

Newsletter
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Intellectual property

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Lovells' Intellectual Property practice advises, in the context of European Union, English, German, French, Italian, Dutch, Polish, Czech, Slovak, Croatian, Russian, Chinese (PRC mainland and Hong Kong), Singaporean, Vietnamese and international law (including WTO issues), in relation to all areas of intellectual property: trade marks, patents, design rights, copyright, and rights arising from IT. We also advise our clients in the fields of entertainment and the arts. Many of our lawyers have a scientific background, enhancing their understanding of the technical and commercial issues involved.

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Hong Kong, Singapore, Indo-China (Vietnam, Cambodia and Laos) and elsewhere in South-East Asia.

This newsletter is written in general terms and its application in specific circumstances will depend on the particular facts.

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Copyright and designs

Refusal to license can be abuse

On 29 April 2004, the European Court of Justice held¹ that the refusal to license copyright to a competitor could amount to abuse of a dominant position in certain circumstances. The decision keeps alive the fear of compulsory licensing of intellectual property rights raised by the *Magill case*².

The parties in the dispute before the ECJ, IMS Health and NDC Health, are involved in the tracking of sales of pharmaceutical and healthcare products. IMS Health provides its customers with German regional sales data on pharmaceutical products formatted according to a structure based on 1,860 or 2,847 "bricks", each of which corresponds to a designated geographical area. IMS had worked with others in the industry to develop this format. The format had been so successful that NDC argued that it was not possible to enter the market for the supply of regional sales data in Germany without having access to the 1860 structure. NDC had tried to enter the market using a different format but had failed. NDC had asked for a paid licence from IMS to use the 1860 structure but IMS refused.

NDC claimed that IMS was in a dominant position by virtue of its copyright over the 1860 structure and that the refusal to grant a licence was an abuse of that dominant position in contravention of Article 82 of the EC Treaty.

The ECJ confirmed that the refusal to grant a licence could amount to an abuse of a dominant

position but only where the following three conditions are met:

- (a) the party requesting the licence intends to offer new products or services not offered by the copyright owner and for which there is a potential customer demand;
- (b) the refusal is not justified by objective considerations; and
- (c) the refusal is such as to reserve to the copyright holder the relevant market by eliminating all competition on that market. In this particular case, the question was whether a refusal to grant access to the 1860 structure would eliminate all competition on the market for the supply of regional pharmaceutical sales data in Germany.

The ECJ made it clear that the refusal to grant a licence may be regarded as abusive only where the party requesting the licence does not plan only to duplicate the goods or services already being offered by the rights holder. However, it may be an abuse to refuse to grant a licence where the party seeking the licence intends to produce new goods or services not offered by the owner of the intellectual property right. This seems at odds with the Commission's decision in the *Microsoft* case (see below) in relation to operating systems, which indicates that there can be an abuse where the competitor intends to duplicate the products offered by the IP rights holder.

The final decision on this case has not yet been given. The ECJ confirmed that the referring Court (Landgericht Frankfurt am Main) was the appropriate forum to determine the questions of fact involved in assessing these conditions. So, for

1. *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG*, Case C-418/01
2. *RTE and ITP v Commission*, Case C-241/91[1995] ECR I-743

instance, the German Court needs to decide whether, as a question of fact, refusal to give access to the 1860 brick structure constitutes an indispensable factor in the supply of German regional sales data for pharmaceutical products.

It remains to be seen whether any appeal against the Commission's decision in the Microsoft case will produce a different analysis with scope for wider compulsory licensing.

Stephen Bennett, London

Ukraine still worst country for piracy

The Office of the US Trade Representative has published its annual review of global intellectual property rights violations. This "Special 301" report cites the Ukraine for a second year as the worst of the USA's trading partners for its continued failure to adopt adequate anti-piracy legislation or to take action against the booming piracy of optical media like CDs, DVDs and CD-ROMs. The USTR warns that this could jeopardise the Ukraine's efforts to join the World Trade Organisation and also means that the \$75 million in sanctions imposed on Ukrainian products on January 2002 will remain in place.

The Ukraine is the only country to be labelled a "priority foreign country" on the USTR's list. Another 16 countries or economies are on the "priority watch list," the next level down. Eleven (Argentina, Bahamas, Brazil, the European Union, India, Indonesia, Lebanon, Philippines, Poland, Russia and Taiwan) were on last year's priority list while the other five (Egypt, Korea, Kuwait, Pakistan and Turkey) have been upgraded from the "watch list", the lowest level, to the priority list.

Thirty three countries have found their way onto the "watch list" for IPR violations (Azerbaijan, Belarus, Bolivia, Bulgaria, Canada, Chile, Colombia, Costa Rica, Croatia, Dominican Republic, Ecuador, Guatemala, Hungary, Israel, Italy, Jamaica, Kazakhstan, Latvia, Lithuania, Malaysia, Mexico, Peru, Poland, Romania, Saudi Arabia, Slovak

Republic, Tajikistan, Thailand, Turkmenistan, Uruguay, Uzbekistan, Venezuela and Vietnam).

China and Paraguay will be subject to "Section 306" monitoring, meaning that the USTR can move directly to the application of trade sanctions against either if monitoring shows a slippage in enforcement of bilateral intellectual property rights agreements.

The USTR report contains some good news, including new legislation to protect optical discs in Poland and the Philippines, and recent moves in Romania to ensure procurement of legitimate software for use in government ministries. Malaysia, Poland and Taiwan are also applauded for having begun to increase their IPR enforcement measures.

Caroline Clarke-Jervoise, London

Patents

Council agrees on Directive on computer-implemented inventions

The first text of the proposed EC Directive on computer-implemented inventions was introduced in February 2002. In the latest round of negotiations, more than two years later, the EU Commission and Competitiveness Council of EU Ministers have reached broad agreement on its terms.

The Directive is intended to harmonise the way in which national patent laws currently deal with computer-implemented inventions. These are defined as inventions "involving the use of a computer, computer network or other programmable apparatus". At present, the fact that there are different national laws throughout the European Union means that patents for such inventions are enforced differently by national courts, which leads to varying levels of protection for the same invention in different Member States.

The Commission's view is that, in order to ensure that investment in innovation is properly protected, inventions should not be excluded from patent protection simply because they use computer software. In the past the Commission has argued that patents should only be granted for inventions which have a "technical effect". Computer programs as such are not included.

Under the Irish presidency of the EU, a compromise text of the Directive was presented which purported to take into account the views of those who felt that the extension of patentability to such inventions would lead to the introduction of broad US-style software patents, the effect of

which would be to hamper competition. The European Parliament was not convinced and amended the text substantially.

The text adopted by the Council includes some of the Parliament's amendments but has moved away from the wide exclusions covering the use of patented technology for interoperability and data handling. This amended text will now go back to the European Parliament for its second reading after the June elections, when it is anticipated that many of the same objections will be raised again. The EU internal market commissioner, Frits Bolkestein, however, is strongly opposed to such amendments and told the Parliament in September 2003, when the proposal was last debated, that if it did not accept the agreed text, the draft Directive would be withdrawn and the Commission's proposals would be implemented by amending the European Patent Convention. Such an option would of course introduce a substantial delay.

Sahira Khwaja, London

Still no agreement on the Community Patent

Over the past years we have charted the progress, or rather non-progress, towards a Community Patent in this newsletter. The idea of a single patent, valid throughout the European Union, was first mooted in 1975. Since then, however, internal squabbling has prevented its becoming a reality and there are now very real signs that the whole project may finally be abandoned.

In March 2003, the Community reached political agreement on the broad outline of the Community

Patent Regulation. Since then, however, progress has been marred by continuing disagreement over language and costs. The Irish presidency of the EU put to the EU Competitiveness Council a compromise proposal to the effect that applications should be permitted in English, French and German but that patent *claims* should be translated into all nineteen official EU languages. However, at its meeting on 17/18 May, Germany objected to the resulting costs of translation and the Council failed to reach the "necessary unanimity" on the compromise.

The EU internal market commissioner, Frits Bolkestein, made his exasperation very clear: "If I were to say to you that I am bitterly disappointed at the Council's failure today to agree the Community Patent Regulation, you might say 'We've heard this before'. And you would unfortunately be right," he said. "With regrettable regularity", he continued, "a small number of Member States have blocked this proposal by giving precedence to narrow, vested interests rather than the broader interests of boosting Europe's competitiveness by fostering research, development and innovation." He added that "if there is no prospect whatsoever of member states agreeing this proposal, there is no point in keeping it on the Council's table and going round in circles".

Further sticking points remain the treatment of patent infringement following mistranslations of claims, the final plans for a central patent court, and the patent searches to be done by national patent offices.

Nicola Dagg, London

Another Dutch Supreme Court decision on IP cross border-jurisdiction

In *Roche v. Primus*³, the Dutch Supreme Court considered the question of whether the court had cross-border jurisdiction over European defendants based on Article 6(1) of the Brussels/Lugano Conventions⁴ and submitted two questions to the

ECJ regarding the interpretation of this article. The Supreme Court thus questioned the so-called 'spider in the web'-doctrine developed by the Court of Appeals in The Hague providing a restrictive interpretation of Article 6(1) in cases of multinational infringement of European patents.⁵

In its recent decision of 19 March 2004, however, the Supreme Court considered the question of whether cross border-action should be allowed in a infringement proceedings involving non-European defendants.⁶ Here, Philips claimed cross-border injunctions in interim relief proceedings for infringement of three of its European patents on recordable CDs, and although the Court of Appeals of The Hague assumed international jurisdiction over Philips' claims against Postech and Princo Taiwan, it did not allow cross-border injunctions.

This was in line with the policy that the patent court had adopted towards cross border-claims in interim relief proceedings since *Medinol v. Cordis*. In *Medinol v Cordis* the Dutch Court of Appeals would not allow Medinol's cross-border claims for patent infringement, and the patent court has since refrained from allowing cross-border injunctions in interim relief proceedings.

Although this position was initially confirmed by the Court of Appeals in the recent case of *Philips v Postech*, the Supreme Court has reversed this decision of the Court of Appeals, making it clear that it is an advocate of cross-border actions in cases where the Dutch court can establish jurisdiction based on any rule of international law concerning jurisdiction, specifically also in interim relief proceedings.⁸

It is however hard to predict the scope of this decision, in view of the questions referred to the ECJ on the interpretation of Art. 6(1) Brussels Convention by the Supreme Court, and the way in which the decision in *Philips v Postech* will actually be adopted by the patent court in The Hague.

3. Supreme Court, 19 December 2003, RVDW 2004/10, JOL 2003,683.

4. These deal with the jurisdiction and the recognition & enforcement of judgments in civil and commercial matters.

5. The Roche v. Primus decision was reported in the February 2004 issue of the Intellectual Property Newsletter

6. Supreme Court 19 March 2004 (C02/110HR), JOL 2004, 149

7. BIE 2003, 531.

8. The Supreme Court thereby disagreeing with the opinion of the ECJ as stated in *Denilauler v Couchet Frères*

Although the rule formulated by the Supreme Court in *Philips v Postech* seems very broad, a number of uncertainties still remain for the lower courts. It seems fair to say, however, that the *Philips v Postech* decision is good news for patentees, afflicted by international infringement by non-European infringers, who wish to file a cross-border action before the Dutch patent court.

Berber Brouwer, Amsterdam

The final chapter in the Coflexip saga

In our April 2004 issue we reported on the Court of Appeal's judgment in the damages inquiry between Coflexip SA and Stolt Comex Seaway MS Ltd.⁹ Coflexip had successfully sued Stolt for patent infringement¹⁰, but before the damages inquiry took place, a third party, Rockwater Ltd, succeeded in arguing that the patent was invalid and should be revoked.

At the damages inquiry, Coflexip sought to argue that, on the basis that the patent was now deemed to have been invalid *ab initio*, it should not have to pay any damages for infringement. The High Court dismissed this argument and Coflexip appealed. The Court of Appeal dismissed the appeal, holding that Stolt could not at the damages inquiry rely on the fact that the patent had been found invalid, since the matter was *res judicata*.

Laddie J had been the judge for both actions at first instance, and in the *Rockwater* case had decided that additional prior art destroyed both the novelty and inventive step of the patent. The Court of Appeal has now reversed this decision. Jacob LJ, giving the leading judgment, held that Laddie J had erred in principle in his approach to the question of obviousness by taking the step-by-step approach. He had also erred in finding the patent to be anticipated.

Jacob LJ also took the opportunity to describe the "man skilled in the art for the purposes of s 3 Patents Act 1977, which states that "An invention shall be

taken to involve an inventive step if it is not obvious to a person skilled in the art". He cited Lord Reid in *Technograph v Mills & Rockley*:¹¹

"... the hypothetical addressee is a skilled technician who is well acquainted with workshop technique and who has carefully read the relevant literature. He is supposed to have an unlimited capacity to assimilate the contents of, it may be, scores of specifications but to be incapable of scintilla of invention. When dealing with obviousness, unlike novelty, it is permissible to make a "mosaic" out of the relevant documents, but it must be a mosaic which can be put together by an unimaginative man with no inventive capacity."

Jacob LJ went on to state that:

"the man can, in appropriate cases, be a team - an assembly of nerds of different basic skills, all unimaginative. But the skilled man is not a complete android, for it is also settled that he will share the common prejudices or conservatism which prevail in the art concerned."

One of the other judges, however (Pill LJ) took steps to distance himself from his fellow judge's description of a man skilled in the art:

"As to the "man skilled in the art", he is described by Jacob LJ as a 'nerd' and as "not a complete android", which suggests that he is part of the way to being an android. A 'nerd' is defined in the Concise Oxford Dictionary (10th Edition 1999) as "a person who lacks social skills or is boringly studious" and an 'android', in the same work, as "(in science fiction) a robot with a human appearance". I hope that those working in this field will not regard "men skilled in the art" as figures from science fiction who lack social skills. Jacob LJ will think me less than supportive of the development of the language of the law but I do respectfully prefer, for its clarity, Lord Reid's terminology..."

Daniel Brook, London

9. unreported, 27 February 2004
10. [1999] 2 All ER 593; [2001] 1 All ER 952

11. [1972] RPC 346 at p.355

"Don't be greedy, it's your sister's turn!"

Section 1(2) of the UK's Patents Act 1977 sets out a non-exhaustive list of methods, works and inventions which are, for policy reasons, not patentable. These include "the presentation of information". In a case recently heard in the Patents Court, Laddie J confirmed¹² that the words set out in the Act should be given their ordinary English meaning.

Mr Townsend, a patent agent, had applied for a patent in respect of a novel form of an advent calendar. He was concerned to avoid the possibility of family disputes caused by family members not sharing equally the chocolates hidden behind the door for each day. In his patent application, he proposed a new type of advent calendar which had additional doors for each day. These could then be labelled so that, say, both a brother and sister got a chocolate. By requiring in claim 1 of his patent application that additional doors for each date were "further identified by an additional indicium" the Patent Office held that the claim was for "presentation of information" and rejected the application. In his appeal, Mr Townsend argued that the words "presentation of information" could mean either "expression of information" (eg display of a door label only in a particular font) or "provision of information" (eg the actual label on the door). He submitted that it was only the "expression of information" that was intended to be excluded by the statute.

Laddie J did not agree and rejected the appeal. Section 1(2) consisted of ordinary English words and, taking the natural and primary meaning of those words, "presentation of information" encompasses the provision as well as the expression of information. If the indicium on the advent calendar door consisted of the words "this is for Paul" or "don't be greedy, it's your sister's turn" then it was conveying and presenting information.

Sahira Khwaja, London

Progress on the Patents Bill

In our February issue, we reported on the publication of the new Patents Bill. Since then, various changes to the Bill have been made as a result of the amendments suggested during the Committee stage.

There are two principal sets of amendments to the Bill. The first concerns a new limited defence available to a patent proprietor in a threats action. Where the patentee has been sued for making unjustified threats, and the patent has been found to be invalid, he will not be liable in the threats action if he can fulfil two conditions. First, he must show that the patent was being infringed and, secondly, that he did not know or have reason to suspect that the patent, or the relevant claim that was being infringed, was invalid when he approached the infringer. The onus will be on the patentee to prove both elements of the defence. In Committee, it was suggested that a provision exempting legal advisers from the threats provisions should be included but, in the end, this proposal was not accepted.

The Bill was also amended so that an inventor may, in appropriate circumstances, have his name and address kept confidential by the Patent Office. The detailed mechanism for confidentiality will be set out in the new version of the Patents Rules to be issued once the Bill receives Royal Assent. The House of Lords was convinced of the need for an additional confidentiality regime, in part because the suggested amendments are consistent with the way in which confidentiality is dealt with in the regulations under the European Patent Convention. However, it is anticipated that users of the Patent Office will be consulted before the new regime is put into place.

The Bill will now pass to the House of Commons. It is not yet known when it will receive Royal Assent.

Sahira Khwaja, London

12. re Townsend's application, unreported, 12 March 2004

IP rights generally

EU Commission adopts licensing block exemption

In our previous issue, we analysed a final draft of the new Technology Transfer Block Exemption. As with the current block exemption, this exempts from EU competition rules certain licensing agreements whose positive effects outweigh their restrictive effects. As we predicted, the new block exemption Regulation¹³ came into force on 1 May 2004. It was accompanied by guidelines explaining how Article 81 of the EU Treaty (which prohibits agreements which may affect trade between Member States, whose object or effect is to prevent, restrict or distort competition within the common market) applies to agreements not covered by the block exemption.

Lovells has produced a note on the new rules. If you would like a copy, please contact Giles Daubeney (giles.daubeney@lovells.com).

Nicola Dagg, London

EU enforcement Directive adopted

The EU Council of Ministers formally adopted the Directive on the enforcement of intellectual and industrial property rights on 26 April 2004, without the need for a second reading by either the Parliament or the Council. Member States must implement the Directive into national law by 30 April 2006 at the latest.

The Directive will require all Member States to apply effective, dissuasive and proportionate remedies and penalties against those engaged in counterfeiting and piracy to create a level playing field for rightholders in the EU. It will mean that, once all Member States have implemented its provisions, they will all have a similar set of measures, procedures and remedies available for rightholders to defend their IP rights if they are infringed.

Despite their inclusion by the EU Commission at early stages of the progress of the Directive, the final version does not include any form of criminal sanctions. The Commission has said that it "will examine the possibility" of proposing measures providing for criminal sanctions in the future and that individual Member States are not prevented from introducing their own criminal sanctions when they adopt the Directive into national law.

Richard Dickinson, London

USA: Microsoft criticises EU policy on IP rights

On 25 March, as has been widely reported, the European Commission imposed a record fine of €497.2 million on Microsoft Corporation for breach of EC competition rules. The Commission found that the US software giant had abused its market power by deliberately restricting interoperability between Windows PCs and non-Microsoft work group servers, and by tying its Windows Media player, a product where it faced competition, with its Windows operating system. This conduct, concluded the Commission, enabled Microsoft to acquire a dominant position in the market for work group server operating systems,

13. Commission Regulation (EC) No 722/2004 of 27 April 2004 (OJ L 123/11)

and risked eliminating competition altogether in that market. In addition, Microsoft's conduct has, it held, weakened competition in the media player market.

In an attempt to restore the conditions of fair competition, the Commission also ordered Microsoft to release potentially IP-protected information to its competitors and to produce a version of its Windows operating system without the Windows Media player.

Microsoft is to appeal to the European Court of Justice against the Commission's decision. In the meantime it has issued a position paper, criticising the Commission for seeking to make new law that "will have an adverse impact on Intellectual property rights and the ability of dominant firms to innovate." It warns that this adverse impact will not be confined to the software industry or to Europe.

In its paper, Microsoft states that the Commission's Decision has "put in bold relief two important questions", namely:

- (a) when does a firm with a dominant position have a legal duty to license its proprietary technology and intellectual property rights to its competitors so that they can incorporate that very same technology into their own directly competing products?
- (b) when is it unlawful for a dominant firm to incorporate new components or features that demonstrably improve its finished product?

Caroline Clarke-Jervoise, London

Trade marks and passing off

Who should decide when a mark has become generic?

The European Court of Justice has given guidance on the relevant class of persons to be canvassed when deciding whether a trade mark has become generic.

Procordia Food AB owns the trade mark "BOSTONGURKA", which is used in Sweden for a preserve consisting of chopped pickled gherkins. Björnekulla Fruktindustrier AB applied to revoke the mark, claiming that it was now regarded as a generic name for chopped pickled gherkins and so could not act as a trade mark. Björnekulla relied on Article 12(2)(a) of the EC Trade Marks Directive (the "Directive"). This provides that a trade mark is liable to revocation if it has become the common name "*in the trade*" for the goods or services for which it was registered. In support of its claim, Björnekulla relied principally on two market research surveys of consumers. Procordia for its part relied on a market research survey of leading operators in the grocery, mass catering and food stall sectors.

The District Court in Sweden held that the relevant circle for establishing whether a trade mark had become generic was the distribution chain level. This had been the subject of the market research carried out by Procordia. Accordingly the Court dismissed Björnekulla's application.

On appeal, the Swedish Court of Appeal ruled that neither the relevant section of the Swedish Law on Trade Marks nor Article 12(2)(a) of the Directive clearly established which circles were relevant in

order to carry out the assessment. However, the court took the view that, if the Swedish law on trade marks were interpreted on the basis of the "travaux préparatoires"¹⁴ of the Directive, the relevant circles would be those who deal with the product commercially. To settle the issue, the court referred the question to the ECJ.

In arguments submitted to the ECJ, Björnekulla and the Italian Government argued that the relevant circle of those "in the trade" was consumers, while Procordia and the Swedish Government contended that it was operators who dealt with the product commercially. The EU Commission took a middle road, stating that the relevant group would be principally consumers but that, in certain circumstances, it might include other groups. When the various Member States had enacted Article 12(2)(a) of the Directive into their national laws, the majority had referred to consumers, end-users and commercial operators. The ECJ decided that this view was correct and was in line with the general objectives of the Directive.

The ECJ emphasised that the essential function of the trade mark is to guarantee the origin of the goods to the consumer or end user. Article 12(2)(a) deals with the situation where the trade mark is no longer capable of fulfilling that function. Although the guarantee of origin is of primary importance to the consumer and/or end-user, it is also relevant to intermediaries who deal with the product commercially. Since the whole aim of the commercialisation process is to ensure that the consumer or end user buys the product, the Court thought that the perception of consumers or end users would play a decisive role. The intermediaries simply try to detect and anticipate the demand for

14. evidence of the intentions of the contracting States as means of interpreting legislation

that product. Accordingly, the relevant circles for assessing whether a trade mark has become generic will principally consist of consumers or end users. Depending on the features of the product market concerned, the views of the commercial intermediaries may also be taken into account.

Sahira Khwaja, London

Can unregistered right challenge validity of later registered right?

Laddie J has recently given guidance¹⁵ on the extent to which a person with prior unregistered trade mark rights may challenge the validity of a later CTM registration.

The defendant had been trading under the name "Compass Logistics International Ltd" and latterly "Compass Logistics Ltd" since May 1995. It offered a range of management consultancy services focused on logistics. The claimant, Compass Publishing BV, was part of a group of companies engaged in business consultancy worldwide. It owned various UK and Community Trade Mark ("CTM") registrations for "COMPASS", including a UK registration which had been filed in 1988 (before the defendant was incorporated) and UK and CTM registrations filed in 1996. The claimant sued for trade mark infringement and the defendant sought to have the registrations revoked as invalid because of the goodwill it had built up in its earlier unregistered trade mark rights and because of the claimant's non-use of its UK marks.

On infringement, Laddie J held that "COMPASS LOGISTICS" was not identical to "COMPASS"; the differences between the two marks were apparent and could be easily identified by members of the public. There was some discussion on whether "logistics" should be disregarded as descriptive of the defendant's services, but the judge held that, even though noticeable differences might have only limited trade mark significance, they should not be

ignored. However, he had no difficulty in deciding that the mark and sign were similar and that there was a likelihood of confusion so that all three marks were infringed, provided they were valid.

In terms of validity, the defendant relied on Article 52(1)(c) of the CTM Regulation¹⁶, which provides that a CTM will be declared invalid where "there is an earlier right as referred to in Article 8(4) and the conditions set out in that paragraph are fulfilled". Those conditions are essentially that the "earlier right" consists of a "non-registered trade mark or another sign" which has been "used in the course of trade of more than mere local significance" since before registration of the CTM, provided that the national law governing the owner of such a mark entitles him to prohibit the use of a subsequent trade mark.

Articles 8(4) and 52(1)(c) refer to proprietors of "unregistered trade mark rights". Although, strictly speaking, "unregistered trade marks" do not exist in English law, the court held that the right to bring an action for passing off would be sufficient for this purpose.

Article 8(4) only operates if the earlier rights are of "more than mere local significance". Given the size of the European Union, it is clear that not all earlier unregistered rights currently subsisting within the EU should be sufficient to invalidate a CTM. Laddie J concluded that this should be assessed from a Community perspective. Any mark which was used in a part, but not all, of the Community, could be described as local. However, the addition of the word "mere" meant that a mark's significance must be assessed in relation to its significance in the market for which it was used. For example, a mark used in relation to wine production would clearly be of more than "mere local significance" if used in the major EC wine production countries, even though those countries constituted a minority of all EC States.

On the facts, Laddie J decided with some reluctance that, while the defendant had built up sufficient goodwill in the mark "COMPASS LOGISTICS" to found an action for passing off before the claimant

15. unreported, 24 March 2004

16. No 40/94 of 20 December 1993

applied for its UK and CTM registrations, its reputation was limited to a small part of the logistics consultancy market in England and Wales. From a Community perspective, its passing off rights were of "mere local significance" so the 1996 CTM was not invalid.

On the evidence of non-use of the UK marks, the judge held that the defendant had failed to make out its case. However, he decided that, on the basis that the defendant had sufficient reputation in its mark in 1996 to bring a passing off action, it should have been able to prevent registration of the 1996 UK mark and on that ground it succeeded.

As an aside, the judge's sympathies clearly lay with the defendant who had carried on business for almost eight years without being in competition with, or indeed aware of, the claimant. There was clearly no confusion in the market place and the judge obviously felt that the burden of any relief sought fell particularly heavily on the defendant, whereas the claimant had suffered no noticeable damage from the defendant's infringement. Laddie J commented that, although the claimant was entitled to enforce its rights against an innocent infringer, this might have a bearing on the timing and scope of any equitable relief sought by the claimant. This is one case where it would have been interesting to see the final order made by the court.

Sahira Khwaja, London

UK: MoD fails to register RAF symbol

The UK Trade Marks Registry has rejected an application by the Ministry of Defence to register the Royal Air Force "roundel" as a trade mark. The RAF adopted the red white and blue target design in the first World War, and since then the device has adorned the wings of RAF military aircraft. The RAF has recently begun to sell products bearing the symbol and sought to register it in respect of a wide-ranging goods, including clothes.

The application was opposed by a number of clothing companies, including Arcadia, owner of many of the UK's largest high street chain stores, one of which (Top Shop) had over the years sold clothes bearing identical or similar symbols. The opponents argued that the MoD should not be able to monopolise a symbol which was not distinctive of goods emanating from the RAF, but which had been widely used by large numbers of companies and individuals for many years. In particular they contended that the target device had since the 1960s been closely associated with the style of dress worn by scooter-driving "Mods", as epitomised by the rock band, "The Who" in their movie, "Quadrophenia".

The Hearing Officer held that the device had indeed been used by a number of different traders to a significant degree as a decorative motif or emblem on articles of clothing since the sixties and that it had in particular been associated since then with the Mods.

Caroline Clarke-Jervoise, London

ECJ rulings on registrability of detergent tablets as shape marks

The European Court of Justice has recently issued some decisions on the registrability of shape marks. Two companies, Proctor & Gamble and Henkel, had filed applications for Community Trade Marks (CTMs) for the shape of their respective washing machine and dish washer detergent tablets.

Several applications were filed by both companies. The various tablets were rectangular in shape and contained combinations of layers and speckles of colour.

The ECJ issued judgments for both companies which are so similar that they can be summarised in this one article. In both cases, the ECJ held that the marks applied for did not themselves

contain any element which gave them "distinctive character" with respect to washing machine and dishwasher preparations.

The requirement for "distinctive character" is set out at Article 7(1)(b) of the CTM Regulation¹⁷. A trade mark must have "distinctive character" to enable a consumer to distinguish between goods (or services) in respect of which registration has been sought, and goods (or services) that have a different trade origin.

The ECJ held that:

1. the public is less likely to use the shape of the product itself to identify the origin of the product. The public is used to recognising word marks and figurative marks but not necessarily trade marks which are indistinguishable from the appearance of the product itself.
2. the way the public perceives a trade mark is influenced by the average consumers level of attention when purchasing a product bearing that mark. In this case, as the products were household consumer goods, the level of attention (to the shape of the tablet) would be low.
3. if the shape mark applied for resembles the shape most likely to be used by the product in question, then there is a greater likelihood of the shape being devoid of distinctive character.

In summary, although current trade mark legislation allows for shape marks to be registered, it should be borne in mind that, where the shape relates to the actual product itself, there will be greater difficulty in convincing the Examiners at OHIM (the office dealing with CTMs) that the mark itself (without any evidence of distinctiveness acquired through use) is distinctive enough to be registered.

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¹⁷. supra

Special focus

International: Remuneration of employees for inventions

Japan

In our previous issue, we reported that, in February, the Tokyo District Court had ordered a chemical company, Nichia, to pay Y20 billion (€150 million) to a former employee in compensation for transferring to it his patent rights to the revolutionary blue light-emitting diode. Shuji Nakamura had developed the diode during his 20 years with Nichia, for which he had received a Y20,000 bonus. By 2001, more than 60% of Nichia's sales revenue was estimated to emanate from the diode and so Dr Nakamura brought an action for compensation under Article 35 of Japan's Patent Law.

Article 35 gives employee inventors the right to a patent on any invention, but grants employers a non-exclusive licence under the patent. The right to apply for a patent may, however, be assigned to the employer. Section 3 of the article gives employees a right to "adequate remuneration" for this and it is the issue of what is adequate or reasonable that is increasingly being tested in the Japanese courts.

In another employee compensation case decided on the previous day this February, the Tokyo High Court ordered the electronics company, Hitachi, to pay ex-employee Seiji Yonezawa a then record Y163 million for his work on optical disc technology. The electronics company had originally paid him Y2.3 million for his work on three patents, forerunners to DVDs. The High Court also made clear that patents filed overseas could be included in calculations to determine the award of compensation to the employee.

Hitachi Metals suffered a similar defeat more recently. The Tokyo District Court had ordered the company to pay ex-researcher Masao Iwata Y11.3 million for his invention, a method that used nitrogen to strengthen the intensity of magnets. Both parties appealed and the Tokyo High Court ruled in favour of the employee, awarding him an extra Y1.35 million. The same court had also decided earlier this year to make an award of Y189 million to a former employee of Ajinomoto who had invented artificial sweetener technology.

The Japanese Diet has proposed changing the law by adding a provision requiring the courts to respect employment contracts or company rules on invention remuneration unless unreasonable. If the company and employee never made an agreement, or the court finds the agreement unreasonable then, under the proposed amendments, the court would be able to set an award based on the employer's profits, the company's contribution to the success of the invention and whether the worker was promoted. The American Chamber of Commerce in Japan, however, is lobbying for more radical reforms to remove the element of unpredictability inherent in the court's discretion in this area.

Europe

Given the topicality of this issue in Japan, we thought it might be helpful to consider the rules on employee compensation in some European countries, namely Germany, France, the United Kingdom and the Netherlands. While many intellectual property laws have been harmonised throughout the European Union, this is an area where substantial differences remain in relation particularly to the issues of whether the employee or the employer has the right to the employee's invention and of the level of remuneration to which an employee is entitled.

As a general rule, the national law which applies to ownership of the invention will normally be the law of the country in which the employee is resident. However, the law governing the employment contract may be relevant to issues of remuneration.

Germany

Germany has the most complex system for dealing with employee invention. The basic principle under German law on employees' inventions is that employee inventors whose employment contracts are governed by German law or who work in Germany initially hold all the rights in their inventions. However, if the employee makes a "Service Invention" he is obliged to report it to the employer. Service Inventions are those inventions which arise from the duties of the employee or are based on the activities and experience of the company. Within four months of receipt of the report of the invention the employer can claim the right to the Service Invention. As soon as the employer exercises this right he is liable to pay "reasonable" compensation to the employee.

The type and amount of compensation is determined by agreement between the employer and employee. If no agreement is reached within a reasonable period after the employer claims the right to the Service Invention, the employer must propose an amount for compensation. If the employee disagrees with that amount, he can file a claim at the Board of Arbitration of the Patent and Trade Mark Office. The Board of Arbitration can make a non-binding proposal to settle the issue. If this is not accepted, the parties can ask the Court to decide the level of compensation.

The assessment of reasonable compensation is usually based on the Directive governing compensation payment for inventions of employees in private services ("the Directive"). This involves calculating the value of the invention and assessing the personal contribution of the employee to the invention. Where there are German and non-German patents, compensation will be assessed on the basis of the worldwide rights.

Under the Directive there are three options which can be used to calculate the value of the invention. In the vast majority of cases the method used is a licence analogy. According to this method the royalty rate which the employer would normally pay if a licence were taken from a third party is used. The value of the invention is this royalty rate multiplied by the net sales of products covered by the invention. Royalty rates of 3% to 5% are typical for mechanical inventions and higher rates apply for pharmaceuticals and biotechnology.

According to the second option, the value of the invention is looked at in terms of the actual benefit to the employer as a result of internal cost savings or its benefit as a defensive patent.

Thirdly, an estimation of the value of the invention may be used. This is used where there is cross-licensing or where there is no actual income received by the employer. However, this alternative is only used as a last resort.

After assessing the value of the invention according to one of these three options, a rate of personal share (being expressed as percentage) is then used to reduce the amount paid to the employee, since Service Inventions involve contributions from the company as well as the employed inventor. Various factors need to be considered, such as the contribution of the company to identifying the problem solved by the invention, the company's part in solving the problem and the qualifications and scope of the duties of the employee.

These factors are weighted and given points according to published guidelines. For example, if the problem was discovered by the Employed Inventor, he may obtain 3 points. Finding the solution may earn him another 3 points and having a university degree may earn 5 points (totalling 11 points). According to the guidelines, 11 points represents a personal share of 25%. Based on this points system, an employee's personal share may range from 2% to 90%.

An example of how an employee's remuneration may be calculated is as follows:

| | |
|--|-------------|
| Net sales of relevant product | €10,000,000 |
| Applied licence rate | 5% |
| Value of the invention | €500,000 |
| Applied personal share | 25% |
| Remuneration to be paid to an employee | €125,000 |

Further reductions may also be made to the amount paid to the employee where the total accumulated annual turnover from products covered by the invention exceeds certain specified amounts.

The system in Germany for compensating employee inventors, while complex, is the most structured in Europe and is generally thought to be the most generous system in Europe to employee inventors. In cases involving some very valuable chemical patents, employee inventors in Germany have received more than half a million Euros.

France

French law concerning employee inventions applies to French and non-French employees whose contracts of employment are governed by French law. French law distinguishes between two types of inventions: Service Inventions and Personal Inventions.

(a) Service Inventions

Service Inventions arise where an employee has a "mission to invent", ie where he either (i) has a specific duty to invent as part of his employment contract, or (ii) has been explicitly entrusted with the task of study and research. The rights in an invention made by an employee in the performance of an employment contract which contains a duty to invent will belong from the beginning to the employer.

However, the employer has an obligation to pay to the employee an additional remuneration for an invention. The amount of additional remuneration is usually determined by the provisions of a collective industry-wide labour agreement, a company agreement or the employment contract. The additional remuneration is usually calculated on the basis of one to three time(s) the monthly wage. Until 2000, employees usually received no more than around €23,000 as remuneration.

It is also possible to state in a contract or in a collective industry-wide agreement that the additional remuneration should be calculated on the basis of the worldwide commercial exploitation of the invention. In such a case, the inventor is entitled to claim for such additional remuneration even long after the date of his invention and the employer is obliged to pay it (even if the employment contract is ended). In major industrial companies, the amount of compensation could be as high as €80,000, depending on the success of the invention.

In a fairly recent case in France an inventor was entitled, due to the provisions of the collective agreement of the pharmaceutical industry, to claim an additional remuneration based on commercial exploitation. The invention related to a new drug for the treatment of cancer and in December 1997 the Paris Court of Appeal awarded the inventor an additional remuneration of €610,000, based on the exploitation of the patents deriving from his invention, the first patent having been filed in 1979.

(b) Personal inventions

The rights to an invention made by an employee who has no "mission to invent" as part of his employment contract are owned by the employee.

However, the employer is entitled to claim rights in the invention (including ownership or a licence) if such an invention (i) is made in the course of employment or, (ii) is based on knowledge, specific technical information or tools owned by the employer or, (iii) relates to the business activity of the employer.

In such a case, the employer should pay a fair price to the inventor for the invention or for a licence. There are no detailed provisions in French law regarding the calculation of such a fair price, only that such calculation should be based on the contributions of the inventor and the employer and on the industrial and commercial utility of the invention.

If the employee's invention is outside the area of business of the company and in a way which is

totally independent of the company, the employer will have no rights to the invention.

An employee who makes either a Service Invention or a Personal invention should give his employer a declaration describing the purpose of the invention, the circumstances in which it was made and he considers it a Service Invention or a Personal Invention. The employer may object to the classification within two months, otherwise the employer will be assumed to have accepted this classification. In the case of a Personal Invention, where the employer is entitled to claim rights in the invention, the employer has a further two months to state which rights he claims.

Any dispute relating to additional remuneration, fair price and the invention's classification should be referred to a joint conciliation board ("Commission Nationale des Inventions de Salariés" - CNIS) or to a Court of First Instance.

United Kingdom

In the United Kingdom, the main issue is usually who owns the invention, rather than whether an employee inventor can obtain additional compensation, above his salary. Employee inventions belong to the employer if the invention is made in the employee's normal course of duties or in the course of duties specifically assigned to him. A term in an employment contract stating that any future inventions will be assigned to the employer is not enforceable.

The Court may award additional compensation:

- where the patent belongs to the employer and the patent is of outstanding benefit to the employer; or
- where the patent belonged or belongs to the employee and has been assigned or exclusively licensed by the employee to the employer for an inadequate benefit.

Additional compensation may be awarded to give the employee a fair share of the benefit from the patent. The court will look at factors such as the employee's pay, whether he received a promotion, and the employee's contribution to the invention.

In the case where the patent belongs to the employer, the employee will only receive additional compensation where the patent is "of outstanding benefit". This is a very high test and means "out of the ordinary", more than substantial. The Court will consider the value of the benefit derived from having the patent rather than the value of the invention generally.

To determine whether the benefit is "outstanding", consideration must be given to the size and nature of employer. This means that something which is of outstanding benefit to a small company with just a few products may not be of outstanding benefit to a large company with many products. The outstanding benefit is to the employer, not any future owner of the patent.

There have been very few cases in the UK on employee claims for additional compensation and, to date, there has never been a judgment in a case in the UK awarding compensation.

The Netherlands

In the Netherlands, it is difficult for an employee inventor to obtain extra remuneration for an invention which is owned by the employer.

The Netherlands Patent Act 1995 states that the employer is entitled to the patent for an invention made by an employee, if the employee was hired to use his special knowledge to make inventions of the same sort as the subject matter of the patent. A similar provision applies to inventions made by trainees.

In addition, the employer will usually include a standard clause in its employment contracts, stating that the employer is entitled to all inventions made by the employee, and sometimes even to inventions made after the termination of the employment contract. As a counterbalance for the benefit of the employee, where the employer is entitled to the patent for an invention created by the employee, there is a statutory provision entitling the employee to fair compensation for not having rights in the patent. However, this provision only applies if the employee's salary or other fee received by the

employee for his work is not deemed to include sufficient compensation.

Two Netherlands Supreme Court decisions relate to the question of whether the employee inventor was entitled to fair compensation. In these decisions, two important general principles were established:

- (a) the agreed salary of the employee inventor will normally be deemed to include compensation for not being granted a patent for his inventions; and
- (b) the fact that the employment contract does not have a specific component to compensate the employee for not being granted a patent is not sufficient on its own to entitle the employee inventor to an extra remuneration.

In summary, in the Netherlands, employee inventors are not typically entitled to compensation above their salaries. However, additional compensation may be given, depending on factors like the position and function of the employee within the organisation of the employer, the employee's salary and other conditions for employment, the contribution of the employee to the invention and the nature and the (financial) importance of the invention to the employer.

Summary

The rights which an employee may have in an invention created in the course of an employee's employment differ substantially, even within the European Union. It is advisable for companies to adopt a cautious approach when considering employee's rights in inventions. The law on employee's rights in inventions may, for example, affect a Japanese company in a number of ways, depending on factors such as:

- whether its own employees or a subsidiary's employees based in Europe have rights in inventions;
- whether the employees of its business partners in Europe may claim rights in inventions; and
- where a Japanese company is purchasing a patent from a company and the employee

inventor was resident in Europe, whether that employee has any rights in the invention covered by the patent.

An important issue to consider is the scope of the duties of the employee, because different rules may apply, depending on whether the invention was made as part of the duties of the employee or outside the duties of the employee. Therefore, it is important to regularly review the employment contracts of employees who might make an invention to ensure that they are accurate and up to date. Companies should keep in mind that terms in contracts which attempt to assign the employee's rights in future inventions may be unenforceable in some countries.

In countries such as Germany and France, where special rules apply to the reporting of an invention, employers must ensure that they comply with the time limits in which to respond to the employee inventor. In some cases, if the employer fails to comply with such time limits, the employer may surrender the right to apply for a patent to the employee.

Sometimes employee claims are filed many years after the invention is made. Employers will want to make sure that they keep documentary evidence, such as employment records, research reports and notebooks, accounts, etc. which show not only the contribution of the employee to an invention, but also the contribution of others employees of the company and the costs incurred by the company of the research surrounding the invention. This may be important in reducing the value of any claim made by an employee.

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