

Intellectual property law

Newsletter

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Lovell White Durrant's intellectual property services include advice on the protection and exploitation of rights, drafting and negotiation of licences and assignments (often as part of a corporate acquisition or restructuring) and advice on the subsistence, ownership, validity and infringement of rights. The firm offers a trade mark filing service in France, the Czech Republic, Hong Kong, China, Vietnam, Laos, Myanmar (Burma) and Cambodia, and through its associates in countries around the world.

This Newsletter is written in general terms and its application in specific circumstances will depend on the particular facts. If you would like to follow up any of the issues which it raises, please contact Robert Anderson, Quentin Archer, Michael Golding, Nicholas Macfarlane or Lindy Golding in London (UK and EC), David Latham in New York (USA), Milan Chromecek in Paris (France and EC), Tomas Bettelheim in Prague (Central and Eastern Europe) or Henry Wheare or Stephen Hayward in Hong Kong (Hong Kong, China and Indo-China).

The firm's New York office does not practise US intellectual property law nor does its Tokyo office practise Japanese law. We do however have close connections with firms of US and Japanese lawyers enabling us to obtain advice quickly on questions affecting intellectual property in those countries.

Details of the firm's foreign offices appear in the rear inside cover of this Newsletter.

Patents

When does repair to a product amount to patent infringement?

In *United Wire Ltd v Screen Repair Services (Scotland) Ltd* (*The Times*, 18 August 1999), the Court of Appeal had to consider the point at which the repair of a patented article amounted to infringement of the patent.

The claimant manufactured mesh screens, which consisted of two layers of mesh fixed to a frame. The defendants "repaired" the claimant's screens, which were the subject of a patent, by reconditioning the frames and completely replacing the mesh.

The claimant sued for patent infringement and the case reached the Court of Appeal. The court approved previous case law, which held that the mere repair of a patented article did not amount to infringement of a patent. The Patents Act 1977 defined the activities that would amount to infringement and Aldous LJ, giving the leading judgment, said that the reason why genuine repair of a product did not infringe a patent was that it did not fall within the statutory definition of an infringing act. He did not think that the concept of an implied licence to repair (the basis for non-infringement in some of the older cases) was appropriate to cases under the 1997 Act.

In the current case, however, the Court held that the defendants had not merely repaired the claimant's products, but had manufactured new and infringing articles.

Graham Burnett-Hall

Trade Marks

What are "proper reasons" for non-use of trade mark?

At the end of June, in an application for revocation of a trade mark on the grounds of non-use, the High Court for the first time set out its views as to what could be proper reasons for non-use of a registered mark.

Zeta Especial SA had acquired a trade mark registration from a third party in 1991 and intended to apply it to a new type of lollipop which it was developing. In 1996 Nestlé UK Ltd applied to have the trade mark revoked, on the ground that it had not been used in the UK for at least the previous five years. Zeta accepted that the mark had not been used, but contended that there were proper reasons for the non-use and that the mark should therefore be permitted to remain on the register.

Zeta stated in evidence that the lollipop to which it intended to apply the mark was a new concept, which required the development of a new manufacturing technique. From 1991 to 1997, a number of Zeta's technical team had been dedicated almost exclusively to the project of developing a prototype of the machine to produce the lollipop. Zeta further stated that it anticipated that commercial production would be possible soon, certainly within three years from 1997. It had, it said, spent a great deal of money developing the machine and continued to have a firm intention of launching the product on the market as soon as the production difficulties had been resolved.

Park J found that these were proper reasons for non-use of a registered mark. He considered it significant that Zeta had invested time and money in developing products to be sold under the mark and that, but for technical difficulties outside its control, it would have been able to market the goods earlier.

On this basis, he accepted that the mark, while not having been used, had not been abandoned.

Park J cited with approval the one earlier reported decision on what constituted proper reasons for non-use of a trade mark. In *Invermont Trade Mark [1997] RPC 125*, the hearing officer had stated that the term "proper" was not intended to cover "normal situations or routine difficulties", but rather was intended to cover "abnormal situations in the industry or the market, or even perhaps some temporary but serious disruption affecting the registered proprietor's business."

The judge did not accept Nestlé's argument that, because Zeta could have sold some lollipops, albeit at a loss and in a commercially unsuccessful way, it could not have had proper reasons for not using the marks. He stated, however, that if Zeta were not able to go into commercial production of the product within the next three years, a later challenge to its trade mark might well have a different outcome.

Diane Hamer

Registrability of a company's initials as a trade mark

Arden J recently reiterated the principle that very strong evidence was required to show that a company's initials had become sufficiently distinctive to merit registration as a trade mark

The appellant, Financial Systems Software (UK) Ltd, applied to register the mark "FSS". In opposition proceedings, the Registrar acknowledged that it was in principle possible for an abbreviated company name to become a trade mark. However, this could only happen if the proprietor had taken deliberate steps to achieve it. In this case, most of the

applicant's supporting literature showed use of "FSS" as an abbreviation of the company's name, rather than as a trade mark.

The Registrar therefore allowed the opposition, holding that "FSS" had not become capable, through use, of distinguishing the applicant's services from those of other suppliers at the date of application.

The appellant appealed. Arden J dismissed the appeal. Other companies, she held, might legitimately wish to use the acronym "FSS". Very strong evidence would therefore be required to show that these initials had become so distinctive of the applicant by use that they could properly be registered as a trade mark, and thereby prevent other companies from being able to use a legitimate abbreviation of their name.

Caroline Clarke-Jervoise

Trade mark offences and defence of ignorance

Trade mark owners should welcome the decision in *R v Torbay District Council, ex parte Singh* (*The Times*, 5 July 1999).

A trader had been charged with offences under s 92(1) Trade Marks Act 1994. The prosecution had to demonstrate that the accused, without the proprietor's consent, had "exposed" for sale goods bearing a sign identical to a registered trade mark, and that he did so for gain or in order to cause loss to another.

The trader had bought garments (which were in fact counterfeit) bearing the "Teletubbies" logo, from a supplier who had assured him that they were genuine and did not infringe any registered trade mark. The trader had also regularly checked the Draper's Record, and had seen no mention of the fact that the Teletubbies logo was a registered mark. He therefore sought to rely on the defence under s92(5), namely that he had "believed on reasonable grounds that the use of the sign in the manner in which it was used ... was not an infringement of the registered trade mark." The magistrates accepted his argument and acquitted him. The District Council appealed.

The Divisional Court allowed the appeal. It held that s 92(1) was virtually a strict liability offence, and it was not therefore necessary to prove knowledge of or intent to infringe a registered trade mark. Whilst this might seem harsh, the 1994 Act would not adequately protect consumers and trade mark owners if the prosecution had to show that the trader had known of the registration of the mark.

For the purposes of s 92(5), ignorance could not be a defence. A trader who did not know of, or who was in doubt as to, the existence of a registered trade mark which he was in danger of infringing could check the trade mark register for a definitive answer. Section 92(5) was concerned not with whether the accused knew that the mark had been registered, but with whether he knew that he was infringing a registered mark.

Michael Golding

Can an unincorporated association sue for passing off?

In *Artistic Upholstery Ltd v Art Forma (Furniture) Ltd* (unreported, 29 July 1999), the High Court had to consider whether an unincorporated association could maintain an action in passing off.

The Long Eaton Guild of Furniture Manufacturers was an unincorporated association, which had used the name "Long Point" for 20 years for its twice-yearly Long Point furniture exhibitions. The Guild had expelled the defendant, one of its members, who had then proceeded to register "Long Point" as a trade mark.

The claimant, suing in a representative capacity on behalf of itself and the members of the Guild, sought by way of summary judgment (i) a declaration that the registration was invalid and (ii) an injunction to restrain the defendant from passing off exhibition services as services of the Guild.

Lawrence Collins QC, sitting as a deputy High Court judge, granted the claimant the relief it sought. An unincorporated association, he said, was not a legal person and could not therefore hold property. However, provided the contract under which members joined the Guild allowed this, the

members themselves could hold property. If goodwill, which was the foundation of a claim in passing off, could be regarded as property, then an unincorporated association could, through its members, own goodwill and sue to protect it against passing off.

The deputy judge went on to find that there was no reason in principle why the Guild, which carried on a limited trade and made a profit in the promotion of the Long Point exhibition, should not be able to sue for damage. Exhibitors, confused by the defendant's use of "Long Point", might be deterred from exhibiting at the exhibition, with the result that the Guild would not be reimbursed for money spent on hiring the exhibition centre. It was therefore likely that the Guild would suffer financially, if the defendant were allowed to continue using "Long Point".

Caroline Clarke-Jervoise

Yet another EU ruling on exhaustion of rights

In our previous issue, we reported on the Opinion of the *Advocate General in Sebago Inc and Ancienne Maison Dubois et Fils SA v GB Unic SA*. On 1 July, the European Court of Justice ("ECJ") handed down its decision which, as expected, endorses the Advocate General's Opinion.

By way of reminder, this case concerned shoes sold under the trade marks "DOCKSIDES" and "SEBAGO". GB Unic, a supermarket chain, claimed to have bought a consignment of genuine shoes bearing these trade marks from a country outside the European Economic Area ("EEA"). It then imported the shoes into the Benelux, where it put them on sale. Sebago and its authorised distributors sued for trade mark infringement.

In the earlier *Silhouette* decision (see our September 1998 issue), the ECJ had already held that the principle of exhaustion of rights only applied to goods placed on the market in the EEA by or with the consent of the trade mark proprietor. The trade mark proprietor could therefore, it held, sue for infringement, if genuine goods bearing his trade mark were imported without his consent from outside the EEA.

GB Unic tried to attack this ruling on two grounds. First, it asked the ECJ to reconsider the extent of exhaustion of rights. It argued that exhaustion should be international, ie once goods were placed on the market anywhere in the world with the consent of the proprietor, his rights should be exhausted. Its alternative argument was that, because the goods it was importing were identical to goods which had been placed on the market in the EEA, with the consent of Sebago, then Sebago must have exhausted its rights in relation to all goods of that description, wherever they were first put on the market.

The ECJ rejected both of these arguments and firmly restated the Europe-wide limit of the doctrine of exhaustion of rights.

We explained in our June 1999 issue that Laddie J had criticised the *Silhouette* decision in *Zino Davidoff SA v A & G Imports Ltd*. The latter case has now been referred to the ECJ for a ruling, and we will report on developments as they arise.

Patrick Wheeler

ECJ to resolve Tesco/Levi's grey goods dispute

In our December 1998 issue, we reported on the High Court battle between US jeans manufacturers, Levi Strauss, and retailing giant, Tesco, over the right to sell cut-price, parallel imported jeans. Tesco wanted to sell genuine Levi jeans in the UK. Levi Strauss refused. Tesco bought genuine Levi jeans in the US, where they were sold more cheaply than in the UK. Levi Strauss sued for trade mark infringement.

The High Court has now asked the ECJ to clarify its decision in *Silhouette* (see item above). Tesco argues that the *Silhouette* ruling only applies where the goods in question carry a clear warning by the trade mark owner they must not be sold in any other country. The crucial issue for the ECJ will be the meaning of "consent" for these purposes.

Caroline Clarke-Jervoise

ECJ decision on aural similarity between trade marks

The European Court of Justice has held (*The Times*, 30 June 1999) that the fact that trade marks sound similar may be enough to create a "likelihood of confusion", within the meaning of article 5(1)(b), Community Trade Marks Directive (89/104).

The claimant, Lloyd Schuhfabrik Meyer & Co GmbH, had, since 1927, manufactured and distributed shoes under the brand name "Lloyd". It had registered in Germany a number of marks incorporating the word "Lloyd".

The defendant, Klijsen Handel BV, had been selling shoes in Holland under the trade mark "Loint's" since 1970. Since 1991, it had also been selling "Loint's" shoes in Germany, and now wished to extend its own trade mark registrations to cover Germany.

The claimant sought an order in its national court, restraining the defendant from using the "Loint's" mark for shoes in Germany. It contended that "Loint's" was likely to be confused with "Lloyd", because of the aural similarity between the words and the fact that the marks were used for identical products. It argued that confusion was more likely because "Lloyd" was a particularly distinctive mark, because it (i) contained no descriptive elements, (ii) was extensively recognised by the public and had been used consistently and extensively over a very long period.

The defendant argued essentially that it was graphic, not aural similarity which was relevant under art 5(1)(b). The court sought a preliminary ruling on this from the ECJ.

The ECJ held that it was possible that mere aural similarity between trade marks could create a likelihood of confusion within art 5(1)(b). The more similar the goods or services covered and the more distinctive the earlier mark, the greater the likelihood of confusion. In assessing the extent of a mark's distinctiveness, the ECJ said, it was necessary to make a global assessment of its capacity to identify the goods or services for which it had been registered as originating from a particular undertaking, and thus to distinguish those goods or

services from those of other undertakings. In making that assessment, account should be taken of all relevant factors, in particular its inherent characteristics, for example whether it contained any element descriptive of the goods or services for which it had been registered.

Caroline Clarke-Jervoise

Trade mark application for shape of toaster rejected

Another attempt to register a three-dimensional trade mark has failed, this time in relation to the shape of a toaster. Dualit Ltd had applied to register a trade mark consisting of the shape of two models of toasters. The Registry dismissed the application and upheld an opposition by another toaster manufacturer, Rowlett Catering Appliances Ltd. Dualit appealed.

Lloyd J accepted that the sign consisting of the toaster shape was in principle capable of distinguishing Dualit's goods from those of its competitors.

However, the judge went on to hold that the shape of the toasters was not in fact distinctive of Dualit's products. He held that there was nothing in the shape alone (without the DUALIT word mark) which, apart from evidence of use, made it inherently distinctive as a badge of origin.

Lloyd J did not accept that Dualit had shown that the shape had acquired any distinctive character through use. To back up its contention, Dualit had relied on three types of evidence: evidence of trade representatives, a survey of retail consumers and various press "accolades". The judge dismissed the trade witness evidence. He said that the relevant class of persons to consider was not the trade buyers (whose business was to know the various products on the market) but the public. He also dismissed the press evidence, as it did not go to whether there was significant recognition by customers.

Lloyd J also rejected the customer survey evidence as defective. Not only had the surveyors used leading questions, ie questions designed to encourage speculation, but they had structured the survey so as to filter out those whose financial

means were likely to preclude them from buying Dualit's expensive products in favour of cheaper toasters. The survey had also filtered out those who said that the design of a product was less important to them than its function. In the judge's view, these tended to weigh the survey sample wrongly in favour of those who would be likely to be familiar with and recognise the Dualit product.

Lloyd J therefore dismissed the appeal.

Rachael Bickerton

Copyright

High Court considers lawfulness of reverse-engineering

At the end of June, in *Mars v Teknowledge* (unreported), the High Court heard an interesting case dealing with copyright, databases and the legality of reverse-engineering. The claimant was the leader in the design and manufacture of coin-changing mechanisms. Coin-changing machines contain "discriminators" which determine the denomination and authenticity of coins inserted into the machines. Modern discriminators operate by using sensors consisting of coils which take a series of electrical measurements of a coin as it passes through the discriminator. The signals received from the coils are compared with pre-determined sets of data for valid coins. The pre-determined data are recorded in an electronic memory on a chip.

The claimant had designed a new discriminator which used an "EPROM" which meant that its chip could be re-programmed to contain new data when new coins entered the market. In order to ensure that others did not benefit from this new technology, the claimant had developed a data layout, serial communications protocol and an encryption system.

The defendant reverse-engineered the claimant's new discriminator. The claimant sued for:

- (i) infringement of copyright and database rights; and
- (ii) breach of confidence in relation to the encryption system.

The defendant admitted infringement of copyright but relied on the common law "right to repair" or "spare parts" defence. It denied the breach of confidence claim.

Jacob J upheld the copyright claim but dismissed the breach of confidence claim.

As far as the copyright claim was concerned, the judge acknowledged that s 19(9) of Sch 1 to the Copyright Designs and Patents Act 1988 (which says that nothing in paragraph 19 - which deals with designs - affects the operation of any rule of law preventing or restricting the enforcement of copyright in relation to the design) had the effect of retaining the common law "right to repair" or "spare parts" defence in relation to industrial designs. However, he did not accept the argument that the spare parts defence had been retained in relation to computer programs, database rights and literary copyright as a result of section 171(3) (which provides that nothing in Part I of the CDPA affects any rule of law preventing or restricting the enforcement of copyright on grounds of public interest or otherwise). This was because the provisions in the CDPA had been introduced pursuant to EU Directives requiring member states to align their laws in a specific area.

However, in case he was wrong, the judge went on to consider whether the defendant's activities would fall within the scope of any such defence. He concluded that they would not. It was clear from Lord Hoffmann's judgment in *Canon v Green* (see our June 1997 issue) that the "spare parts" exception was not founded upon any principle of the law of contract or property. It was an expression of an overriding public policy. In this case, the judge concluded, there was no overwhelming public policy reason entitling those who purchased machines with discriminators to use the claimant's copyright and database rights to convert those machines for new coins.

As far as the breach of confidence point was concerned, the question was whether, if a maker had

used a form of encryption, this put a potential reverse engineer on notice that the maker regarded the encrypted information as confidential. The judge held that the encrypted information in the claimant's discriminator did not have the necessary quality of confidence to found an action in breach of confidence. Anyone who bought the machine and who had the skills to de-encrypt could obtain the information said to be confidential. Further, the encrypted information had not been imparted in circumstances importing any obligation of confidence. The mere fact of encryption did not make the encrypted information confidential, nor could anyone who had encrypted something in code necessarily be taken to have received information in confidence.

Lindy Golding

Miscellaneous

Court declines to grant wide injunction in Microsoft case

In *Microsoft Corp v Plato Technology Ltd* (*The Times*, 17 August 1999), the Court of Appeal made clear that a successful claimant will not be entitled to a wide form of injunction as a matter of course.

The claimant owned the intellectual property rights in Windows 95 computer operating software. The defendant had bought five copies of this product from one of its own customers, and had no reason to believe that they were not genuine. The products turned out to be counterfeits.

The claimant sued for infringement of its intellectual property rights, and sought a wide-ranging injunction to restrain further infringement of its intellectual property rights in any of its software products.

The defendant argued that the relief sought was broader than necessary. It relied on *Coflexip SA v Stolt Comex Seaway MS Ltd* (*The Times*, 4 February 1999). In this case, which we considered in our March 1999 issue, Laddie J dismissed the generally held view that a successful patentee was automatically entitled to an injunction restraining the defendant from infringing the patent as a whole. He held that the width of the injunction should depend upon the type of infringement proved or admitted.

Alan Steinfeld QC, sitting as a deputy High Court judge, held that *Coflexip* applied to intellectual property infringement actions generally. He held that the facts of this case merited a more limited form of injunction than that sought. The claimant appealed.

The Court of Appeal dismissed the appeal. The relief granted should, the court held, be tailored to the wrong which had been committed. Where the defendant was an honest trader, who had infringed the claimant's rights inadvertently, the relief against him should be narrower than if it had been granted against a dishonest trader.

Caroline Clarke-Jervoise

New law on contracts and the rights of third parties

The "privity of contract" rule, under which only a party to a contract can enforce its terms, is one of the fundamental concepts of English contract law. This is all set to change with the Contracts (Rights of Third Parties) Bill, which is currently in its final stages in the House of Commons. This new Bill will enable contracting parties to confer upon a third party the right to enforce certain terms of the contract. It will affect all types of businesses, from the provision of insurance to the restructuring companies of businesses.

Lovell White Durrant has prepared a client note, outlining the provisions of the Bill and considering its likely implications. The note also looks at how the Bill may affect particular activities, such as commercial contracts and corporate transactions, and particular industry sectors. Copies can be obtained from Catherine Jardine in our Business Development department. However, if you would like specific advice on the Bill please contact Peter Watts or Beverley Whittaker of our Commercial and Trading Law team.

Beverley Whittaker