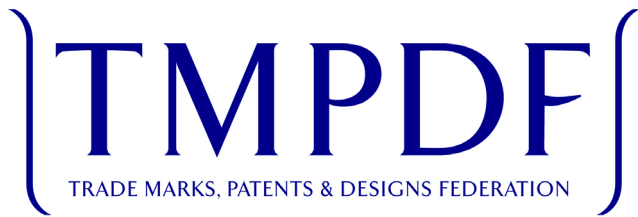


Advancing Industry's View On Intellectual Property Since 1920

TRENDS AND EVENTS
2006 / 2007
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 over forty members and associate members, among which are many of the largest companies in the UK, as well as smaller companies.

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-IPO, 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) and the Intellectual Property Institute; it is a member of IPAN (the IP Awareness Network). Internationally, TMPDF exchanges views and maintains good contacts with similar IP user organisations in other countries.

Membership

The Federation has a Council, which agrees TMPDF policy, and five technical committees, to which detailed consideration of issues is delegated. These deal with Trade Marks, Patents, Copyright and Designs, Litigation, and Licensing and Competition Laws. Voting members are entitled to a seat on Council, as well as any or all of the committees. Committee members can join any or all of the 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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Review of

Trends & Events

in Intellectual Property

from June 2006 to end of May 2007

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PRESIDENT'S INTRODUCTION

It is with great pleasure that I am able to introduce the 2006/2007 edition of *Trends and Events*, the yearly summary of the activities of TMPDF.

Whilst the second year of my Presidency has perhaps not been quite as busy as the first there has been two very notable activities both of which I mentioned in my preface to last year's publication. At the end of 2006 we saw publication of the long awaited Gowers Review of Intellectual Property, the independent report commissioned by HMG into the workings of the IP system both in the United Kingdom and internationally. This was a review which stimulated wide input from a variety of interested parties and the final report was therefore not surprisingly wide ranging both in the topics it dealt with and the recommendations it has made. Many of these issues were in areas dear to the Federation's heart and it was good to see that HMG has accepted the Gowers' suite of recommendations as a roadmap for going forward. Be assured we shall be closely monitoring outcomes over the next few years.

One key recommendation in all of this is the creation of SABIP (Standing Advisory Body for IP) a properly resourced body to assist in the formulation of high level IP policy on the basis of funded research and significant input from stakeholders. As I mentioned in last year's introduction, the Federation has been arguing for some time now that there has been a gap in this area which urgently needs to be filled. This is especially so following the demise of IPAC (Intellectual Property Advisory Committee). So we are pleased to see this going forward and stand willing to play an active role if our members are called upon to do so.

I wish I could be so optimistic about progress on the European patent policy front. Yet another year has gone by and the London Agreement on the translation of European patents is still not in force, no worthwhile Community Patent proposal is on the table and there is no consensus on harmonised patent litigation arrangements in Europe. The Commission and successive European Union Presidencies have sought to achieve a convergence of views upon which progress can be built but to date this has not been possible. Will 2007/2008 bring substantive progress? I suspect not but we continue to press at least for the implementation of the London Agreement. This has the ability to impact favourably IP costs for all innovators.

Perhaps of more concern to users of the patent system is what appears to an inexorable increase in patent filings driven in part by the Asian economies. Will these filings overwhelm the system? Will Patent Offices be able to systematically grant high quality patents quickly in all fields of technology?. These are questions of vital importance to innovators to which Governments and Patent Offices need to find real answers. Part of the answer perhaps lies in long-term strategic planning which is flexible enough to take account of the speed of global change.

On a more inward looking note, 2006/2007 has been a significant year in that we have clarified the rules around eligibility and duration of term for retired Vice Presidents of the Federation. These changes have meant that for many 2006/2007 will be their final year of participation in meetings of Council. I know the Council and I have very mixed feelings about this because of the enormous contribution these Vice Presidents have made to the Federation over the years. However if we are go forward in a world where clarity about who or what you represent is

important then organising the Federation and Council so that it is absolutely clear to the outside world that it is member company driven is absolutely critical. Nevertheless it with sadness that we have had to make the changes and I am sure you will join me in thanking those leaving us for their contribution and wishing them every success in the future.

Writing this preface is almost my last act as President. I have to say that it has been a privilege and a pleasure to lead the Federation over the past two years - a task made easier by the tremendous support I have had from the Federation Secretariat and our consultant, Alec Sugden. I now return to the ranks and take up again the task of chairing the Patents Committee and making my contributions through Council. I leave the post of President with some sadness but content in the knowledge that my successor will have a well-respected and high quality organisation to lead.

I thank you all for your support over the last twenty four months.

Mike Barlow
President

COMPETITION

issuance in USA of the US DoJ/FTC report on competition law and IP

In 2003, the US Federal Trade Commission published a report entitled "To promote innovation: the proper balance of competition and patent law". This report (see *Trends and Events 2003/2004*) -

(i) identified features of the US patent system (mostly unique to USA) which were in themselves capable of having anti-competitive effects (for instance, the threat of triple damages for wilful infringement); and

(ii) suggested, subject to confirmation in a second report, that anti-trust principles to the enforcement and licensing of IP rights had historically been too zealous.

The attempts to reform the US patent system since then have yet to reach a conclusion. The second report was so long delayed that it was feared that it would never appear, but in fact it issued in April 2007. This report, entitled "Antitrust enforcement and Intellectual property Rights: promoting innovation and competition", was joint between the FTC and the other US agency enforcing anti-trust law, namely the

US Department of Justice through its Antitrust Division.

Despite the delay, the report does live up to the expectations raised in 2003. In particular, it takes the view that intellectual property rights only rarely create monopolies in the antitrust sense. This contrasts with the marked tendency of European Commission officials to assume that refusal to license an intellectual property right is likely to be an abuse of a dominant position under Article 82 of the Treaty of Rome (see *Trends and Events 2001/2002*, page 23).

Moreover, the US report mostly takes a relaxed, "rule of reason" approach to licensing agreements (which in the EU are considered under Article 81 of Treaty of Rome), including within patent pools. However, "tying" and "bundling" continue to be features of IP agreements which the report regards as anticompetitive in the absence of special justification (for instance in a patent licence in which the licensee is obliged to buy an unpatented raw material from the licensor).

COPYRIGHT

1. UK Copyright Issues

Gowers Report

Much of the Gowers Report (published on 6 December 2006) requiring

legislative change focuses on recommendations in the copyright area and, as with recommendations in other areas, consideration of these is moving ahead relatively swiftly with

first consultation rounds planned for Spring 2007 with a view to enacting secondary legislation (i.e. Statutory Instruments) as early as the end of 2007 to meet the timetable recommended by Gowers (2008 for legislative changes). For at least some of the proposals, it is understood that two abbreviated consultation periods may be used: a first ten week period for consulting on an indicative text and a subsequent ten weeks for the draft Statutory Instrument itself, the normal 12 week period being shortened because of the two-stage consultation.

None of the recommended copyright measures seems particularly controversial, except perhaps Recommendation 8 proposing to introduce a limited private copying exception by 2008 for format shifting which may have implications for copyright levies in the UK, and Recommendation 11 on transformative and derivative works which the Federation has opposed (see below).

In January 2007 The Federation made a formal response to the Gowers Report, in which we noted Gowers' rather unfortunate formulation (Recommendation 8) that there should be no accompanying levies for consumers. The Federation supports the more general statement found elsewhere in the Report that there should be no copyright levies at all.

We had said that a clear exception should be created for private copying for format shifting, with a limited number of copies per format, on the basis that the prejudice to the right holder is minimal. A sale to the individual concerned has already been achieved. Thus, an obligation for further payment should not arise (in

line with Recital 35 of the 2001 EU Copyright Directive).

The Report suggests that "fair compensation" for this new private use copying exception could be included in the selling price of the particular work. What is troubling about this is that it could be taken as an acknowledgement that compensation is due, rather than - as would have been a legally more sound approach - relying on the 'de minimis' provision in Recital 35 of the 2001 EU Copyright Directive. The implementing legislation will need to be carefully framed if it is not to risk opening the floodgates for claims to levy-type remuneration in the UK. The Federation has pointed this out in its response to Gowers.

The only proposal in the copyright area which the Federation opposed was Recommendation 11 where we were not convinced that there should be an exception for transformative or derivative works which have drawn heavily on the original. This recommendation seems to imply that there should be a free licence to modify, and the Federation did not agree.

Concerning the other recommendations for legislative change made by Gowers, the Federation has expressed its agreement, sometimes with relevant caveats, to the following proposals:

- Allow educational establishments to provide distance learning and use interactive whiteboards (Recommendation 2).
- Allow private copying for research to cover all forms of content. This covers copying not distribution. (Recommendation 9).
- Permit libraries to copy the master copy of all classes of

work in permanent collection for archival purposes and to allow further copies to be made from the archived copies to mitigate against subsequent wear and tear (Recommendation 10a).

- Enable libraries to format shift archival copies so they can replace obsolete technology or unstable media, e.g. celluloid film (Recommendation 10b).
- Propose a provision for orphan works to the European Commission, amending the 2001 Copyright Directive (Recommendation 13).
- The UK-IPO should issue clear guidance on the parameters of a "reasonable search" for orphan works, in consultation with right holders, collecting societies, rights owners and archives, when an orphan work exception comes into being (Recommendation 14a).
- The UK-IPO should establish a voluntary register of copyright;

either on its own or through partnerships with database holders (Recommendation 14b).

- Make it easier for users to file notice of complaints procedures relating to Digital Rights Management tools by providing an accessible interface on the IPO website (Recommendation 15).
- DTI to investigate the possibility of providing consumer guidance on DRM systems through a labelling convention without imposing unnecessary burdens.

The Federation took no position on the following two proposals:

- The European Commission should retain the length of protection on sound recordings and performers rights at 50 years (Recommendation 3).
- Create an exception for the purpose of caricature, parody or pastiche (Recommendation 12).

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Review of Copyright Tribunal

Following a public consultation and targeted canvassing exercise, in late May 2007 the UK-IPO published a Review of the Copyright Tribunal by Dave Landau and Chris Bowen, two Hearing Officers in the Trade Marks

Directorate of the UK-IPO. The review makes thirty wide-ranging, interdependent recommendations relating to procedure, constitution and administration of the Copyright Tribunal, and is open for comment until 31 August 2007.

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2. European Copyright Issues

Recasting of Copyright Acquis - Codification of EU Copyright Law

As reported in last year's *Trends & Events*, a policy priority for the Commission was "recasting" the copyright acquis to make it fit for the digital world, and the Commission had

commissioned Professor Bernt Hugenholtz of the Institute for Information Law at the University of Amsterdam to undertake a study.

In November 2006, Professor Hugenholtz et al presented a major 305-page report entitled "The

Recasting of Copyright & Related Rights for the Knowledge Economy".

The study covers extensive ground. Chapters 1 and 2 analyse the existing 'acquis communautaire' in the field of copyright and related (neighbouring) rights. Chapters 3-6 address specific issues that were identified by the European Commission as deserving special attention: possible extension of the term of protection of phonograms (Chapter 3), possible alignment of the term of protection of co-written musical works (Chapter 4), the problems connected to multiple copyright ownership, including the issue of 'orphan works' (Chapter 5), and copyright awareness among consumers (Chapter 6). Chapter 7 evaluates the benefits and drawbacks of the fifteen years of harmonisation of copyright and related rights in the EU.

There have been seven directives and the study concludes that the harmonising measures they introduced often exceed the minimum standards of the Berne and Rome Conventions, as well as the average levels of protection that existed in member states before implementation. It concludes that the step-by-step approach towards harmonisation has placed an enormous burden on member states, who have been engaged in an almost non-stop process of implementation.

The study finds that, on balance, the harmonisation process has produced mixed results at great expense, and its beneficial effects on the Internal Market remain largely unproven and are limited at best. The report calls for caution and restraint when considering future directives, even only modest 'recasting' initiatives, and urges the EC legislature not to undertake any new harmonising

initiatives, except where a clear need for amendment of the existing acquis can be demonstrated.

Instead, the report suggests using, especially in the short term, more 'soft law', such as recommendations, interpretative notices or communications, which it claims are more suitable for dealing with the dynamics of an information market that is in constant flux and regularly requires ad hoc legislative adjustment.

In the long run, if the Community is serious about creating an internal market for copyright based goods and services, the report proposes that the Community would have to confront the territoriality challenge head-on. What is mentioned in this context is the possibility of an overarching Community Copyright Regulation to replace all the existing directives and partially pre-empting member states' national laws. According to the report, this would be an opportunity to provide some 'rebalancing' of rights and limitations, and rectify the alleged overprotection resulting from 15 years of 'upwards' harmonisation. Even then, the report seems sceptical about the real economic benefit of having such a single EU copyright law.

On specific issues the report concludes as follows:

There are no real benefits to be had from trying to line up all the EU laws on different subject matter (such as, for example, computer software and databases).

Perhaps the EU should put out an "interpretative communication" to clarify confusion which has arisen in some member states over whether there is an overlap between "broadcasting right" and "making available right". This would help avoid claims in some member states for

double payment by some right holders.

There will be a further report by the same authors in 2007 on the InfoSoc Directive issues of transient copies and caching etc., although the preliminary view is that only an "interpretative communication" is necessary.

There should be a "flexible approach" on fair dealing and other exceptions to copyright, which basically allows member states to do what they like within a framework.

Extension to the 50 year copyright duration for sound recordings is not economically or morally justifiable. "A term extension would in all likelihood strengthen and prolong market dominance [*by the four major multinational record companies*] to the detriment of free competition." There is no need for the EU to mount a campaign to raise copyright awareness. As for compliance: "European Institutions have limited options to help compliance ...". "Stakeholders themselves - industry and consumers alike - are best positioned to influence acceptance [of copyright law] through consumer-friendly business models and informative campaigns".

The content of the report does not officially represent the views of the Commission but may well be used to influence the ongoing review of the copyright directives.

A subsequent 2-part study, also commissioned by the European Commission, and carried out by the Institute for Information Law (University of Amsterdam) and the Queen Mary Intellectual Property

Research Centre (University of London) under the supervision of Professor Hugenholtz was published in February 2007. This study assesses the role the 2001 Copyright Directive has played in fostering the digital market for goods and services in the four years since its adoption. The brief from the Commission specifically asked the authors not to examine Article 5.2(b) and the levies question.

Part 1 of the study report runs to 213 pages and provides an assessment of the impact of the directive on the development of online business models, and makes several recommendations about DRM systems. Circumvention of systems should only be limited where it leads to copyright infringement; the person applying the DRM should be entitled to invoke protection against circumvention rather than necessarily the owner of the rights; the relationship between DRM and exceptions to copyright and related rights needs attention; and content providers should have transparency obligations about the scope and nature of the systems they employ.

Part 2 of the study report runs to 454 pages and provides a comprehensive inventory of the actual implementation of the directive by the member states including a country-by-country analysis of the areas where member states have deviated from the directive, mentioning recent judicial decisions, and highlighting specific areas that may have a detrimental or disharmonising effect within the Internal Market.

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Codification of Directive on term of protection of copyright and certain related rights

Following its 1987 standing decision to codify legislative instruments after no more than ten amendments, on 19 May 2006 the Commission initiated a codification of Council Directive 93/98/EEC of 29 October 1993 harmonising the term of protection of copyright and certain related rights. The new Directive on rental right and lending right and on certain rights related to copyright in the field of intellectual property, which was

subject to the co-decision process (i.e. agreement between the European Parliament and the Council), was adopted as Directive 2006/115/EC on 12 December 2006 and supersedes the various acts and amendments incorporated in it. The new directive fully preserves the content of the acts being codified and hence does no more than bring them together with only such formal amendments as are required by the codification exercise itself.

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Copyright Levies

Copyright levy reform was included in the Commission Work Program for 2006 and was one of the key enabling factors identified in the Commission's 10-point programme announced in September 2006) to foster innovation as a main asset of the EU economy in the Lisbon agenda

In June 2006 the Commission opened a consultation entitled: "EU Stakeholder Consultation on Copyright Levies in a Converging World", to which the Federation gave a complete response, pointing to the increase in claims for levies payments in the digital product space, and reiterating that, at best, levies are a form of very "rough justice". We emphasised that it is the consumer that eventually pays the levy, even though the consumer is generally not aware that she is paying a copyright levy, nor how much she is paying, nor what acts of private copying she is legitimately entitled to perform against such payment. We also pointed out that consumers in member states that do not have copyright levies (like the UK) may be subsidizing consumers in member states where levies apply while

deriving no benefit from such payments themselves.

The Internal Market directorate of the Commission had been working for more than a year on a 'soft law' Recommendation on copyright levy reform due for introduction in December 2006, which it is generally understood would have helped to "kick-start" the real intentions behind the 2001 Copyright directive, by confirming that (1) "fair compensation" as provided in the directive was a new concept not to be confused with the concept of "equitable remuneration" (= levies), (2) fair compensation should be measured with reference to actual harm, (3) where harm is only minimal no payment may be due, and (4) levies payments should be seen to be reducing with the availability of technical protection measures (DRMs).

There was some resistance to the Recommendation among other directorates in the Commission, notably DG Culture, which was not particularly surprising as in many member states a portion of the revenue from copyright levies goes into a cultural fund. Nevertheless, it

was widely expected that the Commission would publish the Recommendation in December 2006.

However, just days before the Recommendation was due to be adopted, the European Commission President Joseph Manuel Barroso called for "a period of reflection" on levies after personal intervention by French Prime Minister de Villepin, who had been heavily lobbied by French cultural interests, which meant the long awaited

Recommendation was effectively withdrawn without trace. This was widely interpreted as a slap in the face for Internal Market Commissioner, Charlie McCreevy. It was unclear whether the obstacle for adopting the Recommendation would be removed after the elections in France were out of the way, but at the time of writing this report the future of levies reform in Europe remains very uncertain.

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Collective cross-border management for online music services

As reported in the last *Trends & Events*, on 18 October 2005 the Commission adopted a Recommendation (2005/737/EC) on the collective cross-border management of copyright and related rights for legitimate online music services.

As the Recommendation opted for a "light touch" non-binding approach, the Commission intended to monitor commercial developments at regular intervals.

Thus, in January 2007, the Commission invited interested stakeholders to submit views and

comments on their initial experience with the Recommendation and on how the online music sector has developed since its adoption. The Commission identified four chief policy areas where it believes views and opinions of the market players appear essential, namely (1) the non-binding nature of the Recommendation, (2) progress on EU-wide licensing, (3) Scope of the Recommendation, and (4) Governance & Transparency. The Call for Comments is open until 1 July 2007. As this subject is not in the main area of interest for most Federation members, the Federation is not intending to submit Comments.

DESIGNS

1. UK Design Issues

Gowers Report

In the original call for evidence the Gowers Review had asked about the extent to which the both the registered and unregistered design systems were being used, and the

interplay between the UK and European systems. Specifically the review asked if the UK and registered and unregistered design systems needed to be improved or simplified to work better alongside the European systems. Additionally the

consultation asked if the UK unregistered design served a useful role alongside the European design right.

The Federation, in response to the call for evidence, had supported the continued existence of both the registered and unregistered UK design right for the foreseeable future, despite the success of the community design right, on the basis that its members are currently using and relying on both types of right.

The Gowers Report, published on 6 December 2006, concluded that the Review revealed there were no issues with the *balance, flexibility and use* of designs. Concerning *coherence*, Gowers pointed to the overlap between different design systems, claiming this can cause confusion in the industry, and noted specifically the different scope and length between the UK and Community Unregistered Designs. As regards the *award* of rights, the Report noted that, although there been a

significant decline in the number of designs registered in the UK (from 9,000 in 2002 to less than 4,000 in 2005) following the 2003 launch of the Community Registered Design, there had so far been no calls from industry to disband the UK Registered Design. On *enforcement*, it was reported that several submissions claimed that it can be difficult to stop designs being copied in practice. It was mentioned that small designers cannot afford to take the risks associated with legal action and, accordingly, competitors have no economic incentive to seek permission before using designs. It was reported that Anti-Copying in Design (ACID) estimate that many designers are forced out of business every year by legal costs or lost sales due to infringement.

Ultimately, Gowers made no proposals to change any aspect specifically relating to designs.

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2. European Design Issues

Draft Directive on the Legal Protection of Designs (Spare Parts Directive)

This draft directive stems from the obligation imposed on the Commission in the 1998 Designs Directive to present such a proposal to complete the harmonisation of the internal market in this area and is broadly aimed at fulfilling the Commission's objectives of ensuring liberalisation in the internal market*. Specifically, it seeks to eliminate design protection for spare parts used for repair purposes. There has been relatively little progress on this draft directive since it was introduced in

September 2004. It is still in the Committee stage at the European Parliament at first reading. The dossier was discussed in the Legal Affairs Committee (JURI), which is the lead committee, in February 2007, but there has not yet been a vote at Committee stage.

The German Presidency offered to have meetings with the Rapporteur (German conservative MEP Alexander Radwan) and shadows to try and reach agreement with Council, but there appears to have been no progress. Assuming the Legal Affairs Committee does eventually vote and adopt a Report, it would then go to a plenary session of the European Parliament for voting before moving

onto the European Council (still at first reading stage). Only when the European Parliament and member states in Council can agree a text would the directive be adopted (the "co-decision" process).

The Federation has not taken a position on the substantive issues, as there are divergent views between primary manufacturers such as the car industry and those supplying spares in the after-market. Of course, the draft directive is not concerned only with car parts but impacts all replaceable parts such as heads for electric toothbrushes. One point of debate is whether replacement parts should be excluded from protection even if their primary purpose is other than repair, e.g. aesthetic substitutes such as coloured covers for mobile phones.

**Background (from T&E 2004-5): "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 ...".

LITIGATION

EU

European Patent Litigation Agreement

See under Patents

Incorporation of conventions into EU law

The EC is aiming to cover all the issues surrounding conflict of law issues by bringing into EC law various international conventions. The recognition and enforcement of judgments in civil and commercial matters is already part of EC law and governed by Regulation (EC) 2001/144

(internationally by the Brussels Convention of 1968). The law applicable to contractual obligations will be governed by a new regulation -Rome I. The law applicable to non-contractual obligations will be governed by a new regulation - Rome II (internationally the 1980 Rome Convention).

Rome I draft regulation transforms the Convention into a Community instrument and will harmonise the conflict-of-laws rules concerning contractual obligations within the Community i.e. determining which country's law to apply to a dispute. It does not set out to establish a new set of legal rules but to convert an existing convention. However some amendments have been made to "*help to modernise certain provisions of the Rome Convention*".

Rome I draft regulation goes for its first reading in the EP in July 2007 and HMG is currently opting out of this regulation under a 1997 Protocol. In summary, under the regulation, the law to be applied is that chosen by the parties; if no choice is made then Art 4(f) provides that a contract relating to intellectual or industrial property rights shall be governed by the law of the country in which the person who transfers or assigns the rights has his habitual residence. The preamble says that as regards contracts concluded with parties regarded as being weaker; those parties should be protected by conflict rules that are more favourable to their interests than the general rules.

There are special rules for contracts concluded by an agent.

A Common Position was agreed in May on Rome II; we had made comments to the DCA (as the Department of Justice then was) on an earlier draft in February 05, see *Trends & Events 2004/5* and had suggested that IP be removed from the regulation, or at best made clearer, so that actions relating to IPRs should be dealt with under the law of the country where the IPR was registered or subsists.

Some changes have been made since '05 but IP is still included. Briefly the position now is as follows:

- The general rule is that the law applicable is the law of the country in which the damage occurred or is likely to occur.
- However special provisions are made for obligations arising from IP infringements: the law applicable is the law of the country for which protection is claimed. In the case of an infringement of a unitary Community right, the law applicable is that of the country where the infringing act took place.
- In respect of unfair competition the law applicable is that of the country where competitive relations or the collective interests of consumers are or are most likely to be affected.
- In respect of a restriction of competition the law applicable is that where the market is or most likely to be affected.

This represents an improvement on the earlier version.

- There is a freedom of choice of law by agreement between the parties after the event causing the damage occurred, but this is specifically not applicable to IPR or unfair competition or restriction of competition.

This did not appear in the earlier text.

The Federation will continue to make representations as appropriate.

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Criminal sanctions directive : See under Trade Marks.

UN

Securitized contracts

Working Group VI of the United Nations Commission on International Trade Law (UNCITRAL), has been seeking to reform international laws in order to cut across legal restrictions on the availability of low cost finance and credit. It wishes to make it easier for businesses and lending banks to deploy assets as security for raising finance. These ideas are embodied in a draft document called *The Legislative Guide on Secured Transactions* which recommends how national laws might be harmonised internationally to come into line with the aims of the Guide.

The Guide was drafted primarily to cover tangible goods, but IP assets and the royalty streams from their licensing, were subsequently added into the scope of the Guide without prior consultation with the IP community in the summer of 2006.

Industry is concerned at its loss of control over what licensees do with granted rights in cases where licensees securitise those rights and then default - IP owners will take second place behind the interests of lender, which may then dictate what is done with those rights.

It now appears that a compromise was reached with UNCITRAL in February; IP would remain in the UNICTRAL guide to secured transactions, but that it would not apply to IP where it would be inconsistent with national laws or international agreements to which the state is a party. In late June it is hoped that a working group will be established to address the contentious IP areas. For further information, see http://www.uncitral.org/uncitral/en/commission/working_groups/6Security_Interests.html

UK

DCA Consultation on Consolidated Pre-Action Protocol

In spring the Civil Justice Council recommended that a consolidated pre-action protocol should be introduced, to reduce the nine pre action protocols currently in force to one. The Practice Direction on Protocols includes a section on the pre-action behaviour expected in cases where there is no specific protocol and notes that the court will take account of compliance or non compliance with the protocols in making decisions about case management and costs. On the assumption the court may expect the procedure of the consolidated pre-action protocol to be followed in IP cases, the Federation noted that it

had to be made clear, with legal effect, that use of the pre-action protocol procedure did not constitute a threat in a pre-action procedure involving a patent, trade mark or design. Alternatively it should be made clear that the court would not expect the pre-action procedure to be applied in such cases. Furthermore, the rules should be sufficiently flexible so that the court could ascertain whether ADR might be possible after it had ruled on the fundamental issues of infringement and validity. The court should not penalise the parties for wanting these fundamentals decided first.

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Representative actions

The Federation reply to UK-IPO consultation on representative actions for the enforcement of intellectual property rights (Article 4 of the IP Enforcement Directive - 2004/48/EC) noted that its members saw no strong need for representative actions to assist with the enforcement of their intellectual property rights. The general view is that in most normal circumstances, companies should, and would expect to, act directly on their own behalf in the enforcement of rights, rather than through a representative organisation.

However, there could be circumstances where the ability to operate through a representative organisation would be helpful, such as when members of such an organisation have an interest in a

standard covered by a patent, or in a geographical indication, or in a collective mark, or in a copyright work administered by a collecting society: all possible circumstances where a representative action might be appropriate could not be predicted and we saw no basis for differentiating between the different forms of intellectual property. We did not agree that the possibility of somewhat more litigation should be a reason to resist the introduction of representative actions. The possibility for representative organisations to act on behalf of members could be of help in particular to SMEs. This might encourage them to make greater use of, and to have greater confidence in, the intellectual property system.

PATENTS

1. Introduction

With the rejection by the European Parliament of the proposed directive on computer implemented inventions and renewed emphasis by governments on innovation as a source of growth, the external pressure on the patent system has reduced somewhat since last year.

However the concern about the quality of patents has increased within as well as outside the IP community. There is a real risk that pressure to reduce costs, largely to benefit SMEs, may increase the number of invalid patents granted. At best this will increase litigation and at worst inhibit the very innovation the patent system is supposed to encourage.

In order to reduce costs whilst maintaining quality there is a drive towards more recognition of work done by other patent offices. This in turn drives the move towards further harmonisation of substantive and procedural patent law discussed below.

The Federation takes the view that harmonisation is desirable if the resulting system is robust and provides a reasonable balance of protection for genuine inventions with certainty for third parties. However we do not regard harmonisation as an objective in itself.

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2. UK Patent Issues

Gowers Report

The Gowers Report did not include any major proposals on patents, but did propose greater separation of the examination divisions of the Patent Office (as it then was - now renamed the United Kingdom Intellectual Patent Office - UK-IPO following a Gowers' recommendation) from the appeal and hearings area. It remains to be seen how this will work out. Further proposals concerned a re-organisation of fees; encouraging third party observations; and additional databases of patents lapsed or endorsed licences of right.

On fees Gowers endorsed the proposal to increase pre-grant fees

and reduce renewal fees. The Federation has already expressed concern about this increased front loading, contrary to the previous policy that successful patents subsidise early stage applications, especially noting that SMEs are more likely to prosecute in the UK-IPO than larger companies.

We welcomed the idea of providing information on patents endorsed licences of right, but believe this should be within existing databases, not a separate database.

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Patent Rules

The UK-IPO consulted last year on minor changes to the Patent Rules including the Address for Service (AFS) to be assumed when registering an EPO grant in UK. We recommended that the AFS recorded at the EPO should be assumed unless an alternative is specified.

More recently the UK-IPO has consulted on a complete redraft of the Patents Rules including renumbering and some substantive changes. The Federation has submitted a number of comments on the proposed revisions. The major changes are in the handling of proceedings before the Comptroller where there is a welcome simplification and greater freedom for active case management by UK-IPO .

However we are concerned about a proposal to drop the existing rule providing for so called "postal

deeming" whereby documents filed by first class post are deemed to have been filed on the day they would have been delivered in "normal course of post" (normally the next working day). This has provoked a wider discussion also covering receipts for documents filed at the IPO which continues.

Additionally the new rules provide for dealing with the UK-IPO in the Welsh language. We are concerned that the interests of the vast majority who wish to deal in English are not prejudiced. It seems that the increased costs will need to be met by all users, but at least, so we consider, they should be spared the direct cost of translations when they access information originally filed in Welsh.

Consultations on revision of the fee structure is expected at the end of 2007.

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Computer-Implemented Inventions

The Court of Appeal handed down a landmark judgement in the cases of *Aerotel/Macrossan* on applying the exceptions to patentability for computer programmes as such and other categories excluded under Section 1(3) of the Patents Act 1977. This judgement largely endorsed the proposals of the UK-IPO and sets rules which differ at least procedurally and probably substantively from those

applied by the EPO. Subsequently the UK-IPO issued a Patent Practice Notice (PPN) which appeared to go further than the Court of Appeal judgement required, notably in the area of claims to a programme on a substrate even where there is a valid process claim. The Federation has raised objections. The UK-IPO believe subsequent High Court judgements endorse their position and discussions continue.

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Inventive Step

The UK-IPO published the results of its consultation which generally endorsed our view that the current

level is about right and rules seeking to define inventive step would be undesirable.

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3. European Issues

European Harmonisation

The European Commission held a public hearing on 11 July 2006 on patents in Europe and after much discussion a Communication was issued in April 2007. This maintained that a Community Patent remained a desirable objective, but accepted that the previous Common Political Approach (involving translation of claims into all official languages) was not acceptable to industry.

The largest part of the Communication addresses litigation and the proposed European Patent Litigation Agreement (EPLA). The Commission believe this must have some EU involvement and offers three options with varying degrees of integration within EU bodies.

The Federation's position on EPLA has remained constant; the

establishment of a patent system in Europe incorporating integrated patent litigation arrangements is, in theory at least, a desirable objective, provided that the patents are of high quality and can be obtained at a sensible cost, and that the system includes high quality, efficient and trustworthy judicial arrangements. The most serious problem and cost in the patent system at European level concerns languages and translation.

While the Federation considers that it is imperative that there should be major reductions in costs in relation to the language regime, cost reductions should not be achieved at the expense of quality in the grant process or in the judicial arrangements. Because the London Agreement (on translation of European patents) would involve dramatic cost savings in relation to all EPO granted patents, rather than by

the relatively few that are litigated, entry into force of the London Agreement would, at a stroke, save far more in costs for patent holders than reform of the litigation system.

The Federation agrees that any litigation structure should be capable of eventually dealing with Community Patents as well as patents issued through the EPO. However it is concerned about the risk to patentees who secured national patents through the EPO should their patents be subject to central revocation (unless they have elected to employ central infringement litigation). "Dual optionality" is the Federation position: an integrated patent litigation system should be available to member states to join on an opt-in basis; use of the system should be optional for patent owners. European patents should not be subject to

central revocation except where their owners have brought central infringement actions under the system.

The Federation is also concerned to ensure the rules of procedure for any European Patents Court provide a robust and cost effective means of dispute resolution and that appeals on substantive patent matters go to a specialist appeal court with the role of the European Court of Justice (ECJ) limited to interpretation of EU law. An informal group of European judges has issued proposed rules of procedure about which we have some concerns. However as these have no formal status the Federation has not commented as yet.

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Patent Litigation Insurance

The Commission believe that patent litigation insurance could encourage use of the patent system by SMEs. After consulting on this subject, it concluded that a compulsory system would be necessary in order to make underwriting viable at acceptable cost. However large companies with a global patent litigation budget would be excluded as would some high risk categories, including any patent which had been opposed.

The Federation and other bodies commented that the proposals would approximately double renewal fees and included exclusion which would have meant many SMEs would not in fact have received the cover they expected. The Commission seems to have accepted that the proposed scheme was unworkable, but continues to seek an insurance-based solution to litigation costs for small patentees.

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Criminal Sanctions Directive : *See Trade Marks*

London Agreement on Translations

As noted above, this agreement would greatly reduce translation costs for patents granted by the EPO, but requires ratification by France to come into force. The French constitutional court has ruled that it

is not unconstitutional, but political action is still required to achieve ratification. It remains the Federation objective that the Agreement should soon enter into force.

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4. European Patent Office Matters

The Council welcomed Alison Brimelow (the next President of the EPO from July 2007) to its January meeting and representatives of examination and IT (EPOline®) areas attended the October 2006 meeting of the Patents Committee. Both meetings were very constructive and hopefully mutually beneficial.

The revised European Patent Convention, EPC2000, is expected to come into force in December 2007 and the opportunity has been taken to revise and renumber the rules incorporating the numerous changes since 1978. The Federation commented extensively on the

revised rules, but with only limited success.

The office proposed that industry should contribute start-up funds to translate Chinese patents not filed elsewhere into English. Contributions would be credited against future fees in some ill-defined way. Whilst we welcome the initiative to provide manual translations in advance of the development of machine translation systems, we believe it is for the EPO and/or national governments to fund such work, preferably in conjunction with the US Patent and Trade Mark Office.

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5. International Issues

Harmonisation of global patent law

With continued deadlock over substantive law in WIPO, the so-called B+ countries (including EPC member states, Japan, US and other developed market economy countries such as Canada, Australia, New Zealand) continue to discuss a limited package including first-to-file and grace periods. We believe that harmonisation is not an objective in its own right and should be pursued only if the result is an objectively better system.

On grace periods the current proposal is for a 12-month grace period in advance of the priority date. Hence information published by the applicant, or by someone who derived it from him, up to 30 months before the publication of the corresponding patent application, would not count as prior art. We have made it clear that we consider that this creates unacceptable uncertainty for potential competitors and may open

the possibility of tactical use of the grace period. We believe any grace period should be a fall-back, should not be more than six months ahead of the filing date, should be subject to a declaration concerning publications to be graced, mandatory third party rights for activities started in or before the grace period and other restrictions.

The Federation has also expressed concern at other parts of the limited package, such as the whole content of unpublished applications to count against inventive step as well as novelty and eliminating the possibility of self collision in relation to later filed applications.

At present, it is not clear whether any agreement will be reached in the B+ group.

Meanwhile in the US a new patent reform bill has been introduced into

both houses of congress and includes the change to "first inventor to file". Also, US industry has recognised that the current Group B+ proposal goes beyond current grace period rules in the US.

Hence the outcome is still unclear, but governments are anxious to reach

agreement, possibly to facilitate mutual recognition of examination results.

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**Trilateral
(Europe/Japan/US Discussions)**

The Patent Prosecution Highway was proposed by the Japanese Patent Office (JPO) as an alternative to the PCT. This did not find much support from other national patent offices or industry. However, the original concept is now being developed through bilateral agreements between the JPO and the USPTO and the EPO providing for accelerated examination of a patent application on submission of search and examination results from the other

office. It is too early to assess the possible value of such a scheme, but clearly it is limited by differences in substantive law.

A related proposal for "One Search" would require the Office of First Filing to conduct a search against the requirements of all offices. However it appears that supplementary searches would still be needed at least for co-pending applications and to allow for any changes to claims so it is not clear that this proposal adds much to the PCT International Search.

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PCT Supplementary Searches

WIPO is pressing ahead with proposals to offer optional supplementary searches by international search authorities (ISAs) additional to the main authority for the application within the 30-month international phase. This will probably be a sequential search effectively topping up the original PCT search. The JPO fear this will lead to a reduction in standard for offices searching foreign

language documents especially Japanese.

The Federation supports the WIPO proposals, but in view of the evidence that it has that different authorities produce markedly different search results from nominally identical search data bases, it would favour an option whereby independent searches would be carried out by different ISAs.

REPORTS, REVIEWS & CONSULTATION

1. Gowers Review

Many of the articles in this edition of *Trends & Events* have referred to the Gowers recommendations; a complete list of recommendations

and the Federation position on each of those recommendations is available at www.tmpdf.org.uk

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2. UK Intellectual Property Office corporate plan 2007

The Plan, published on 29th March 2007, is, perhaps, outgoing Comptroller, Ron Marchant's, valedictory. It sets out the Office's business model for the next 1, 3 and 10 years, post the Gowers Review and builds on the earlier model "A Patent Office for the 21st Century. Ian Fletcher became the new Comptroller from April 2007.

A fees review, put on hold last year, pending Gowers recommendations, will be open for consultation in the summer with implementation in April 2008.

Compared with the 2006 Plan, patent examinations are expected to be down by around 4%, trade mark applications are expected to increase by about 12% and design applications are expected to remain steady.

Total income/expenditure is projected to rise from £57.5m/£52.1m to £62.4m/£57.9m in 2011/2012.

Whilst a more transparent internal accounting system is promised for the future, it is not clear that this will be openly available, since the Plan does not break down the figures. By inference, the income from renewal fees arising from patents granted by the European Patent Office and designating the UK will be absorbed into the accounts - but the indication is that lower patent renewal fees are envisaged. Of course, less expenditure will be incurred in processing trade mark applications following withdrawal of examination. The Plan is silent on the new trade mark regime other than indicating that a new Programme is under discussion.

The Office plans to continue to move away from an exclusive concern with the granting of strong IP rights by increasing the availability of commercial search services, opinion work, mediation and alternative dispute resolution, primary and secondary school projects, encouraging the understanding of Trading Standards Officers and the public of the consequences of the fakes market, giving assistance both to SMEs and to developing countries in Africa and providing £1m funding for the projected Standing Advisory Body on Intellectual Property. A £.5m fund will be available for IP research.

Internally, a new search engine solution is promised, though it is not clear as to whether it is to assist navigating the new website or for effecting patent, trade mark or design searches - which seem to be falling behind available technology. The project to make patent application files available on-line is said to have encountered a copyright problem - though it is recollected that a seemingly similar problem was raised and resolved during discussions prior to the Copyright, Designs and Patents Act 1988.

The possibility of sharing services such as financial and information technology with other branches of government has been considered and rejected other than, perhaps, integrating the human resources activity into that of the DTI - even though a new HR strategy was implemented in 2006. One of the targets is to reduce the average number of days of absence from 9 to 8.

New rules for patent litigation, put on hold pending the report of the Gowers Review, will be introduced following consultation.

A full test of the Business Continuity Plan will be undertaken early in the year.

There is an appreciation that the European Project has replaced purely national markets and that it is the Office's task to encourage and facilitate expansion of British business into European markets by ensuring that both the Office for Harmonisation in the Internal Market and the EPO must provide effective and accessible services and that business knows how to use them. Whilst the translation and litigation problems are mentioned, they are not explained and indeed the translation problem is rather misleadingly referred to as the costs of translation rather than the initiative to remove the need for them other than in litigation situations. Improving Europe-wide litigation and enforcement and the introduction of

a single Community Patent are still medium term aims.

The Office is contributing to the Office of Science and Innovation objectives of promoting effective transfer of knowledge and to an on-going review of policies relating to science and innovation across government due to be published in Summer 2007. The possibility of providing IP analytical and auditing services is being explored as well as a guide for business to business IP licensing. Fast track granting of rights is envisaged as well as community review of patent examination.

It is proposed to clarify the research exception in the Patents Act 1977 to facilitate research and education as identified by the Gowers Review.

A new Customer Relationship Management Unit is to be established to best support the business of the Office.

TRADE MARKS

1. UK

Similar Company Names

Our report on this topic last year ended with our exchange of correspondence with the DTI, which appeared not to understand (or to want to understand ?) our concerns. However, we were at least offered the opportunity of a face-to-face meeting.

Readers will recall that our main concern was with Clause 70(4) of the Company Law Reform Bill. Clause 70(1) seemed to offer much of the protection which we had been looking for - only for sub-section 4 to take it all away again.

The meeting with the Assistant Director and her deputy on the Company Law Reform Bill team took place on 4th May 2006. It was a frustrating affair. The DTI stuck to its line that rights owners already had sufficient remedies to tackle new company names that were confusingly similar to their own names and trade marks. We pointed out that these were all post-event remedies and that what we were looking for was a fair hearing before the decision was taken whether to put the new name on the Register of Company Names. We were stonewalled on this and given no explanation, despite repeated requests, why our wish could not be accommodated.

Subsequently, a further exchange of correspondence with the DTI elicited a response which appeared to show that the Government was relying on the effects of the forthcoming Unfair Trade Practices Directive - which, as we pointed out, was another post-registration remedy, as well as being completely untested.

However, during the course of the meeting it had gradually become evident that an argument based on the adoption of names which were prejudicial to the public good might just succeed. Accordingly, immediately after the meeting, a rapid drafting session took place in the public foyer of 1 Victoria Street. We proposed that Clause 70(5) should be amended by the addition of:

Enterprise Act Part 9

The *Trends & Events 2005-2006* article on this issue ended with the DTI's proposed changes to the disclosure requirements under Part 9 of the Act. Industry was in broad agreement with Option 4 of the DTI's proposals, and these were duly incorporated into the Companies Bill, with some amendments.

“or (ii) if the activities of the company using the registered name would be likely to deceive members of the public or to cause loss or damage to persons dealing with the company.”

Through the good offices of the CBI, this amendment was tabled at a meeting of the House Of Commons' Standing Committee D in June, and received good support from at least a couple of members of the Opposition.

Unfortunately, this proved insufficient and the Bill, un-amended in this respect, duly became the Companies Act 2006. After more than ten years of work on this issue by the Federation, this was particularly disappointing, but it does now seem that the game is up.

The only vague hope is for a slight adjustment to the list of characters and words which, if included in a proposed name, are deemed not to make it different from an existing registered name. The Government is currently consulting on this and we have naturally given a positive response to its questions. Whilst this list, if adopted, will undoubtedly help to ease the problem, the plain fact is that for the future member companies are unfortunately not much further forward on this issue than they were ten years ago.

However, these amendments caused concern, resulting as they did in a power which seemed much wider than necessary to deal with the infringement of IP rights. Industry was concerned that an overly-intrusive power could undermine business confidence in the Enterprise Act regime, vital to its working. The CBI in particular took a forthright stand,

which was wholly endorsed by the Federation.

During the Commons Committee stage in July, the CBI proposed an amendment to allow disclosure of information for overseas IP proceedings. The Government took up the amendment and consulted upon it in December. The consultation proposed a draft Statutory Instrument in order to implement the measure; the Federation agreed with the CBI

that while this was acceptable, the continued wide powers were not.

As a result of the consultation, a second draft Statutory Instrument was produced, and again comments were invited. At the time of writing, the consultation period has just ended. Assuming only minor changes, the plan is for the SI to be introduced into the Commons for the new session following the summer recess.

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Abolition of Examination on Relative Grounds in the UK

In February 2006 the Trade Marks Registry had published its consultation paper on the future of examination in the UK, entitled 'Relative Grounds for Refusal - The Way Forward'.

The paper contained five options, of which the first three were essentially non-starters. The real choice was between Options 4 and 5.

Option 4 proposed that the Registry would conduct a search of the Register for conflicting marks and notify the applicant of any it found. It would then be up to the applicant to decide how to proceed. This was stated to be the Registry's preferred option.

Option 5 added the refinement of a notification to the owner(s) of the earlier mark(s). This was the option that was most closely aligned with the Community Trade Mark system, which was, after all, the main driver for the change in the examination regime in the UK.

Whilst the Federation backed the Registry on Option 4, as the year went on it became clear that the UK profession, dominated by private practice, favoured Option 5. In August, the outcome of the

consultation was published, which confirmed that the Registry had been persuaded that Option 5 was the way to go. It said that implementation had been set for October 2007.

In the meantime, it began to consult on the necessary rule changes, and particularly with regard to the level of fees payable by holders of CTMs and International marks designating the Community as a whole - the so-called 'opt-in' fee. This fee will not be sought from holders of UK registrations and International marks which specifically designate the UK. The Federation did have some reservations in principle about the justification and need for such a fee, and/or the difference of approach as between the two types of holder, not least because the majority of its members are companies which trade throughout the EC (and beyond) and which therefore have a proportionately higher percentage of CTMs in their portfolios than many other UK trade mark owners.

However, the Federation has no particular problem with the level of the fee that has been proposed - £200 per mark for 10 years. It equates to the registration renewal process. As Federation members are large companies, it seems unlikely that this

figure will prove to be a factor which influences how many of its trade marks a company may wish to have subject to notification. As is pointed out in the Regulatory Impact Assessment, it amortizes to a cost of £20 p.a. per mark.

At any rate, we don't see anyone proposing that the figure should be any higher. There is perhaps an argument that it could be lower, given that UK-IPO is required only to cover its costs from the income it receives from fees - not to make a

profit, OHIM-style. Given the likely highly-automated procedure the Registry will introduce in order to manage the notification process, it seems to us that £200 per mark may in fact yield a significant profit. But, whatever the level of the fee, it will indeed be instructive to see what level of take-up of the opt-in option there will be amongst holders of CTMs and International marks designating the EC.

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The Gowers Review of Intellectual Property

This comprehensive review of IP in the UK, commissioned by the Chancellor of the Exchequer, was finally published in December. Of the 54 recommendations made, very few related in any way to trade marks - a sure sign that there is not a lot wrong with the existing system !

Perhaps the most surprising (if only because we didn't see it coming) was a recommendation for a 'fast-track' registration procedure. In return for a

file-to-examination period of just 10 days, a higher fee would be payable. The level of that fee will be a matter of fine judgement...

The other noteworthy recommendation was for a change of name of the Patent Office to the 'UK Intellectual Property Office', thus removing a long-standing sore point for purely trade mark practitioners.

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Trade Marks and Unjustified Threats

Section 21 of the Trade Marks Act 1994 was introduced amidst some controversy. Not everyone was convinced there was a need for it. It was an idea borrowed from the law of patents, and at the time there was anecdotal evidence that the same sort of abuse which the measure was designed to combat in relation to patents, was also present in trade mark practice.

Whatever, the measure has been a disaster. As was shown in the *Prince* case, even the most carefully-considered lawyer's letter could amount to a threat, leading to a counterclaim. Many trade mark

practitioners therefore retreated into their shells and pleaded passing off instead, with perhaps only a fleeting and daring reference to Section 21 (4) at the very end of the letter before action. Many recipients of such letters were therefore rather left in the dark about the possibility of a trade mark infringement action.

Following the recommendations of Lord Woolfe - that the parties should be encouraged to put all their cards on the table at the outset - the section was clearly an anomaly. First we became aware that there was concern amongst some members of the judiciary, then the Law Society

sent out a comprehensive questionnaire soliciting the views of interested parties.

This resulted in a paper which was recently (April 2007) discussed in a meeting between the Office of Fair Trading, the UK-IPO and representatives of the UK's principal IP bodies. As a result of the meeting, the UKIPO agreed to review the Law Society report and questionnaire

evidence, and to work with the OFT to draft a supplementary questionnaire to establish whether there is sufficient evidence to justify a change to the threats provision. As there is by no means consensus that the provision should be repealed, UK readers are requested to keep a look-out for this questionnaire, and to contribute their views.

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2. EU

Criminal Sanctions Directive

The draft 'Directive on criminal measures aimed at ensuring the enforcement of IP rights' is an attempt to increase co-operation between member states and to align their criminal legislation more closely, in order to combat counterfeiting and piracy more effectively.

The original draft (2005/0127) of the directive gave rise to great concern because it appeared to have the capability of criminalising everyday IP disputes between rights owners. This was in part due to the use in Article 3 of the terms 'intentional infringement' and 'commercial scale'.

The criterion of 'commercial scale' was borrowed from Article 61 of TRIPS, but appeared to overlook that Article 61 focussed only on counterfeiting and piracy (trade marks and copyright), and did not require criminal sanctions for other forms of IP infringement (patents). Patent owners in particular were concerned that the draft

directive could effectively kill innovation and discourage the testing of patents in a commercial environment.

In April the European Parliament backed an amended version of the draft directive. Much to the relief of the patent community, the amendments do now exclude patent rights, but there remain some concerns, for example, with disputes over interpretation of software licences. The directive continues to limit criminal sanctions to infringements on a commercial scale. The dossier now passes to the European Council for first reading.

However the UK Government (amongst others) questions whether the Commission is competent to legislate in this area (criminal sanctions). The ECJ will rule on the issue in the case of *Commission of European Communities v. Council of European Union* (C-440/05). In the meantime, progress is likely to be stifled.

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OHIM 'British Day' in London

In March we were treated to something of a novelty as the OHIM held its first-ever 'British Day' outside Alicante, appropriately enough in London. Admittedly the inspiration was no doubt that certain of its officers would be attending and/or speaking at the ITMA conference the following day, but never mind - the gesture was appreciated and is to be encouraged. Peter Lawrence candidly admitted that it was becoming increasingly difficult to get people to come to Alicante for the meetings anyway, so perhaps it makes economic sense for the flow of traffic to be reversed.

Secondly, of course, there is continuing consternation amongst OHIM officials that its user satisfaction survey revealed that UK practitioners were the least satisfied of all its customers with its services (well, somebody had to be). The

OHIM Fees

As is widely known, OHIM has been so wildly successful that it is sitting on a veritable cash mountain - some 200 million Euros. According to the CTM Regulation, the Office is supposed to be self-financing only, and to have a balanced budget (!)

At the OHIM 'British Day' in London in March, Peter Lawrence stated that at least 70 million Euros needed to be taken out of income by the end of the year. As a result, all fees were likely to be reduced in order to prevent the surplus at least from getting any bigger. At a later date they would try to figure out what to do about the surplus itself.

OHIM shouldn't lose too much sleep over this: such feedback inevitably reflects a comparison with the performance of the relevant national office, and in the UK we know we are spoiled.

Nevertheless, it seems to us that the OHIM could do more in terms of easing informal communication with its officials. We know we ought not to telephone them, but it should be simpler to find their email addresses.

Communication with the office wasn't the only item on the agenda: other topics explored in-depth included electronic filing, consistency of examination of both applications and classification (particularly in relation to class headings) and - of course - funding, of which see more in the next item.

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Inevitably, some hard-pressed national offices have been eyeing the surplus and calling for a method by which they could access it. They are concerned that a reduction in OHIM fees might have a knock-on effect at their level.

This is to be resisted - not only would it seem to be fundamentally illegal, but also the surplus is a result of fees paid by European trade mark owners, which are not in the business of subsidising national governmental institutions.

In May the EU Council confirmed that the fees for application, registration and renewal should be reduced, and

called upon the Commission to start work on a comprehensive study of the overall functioning of the CTM system

- although, perhaps not surprisingly, there was no specific mention of the surplus...

3. WIPO

Proposed Changes to the Madrid System

In April last year we received a note from the Trade Marks Registry soliciting our views on a proposal by one of the member states of the Madrid Union (which we now know to be Norway) to remove the requirement for an International application to be based on a domestic application or registration. This would remove the need for the application to be filed through an office of origin - it would be filed directly at WIPO. This in turn would mean that the mark would be independent and not subject to central attack on the underlying domestic application/registration.

This proposal seemed to us to be eminently sensible and a way of bringing the Madrid system into the 21st century. Simplification in this way would make it even more of an alternative to the CTM for IP owners in the EU.

On the other hand, depending on which side of the line you happen to be standing, central attack can be helpful in avoiding the need for litigation in multiple jurisdictions.

BusinessEurope (the re-named UNICE), with its continental tradition and long-standing familiarity with the Madrid Agreement, not surprisingly set its face against any revision of Article 9sexies of the Protocol, the so-called 'safeguard clause'. If a review meant choosing between maintaining or repealing the clause, it was clear that repeal would in

practice mean the end of the Agreement.

The principal advantage of the Agreement, according to BusinessEurope, is its fees- they are considerably lower. On the other hand, the clause essentially governs the relationship between countries which are members of both the Agreement and the Protocol, and only 8 countries now remain as members of the Agreement only.

In January, the proponents of change were given renewed hope when a WIPO Working Group recommended that the safeguard clause be amended so that for countries bound by both the Agreement and the Protocol, the provisions of the Protocol should apply, thus reversing the current position. The Working Group also recommended that Norway's proposal be studied in greater depth.

Do we think the repeal proposal is going anywhere ? The existing system is well-entrenched amongst the original signatories to the Agreement. The Johnny-come-lately members of the Protocol only, such as the UK, the US and the EU, are fewer in number. They face a considerable uphill battle to change the majority opinion, and probably have no great stomach for the fight. It seems to us that the safeguard clause, albeit in its amended form, is probably safe for a few years yet.

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4. Trade mark cases

A Special Effect

Phew - what a relief! In *Special Effects Limited v. L'Oreal* (2006), the Chancellor of the High Court had rocked the profession by ruling that a party which had filed a previous, unsuccessful opposition in the UK Trade Marks Registry was estopped from launching a subsequent invalidity attack on the same grounds.

This meant that trade mark owners wishing to make a formal challenge now had to consider very carefully whether to file opposition (i.e. before registration) or to apply for invalidity (post-registration) - you could no longer have two bites at the cherry. Further, oppositions had traditionally been regarded - rightly or wrongly - as somehow less formal than High Court proceedings. This had changed to a certain extent with the Registry's renewed emphasis on pleadings a couple of years back, but now, following *Special Effects*, a party had to contemplate pleadings and evidence that would pass muster in

an appeal to the High Court. Just as the number of oppositions seemed set to rise, as a result of the abolition of relative grounds examination by the Trade Marks Registry, so too the cost of filing an opposition also seemed set to rise, since it was now more likely that a party would seek to involve counsel when contemplating an opposition.

Thank goodness then for the deep pockets of L'Oreal, which took the matter to the Court of Appeal. The court overturned the Chancellor's decision, holding that opposition decisions of the Trade Marks Registry do not have binding effect. Neither cause of action nor issue estoppel were applicable in opposition proceedings, and nor was it an abuse of process to rely on grounds in invalidity proceedings which either were or could have been used in opposition proceedings.

As you were, then.

Bubbles

Bubbles feature prominently in the long-running dispute between the phone companies O2 and Hutchinson 3G regarding the latter's comparative advertisement on TV. Television being essentially a visual medium, H3G's advertisement didn't just refer to O2 by name (in the voiceover), but also featured O2's famous rising bubble streams against a blue background - which O2 had registered as a trade mark.

It's a complicated case and there are (or were) many different aspects to the dispute between the two companies, but the main point of interest for trade mark lawyers is whether or not it was legitimate for

H3G to use O2's visual trade mark or logo in its advertisement, in addition to the plain word reference to O2 in the voiceover.

We had thought that this issue was well settled by the line of cases referred to by O2 in its claim/appeal, particularly the *BMW* case C-16/03 (1999). In that case, Deenik, a BMW garage that was not part of BMW's authorised dealer network, not only described itself as a BMW specialist but also used the company's blue-and-white propeller logo. It was held that whilst use of the BMW acronym was acceptable, because it was necessary in order to inform the

public of the nature of the service on offer, it was unacceptable, because it was unnecessary, to use the BMW logo. Part of O2's case was that the TV advertisement could have worked perfectly well by reference only to O2 in the voiceover (and perhaps also on screen in plain text?), and that it was not necessary to use O2's rising bubble streams. (The defence of necessity arises in Article 6(1) (c) of the Trade Marks Directive 1989/104).

In the Court of Appeal, Jacob LJ acknowledged that 'the question deep down involves a decision based on the philosophy of how competitive the law allows European industry to be.' He therefore referred three questions to the ECJ, the first being whether the use of a mark for the purposes of a comparison and which does not affect the essential function of the trade mark (to act as an indication of origin - this much had been conceded by O2 in the High Court) is covered by Article 5 (1) of the Directive.

His Lordship offered that in his opinion the answer was 'no'. His view is that since the advertiser is not using the competitor's trade mark to indicate trade origin, there is no need to subject such use to scrutiny according to trade mark law, particularly since the practice is dealt with by the Comparative Advertising Directive 97/55.

With respect to his Lordship, we find this a curious proposition. Comparative advertising perforce deals with trade marks, therefore it would be odd indeed if trade mark law were to be precluded from

Montex v. Diesel

Montex was in the business of making jeans in Poland from various component parts, including labels bearing the trade marks of others,

dealing with it. The defence in Article 6 (1) (c) is permissive: it is available providing that the use is in accordance with honest practice in the relevant field. It does not say that trade mark law should not apply to the situation.

In case the ECJ's answer to the first question should be 'yes', the second question was whether or not the use of the competitor's registered trade mark had to be indispensable in order for the comparative advertisement to work (there does not appear to be any suggestion that the meaning of 'indispensable' is any different from 'necessary'). Again, somewhat surprisingly, his Lordship's opinion was that the answer to that question should be 'no', which we find odd because the word 'necessary' is there in the plain text of Article 6 (1) (c).

Fortunately, we do agree with his Lordship's view on the right answer to the third question: if there is a requirement for indispensability, does that requirement preclude the use of a sign which is confusingly similar to the registered trade mark? The answer is surely 'no': if article 5 refers to both the identical mark and one which is confusingly similar, it cannot be the intention that Article 6 affords a defence to the use of the identical mark but not one which is confusingly similar.

We shall be extremely interested to see how the ECJ answers these questions. We have made our views known to the UK-IPO, in case the UK should decide to intervene at the oral stage of the proceedings in the ECJ.

which had been brought there. In 2000, the German customs authorities intercepted a truckload of jeans bearing the Diesel trade mark. These

jeans were en route from Poland to Ireland and were under seal.

Diesel's problem was that although its trade mark was protected in Germany, it had no such protection in Ireland. Once the counterfeit goods arrived at their destination, Diesel would be powerless to stop them being offered for sale. Hence its application to the German courts for an order prohibiting the transit of the goods through Germany. Montex argued that the mere transit of goods under seal did not amount to trade mark infringement.

Members of the Federation's trade marks committee were somewhat torn on this one. On the one hand, we of course are anxious that we should be able to take action against counterfeit goods, using our trade marks, whenever and wherever we find them. On the other hand, the routes of goods in transit are often complicated and indeed may be largely unknown to the proprietor if it has entrusted its logistics to a third party. When we are asked to confirm that it will be OK to offer for sale goods in a certain country, we need only to investigate the trade mark situation in that country. It would be onerous and impractical indeed to have to enquire as to the exact route to be taken and the trade mark position in the various countries through which the goods will pass on their way to their destination from the point of manufacture.

In this case, the ECJ held that Diesel could only prohibit the transit of goods under seal if they became subject to an act by a third party which resulted in them being placed on the market in Germany (i.e. if

they became 'diverted' by someone else).

With regard to the country of origin (Poland, in this case), the ECJ said that it was irrelevant whether goods destined for a member state came from an associated state or a third country, or indeed whether the goods had been lawfully manufactured in that country or in infringement of the rights of the trade mark proprietor in that country.

What then of the destination country? In ruling for Montex, the ECJ was careful to limit its finding to the situation in which the destination of goods in transit is another member state where the mark is not protected. This strongly suggests that had Diesel's mark in fact been registered in Ireland, Diesel could have succeeded with its application to seize the goods in transit in Germany, and would not have had to wait until the goods arrived in Ireland.

Similarly, the ECJ's ruling expressly referred to goods placed under the external transit procedure, i.e. under customs seal. Again, this suggests that had the jeans not been under seal, such that it would have been relatively easy for the truckload to be diverted and for the goods to pop up on the market in Germany or another member state, the result would have been different.

Inevitably, there will be a tendency to regard *Montex v. Diesel* as the leading case on the transshipment of counterfeit goods, but it may be that in fact it proves to be something of a blind alley, being limited to its especial facts.

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