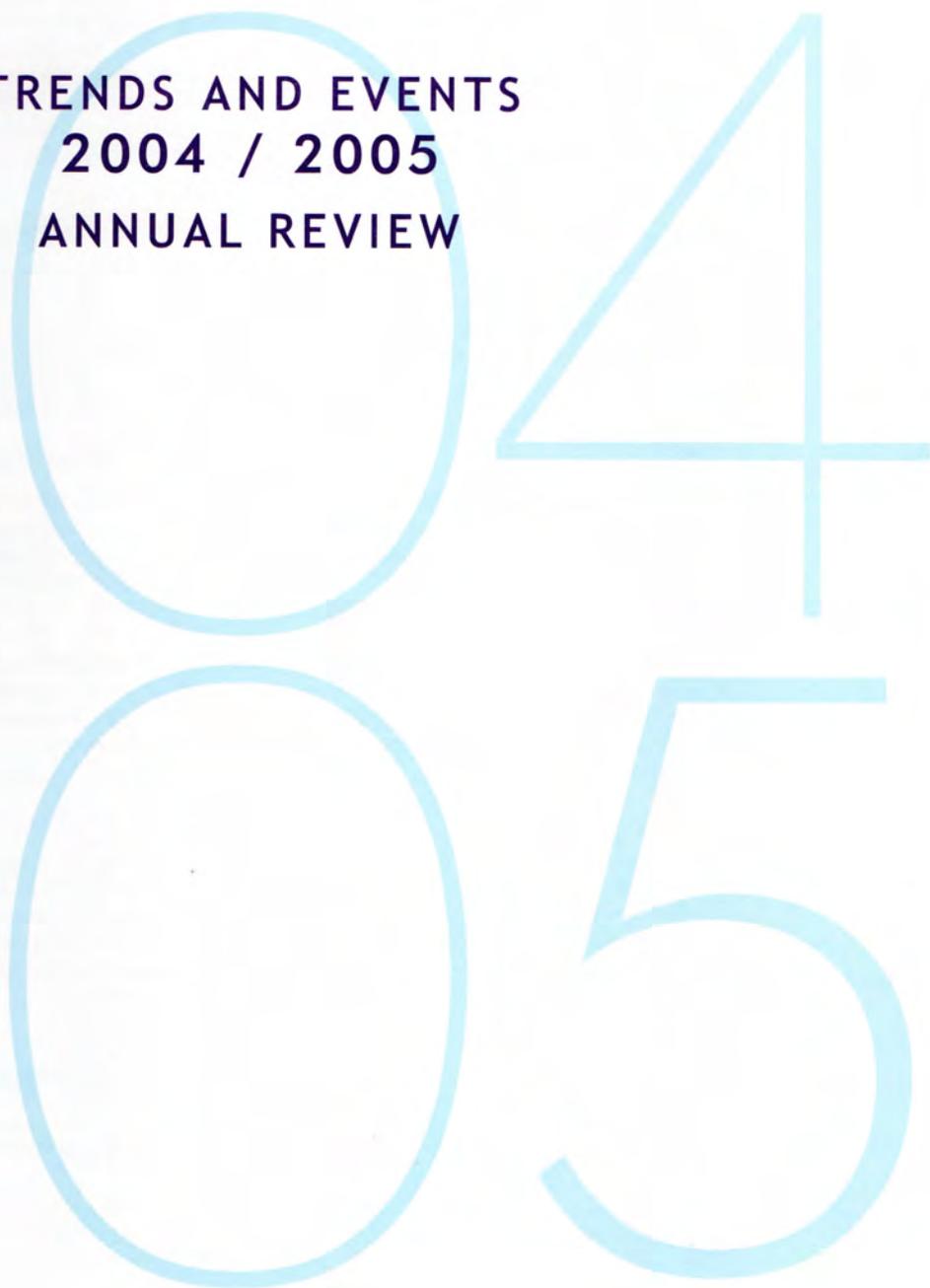




Advancing Industry's View On Intellectual Property Since 1920

**TRENDS AND EVENTS
2004 / 2005
ANNUAL REVIEW**





The Trade Marks Patents and Designs Federation was founded in 1920 in order to co-ordinate the views of industry and commerce in the United Kingdom, and to make representations to the appropriate authorities on policy and practice in intellectual property matters.

Objects

The Federation's object is to bring about improvements in the protection afforded by intellectual property rights throughout the world, to the advantage of inventors, manufacturers and consumers alike. Today the Federation has forty members and associate members, among which are many of the largest companies in the UK, as well as smaller companies. *[For a list of current members see inside back cover.]*

Most if not all industrial and commercial firms use or are affected by intellectual property rights, even if they are not particularly concerned with innovation protected by patents and designs. Nearly all firms own trade marks and copyright material. All are affected by competition law and the rights of others. The work of the Federation is therefore of value to everyone. While many firms leave day to day matters concerning the acquisition of rights to professional attorneys, it is still important to take a direct interest in the policy background, to ensure that proper rights are available, can be secured in a straightforward and efficient way and can be litigated without unnecessary complexity and expense. The Federation is very active in pursuing these needs.

Activities

The Federation initiates proposals and follows all developments at national, European and international levels across all fields of intellectual property. The Federation has a close relationship with the Confederation of British Industry (CBI) and provides much of the professional input on intellectual property matters to the Confederation, as well as representing it in meetings of the Union of Industrial and Employers' Confederations of Europe (UNICE) concerning intellectual property. TMPDF is also an invited observer at diplomatic conferences and meetings of standing committees of the World Intellectual Property Organisation (WIPO).

Contacts

The Federation maintains good contacts with the UK Patent Office, and members of its Council and committees participate in several Focus Groups and practice working groups which provide opinion to the UK Government and its agencies on intellectual property matters. TMPDF is also represented on other bodies which advise the European Patent Office. In the UK, it is represented on the Users Committees of the Patents Court and the Patents County Court.

TMPDF also maintains contacts with parliamentarians both in Westminster and in the European Parliament. In the UK, it has close contacts with the Chartered Institute of Patent Agents (CIPA), the Institute of Trade Mark Attorneys (ITMA), the Intellectual Property Institute and the IP Awareness Network. Internationally, TMPDF exchanges views and maintains good contacts with similar IP user organisations in other countries, notably in Europe, Japan and the USA.

Membership

The Federation has a Council, which agrees TMPDF policy, and six technical committees, to which detailed consideration of issues is delegated. These deal with Trade Marks, Patents, Copyright and Designs, Litigation, Licensing and Competition Laws, and Biotechnology. Voting members are entitled to a seat on Council, as well as any or all of the six committees. Committee members can join any or all of the six committees. An associate membership is available to those wishing to be informed about developments in intellectual property without joining any of the Federation's committees or Council.

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PRESIDENT'S INTRODUCTION

As always, *Trends and Events* seeks to be a concise guide to what has happened in IP law in the year just ended, with especial focus on those issues which are important to the TMPDF members, i.e. to commercial organisations reliant on technology, brands, and design. *Trends and Events* sets out what has happened in the year; it indicates whether TMPDF lobbying has been successful or not; and it indicates areas of future interest.

It has been a great privilege to be President of TMPDF for the last two years. The quality of TMPDF's submissions to HMG, to WIPO, to the EU, and to the EPO is very high; I as President have been able to bask in the reflected glory. The quality of the submissions - and, for that matter, of the rest of this *Trends and Events* - depends crucially on the efforts of Council and Committee members, of our Secretariat of two, and of our Consultant.

However, this quality of output is not merely a result of personal intellectual hard work; it results also from a clear TMPDF philosophy which serves the interests of its members and, I believe, the general economic interest.

The TMPDF ideal is that the international IP system should reward investment in technology, brands, and design -

- (a) in a way that is reasonably certain,
- (b) in a way that is reasonably simple and cheap, and
- (c) in a way that appropriately balances the interests of originators and imitators and of the wider public, with the correct amount of interference with the general principle of free competition.

I will take these three *desiderata* in turn.

Reasonable certainty

Statutes, Treaties, Regulations, and Directives are ultimately interpreted by Courts. Courts, being human, are not predictable. Community Trade Mark cases on descriptive marks and neologisms continue to confuse (page 36). The ECJ case *The British Horseracing Board Ltd and others v. William Hill Organization Ltd* (page 4) decided that the EU Database Right was surprisingly narrow in scope. The House of Lords decision in the recent "Amgen" case (widely reported elsewhere) surprisingly decided that a "product-by-process" claim was invalid for lack of novelty even if the process was novel.

Such uncertainties are to a degree inevitable in any legal system, and the scope for organisations like TMPDF to affect the outcome of individual cases is limited¹. Nevertheless, a great deal can still be done to reduce uncertainty. Organisations like TMPDF can lobby for improvement of existing laws; they can analyse and comment on new legislative proposals; and they can lobby for quality intellectual property offices and Court systems. Thus, TMPDF welcomes the proposal before the US Congress to replace "first-to-invent" by "first-to-file" (page 1); it is undesirable for the validity of a patent to depend on

¹ TMPDF has, however, written into the Commission on pending competition law cases and has also urged HMG intervention in ECJ cases.

facts that are unlikely to come to light except in expensive litigation. TPDF *opposes* the extension of "gracing" of prior art in Europe because of the extra uncertainty this creates for third parties (page 24).² TPDF is critical of low-quality patent searching by intellectual property offices (page 16), of EPO delays in prosecution (page 19), and of OHIM delays in handling trade mark oppositions (page 31). It regrets the introduction of non-binding Patent Office opinions in the Patents Act 2004, but will respond constructively to the consultation on the associated rules (page 15). It is advising the UK Department of Constitutional Affairs against absorbing the specialist Patents County and Patents Courts into a "single [non-specialist] civil court" (page 10).

Reasonable simplicity and reasonable cost

While TPDF believes that the core functions of intellectual property offices and Courts should be adequately resourced, it believes that users of the system should not incur costs that serve no public interest. It welcomes the liberalisation of the national security restrictions on filing foreign patent applications by UK residents (page 15). It continues to lobby for the effective implementation of the London Translation Agreement (page 18). It endorses the Clementi proposals to permit mixed legal practices in UK (page 25).

Balance of the interests of originators and imitators and of the wider public

Many TPDF members are themselves as likely to be defendants as claimants in IP actions, at least outside the trade mark area.

Accordingly, the TPDF view is balanced and coincides in practice with the general economic interest, including the consumer interest and the "SME" interest (which latter it actively seeks through CBI membership of the TPDF Council).

It is an indication of this balance that TPDF in recent years has *opposed* Commission proposals to provide utility model protection across the EU and criminal penalties for patent infringement. TPDF, likewise, thinks that triple damages for patent infringement in USA (page 1) are wrong. These are all things that would (or do) excessively inhibit commercial freedom and damage the general economic interest.

On the other hand, the TPDF view is that the "Common Position" on Computer Implemented Inventions Directive is sound (page 19), and that the amendments being voted on by the European Parliament on 6 July 2005 would go much too far in the other direction, weakening patent protection so as to discourage investment in research and development.

I hope that you, the reader, find this issue of *Trends and Events* informative and stimulating. A busy year lies ahead, with much legislation "in the pipeline" or proposed.

A new President will take over from me for the next two years, and will introduce the next two issues of *Trends and Events*. He has my confidence and best wishes.

Mike Jewess

² A "trade" of US adoption of "first-to-file" for additional European "gracing" would have been acceptable as "second-best" to TPDF provided the latter were very limited, but it is to be hoped that this will not be necessary if the US unilaterally adopts "first-to-file".

COMPETITION

USA Fair Trade Commission (FTC) Report on Competition and Patent Policy

The FTC published this report in October 2003 after taking evidence. The report recommended changes to the US patent system on the basis of competition considerations.

Some of these recommendations are currently being considered by the relevant subcommittee of the House of Representatives, in particular -

- (i) replacement of the "first-to-invent" system with a "first-to-file" system;
- (ii) publication of US patent applications at 18 months from priority date even if there are no foreign equivalents;
- (iii) providing for third-party post-grant opposition within 9 months of grant; and
- (iv) restricting the award of treble damages for wilful infringement of patents.¹

All four of these proposals are likely to be welcome to TMPDF members; they address features of the present law which unfairly favour patentees (and which in the FTC view was anti-competitive).

The October 2003 report promised a *second* report, jointly with the US Department of Justice. This was expected to say that US competition law in relation to patent licensing could be relaxed provided that the anti-competitive defects in the patent system itself were remedied. However, the second report has yet to appear.

¹ The FTC had received evidence that some companies forbade their employees to read competitors' patents out of concern for triple damages liability. This, of course, defeats one object of the patent system (the dissemination of technical knowledge).

COPYRIGHT

With the Copyright Directive still settling into place and not yet implemented in all countries of the Union, the Commission has refrained from proposing any major new initiative in the copyright area. However, it did launch two preparatory papers.

In April of last year it issued a *Communication on the Management of Copyright and Related Rights in the Internal Market*, where "management" mainly means licensing through collecting societies - collective management, as the Eurojargon has it. The paper

concluded that the disparities between the modes of operation of collecting societies in the different member states were harmful, especially in an on-line world where players were not restricted by national boundaries. It announced that the Commission would bring forward a proposal for a legislative instrument on certain aspects of collective management and good governance of the collecting societies.

In its comments the Federation gave a cautious welcome to the proposal, because its members find that there

are disparities between collecting societies in different countries that make operating on a Europe-wide basis more difficult than it should be. However, it thought harmonisation would be useful only if it was in the direction of increasing flexibility and removing restrictions that at present limit what is possible for users in some countries but not others. For instance, in the UK it is possible to obtain a blanket licence to make copies of paper originals for purposes of commercial research when there appears no corresponding possibility in some other member states. The Federation urged that collecting societies should be seen as there for the benefit of right-holders and users and not as self-perpetuating bodies existing for their own benefit. Amongst other changes it was important to introduce greater transparency as to their internal costs and the way they distributed their net proceeds. Competition should be encouraged between collecting societies, which at present are monopolies within their own territories, in order to drive down costs and increase choice. Collecting societies should be subject to clearer external regulation, rather than, as is the case in some countries at present, effectively able to act without challenge.

In an important speech at the 2005 Fordham Annual Conference on International Intellectual Property Law & Policy in April, Mr Tilman Lueder, the current head of the Copyright Unit of DG Internal Market and Services, showed some sympathy with those wishes, but seemed less sure than the paper that legislation was the answer. Soft regulation in the form of codes of conduct, which the paper had dismissed, seem back on the agenda as a possible solution, as well as "light-touch" legislation, but the choice would follow the more rigorous impact assessment adopted

by the new Commission in the interests of less but better regulation. The indication was that the Commission would introduce its preferred policy choice in the autumn, after that assessment had taken place.

The second paper, published in July last year, was a *Commission staff working paper on the review of the EC legal framework in the field of copyright and related rights*. It considered whether any changes were needed in the exceptions contained in the earlier directives in the copyright field to bring them into line with the scheme adopted by the 2001 Directive on Copyright in the Information Society. That directive was a horizontal instrument harmonising various aspects of copyright for all types of work, whereas the earlier instruments had dealt with specific classes of work. Its conclusion was that only minor adjustments were needed.

The Federation welcomed the general approach of the paper. It considered that where the earlier instruments had adopted a solution that had been chosen because of the particular characteristics of the type of work concerned, then if nothing had changed that solution should prevail over any more general solution adopted in the Copyright Directive. Examples are the provisions on interoperability and technical protection in the Software Directive. They were chosen after much debate and bearing the particular characteristics of software in mind and it was right that the Copyright Directive had preserved those provisions even though they were a little different from the scheme introduced under the Copyright Directive for other works. On the other hand, the Copyright Directive introduced a new exclusive right of communication to the public by

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electronic means that included a new making-available right which would apply, for instance, to making a work accessible over the web. This was not a matter considered when the Software Directive was passed in 1991 and it is not an enumerated exclusive right under that directive. It was illogical that it had not (apparently) been extended to computer programs. Equally, the exception enjoyed by intermediaries for the technically necessary temporary copies made during transmission over a communications network between third parties should not be subject to an exclusion for computer programs but should apply to them as much as any other class of work: to the intermediary the significance of the bits passing across his network was irrelevant, and indeed unknown, and should not govern whether he benefited from the exception.

The Commission's paper also looked at whether any broader change to the *acquis* were called for, but concluded that no changes were needed in the substantive provisions. However, in his speech at Fordham, Mr Lueder disclosed that the responses the Commission had received to its paper had put under question their assumption that they had settled copyright for the present. For instance there were doubts that the new framework achieved the most efficient outcome for encouraging the on-line distribution of works. The new business models appropriate to that mode of distribution might not be compatible with traditional modes of remuneration developed in the analogue world. As a result they were intending a more radical revision which he dubbed a recasting of copyright to make it fit for the digital world. He characterised it as a core initiative earmarked by the Commission as one of the policy priorities for to be achieved in 2006. Under consideration would be whether to amend the private-

copying exception of Article 5.2(b), the way that exception relates to "fair compensation" when Digital Rights Management is in place to stop unauthorised copying, and - probably as a counterbalance to the last point - how copyright and its exceptions could be made more accessible to end users. The language is opaque, but seems to be pointing towards a welcome reduction in the power of Continental collecting societies to take a toll from the sale of the equipment needed by consumers to take advantage of the Information Society. But if it imposes a greater harmonisation on member states' private copying exceptions it may present dangers to the UK. There is certainly a case to be made for more harmonisation at the European level, but we in the UK have enjoyed a relatively benign regime in practice which might be threatened by what the Commission calls a "streamlining" of the exception

There was also an unexpected suggestion that the decompilation exception of the Software Directive, which permits decompilation where necessary for interoperability, might be broadened in the interests of Open Source suppliers.

The British have also been facing the difficult issue of how to facilitate new business models for the on-line distribution of copyright works, which depend heavily on digital rights management, without on the one hand opening the door to piracy or on the other entirely thwarting the exercise of reasonable exceptions. Last summer the government created the Creative Industries Forum on IP, a joint DCMS/DTI initiative with government and industry members to see "how to best meet the opportunities and threats that rapid technological developments are generating for the UK's Creative Industries sector". It has three working groups, on education, new

business opportunities and piracy and file-sharing. As yet it has produced no visible public output.

The Labour Party's election manifesto included commitments to modernise copyright in the digital age and to use the UK's Presidency of the European Union to look at how to ensure content creators can protect their innovations in a digital age. They would work with industry to protect against the growing threat of piracy. We have not yet seen any concrete proposals stemming from those commitments, though the government had announced in February that as part of its Presidency it would be backing a conference on the Creative Economy to be held in London in October that would address the same

sort of issues as the Creative Industries Forum but from a European perspective. There is an interesting divergence of emphasis in the quotes attributed to Tessa Jowell, the Culture Secretary, and Patricia Hewitt, the Trade and Industry Secretary, in the Government press release welcoming the conference. Jowell takes much the same approach as the manifesto and makes her main point the need to find new ways to tackle "our old adversary - piracy". Hewitt leads with the need for "an effective and balanced intellectual property regime giving fair rewards to creators and creative businesses whilst delivering a good deal for consumers".

DATABASE RIGHT

In November 2004 the European Court of Justice issued its judgments in the case of *The British Horseracing Board Ltd ("BHB") and Others v William Hill Organisation Ltd* and various other cases on football pools involving the British company Fixtures Marketing Ltd, which exploits the data of the British football leagues. The decisions confounded the expectations of most in the UK. We now learn that the *sui-generis* database right is a much thinner right than any had believed in this country.

The Database Directive of 1996 had forced the UK to remove the copyright protection it had applied to sweat-of-the-brow databases. A database would henceforth enjoy copyright protection only if it surmounted a higher threshold of originality: it would need to be the author's own intellectual creation by reason of the selection or arrangement of its contents. However, the Directive also introduced a new *sui-generis*

database right to protect investment in databases and the UK believed at the time it had shaped that right in such a way as, in practical terms, to replace the protection that had been lost under copyright. The outcome is very different.

In the UK, BHB had sued William Hill for the unlicensed use of its racing data in William Hill's on-line betting service. The High Court had no difficulty in holding that William Hill had infringed BHB's database right and the Court of Appeal said that left to itself it would have upheld the first-instance decision. But it was faced with decisions from other European courts that had taken a more restrictive view of the right than that accepted in the UK. It therefore felt compelled to refer a series of questions to the European Court.

The Attorney-General's opinion had supported BHB's case, but the ECJ held differently. To qualify for the

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database right, BHB needed to show that they had made a substantial investment in obtaining the contents of their database. They have an enormous and expensive infrastructure to assemble the facts about horses, jockeys, trainers and so forth and the runners in individual races and it had never been seriously questioned that they were entitled to the database right. However, the Court's interpretation was that this investment was not in obtaining the contents of the database but rather in creating them, and the two were different. Obtaining the contents of a database, the Court held, meant seeking out existing independent materials and collecting them into a database. They based that reading, which appears contrary to the plain meaning of the article, on various of the recitals, which in the way of Euro-legislation were prolix and filled with political fudges and relics of earlier drafts.

The Court also took a surprising view of the test for infringement, which requires the taking of the whole or a substantial part. The word substantial had been inserted at British urging, to meet a fear that the original test, which encompassed the taking of "any" part, would make it an infringement to reproduce a single fact from the database. But the Court held that substantiality was not, as those from the UK would assume, to be measured by contrast with an insubstantial amount the taking of which should not be an infringement. Rather, it was a question of relative scale in proportion to the whole database, if taken quantitatively, or in proportion to the investment in creating the database, if taken qualitatively. The bigger the database, the more that would have to be taken before infringement could be found.

There are a number of lessons in this upset. First, the UK should be more

vigorous in intervening in references to the ECJ when the whole *rationale* underlying the British acceptance of a directive is under threat. There were a number of representations to the Patent Office, supported by the TMPDF, that the UK should intervene in the various database references, but without success. In recent correspondence with the Federation the Patent Office has explained that one reason for not intervening was that the Commission was already doing so in support of the broad interpretation of the database right. However, the Federation feels that the Patent Office is undervaluing the weight that would be accorded to its views if it were to intervene, given the reputation it enjoys in Europe.

The UK should also be wary about introducing language into a directive that has a recognised meaning in English law and expecting the rest of Europe to interpret it in the same way. And more attention should be paid to the recitals to ensure they cannot be used to undermine the apparently clear wording of the articles themselves.

The Commission is under an obligation to report on implementation. The report had been delayed because of late implementation by member states, but has taken on a new urgency in the Commission's eyes because of the ECJ decisions. Until the Court's decisions, the Commission had consistently propounded the view that obtaining includes not just the use of pre-existing data, but also the generation of data, provided it is linked to the setting up of the database. In Tilman Lueder's speech at Fordham (see the Copyright section of Trends and Events) he explains that the report should be issued in the autumn, and will consider policy options including possible amendments to the Database Directive to reformulate the scope of the *sui-generis* right in order to cover

instances where the creation of data (i.e. establishing the horse and rider combinations and pairing the games contained in fixture lists) takes place concurrently with the collection and screening of such data. Whether such an amendment would be politically possible is another question. Several member states intervened in the ECJ references to support a narrow interpretation (which made it more of a pity that the UK did not speak out in favour of the broad interpretation). And the database right has proved

contentious with academics, who perceive it as protecting facts per se. It is also not popular outside Europe. In the US it is seen by many as unconstitutional on the basis of the *Feist* decision and the developing world generally sees it as another way by which the developed world might seek to control them. In the face of these attitudes WIPO's proposed treaty on a database right has apparently stalled irretrievably.

DESIGNS

When the Designs Directive was adopted in 1998, one topic was so contentious that eventually it was abandoned and left for later harmonisation. That topic was the protection to be accorded under national design laws to spare parts, with the main controversy arising in the automotive sector, where the ability of independent suppliers to sell, for instance, identical-looking parts to repair crash damage was at stake. The design law of some countries, e.g. France and Germany, protected such parts, while that of others, including the UK, did not. Thus in the UK there was an exclusion from protection for parts whose shape or appearance "are dependent on the appearance of another article of which the article is intended by the designer to an integral part". Such parts have become known as "must-match" parts.

The solution adopted in the Directive, often called the "freeze-plus" solution, was avowedly temporary. For parts "used for the purpose of the repair of a complex product so as to restore its original appearance" member states could keep what they already had or they could change it, but only in the direction of

liberalising the market in such parts. These parts also tend to be called "must-match" parts, though formula used to identify them is not quite the same as has been used in the UK. The Commission was put under an obligation to present a proposal to complete the harmonisation of the internal market in this area by 28 October 2005. In fact leaked drafts of a proposal were circulating by the summer of 2004. It had one substantive article, which provided that "protection as a design would not exist for a component part used for the purpose of repair of a complex product so as to restore its original appearance" This was the formula already adopted for the Community Design in the Designs Regulation of 2001; it is rather unfortunately worded because it sounds like an exclusion from registration, whereas the explanatory material makes it clear it is envisaged as an exception from protection for the relevant parts applying when used for the purpose of repair (that is, in the so-called after-market). However, it would not prevent the initial registration of the design or its enforcement against use in the original manufacture of the overall product. When the UK implemented the Designs Directive it

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changed the UK law by dropping the exclusion from registration for must-match parts, thereby permitting their registration, while at the same time adopting the formula from the Regulation, but cast as a clear exception from infringement. While the TMPDF has never taken a position on the repair provisions of the Directive itself because of differing interests among its members, there was agreement that it could accept this change to the UK law.

The release of the Commission's proposal was held up, it is understood to allow time for the Commission to consider further representations from the motor manufacturers. When the proposal was eventually released in September 2004 it was unchanged, except that it also contained a requirement that consumers should be duly informed about the origins of spare parts so that they can make an informed choice between competing spare parts. This provision may have been inserted to meet an objection that if parts can look the same whether supplied by the original manufacturer or an independent source the consumer may be misled into thinking he is getting the product of the original manufacturer when he is not.

The Federation made submissions about the proposal to the Commission and the UK, which is in the process of conducting a formal written consultation and had earlier canvassed views informally. In its submissions the Federation concentrated on the impact of the Directive outside the automotive sector, which it felt had not been properly considered by the Commission. It has members in, for instance, the domestic appliance, personal care and mobile phone sectors, all of whom would (or might, depending on the interpretation of the proposal) be affected because they make products with parts which get

damaged or worn out and need replacing, or where, as in face plates for mobile phones, the consumer may simply want to replace the part for fashion reasons.

The problem is that, on its natural reading, the reach of the operative article appears very much broader than the Commission's explanation suggests or than is needed to meet the problem perceived by the Commission. All the Commission's explanations have been on the basis that the replacement part "must" match the original. That is, there is some consideration which imposes a requirement that the replacement must look the same as the original. For cars, the reasoning appears to be that in practical terms there is no possibility of selling a consumer a motor body part that does not match the original. Against that background design protection would give the manufacturer a monopoly in the after-market, and that, in the Commission's judgment, is anti-competitive. However, on its natural reading the proposal would apparently prevent the supply of any spare from an independent source provided only that it looks the same as the original, which is all that is needed to meet the requirement of the article that the part should restore the original appearance of the overall product. That is not "must match" but "does match".

It is hard to avoid the conclusion that the Commission is entirely aware of this discrepancy, but cannot work how to define those circumstances where the consumer's preference for something looking the same should prevail as against those where the consumer should be content that he or she can go to an independent source and get a functioning but differently looking part. Baffled by how to ring-fence the parts that should qualify they decide to play it

safe and include all parts that match the original appearance.

Other points made by the Federation were on the need to clarify the meaning of "repair" and on the desirability of bringing the Designs Regulation into conformity with whatever revision might be chosen for the amendment to the Designs Directive.

The Working Group of member states' representatives met in late 2004 to consider the proposal, but it is understood that there was fierce disagreement as to the desirability of the Directive between those countries that have retained protection for must-match spares and those who have not. There have been no meetings since then, apparently because member states wish to wait and see how the European Parliament reacts before they decide what to do next. In the European Parliament, the Legal Affairs Committee has held a hearing at which experts spoke for and against the policy underlying the proposal, but the Committee has yet to vote.

In the UK the Patent Office has set up an ad-hoc group to advise it on the issue and some Federation members are represented on it. After an initial meeting at the turn of the year it has not met again while it waits for the outcome of the UK consultation, which is considering the wider policy issues as well as seeking inputs on the wording of the proposal.

There has been an interesting and important UK case, *Dyson Ltd v Qualtex (UK) Ltd*, on the must-match exception that applies under the UK's unregistered design right. This is the only remaining right subject to the original British must-match exception, under which there is no protection for designs for articles whose shape or

appearance "are dependent on the appearance of another article of which the article is intended by the designer to an integral part". How to recognise that dependence is another difficult question and the Judge's solution, following an earlier suggestion of Mr Julian Jeffs QC, sitting as the Designs Appeal Tribunal, was to turn the question upside down and ask if the overall article would look radically different if the component part were not the shape it was. If so, the required dependence exists and the must-match exception comes into play. On that basis he had no difficulty in finding that the replacement parts for Dyson vacuum cleaners that were in issue did not depend on the appearance of the whole vacuum cleaner because that would not have looked radically different if they had been changed in appearance. Therefore, they did not fall under the must-match exclusion and, since they looked the same as the Dyson parts, they infringed Dyson's design right.

At the day-to-day level, many Federation members have embraced the Community Registered Design with enthusiasm. They like the fact that it gives Community-wide protection at modest cost, allows one application to cover multiple designs in the same class and seems to work efficiently. Of course, it is a registration system with no substantive examination for individual character, so the validity of the registrations that result is uncertain. In any case, we shall have to wait for court cases to establish the threshold that separates valid from invalid registration. The corollary of the switch to Alicante is that the number of applications filed at the UK Designs Registry is falling, as it is at other national offices.

DESIGN CASES

Oakley Inc v Animal Ltd and others

In a registered design case concerning sunglasses, Mr Peter Prescott QC, sitting as a deputy judge, made a finding which, if upheld on the forthcoming appeal, will put a question mark against many of the UK's implementations of European directives in the IP field, and no doubt every other. The case is seen as enough of a threat for the Secretary of State to have sought to intervene.

The judge held that the Secretary of State was not entitled under the European Communities Act 1972 to use secondary legislation to exercise an option given to member states by a directive. That was permitted neither as implementing a Community obligation, nor, which is more surprising, as "dealing with matters arising out of or related to any such obligation". He held that the latter possibility had to be given a narrow construction and did not enable the Secretary of State to decide whether or not to take advantage of an option, because that was a policy choice that should be left to Parliament.

The Designs Directive gave member states the option to retain their previous law on invalidity for designs registered on applications made before they implemented the new law and in Regulation 12 the UK took up that option. Oakley, which was faced with prior sales of its design, argued that the UK was not entitled to invoke the derogation by the secondary legislation route and the default of the new law should apply to its registration. As the new law, unlike the previous British law, included a grace period, its prior use would have been excused. In fact the judge held that the entire Regulation was *ultra vires* and Parliament's original solution remained in place. As that

had no grace period Oakley lost nonetheless.

If the decision is upheld it will be necessary to look at all implementations to see whether they involve the exercise of options. The Designs Directive has two other minor options in Article 11, as well as this one on transitional provisions. But perhaps the most important choice it gives a member state is the freeze-plus option allowing to stick to its existing regime on must-match spares or to change it in the direction of liberalisation. The implementing regulations have certainly made a policy choice in switching from the original British must-match exclusion to the current solution.

In the copyright area, the Copyright Directive has one mandatory exception only, Article 5.1, for certain technically necessary temporary copies. Otherwise it provides a list of optional exceptions. On the Prescott principle, they should all have been referred to Parliament. However, since the overall intention of the UK's implementation was to retain the existing British exceptions with the minimum changes needed to comply with the Directive, it is hard to see that the implementation was improper, especially if the consequence of striking down the regulations concerned would be to put the UK into non-compliance. Another important option taken up by the UK was to apply the safeguard of Article 6.4 against over-stringent application of the protection against overcoming technical protection to copies made within the private copying exception. That was certainly a policy choice. And a number of other features of the implementation, such as the abolition of the cable programme service in order to introduce a new restricted act of communicating to the public by

electronic means, all sensible in themselves, go further than is absolutely forced by the Directive and may be vulnerable.

In sum, if the decision is upheld, it is hard to see how it would be possible to proceed without primary legislation to validate existing implementations. Whether there is scope for change in the law so as to give Parliament more substantive involvement in the policy choices involved in implementing directives is another matter. One practical problem is that drafts of implementing regulations appear so late that the argument is always that the implementation timetable

imposed by the directive concerned does not permit further debate.

The UK was late in implementing the Designs Directive, and Mr Prescott has referred to the European Court the question of whether the power to take advantage of the derogation permitting the application of the previous law on validity to existing designs expired when the last date for implementation set out in the Directive was passed. Interestingly, officials have always maintained that where a directive includes an option they retain the power to use the European Communities Act to implement the option for ever.

LITIGATION

1. UK issues

In February the DCA (Department for Constitutional Affairs) published its consultation on its report "*A Single Court. The scope for unifying the civil jurisdictions of the High Court, the county courts and the Family Proceedings Courts*". The DCA sought views on the proposed amalgamation of the High Court and county courts as one civil court of first instance. It envisaged the continuing use of specialist judges and lists but anticipated that these would be organised by "allocation rules" and that there would no longer be any need to retain as statutory courts those specialist courts currently in place, such as the Patents Court.

The DCA expressed surprise at the unanimous view expressed by the Federation, the professional bodies of trade mark and patent attorneys and the intellectual property lawyers group. These groups were implacable in their resistance to the abolition of

the Patents Court and robustly urged maintenance of the *status quo*.

National considerations

In its response to the consultation, TMPDF pointed out that the present system of courts for intellectual property matters had been set up following the Banks Report in the 1970s and had worked well. The Patents Court dealt with IP actions and also appeals from the Patent Office. Further, the Patents County Court offered a forum in which matters could be dealt with more cheaply because rights of audience were given to all solicitors, patent attorneys, and trade mark attorneys. [If the Patents County Court were to disappear, it would then be important that parties could continue to benefit these wide rights of audience.]

International context

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The Federation believes that the abolition of a separate Patents Court would be a retrograde step in the UK; indeed, industry across Europe had been urging adoption of specialist courts in debates on the Community Patent and the European Patent for Litigation Agreement. A separate

specialist Court made for consistency and quality in decisions. The DCA has yet to make public the outcome of its consultation.

2. EU issues

Rome II: non-contractual obligations

In February the DCA consulted on "Rome II" - the Draft EC Regulation on the law applicable to non contractual obligations (COM (2003) 0427).

Rome II is intended to reduce forum shopping in cross-border disputes. The regulation provides in article 3 a general rule that in international disputes of a non-contractual nature, the law applicable shall, unless otherwise provided, be the law of the country in which the damage occurred or is likely to occur, irrespective of the country in which the event giving rise to the damage occurred. There is special provision when the dispute concerns the infringement of an intellectual property right in that the law applicable would be "the law of the country for which protection is claimed" (article 8.1).

In the Federation's submission to the DCA it reiterated points made on an earlier draft (see *Trends & Events 2003-4*, p.29) and made new ones based upon the revised draft regulation:

General

1. TMPDF recommended that disputes concerning intellectual property (IP) and certain other disputes should be explicitly excluded from the scope of the regulation; because the regulation was insufficiently clear in

its treatment of such disputes and the principles laid down were over-complex.

2. The Federation's general position, explained in the past for example in its comments on the Hague Conference proposals for a convention on jurisdiction and foreign judgements in civil and commercial matters (see *Trend & Events 2001-2*, p.25 and below), was that actions concerning intellectual property rights should be dealt with in the exclusive jurisdiction of a court in the state under whose law the IP right is registered or established (i.e., subsists).

3. Without prejudice to the provisions of articles 5 (Unfair competition) and 8 (Infringement of IP) and the protection of the rights of third parties, TMPDF supported the right of the parties to agree upon a court other than the one that would result from the application of the regulation.

Unfair competition ([and acts restricting free competition])

4. The draft article 5 of the regulation provides that in cases of unfair competition and acts restricting competition, the law applicable to the dispute would be the law of the country where the competitive relations or competitive interests of consumers are or would be most affected. TMPDF agreed with the concerns noted in the DCA's

consultation document about the lack of clarity of this article and questioned the bundling of unfair competition with acts restricting competition. The two issues were different. Furthermore, unfair competition did not have a standard meaning across the EU.

Infringement of Intellectual Property Rights

5. If intellectual property was not to be excluded from the scope of the regulation, then TMPDF confirmed that a specific article covering it was necessary, but that the current phrasing of article 8.1 was insufficiently clear. Moreover the interaction of article 8 with the Brussels Regulation governing choice of court would lead to ambiguity and confusion. [Since the Brussels Regulation in itself leads to serious problems in the litigation of intellectual property, the opportunity to resolve the problems should be taken. Not only is the applicable law important, but also the location of the court. The Federation's position is that infringement and validity of an intellectual property right should as a rule be litigated exclusively in the courts of the state where the IP right in question subsists.]

Next steps

The draft regulation has now had its first reading in the European Parliament; JURI, the Legal Affairs Committee of Parliament, is currently considering the final report of the rapporteur, Diana Wallis MEP, and will vote on it at the end of June. Wallis made no recommendations on the special provisions for IP under article 8, although she suggests that the recital is amended to ensure that IP includes copyright. She recommended deleting article 5 on unfair competition; while the Federation considers that substantial revision of this article is needed (see above), it is not in favour of total deletion. She also recommended a new provision- new article 2b - which would allow parties to choose the law applicable if chosen after the dispute arose or if there was a pre-existing agreement between parties of equal bargaining power beforehand and sees no reason why this shouldn't apply to IP disputes.

The DCA does not envisage a Common Position on the regulation until 2006, although it does hope to progress the matter during the UK Presidency of the EU.

3. International conventions

Draft Convention on Exclusive Choice of Court Agreements

The European Commission's Directorate General for Justice and Home Affairs consulted at the end of 2004 on a draft convention providing for the international recognition and enforcement of judgements by courts designated in exclusive choice of court agreements. (The draft convention is being discussed in the framework of the Hague Conference on Private International Law - Special Commission on Jurisdiction

Recognition and Enforcement of Foreign Judgements in Civil and Commercial Matters.) The Federation was particularly interested in the way that the convention may be applied to contracts or licenses involving intellectual property. It replied to both the European Commission and to a parallel consultation being conducted by the DCA in the United Kingdom in January 2005.

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General

In principle, TMPDF welcomed the work being done on this Convention. A convention that achieved international recognition and enforcement of court decisions in *inter-partes* actions in the intellectual property field, when the opposing parties have previously agreed between themselves on the court where litigation between them should take place, would be of considerable value to UK businesses active in, or affected by the activities of others, in more than one country.

TMPDF noted that it was important that the Convention should be as clear as possible, since it would affect the commercial interests and enforcement of private rights of businesses internationally and it further noted that the lack of clarity in conventions similar to this one (e.g., the Brussels Convention) had resulted in the past in very complex litigation - a position industry was anxious to avoid.

International enforcement

In the view of the Federation, the essential consideration in determining whether a judgement given in proceedings between two parties should be recognised and enforced internationally (as under the Convention) was that the parties had, prior to any dispute between them, reached an exclusive choice of court agreement. Thus TMPDF saw no particular reason for the Convention to apply only when there was an international aspect to the relationship between the parties. If, where the parties have agreed an exclusive choice of court clause, one party to a dispute needs the judgement to be recognised and enforced elsewhere than in his home state, then that should be allowed under the Convention, even when both parties are resident in that state and other elements relevant to the

dispute (whatever these are) are connected only with that state.

While TMPDF endorsed the requirement that the agreement between the parties on the chosen court should exclude, or be taken to exclude, non-chosen courts, so as to fall within the scope of the convention, it saw no strong reason for the choice of court to be restricted to only one contracting state.

The Federation considered that any contractual agreement between the parties that the convention should not apply should be recognised as valid, i.e., a decision of a chosen court would not be recognised and enforced internationally where that was the agreement between the parties. This was seen as a possible safeguard for a company faced with a take it or leave it offer as regards a license agreement containing a choice of court, as a whole.

Intellectual property exclusion

TMPDF saw no reason for excluding intellectual property matters, such as decisions in infringement actions, from the scope of the convention except in proceedings pursuant to a license or assignment contract. If the parties had established a choice of court agreement between themselves covering intellectual property matters, such as where infringement questions would be litigated, then the convention should apply. This would be subject to providing that the decisions to be recognised and enforced must be strictly between the parties. It should not be possible for a challenge to validity in an *inter-partes* action subject to a choice of court agreement to result in the invalidation of the right *vis a vis* third parties or its cancellation from the register. Incorporation of such a principle would allow for full judicial proceedings to have similar effects to arbitration proceedings.

TMPDF further considered that copyright and related rights should be treated in the same way as other intellectual property rights under the convention.

No retrospection

The convention should not have retrospective effect - i.e., it should only apply to those choice of court agreements that have been drawn up in the knowledge that it applies to them.

Next steps

The Twentieth Session of the Hague Convention is to be held in the Hague between 14-30 June 2005 and it is expected to finalise the terms of the Convention on Exclusive Choice of Court Agreements. The UK government would have to sign, ratify and implement the Convention for it to have the force of law here.

PATENTS

1. UK Patent Issues

Patents Act 2004

As noted in last year's *Trends and Events*, the Patents Act 2004 received its Royal Assent on 22nd July and most of its provisions came into effect on 1 January 2005.

Conformity with European Patent Convention

The main purpose of this Act was to bring the existing Patents Act 1977 into conformity with the amended European Patent Convention (EPC 2000) although this itself has not yet come into force. Changes associated with EPC 2000 include the ability to obtain product claims for a second or subsequent medical use thereby obviating the need for 'Swiss' type claims and the ability for a patentee to have his European (UK) patent limited centrally before the European Patent Office in its new 'Limitation' proceedings.

Other matters

In addition to the EPC 200 changes, the UK government used this opportunity to make certain other amendments to substantive UK patent

law. In addition to the amendments to section 23 mentioned below, the most significant of these were changes to sections 40 and 70 and the introduction of Patent Office Opinions on infringement and validity.

Compensation for employee inventors

Section 40 of the 1977 Act (compensation for employee inventors) was amended so that 'outstanding benefit' test for compensation now applied with respect to the "invention or the patent for it" rather than simply the "patent" as was previously the case. TMPDF objected to this change, on the basis that while the benefit of an invention to an enterprise depended on the efforts of many, the patent clearly defined the inventor's input and its particular benefit could be readily assessed. Industry now waits to see what the practical effect of the amendment will be.

Threats

Amendments were also made to section 70 (remedy for groundless threats of infringement) so that a

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party wishing to initiate a threats action now has a somewhat higher burden of proof. It will also now be possible for patent owners to threaten importers as well as other direct infringers. Additionally a patentee may now approach others in the supply chain to make enquiries as to the origin of a product without triggering a threats action. The Federation was strongly in favour of these changes.

Patent Office Opinions

The Patents Act 2004 also provided that the Patent Office could issue non-binding advisory opinions of patent infringement and validity (novelty and inventive step only). The idea behind this was to allow private inventors and SMEs to obtain at low cost a preliminary idea about the enforceability of their patent before entering into expensive litigation. Industry had reservations about the new provisions, but exactly how they will work is to be the subject of rules. The Patent Office has initiated a consultation in this area, with a view to secondary legislation being introduced in the late autumn.

Discretion in awards of costs

The new Act also amended section 106 conferring on the Court more discretion on making award of costs in infringement, non-infringement and threats actions, so that it could have regard to all relevant circumstances, including the relative financial positions of the parties. TPDF supported this change.

National Security restrictions on patenting

Following TPDF lobbying in 2003/2004 (see *Trends and Events 2003-4*), Section 23 of the Patents Act 1977 was satisfactorily amended with effect from 1 January 2005. This

Section and its predecessor under the 1949 Act (Section 18(5)) had been long criticised by industry; indeed Section 23 had been opposed by industry when the Bill of the 1977 Act was in Parliament.

Under Section 23 as it was, any United Kingdom resident who without permission filed his first patent application for an invention outside the UK was guilty of a criminal offence. This applied to all inventions, however remote in technical subject matter from national security.

Section 23 thus exposed those making harmless errors to the risk of criminal prosecution.

More importantly, Section 23 presented an inconvenience to company groups performing R&D internationally. In particular, if an invention had both UK and US inventors, considerable care was needed if neither country's law was to be infringed (Section 184 being the relevant section of the US Act).

Since 1 January 2005, Section 23 has restricted filing of applications outside the UK *only* if they contain information relating to military technology or if their publication might be prejudicial to national security or to the safety of the public. Furthermore, persons are liable to criminal penalties only if they contravene the section knowingly or recklessly.

The amendment of Section 23 is therefore of considerable value to companies working in non-sensitive technologies.

It may be noted that the existing *export control* law¹ controls the export of technical information some of which lies outside the definition of Section 23.

Filing a patent application abroad of course involves an export of information.

However, the export control law generally permits the export of the

"minimum information necessary" for patent applications.

¹Export Control Act 2002 and SI 2003 No. 2764 thereunder; EC Regulation 1334/2000 as amended by Regulation 1504/2004.

2. PCT Issues

Throughout the second half of 2004 and the first half of 2005 the Federation continued to monitor and comment on developments in the PCT. The Patent Cooperation Treaty is these days the principal route by which most Federation members obtain worldwide patent protection. So maintaining the integrity and cost effectiveness of this system is a key issue for industry.

(a) PCT Fees

During August 2005 WIPO proposed raising the International Filing Fee by 12%, an increase which would have followed on quickly from PCT fee increases in 2003. In response, the Federation wrote to the UK Patent Office urging that this proposal be opposed in the PCT Assembly. We also endorsed similar opposition directly to WIPO by a trilateral body of European, US and Japanese industry. In the event, at its September meeting the Assembly was unable to reach agreement on this issue and it appears that the matter is now back with the WIPO Program and Budget Committee.

(b) PCT Reform

The WIPO Working Group on PCT Reform held its 7th Session in Geneva on 25 to 31 May. The Federation commented on a number of proposals which were submitted for approval. These included (a) incorporation of missing elements, (b) limitations on incorporation by reference in the

patent specification, (c) the rectification of obvious mistakes and (d) publication of the PCT Gazette in electronic form.

Declaration of genetic resource in patent applications

There were two substantive proposals which we commented on. First a proposal to require a declaration of the source of genetic resources and traditional knowledge. This proposal which links into SPLT and the WIPO Development Agenda was something to which have registered our opposition before. In the Federation's view, the PCT should not be adjusted to call for such a declaration in the International Phase.

International search quality

In 2003, a TMPDF member did some research to compare the quality of the novelty searches of four major Patent Offices (the UK Patent Office, the EPO, the USPTO, and the JPO). The research was presented by TMPDF to the UK Patent Office and also published in the European Patent Institute journal.

In general, the research showed that an applicant would be unwise to assume that a claim was valid until all four Offices had performed searches. The correlations between the searches were extremely poor. It was common for some of the Offices to make absolutely no "X" or "Y"

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citations of prior art against a set of claims when the others did do so. (No Office stood out as "better" than the others, save that the JPO was uniquely able to locate documents in the Japanese language.)

This research underlines the experience of companies that poor official searching can make international patenting deplorably uncertain and costly. For instance, UK applicants commonly obtain UK searches on their priority applications and EPO searches on their PCT applications. Only *after* the very considerable expense of entering national phases at 30 months do they receive US and Japanese searches. If very relevant "new" prior art is turned up by one of these searches, such that the patent is invalid in all countries, then the applicant will abandon all his applications; he therefore "writes off" the national phase entry expenditure, plus possibly the large translation costs of the (by then) granted European Patent, and accrued prosecution and grant costs generally. Even if the "new" prior art makes *amendment* of

the claims desirable in all territories, then (according to the timing) such amendment may be expensive or impossible.

The second proposal to which we made comment to the PCT Reform Group was in the area of improving the quality of international searches where it was proposed a PCT applicant should be able to request additional searches. Thus, for instance, the UK applicant in the above example might be able to request as part of the PCT procedure a USPTO and/or a JPO search in addition to the EPO search. The JPO search would be available *without the expense of translation of the application text into Japanese*.

In its comments to WIPO, TMPDF urged that this proposal be adopted with rigour, the USPTO and JPO (in the above example) being *required* to perform an additional search on request in a useful timescale and at reasonable cost.

3. EPO Issues

(a) EPO Strategy Debate

The Federation has continued to be actively involved in commenting on European Patent Office issues either directly, through UNICE, or through Federation members participating in SACEPO and the relevant UK Patent Office Focus Group. In October 2004 the Chairman of the Patents Committee gave a speech at the EPIDOS Conference on 'Patent Information and Industry Needs.'

The new President of the EPO (Professeur Alain Pompidou) is now in post and one of his first tasks has been to commission a debate about the EPO's future strategy and role in

innovation in Europe. In support of this, three open meetings were held in Prague, Munich and The Hague which were attended by TMPDF Council members. The output of these meetings was summarised in a report which the Federation commented upon.

In the meantime the debate has continued in the EPO Administrative Council with a number of member states seeking changes in the relationship between the EPO and the National Patent Offices. This is a highly political issue and involves, amongst others, consideration of whether the EPO's partnership arrangements with the Austrian, Swedish and Spanish Patent Offices

should continue and whether applications searched by the Finnish Patent Office in its capacity as a PCT International Search Authority should attract a discounted fee for the supplementary search the EPO carries out when the application enters the national phase.

At the same time the EPO issued a strategy paper entitled 'Priority Choice' which sought to establish a framework recognising in financial terms the work done by the National Patent Offices in support of the overall patent granting system in Europe. The Federation directly and through UNICE has given adverse feedback on this idea which now looks to have been set aside. A new paper "Patenting in Europe" makes new proposals which have yet to be debated.

The Federation's overall position in the strategy debate to the UK Patent Office and the EPO is clear. It is less concerned with the details of any specific relationship between the EPO and the National Patent Offices; rather TMPDF is keen to ensure that any outcome preserves and enhances the quality of search and examination on the one hand and cost effectiveness on the other. If a robust quality control mechanism could be put in place which ensured standards were maintained then a more active role for certain National Patent Offices could be worth exploring. That having been said, the Federation is conscious of what has been achieved by the European Patent Convention over the last 25 years and would want to see this preserved. With this in mind opening up European Patent search or even examination to any national Patent Office irrespective of size or technical capability does not look to be an attractive prospect.

(b) London Agreement on European Patent Translations

Under the London Agreement 2000, member states waived their right under Article 65 EPC to require a full translation of the European patent specification into one of their Official Languages on grant. Industry groups throughout Europe, including the Federation, are very supportive of this initiative because of its potential to lead to a significant reduction in patent procurement costs. At the end of 2004, the UK Patent Office consulted on whether the UK should ratify this agreement and we urged them to do so. The Federation estimated that full implementation of the London Agreement could lead to annual cost savings by UK applicants in excess of 32 million euros per annum. The UK government as a result of the consultation subsequently ratified it.

Unfortunately, for the foreseeable future the London Agreement is unlikely to come into force because of the reluctance of the French government to ratify the Agreement. This is despite the fact that French industry and the President of the EPO are strongly in favour of it. Recently the Federation has been giving consideration to whether an agreement involving less than all EPC member states could be achieved. Such a flotilla approach could still lead to valuable cost savings. However in such circumstances it would not seem appropriate for applicants in non-signatory states to be able to take advantage of its provisions.

(c) European Patent Litigation Agreement (EPLA)

The EPLA is the optional agreement whereby EPC member states would

allow parallel disputes in different countries regarding the same European Patent to be litigated in a single competent court. Disappointingly, no progress has been made on this during the last year with the European Commission remaining against the idea and taking the position that the EU member states do not have legal competence to reach such an agreement. The Commission seems to regard this as a second best solution to a Community Patent system even though there seems to be no imminent prospect of such a system. The EPLA would also be very useful in handling the many thousands of existing European Patents which of course would not fall under any Community Patent system even if one could be agreed.

(d) Community Patent

Since failure to reach agreement on the draft Regulation in June 2004, the Community Patent project has essentially stalled. There have been no official further initiatives under either the Dutch or the Luxembourg Presidencies of the EU and it seems unlikely that the UK will seek to introduce anything either during the second half of 2005. The Federation's current position is that no further work should be done on the project and that the focus should be on the London Agreement and the EPLA.

(e) Exhaustion of Priority at the EPO

The Federation wrote earlier this year to the EPO President expressing members' concerns over Board of Appeal Decision T998/99 which concludes that 'it is not possible under the European Patent Convention to claim the same priority a number of times for claims filed in a single country of the Union and relating to the same invention'. The Federation has pointed out that this is not in accord with practice elsewhere under the Paris Convention and has urged the President to submit this to the Enlarged Board of Appeal as soon as possible.

(f) EPO Delays and Problems

For a period of six months the Patents Committee of TPDF collected specific examples of the problems EPO members experienced in their day to day dealings with the EPO. These have been summarised in a letter to the President and the outcome has been that the Committee will be meeting with the EPO's Director of Quality at the end of June to discuss its findings further.

4. European Community issues

Proposed EU Directive on the Patentability of CII

Update

Since the report in last year's *Trends & Events* the proposal for a directive on the patentability of computer-implemented inventions (CII) has returned to the European Parliament

(EP) for second reading, following adoption by the Council of a Common Position on 7 March 2005. [The Federation supported the Common Position and continues to do so.]

At the time of last year's report it was thought that adoption of the Common Position was imminent following the Political Agreement reached by Council on 18 May 2004.

The ten-month delay was caused partly by practical difficulties of getting the text officially translated into all twenty languages of the recently enlarged EU, and partly by mounting political opposition to the text of the Political Agreement within the member states.

Not satisfied with the Political Agreement, the opposition lobby stepped up their campaign at national level, provoking debates in national parliaments aimed at undermining the positions to which the member states had already committed in the Political Agreement.

Intense diplomatic activity behind the scenes eventually paid off when, on 7 March 2005, and to almost everyone's amazement, the Common Position was eventually adopted. But, six member states (Cyprus, Denmark, Hungary, Latvia, Netherlands and Poland) made formal statements expressing reservations about the draft legislation. Basically, those statements indicated that more work would need to be done on various aspects of the legislation during second reading, particularly with regard to what is patentable and what is not, the definition of "technical", and ensuring adequate safeguards for SMEs. The most comprehensive statement was made by Poland. This was the political face-saving that enabled the Common Position to be adopted and the legislation to proceed.

UKPO consultation

In March and April 2005 the UKPO hosted a series of 13 workshops around the UK (over 550 people registered, and around 300 attended) to consider various definitions of "technical contribution". The workshops were held in response to concerns raised at a meeting for opponents to the directive, chaired

by Lord Sainsbury on 14 December 2004. Broadly, the conclusion was that, although the definition in the Common Position was perhaps more accommodating than current UKPO practice, those based on "controllable/physical forces" excluded much of what is currently patentable. A full report of the workshops can be found at: <http://www.patent.gov.uk/about/ippd/issues/eurocomp/index.htm>

Second reading of directive

The draft directive has now been transmitted back to the EP for second reading. The timetable is very tight and the EP has 3 months to conclude second reading.

On 21 April the European edition of the *Financial Times* (which is widely read by MEPs) published a letter from TMPDF expressing support for the Common Position, acknowledging that this was an opportunity for some fine tuning, but urging MEPs not to move the goal posts by seeking to reintroduce the kind of controversial and far-reaching amendments from the EP first reading.

The Parliamentary Committee responsible for the dossier is the Legal Affairs Committee (JURI), which was the lead committee at first reading. Other committees are not involved at second reading (in contrast with first reading where the Culture (CULT) and Industry (ITRE) committees also gave an opinion).

At first reading the Rapporteur of the JURI Committee was the British socialist MEP, Arlene McCarthy, who was broadly in favour of CII patents. However, Arlene McCarthy evidently did not want the job again, and the French socialist and former French prime-minister, Michel Rocard, who has been one of the more outspoken critics of the CII directive, has been

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appointed Rapporteur for second reading. Rocard seems to be ideologically opposed to patents for anything but tangible inventions. He was Rapporteur of the Culture Committee which delivered a very unfavourable opinion at first reading, which was the source of many of the worst amendments adopted at EP first reading in September 2003.

The work in JURI is under way. No less than 256 amendments have been tabled. All but a handful of these hark back to the harmful amendments from first reading. Most notable are (1) provisions which seek to make "data processing" and "information handling" both unpatentable and non-infringing acts; (2) definitions of "technical" which try to distinguish between tangible inventions that would be patentable and intangible inventions that would not, or that rely on "controllable forces of nature" which would exclude much that is currently patentable, and (3) expansive infringement exceptions under the guise of ensuring interoperability.

The Rapporteur is now looking to table a series of consolidated "compromise amendments" before 22 June when JURI will vote on them all, but at the time of writing the draft "compromise amendments" industry has seen appear more as an attempt to entrench still further M. Rocard's anti-patent ideology.

The full EP is due to vote on 6 July. More amendments could be tabled before then.

Possible Outcomes

There are three possible outcomes from the EP second reading: approval, amendment or rejection of the Common Position.

More specifically the European Parliament can:

- (i) Approve the Common Position by simple majority (i.e. of those MEPs present on the day) or fail to vote. In this case the act is adopted according to the Common Position
- (ii) Adopt amendments by an absolute majority of all of its members, so requiring at least 367 votes (depending on the total number of MEPs at the time of the vote).
- (iii) Reject the Proposal by an absolute majority of all its members, requiring at least 367 votes. In that case the act is not adopted and it falls.

The directive will be adopted only if the Council is able to approve all the European Parliament's amendments. If not, a conciliation process is started. Initially informal trialogues take place between the EP, Council and the Commission to try and find a compromise before starting a formal conciliation process. Conciliation is designed to produce a result and rarely fails.

If the conciliation procedure is used, it is likely to start in the latter part of the UK's Presidency. This is good news in that the UK is one of the strongest supporters of the Common Position, but tempered by the fact that the UK will have to adopt a more presidential, neutral stance and not just promote the UK's interest.

The Commission has indicated that it believes it can unilaterally withdraw the proposal at any time until the conciliation process starts, so providing a possible safety net if the outcome from the EP is disastrous.

Over the last year industry has significantly stepped up its lobbying activities and has gained wider cross-industry support from outside the

traditional IT and communications sectors. However, what is still lacking is effective support from the SME community, to displace the widely held misperception among the

legislature that the SME community is against patents.

5. Substantive Patent Law Treaty (SPLT) issues

Negotiations

The Federation has always supported global patent law harmonisation as being in the interests of its member companies. If patent laws were wholly harmonised, the work in obtaining patents globally would be simplified and patent offices would be under more pressure to accept each other's search and patentability determinations thus reducing costs, delay and aggravation for patent proprietors and uncertainty for third parties. The Federation greatly regrets that so little progress has been made in this field in over twenty years of negotiations.

Negotiations in the World Intellectual Property Organisation (WIPO) on patent law harmonisation have been proceeding painfully slowly over this period. The only true success so far in the negotiations has been the conclusion in 2000 of the Patent Law Treaty (now in force although only a few countries have yet ratified it) which will one day harmonise some patent obtaining formalities around the world. Since then, WIPO's Standing Committee on the Law of Patents has been meeting once or twice a year to discuss drafts of the Substantive Patent Law Treaty (SPLT). Recent meetings of the Committee have been disappointing because they have revealed deep divisions on many aspects of the latest draft Treaty between developed and developing countries as well as between the USA and the European countries.

In an attempt to progress the negotiations, the Trilateral Conference of the EPO, the Japanese Patent Office and the US Patent and Trademark Office (USPTO) had suggested in late 2003 that the Treaty should in future be negotiated in two packages. A first package on which hopefully agreement could be reached quite quickly would include (1) prior art issues, including the Hilmer doctrine, anti-self-collision, prior art effect of PCT applications in the international phase and prior art effect of earlier applications for inventive step; (2) grace period; (3) novelty; (4) inventive step/non-obviousness. The second package to be addressed later would include first-to-file/first-to-invent, patentable subject matter/technical character and utility/industrial applicability. It was however accepted that grace period and first-to-file/first-to-invent are linked so grace period, although included in the first package, is subject to movement by the USA towards first-to-file. Subsequently, the proposed list of matters to be discussed in the first package was reduced. The US and Japanese governments (with EPO agreement) jointly proposed to WIPO, in 2004, that discussions on SPLT should continue only on the prior art related issues of 1) definition of prior art, 2) grace period (subject to movement on first to invent), 3) novelty and 4) non obviousness/inventive step. The approach was also supported by representatives of 24 industrial and professional NGOs (including the Federation) at a meeting in London in late 2003 called

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to discuss the future of the Treaty and later it was supported by the so-called Industrial Trilateral (AIPLA, UNICE, IPO and JIPA).

The Standing Committee met for the first time for a year in Geneva on 10 to 14 May 2004 but no real progress was made because the member states could not agree on what issues should be included in the first package. The developed countries supported the US/Japan/EPO approach but the developing countries led by Brazil and India wanted to add other issues of particular interest to them, especially the requirement that a patent applicant must disclose the source or origin of any biological material involved with the invention and that the applicant has prior informed consent to use that material. The Assemblies of the WIPO member states meeting in Geneva from 27 September to 5 October failed to reach a consensus on this issue and so WIPO's Director General Idris was asked undertake informal consultations before fixing the date for the next meeting of the Standing Committee which thus did not hold a second meeting during 2004.

An initiative taken by the USPTO resulted in representatives from the European Commission, the EPO, and the USA, Japan, Australia, Canada and some EPC member states meeting on 3 and 4 February 2005 in Alexandria, Virginia (with no NGOs present) to discuss what to do next. The meeting decided to set up two Working Groups to facilitate progress in patent law harmonisation in WIPO. The first Working Group chaired by Australia would consider the first package issues from the USA/Japan/EPO approach. The second (jointly chaired by the UK and the Netherlands) would consider issues relating to intellectual property and development, including the proposals for a WIPO Development Agenda and for a patent applicant having to

disclose the origin or source of genetic resources involved with the invention. These two Working Groups are now meeting, and the Group B+ countries (as the Alexandria caucus has become) plan to put specific proposals on both sets of issues to the WIPO Assemblies meeting in the autumn.

Just after the Alexandria meeting, representatives from a number of developed and developing countries, the European Commission, and the EPO and other regional patent offices attended at Dr. Idris' invitation an informal meeting in Casablanca on 16 February. The meeting proposed that the objectives of the Standing Committee should be to improve the quality of granted patents thus avoiding unwarranted encroachments on the public domain, and to reduce unnecessary duplication of work among patent offices which should produce benefits by making the patent system more accessible and cost-effective. To achieve these objectives, the meeting proposed that harmonisation on six issues:

(1) prior art, (2) grace period, (3) novelty, (4) inventive step, (5) sufficiency of disclosure and (6) genetic resources (i.e. the requirement to disclose their source of origin) should be considered in an accelerated manner, the first four by the Standing Committee and the last two by the Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore.

The Standing Committee considered the above at its meeting on 1 and 2 June and was unable to agree to this proposal and the matter will now be referred to the WIPO Assemblies' meeting in the autumn. It is anticipated that the Alexandria Group /Group B+ caucus will continue its work and present its findings to WIPO as outlined above.

Grace period

The introduction of a grace period has been a key contentious issue in the SPLT negotiations for over 20 years. The grace period would be a period before the filing of a patent application during which the disclosure of the inventor or someone who obtained the invention from the inventor would not prejudice the validity of the patent granted on the application. The Federation has always opposed the introduction of a grace period because of the added uncertainties for third parties, the potential for troublesome litigation and the danger that the patent system would be turned from a first-to-file to a "first-to-publish" system. Nevertheless, the Federation has accepted that the introduction of a grace period in some form would be an acceptable price to pay if the USA were to move from first-to-invent to first-to-file through the adoption of an international treaty like SPLT or by some other means.

The Federation continues to be active in a campaign to gain acceptance of its own proposal for an acceptable grace period for the SPLT, for example. According to this proposal, a grace period should be limited to no more than six months before the actual filing date and not the priority date as in some other proposals. Thus, disclosures to be graced should be treated in the same way as the other non-prejudicial disclosures covered by Article 55 of EPC. In addition, as with other non-prejudicial disclosures in this Article, the applicant should state in writing that he intends to rely on the grace period (possibly allowing a short period thereafter in which to supply details). There is no case for treating disclosures by the inventor more generously than disclosures resulting from evident abuse.

Other features of the Federation's proposal include: publication of the application at 18 months from the date of the graced disclosure (as suggested some time ago by France), continuing prior user rights for third parties; and the onus to prove the origin of a disputed graced disclosure always should fall on the applicant. The right of a third party to develop further inventions from information in the graced disclosure and to seek patents for them must not be restricted during the grace period.

The Federation proposal would ensure that the grace period would only be used as a safety net and would not be routinely relied upon. Loss of priority rights in particular would call for rapid action in respect of foreign filing although use of the PCT could help here. In the Federation's view, no prior exclusive rights should be established by the graced disclosure, so that the patent system does not degenerate into a first-to-publish system in which the first publication is in an uncontrolled form and may not contain any idea of what constitutes the invention, or provide an enabling disclosure of it, or indicate that rights might be based on it.

Novelty

The concept of novelty was included in the so-called "first package", see above, as one of the four topics proposed by WIPO for possible harmonisation and the International Bureau of WIPO prepared a discussion document in late 2004 concerning the basis on which applications existing but *unpublished* at the priority date of a later application could be cited against applicants. A USA examiner presently cites such prior art under both Section 102 (novelty) and Section 103 (obviousness), except in common applicant/assignee cases. A

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European examiner uses such applications only as the basis of novelty objections, but makes no concession for common inventor/applicant. The two systems, though different, are each clear, requiring Examiners to operate novelty and obviousness tests with which they are already familiar. The WIPO paper suggested a compromise test of "enlarged novelty" lying somewhere between the two existing tests. In addition to considering strict novelty, based on the explicit or inherent disclosure contained in the earlier application, the examiner would also take into account common general knowledge in the art and what a skilled person might envisage from the disclosure, e.g., equivalent elements, evident modifications, or rearrangements of elements. The Federation felt this would result in a system which, while internationally harmonised in the wording of legislation, would lead to uncertainty and in all likelihood no harmonisation in implementation.

Whilst it was appreciated that the compromise had been proposed in an effort to overcome problems in reaching agreement on SPLT draft article 8(2), concerning the prior art effect of earlier unpublished applications, it was still unacceptable. The model did not provide a reasonable basis for interpreting a single item of prior art, whether published or unpublished, in relation to a later application. The

present UK law and EPC, i.e., that for a single item of prior art to destroy the novelty of a later application, it must contain an enabling disclosure of the invention claimed in the later application, was to be preferred.

The existing UK and EPC provisions struck the right balance, were fully justified and should be adopted internationally. The grant of the same patent to two different applicants should be avoided, but the unfairness involved in achieving this (i.e., that an earlier unpublished application is considered to be prior art as regards novelty) should not be exacerbated by considering the earlier unpublished application also in relation to inventive step or in any other more general way.

TMPDF is opposed to any compromise on SPLT Article 8(2). If this cannot be agreed by all negotiating states, then it might have to be accepted, with great reluctance, that this is an issue on which agreement is not possible. Harmonisation that resulted in an unsatisfactory, fudged, compromise would be a seriously retrograde step. The Federation would prefer, as a last resort, to have two different systems, as at present, with the arrangement that presently exists in Europe adopted by most of the world and the US keeping to its own way, on the basis that the position would at least be clear.

REPORTS AND REVIEWS

The Clementi Review

The Clementi Review was published in December 2004. In this, Sir David Clementi recommended to the Secretary of State for Constitutional Affairs that legal professionals *with different qualifications* should be permitted to work *as equals* in mixed

practices. The legal professionals listed by Sir David were as follows: solicitors, barristers, legal executives, licensed conveyancers, immigration advisers, notaries, patent attorneys, and trade mark attorneys.

[Accountants, surveyors, etc. were *not* included.]

The report takes almost for granted that mixed legal practices (somewhat confusingly called "LDPs" in the report) would be in the public interest. TMPDF agreed with this in its original submission to Sir David and in its recent comment to the Department of Constitutional Affairs (DCA), which is expected soon to follow the report with a White Paper.

TMPDF in its comments observed that costs are particularly high in those activities involving two or more legal professionals working independently of one another. IP litigation usually requires at least one patent or trade mark attorney, at least one solicitor, and at least one barrister. An M&A transaction usually requires at least one solicitor, and additionally a patent attorney if the businesses in question are technology-based and a trade mark attorney if brands are important. So long as these professionals work in different entities, they tend to duplicate each other's work excessively. Also, the communications between them tend towards formality as they seek to establish where responsibilities and liabilities lie, but the extra cost of such formality does not benefit the client.

In his report, Sir David makes specific proposals for the *regulation* of LDPs. A Legal Services Board would be set up to authorise a "front-line body" to be the lead regulator of each LDP. As an example (in Chapter F, paragraph

66), he considers an LDP comprising three licensed conveyancers and a barrister working as a partnership to provide conveyancing services; such a practice would probably be regulated by the (existing) Council for Licensed Conveyancers. No example is given of an LDP offering IP services, but one can imagine by analogy how such practices might be dealt with.

An aspect of Sir David's report that seems to be *unsatisfactory* is his analysis of privilege. He suggests that this could be dealt with by a single "regulatory arrangement" for the LDP. However, TMPDF has pointed out to the DCA that *legislation*¹ would be necessary to ensure the desired effect of affording the same (*ie* enhanced) privilege to communications with patent or trade mark attorneys in an LDP as to communications with solicitors or barristers in the same LDP. TMPDF believes, further, that the privilege of patent and trade mark attorneys should be enhanced to match that of solicitors *regardless* of their participation or not in an LDP; otherwise, LDPs would be given an undue advantage over teams of single-profession practices and over teams consisting partly or exclusively of in-house professionals.

The White Paper is awaited.

¹ Section 280 of the Copyright, Designs, and Patents Act 1988 and Section 87 of the Trade Marks Act 1994 would require amendment.

Patent Office changes and consultation; IPAC; London Office

Expansion of Office's activities

The 2005 Corporate Plan of the Patent Office indicates the success of the move 10 years ago to Newport,

reflected by a cumulative rise in efficiency of 20% and sets a continuing target of further rises of 2.5% per year. The move has reduced running costs by £6 million per year

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and, as a consequence of the experience gained, the Office is being asked to advise on planned relocations of other government departments. Developments in electronic document handling have contributed to the efficiency increase and the Office aims to continue development of this approach to its activities.

For the future, the Office plans initiatives beyond its traditional role. Apart from expanding its educational activities and possibly providing non-binding opinions on patent validity and infringement as well as working to facilitate alternative dispute resolution and mediation options for all IP rights, there are envisaged I.P. training courses for Customs Officers, Trading Standard Officers, police and others involved in anti-counterfeiting and piracy activities. A commercial Search and Advisory Service is also contemplated. Setting up a multi-agency IP Crime Group aims to collect and analyse information allowing national enforcement resources to be used to best effect.

Fees' review

A fee review is under way with a target date of April 2006 for implementation. The review is predicated on an assumption that patent and trade mark applications filed directly in the U.K. remain steady respectively at 16,800 and 28,000 per year. Whilst it is acknowledged that demand for directly filed design registrations is falling, a steady figure of 4,000 per year is used. Income generated from renewal fees is, however, expected to rise by 2% per year, largely from European patents designating the UK though a continuing contribution from renewal of domestic trade marks will assist. This is balanced against expenditure in operating the Office together with a 4% dividend payable to the Treasury, a special dividend to

the DTI from the fund provided by EP (UK) patent renewal fees - which in 2005/6 amounts to £40 million and in future years will amount to £10 million decreasing - changes in employer's contribution to the civil service pension scheme requiring at least £1.5 million per year extra and, possibly, the cost of providing additional car parking space at Newport.

London Office

Following a Review, the Patent Office Board has agreed that the Office should have a continued presence in London. However, whilst Harmsworth House will remain as the London base, the extent of the accommodation will be reduced and the activities undertaken there will be revised, with effect in Autumn 2005.

Whilst a facility for lodging of documents will be retained, any checking required will be at Newport.

It is hoped to transfer the various searching facilities to the Business and IP Centre at the British Library, thereby bringing all the UK and International IP material, law reports and databases back together again at one location - a project long espoused by the Federation.

Hearings and meetings will continue to be at Harmsworth House, with the Copyright Tribunal also being integrated into the system. There is also thought to be a possibility that the Registrar of Companies will contract hearings regarding company name disputes to the Trade Mark Registry staff under the proposed provisions in the Companies Act, thereby enhancing co-operation with Companies House, which would also be welcomed by the Federation.

How the Office Consults

Following a review of the working of the Intellectual Property Advisory Committee, preliminary details of which have been published, a re-evaluation of the consultation processes between the Office and the under public is under way. The formation of a panel of users charged with consultation on policy making for

current and general IP matters seems to be a possible outcome.

The Federation greatly welcomes this initiative to fill a gap between the horizon scanning of IPAC and the activities of the various specific fora in which members of the Federation already participate.

Proposed Treaty establishing a Constitution for Europe

Following the French and Dutch "No" votes and the British deferment of a decision, industry might be justified in thinking that little will happen in relation to IP matters and the EU in the next twelve months.

However, it should be borne in mind that the proposed Treaty was, so far as IP is concerned, a consolidation of earlier Treaties together with some past commission statements. Thus there is no reason why progress should not continue toward the creation of European intellectual property rights uniform throughout the Union and for the setting up of centralised Union-wide authorisation, co-ordination and supervision arrangements (i.e. a Community Patent System) with the language arrangements made by the Council of Ministers acting unanimously after consulting Parliament as envisaged in the Nice and Lisbon Treaties.

Alternatively, it might be decided in the light of the apparent disquiet with centralisation, that subsidiarity should prevail to preserve the Patent Offices and Courts of the various member states together with the accompanying costly language regime. This would give an opportunity to press for the European Patent Litigation Agreement and the London Agreement on translation requirements.

Either way, it is unlikely that the Commission will do nothing. Certainly the Parliament will wish to make its mark on the computer implemented invention draft directive.

The Federation will, of course, follow and attempt to influence and inform the discussions.

TRADE MARKS

Trade Marks vs. Company Names

The Federation's main complaint to UK Government on the issue of company names vs. trade marks has always been that there is a disconnect between Companies House and the Trade Marks Registry (unlike in Canada). This means that new company names are accepted by Companies House and put on the

Register of Companies without regard to the rights of the owners of registered trade marks.

This would not be so bad were it not for the fact that the Companies House staff in effect refuse to entertain complaints from trade mark owners on the issue. Whilst there are

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provisions in the existing Business Names Act for third parties to object to the names of newly-incorporated companies, on the ground that the new name is 'too like' the name of an existing company, in practice these are seldom if ever applied in favour of the complainant. So long as the new company name is not identical to one which is already on the Register of Companies, it is likely to be accepted.

In such a case, if you write to Companies House and object, on the basis of both your existing company name and also your registered trade mark rights, your objection is likely to be rejected. A typical rejection letter will deny that the new name is 'too like' the existing one, and declare that trade mark rights cannot be entertained as Companies House is not empowered to consider complaints on such a basis (which TMPDF accepts is true).

The government seems deaf to this problem, probably because it thinks the remedy is likely to be too expensive. The Federation has previously proposed that it need not be (in papers going back as far as 1998). It does not require Companies House to perform a cross-check against the Trade Marks Register before accepting a new name. All that is required is that Companies House should seriously entertain complaints from owners of existing companies, not only on the basis that the new name is 'too like' an existing one, but also on the basis of trade mark rights. The complainant will bring the case - it does not require Companies House to be proactive. It does require Companies House to empower its staff to consider such complaints more realistically. It probably does mean changing the basis on which they are able to entertain such complaints, i.e. not just by comparison with existing names on the Companies Register,

but also on the basis of trade mark rights.

In April the DTI published a White Paper on Company Law Reform. It proposed that there will be regulations concerning when trivial differences between names are to be ignored, on the one hand when considering whether the names are effectively the same, and on the other so as not to object unnecessarily when considering new subsidiaries of existing companies.

The White Paper also provides for a new companies bill to make it possible to require a company to change its name if it was chosen to exploit another company's reputation or goodwill. Properly enacted and resourced, it could fully address the Federation's fundamental complaint. Obviously it depends on how the alleged exploitation is to be decided upon, by whom, and what sort of evidence will be required. But if Companies House is merely left to carry on as it is, it could treat the new provisions in exactly the same way as it does the present provisions relating to company names which are 'too like' an existing one, i.e. the provision might exist, but it would never be enforced in favour of a complainant.

TMPDF thinks it critical that the UKPO is involved in the consideration of any objection by a complainant and that in dealing with an objection, Companies House would need the power to order one of three things according to the circumstances:-

(a) The objection could be rejected, the company registrant being allowed to keep the name without restriction. This would be appropriate if there were no likelihood of any eventual actionable activity by the registrant, eg where the similarity of the company name and the mark were too dissimilar.

(b) The objection could be upheld in the broadest sense, with the company registrant being obliged to adopt a name that did not resemble the mark of the objector. This would be appropriate with "famous" marks, where confusion would be likely regardless of the area of activity of the company, or where the company name had been registered with the intention that the mark owner should offer to "buy him out" in a "One in a Million" fashion.

(c) The company registrant could be required to undertake to constrain his commercial activities as a condition

of retaining the company name (appropriate with a bona fide company registrant intending to operate in areas dissimilar to those where a trade mark owner with a non-famous mark is active).

The draft clauses of the bill are unlikely to be available before the summer and early indications are that the Federation will have an opportunity to comment on the precise wording of the clauses before the Bill is introduced.

Dot Eu: No Longer Just a Dot on the Horizon

After what has at times seemed like an eternity of waiting, Europe's very own top level domain is finally just about here. In May EURid, the not-for-profit organisation selected by the Commission to run the new .eu TLD, announced its arrival in no uncertain terms by unveiling a full website at www.eurid.eu - the first (and for some months to come, the only) .eu domain name.

Although EURid is headquartered in Belgium, it also intends to establish regional offices in the Czech Republic, Italy and Sweden, each with localised territorial responsibility. Further, it has announced the appointment of the Czech Arbitration Court to provide ADR for .eu domain name disputes, and Price-waterhouseCoopers as validation agent for the prior right claims made by applicants in the sunrise period just prior to launch.

The sunrise period itself will last for four months, divided into two periods of two months each. Only public bodies and owners of registered national and community trade marks

may apply in the first period. Those wishing to apply for registration of business, company and trade names, and unregistered trade marks, will have to wait until the second phase.

The start of the first sunrise period is merely slated for '4th quarter 2005', sensibly vague given the many published dates and timetables for .eu which have fallen by the wayside in the last few years. But it is just possible that we may be seeing the first registrations of names applied for on a first-come, first-served basis in about a year from now.

EURid has proposed a registration fee of €10 during the first year of operation, with the aim of cutting this by half in the second year if the number of registrations is sufficiently high to permit it.

Will the .eu domain name be a success? Opinion seems to be divided. It seems inevitable that it will be at least a qualified success, if only because many organisations will register their names merely in order to prevent them falling into the hands

of cybersquatters, even if they do not have a real or present need for them in their current business operations. Because of this danger, and the low registration fee, it would appear to be sound advice to register anyway. But given the huge number of businesses and trade marks

established in the EU, it will surely only take a few enthusiasts to bring the number of registrations up to an impressive level. Who knows, this may just be Europe's answer to .com.

Community Trade Mark/OHIM Activities

1. Madrid Protocol

The major event to report during the year under review was the ratification by the EC of the Madrid Protocol. The necessary legislation had been passed in 2003 and, after depositing its instrument of ratification in June 2005, the EC became a member of the Protocol, and it became possible as from October 1, 2005 both to deposit International Registrations at WIPO in Geneva based on Community trade marks, as well as to designate the EC as one of the territories of an International Registration ("IR"). Thus, there came into effect one of the *raison d'être*s of the Madrid Protocol when it was being negotiated in the 1980s, namely the admittance to membership of an intergovernmental organisation, i.e. the EU.

Subsequent to this, there has been a respectable number of applications for IR's which have designated the EU, but only a few trade mark owners have taken the risk of basing their IR's on a CTM.

2. OHIM Fees

In spring of this year the Commission proposed to amend Commission Regulation 2869/95 relating to OHIM fees. This was to be largely a fee reducing exercise in response to the healthy income generated by OHIM in its first decade (reserves are

currently over €100m) and an expectation of an increase in income as the renewals of the first CTMs start in November of this year.

Although not against most of fees' reductions per se, the Federation pointed out in its response to the Commission's consultation, that at this relatively early stage of OHIM's existence, any surplus should initially be employed in increasing the quality of service and in the achievement of higher standards: OHIM performance measures are not currently as high as those of our national office. The OHIM Users' Satisfaction Survey had pointed to problems with delays in the service at OHIM and also with the availability of staff. Further, the rendering of opposition decisions was still taking too long - 500-600 days - although OHIM offered no hope of amelioration in 2005. This survey appeared to be in contradiction to the Commission's expressed view that OHIM had no problems and that it had sufficient resources to manage its services.

TMPDF felt that OHIM should use its surplus to increase both the quality and quantity of its staff, with the aim of reducing by at least 50% the backlog in oppositions. Funds might also be directed towards improving the quality of the search reports generated by the national offices, e.g. by increasing the fee paid from €25 to €50 and by working with the offices towards the standardisation of

the format and the establishment of a minimum feature set.

On the substantive issue of the level of fees TMPDF 's view was that fee reductions for application and registration fees were acceptable in so far as they encouraged industry and other innovators to register and thus protect their marks; reducing the renewal fee was similarly defensible; the opposition, cancellation and appeal fees should be maintained at current levels; if the electronic filing fee were not reduced pro rata then there would be a disincentive to file electronically; a 20% discount for e-filing should therefore be maintained.

The Commission meets at the end of June to discuss the fees' issue. The proposed fees' reductions will take out circa €40m out of OHIM's future anticipated income of €56m once renewals start; OHIM is holding discussions in early July to discuss how it might use the difference to the advantage of users.

3. Enlargement

The Enlargement of the EU by 10 new member states on May 1, 2004 passed off smoothly so far as trade marks were concerned. As from that date all CTMs, whether registered or pending, were automatically extended to the 10 new States without the payment of any fee and without any intervention from the CTM Office in Alicante ("OHIM").

A word that is descriptive, non distinctive, generic, deceptive or contrary to public policy and morality in a new member state will not be refused or be subject to cancellation after registration if it was filed before Enlargement. Equally, a CTM filed before Enlargement cannot, normally, be opposed or cancelled if it is in conflict with an earlier national right

registered in a new member state. To safeguard the rights of owners of national rights in the new member states, it was decided that the extended CTM would not only not be enforceable against an earlier national right, but the holder of such a right could prohibit the use of the extended CTM in his territory. Any possible subsequent infringement action would be determined by national law.

An extended CTM could of course be descriptive, non-distinctive or generic in the language of a new member state. The "grandfathering" of extended CTMs did not confer on their proprietors any additional rights in the new member states, but anyone accused of infringement is granted a defence to any such accusation.

An extended CTM can also be deceptive or contrary to public policy or morality in a new member state and it was decided that the use of such trade marks in such a member state could be prohibited in accordance with the law of that state.

These rules, according to which extended CTMs were thus "grandfathered" was subject to the exception that CTM applications filed between 1 November 2003 and 30 April 2004 could be subject to oppositions based on earlier rights in the new member states. As a result of this exception, there were two huge increases in the filing of CTMs at the OHIM by owners trying to obtain CTM rights before the embargo came down, i.e. just prior to November 1, 2003 and just prior to May 1, 2004. The OHIM was not expecting this and was caught unawares, but it has coped.

Enlargement also resulted in the OHIM having to recruit staff from each of

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the new member states, as well as having to cope with 10 new official languages in which CTM applications have to be examined, all of which it has done most successfully.

4. Appeals Board

On November 9, 2004 the Court of First Instance ("CFI") in Luxembourg held that the procedure adopted by the OHIM and the Council in selecting a candidate as the new President of the Boards of Appeal had been wrong, and the Court annulled the Council's Decision of May 2002 to appoint Mr. Bruno Machado to this position (Case T-116/03 Oreste Montalto v. EU Council).

An acting President has been appointed while the OHIM decides what course to take as a result of this unexpected decision.

5. Trends

Several trends can be detected this year.

1. Enlargement has meant that a CTM is now valid in 25 countries resulting in a market of some 460 million people. Two new countries are expected to join the EU in 2005. As a result, some trade mark owners are questioning whether a CTM is really necessary. Obviously it is still far cheaper to obtain a CTM than to apply individually in 25 - soon to be 27 - countries, but who really needs such extensive cover? European multinationals are in a minority, and much of European industry is made up of SMEs who, by definition, either trade only in their own country or in a

few neighbouring countries. People are therefore questioning whether the CTM system has outgrown itself and whether it could perhaps adopt to a "holes-in-the-cheese" regime, which was much canvassed when the CTM was being negotiated, whereby some territories could be omitted from the total coverage of a CTM.

2. An increasing overlap can be detected between different IP rights, not only between trade marks and designs where the OHIM appears willing to accept as a registered design a word written fancifully which most people would consider to be a trade mark; but an overlap can also sometimes be detected between trade marks and copyrights, domain names, geographical indications, pharmaceutical international non-proprietary names and plant variety names.

3. The CTM system as it exists today and as it is operated by the OHIM, appears to have created an environment that obliges the OHIM to focus more on quantity than on quality and to focus more on increasing the number of applications. This puts an increasing burden on the holders of existing rights.

4. The increasing number of referrals to the CFI and the ECJ has put a tremendous burden on these two institutions, and has led to proposals by the Commission to create a special Judicial Panel which would handle the huge number of trade mark appeals from the Boards of Appeal in Alicante.

Trade Mark Cases

1. Colour Marks

So, you have your colour mark registration, post-*Libertel*. It gets

written about, because it is still a rarity. It sits there on the register, intimidating others. Its scope and

power have never been greater. Do you now risk shrinking it in an enforcement action?

Deutsche Telekom AG felt that the colour magenta was distinctive of its business when used in relation to telecommunication services generally. It had used the colour for over ten years and even had a German national trade mark registration to prove it.

A competitor, Mobilcom AG, made the mistake (or, was it deliberate, as Deutsche Telekom contended?) of using the colour magenta in its advertising. Deutsche Telekom brought legal proceedings to prevent further use of the colour by Mobilcom.

The question the German Supreme Court had to decide was whether the use of the colour by Mobilcom was merely co-incidental, in the sense of it being multi-coloured advertising and there being a limited colour palette from which to choose, or intentional, so that it amounted to an infringement of Deutsche Telekom's rights.

Unfortunately for Deutsche Telekom, the court decided that a trade mark registration for a particular colour does not necessarily mean that the proprietor can prevent all use of that colour by others. It is possible for third parties to use the colour without it amounting to an infringement of the rights of the registered proprietor. It is an objective test : would third parties regard it as a clear and deliberate reference to the trade mark owner ?

This decision, which actually hails from late 2003 but which was not widely reported until the spring of 2004, is to be welcomed, in that it helps to clarify the rights given to a

registrant following the *Libertel* route.

The position was further clarified by Heidelberger Bauchemie's application, also in Germany. Heidelberger Bauchemie used the colours blue and yellow in combination, in respect of building products. It applied for registration of the colours, "which are used in every conceivable form". The application was rejected by the German Patent Office and Heidelberger Bauchemie appealed. The Bundespatentgericht was inclined to uphold the decision, on the ground of lack of clarity and precision. The ECJ agreed, confirming that an application for registration of a combination of colours must include "a systematic arrangement associating the colours concerned in a predetermined and uniform way."

This decision is also to be welcomed, for the same reason as that in the Deutsche Telekom case : it helps to ring-fence the rights afforded by registration, so that others can know where the limits are and operate with a greater degree of certainty.

2. Exhaustion of Rights - Not Yet Exhausted

After Levi Strauss' whitewash in its actions against Costco and Tesco, and the clear and comprehensive judgment handed down by the ECJ, we might have been forgiven for thinking that there was nothing much more to come on the topic.

However, the decision of the ECJ in *Peak Holding A.B. v. Axolin-Elinor A.B.* provides a useful gloss. Peak imported clothing from outside the EEA and put it on sale in Denmark. Some stock which remained unsold was sold on by Peak to a French company, with the proviso that only 5% could be offered for sale again in

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the EEA - the rest had to be disposed of outside the Community.

No prizes for guessing what happened next. The remaining goods were sold on and eventually turned up for sale in Sweden. When sued by Peak, the defendant alleged that Peak had exhausted its rights, either when it first offered the goods for sale in Denmark, or alternatively when it sold them to the French company.

The ECJ's decision was that there had to be an actual sale in the EEA before an owner's rights were exhausted. There was no exhaustion where the goods were merely put up for sale but remained unsold. However, once there had been a sale, then the parties could not prevent exhaustion occurring by anything they might agree in a contract between them. The effect of the contract's terms was confined to the parties, and they were powerless to prevent the change in the goods' status once any type of sale had taken place.

This is of course a helpful decision for brand owners. They can import goods into the EEA and offer them for sale, secure in the knowledge that any unsold stocks may be safely sold on to buyers outside the EEA and that any attempt to re-import them may still be rebuffed.

3. Shape Marks : Sweets and Tablets

Since they always taken care to employ some of the sharpest young minds in marketing, soap and washing powder manufacturers are ever resourceful in finding new ways of presenting the consumables we all need. After powders and tablets, along came the tablet, for dishwasher and washing machine alike. Once one started, all the others had to follow. Similarly, with the attempt by P&G

and Henkel to register the shapes of some of these tablets as trade marks.

For those following on behind, it may have come as something of a relief that the ECJ upheld the original decision of OHIM to refuse to register these shapes as trade marks, although it no doubt came as a considerable disappointment for the two applicants.

The court confirmed that a sign consisting of such a shape could function as a trade mark. However, in order to be registrable, it had to display distinctive character and in this respect "average consumers are not in the habit of making assumptions about the origin of products on the basis of their shape or the shape of their packaging in the absence of any graphic or word element and it could therefore prove more difficult to establish distinctiveness in relation to such a three-dimensional mark than in relation to a word or figurative mark."

The more closely the shape for which registration is sought resembles the shape of the product itself, the less likely it is to display the necessary distinctive character: "only a trade mark which departs significantly from the norms or customs of the sector and thereby fulfils its essential function of indicating origin, is not devoid of distinctive character."

This approach was echoed by the CFI in August Storck KG's two applications at OHIM. One consisted of the shape of the sweet itself, the other of the appearance of the sweet in its wrapper (with the usual twisted ends). The court held that the average consumer did not pay too much attention to the shape of the sweet, its colour or its wrapper unless it was out of the ordinary, which was not the case here.

Before the ECJ, P&G and Henkel had made much of the fact that, at the time the applications were filed, the marks were distinctive, in that it was a new concept and therefore the products differed from the other available products performing the same function (powders and liquids). But the ECJ held that not only must the sign be distinctive at the time of application, but also at the time of registration as well. This is presumably a principle of general application and places a further obstacle in the way of those who seek to capitalize on the commercial advantage afforded by a novel concept by obtaining a trade mark registration, in an attempt to ward off the look-alikes that will inevitably follow.

Now that obtaining a registration for a design has been made so much more easy and clear, one wonders if there is something of a political agenda at work here. Are we gently being told that shapes are more suited to registration as designs rather than trade marks ?

4. Descriptive Marks and Neologisms

After the low-water mark of BABY-DRY, the decisions in COMPANYLINE and DOUBLEMINT were thought to indicate a return to the tide line. But NEW BORN BABY was still out there...

The Benelux is thought by some to have a liberal and forward-thinking attitude towards trade mark matters, and so it was with some relief that we learned that the trade mark office there had rejected applications for BIOMILD (for mild-flavoured yoghurt) and POSTKANTOOR (which means, quite simply, "post office") for paper and cardboard goods. More, the office referred no less than twelve questions to the ECJ, thus giving the ECJ the opportunity to lay the ghost of BABY-DRY once and for all.

The ECJ responded with a list of various tests and points to be taken into account when considering a descriptive mark. Most of these are unexceptional and familiar to trade mark practitioners : two that stand out are, one, that a mark may still be descriptive even if it is not being used in a descriptive manner - it is enough that the sign *could* be used descriptively (DOUBLEMINT); two, the fact that the same mark has already been registered for the same goods and services in a Member State is not relevant.

How far this list of tests will help in the future is hard to forecast. For the moment, however, the scene remains confusing, so that it remains hard to advise clients. What is the difference between EASYBANK for banking services (registered) and INVESTOR WORLD for investment services (refused) ? And between NETMEETING for communications via computer networks (registered - yes, really!) and TRUSTEDLINK for pretty much the same thing (refused) ?

And what of that NEW BORN BABY, which the CFI had characterized as non-descriptive? The Advocate General gave us hope by recommending that the DOUBLEMINT approach be followed, but alas! - for some reason, the application has been withdrawn. How neat it would have been if NEW BORN BABY had been the one to restore the status quo after BABY-DRY...

5. Use of Another's Trade Mark or Name

In the wake of BABY-DRY and the continuing uncertainty over what is registrable and what is just plain descriptive, it comes as something of a relief to find case law in other areas proceeding along an orderly course.

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Article 6 (1) (c) of the Trade Marks Directive prevents an owner from objecting to the use of its trade mark by a third party in circumstances where the use by the third party is necessary to indicate the intended purpose of a product or service, in particular accessories and spare parts, provided always that the third party's use of the mark is in accordance with honest practices in the trade.

In the landmark case of *BMW v. Deenik*, the ECJ interpreted this as meaning that Deenik was entitled to use the letters BMW in order to advertise that he dealt in BMW cars. But he could not use them in disproportionately large size, nor could he use BMW's logo. That would be dishonest, as it would be likely to give rise to the misleading impression that Deenik was part of the official BMW dealer network, when he was not. The practice in the trade was well-known, in that it was split between franchised dealers and independents.

This line has been followed by the ECJ in a case coming out of Finland, *Gillette v. LA Laboratories*. LA makes its own razor blades and handles, which it sells under its own trade marks. But its products are interchangeable with Gillette's, and accordingly LA stated on the packaging of its products that "all Gillette Sensor handles are compatible with this blade". Did this amount to infringement of the trade marks GILLETTE and SENSOR, as Gillette alleged?

The ECJ decreed that whether such use was legitimate under Art. 6 (1) (c) depended on whether the use of Gillette's marks was necessary in order to indicate the intended purpose of the product. This would certainly be the case if, for example, the use was in practice the only way of denoting the intended purpose of

the product. And, even if it were, the use still had to be in accordance with honest practices in the trade, and this would not be the case if the use was such as to give the misleading impression that there was some kind of commercial connection between the parties (e.g. a licensor/licensee relationship).

The court in Finland will now decide the case on the facts, but this judgment is nevertheless helpful even if it serves only to confirm and amplify Deenik.

Nearer to home, we see a similar approach being adopted under the Copyright Designs and Patents Act 1988. In Section 30 there is a defence to an alleged infringement of copyright where the supposed infringer can show that the act was "fair dealing" for the purpose of criticism, review or reporting.

In *IPC Media v. News Group Newspapers*, News Group's "The Sun" newspaper had launched its new TV guide in an advertisement which featured IPC's rival publication, not merely by reference to its title but by reproducing a copy of its masthead. IPC alleged that this infringed its copyright in the design, but News Group defended on the basis of fair dealing. IPC maintained that News Group's use did not fall under any of the exceptions outlined in Section 30.

In the High Court, the judge found for IPC - "The Sun" could and should have compared its new guide with its IPC rival without infringing IPC's copyright in its masthead design.

In this area of the law at least, it is tempting to think that we know where we stand...

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