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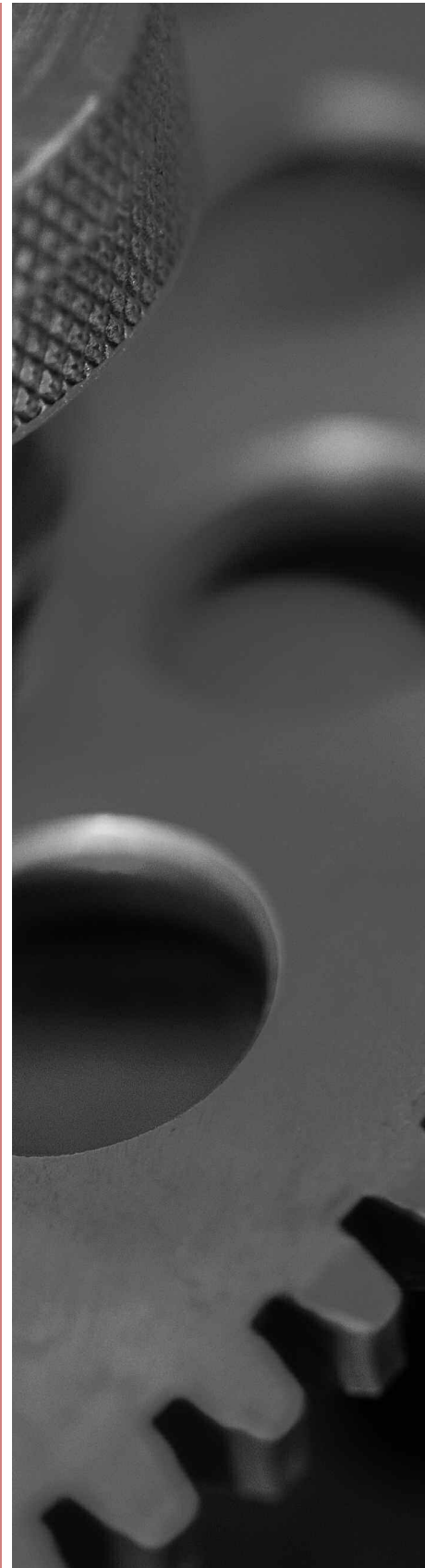
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Industrial designs and utility models in Russia given longer term of protection

Part IV of the Russian Civil Code¹, which came into force on 1 January 2008, replaced all Russian laws covering IP², including the Patent Law³. The most substantial development in patent protection introduced by Part IV is a longer term of protection for utility models and industrial designs: a maximum of 13 years (instead of 8 years) for utility models and 25 years (instead of 15 years) for industrial designs. How this change applies to existing rights has recently been clarified.

Under Part IV the validity term of a patent is 10 years for a utility model and 15 years for an industrial design. This can be extended upon application by the right holder by 3 years for a utility model and 10 years for an industrial design. Previously, the Patent Law provided for a 5 year validity term for a utility model with a possible 3 year extension, and a 10 year validity term for an industrial design with a possible 5 year extension.

One of the issues remaining was: which utility models and industrial designs (apart from those applied for after 1 January 2008) can enjoy such a long term of protection? The wording of the Enactment Law of Part IV⁴ contains only a general rule according to which "rights to any results of intellectual activity which enjoy protection as of the date of the enactment of Part IV of the Code continue being protected in accordance with the rules of Part IV of the Code". Rospatent (the Russian Patent and Trade Mark Office) answered the question in an Information letter given on 26 May 2008.

According to the Information letter, all utility models and industrial designs which were, or might have been, in force on 1 January 2008, enjoy the new validity and extension terms. The new regulation applies to utility models and industrial designs which, at 1 January 2008, were:

- in the original validity term;
- in the extension to the validity term; or
- terminated early and after 1 January 2005 because of the right holder's failure to pay renewal fees when due.

The new regulation does not apply to utility models and industrial designs where the term expired before 1 January 2008.

Although the application of the new regulation is now defined, there are still some practical aspects to be clarified by Rospatent. For example:

- As the state fees due to Rospatent for renewals have not yet been updated, it is not yet certain what fees are due and when. Given this uncertainty, it is advisable for right holders, in order to strengthen their position, to at least inform Rospatent of their intention to seek an extension under the new regulation.
- The Rospatent public database is being updated slowly and currently refers to numerous utility model and industrial design patents as expired, without taking the new regulation into account. This raises two issues. Firstly, one cannot rely on the register to show whether it is now safe to carry out a patented activity. Secondly, the fact that the register indicates that rights have expired may well encourage infringing activity

and rights holders should exercise extra vigilance.

It is fair to say that the new regulation has the potential to make utility model and industrial design patent applications more attractive to domestic and international businesses. Certainly, popularity would be an additional factor to encourage Rospatent to deal in the most efficient manner with outstanding administrative issues.



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1 Civil Code of the Russian Federation (Part IV) of 18 December 2006 No 230-FL.

2 We reported on trade marks in our January 2008 IP Newsletter, and on copyright in our April 2008 IP Newsletter and in this Newsletter (page 16).

3 Patent Law of the Russian Federation of 23 September 1992 No 3517-1.

4 Enactment Law of Part IV of the Civil Code of the Russian Federation of 18 December 2006 No 231-FL.

The US Patent Law Reform Act 2007: a brief appraisal

The US Congress has been considering a comprehensive overhaul of the US patent laws. At least part of the aim of the pending legislation is to harmonise the US patent system with other major patent systems throughout the industrialised world as required by TRIPS⁵ and to reduce the cost and uncertainty of US patent litigation. While the proposed legislation, entitled the Patent Reform Act of 2007, is unlikely to be passed in 2008, some of the pending proposals are non-controversial and may be expected to survive the debate. Once passed, these proposals, such as a switch to the first-inventor-to-file system, will drastically affect the way patent prosecution and litigation are conducted in the US. We look at some selected highlights.

Non-controversial topics

First-inventor-to-file system

Current US patent laws are based on the first-to-invent system. This means that between two patent applicants for the same invention, the one who invented first would prevail after a legal proceeding called "interference". In contrast, Europe and Asia adhere to the first-to-file system. Instead of focusing on the respective invention dates, the first-to-file system focuses on the effective filing dates of the competing patent applications. The "effective filing date" is either the filing date of the application or its priority date. Another characteristic of the first-to-file system is that public disclosure of the invention before the "effective filing date" prevents an applicant from obtaining a patent. This differs from the current US laws, where applicants have a

12 month grace period from the first public disclosure to file for a patent in the US.

As a result of the move to the first-to-file system, costly interference proceedings to determine the earlier inventor will become obsolete. However, one caveat to the "first-to-file" system which US legislators might add is a so-called "derivation proceeding". This proceeding, if initiated in the US Patent Office within a specified period, would allow an inventor to overcome a late filing by proving that an earlier third party applicant derived the invention from the inventor and filed without authorisation.

Wilful infringement

Although damages-related topics present hotly contested issues in the pending legislation, legislators appear to agree on the issue of "wilfulness". The proposed statutory language affects "wilfulness" both procedurally and substantively, making it more difficult for patentees to prove wilfulness.

Procedurally, a patentee will not be allowed to plead, and a court will not determine, wilfulness until infringement, invalidity, and unenforceability issues have been decided.

Substantively, the patentee will have to show by clear and convincing evidence that:

- the patentee gave the infringer sufficient notice to raise an objectively reasonable apprehension of suit
- the notice particularly identified each claim, each accused product (or process), and the relationship between them
- after a reasonable opportunity to investigate, the infringer intentionally and knowingly copied the patented invention.

Combined with the recent decision by the Court of Appeals for the Federal Circuit in *In re Seagate Technology*⁶, which raised the duty of care standard for wilful infringement to "objective recklessness", the proposed statutory changes are expected to make it more difficult for patentees to obtain enhanced damages based on wilfulness.

Controversial topics

As expected, a number of controversial topics still exist in the legislation. These include apportionment of damages, venue selection, inequitable conduct, mandatory prior art searches, and the right to interlocutory appeals. The slightest adjustments in the wording of the statutory language may greatly affect the stakes on all sides. Accordingly, once Congress passes the Patent Reform Act, companies should thoroughly understand its wording and implications on patent prosecution and litigation in the US.



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⁵ Agreement on Trade-related aspects of Intellectual Property Rights, 15 April 1994.

⁶ *In re Seagate Technology*, LLC 497 F. 3d 1360 (Fed. Cir. 2007).

Exhaustion of method patents in the US

For the first time since 1942, the US Supreme Court has issued an opinion related to the doctrine of patent exhaustion; it did so in the case of *Quanta Computer v LG Electronics*⁷. The patent exhaustion doctrine provides that when a patented item is sold by an authorised party and that sale is without restriction, all patent rights to that item are “exhausted”. The doctrine ensures that the purchaser of a patented item obtains not only the right to use the patented item, but also the right to re-sell that item to a third party. The court’s ruling in *Quanta* will affect the interpretation of agreements to licence or sell method patents.

Facts

LG Electronics (LG), a multinational South Korean corporation, had granted a patent licence agreement to Intel Corp, a multinational US computer component manufacturer. In a separate agreement, Intel agreed to give its customers written notice that its licence did not extend to any products made by combining Intel products with non-Intel products. However, the separate agreement also provided that a breach of that agreement would not affect the main licence agreement between Intel and LG.

Under licence from LG, Intel manufactured and sold computer components to Quanta Computer (Quanta), a computer manufacturer based in Taiwan. Despite having received the notice from Intel, however, Quanta went ahead and manufactured computers comprising Intel components combined with non-Intel components.

LG brought a patent infringement action against Quanta alleging that

Quanta infringed LG’s method patents when Quanta assembled its computers by combining Intel components with non-Intel components. Quanta, in its defence, argued that LG’s rights in the patented method had been exhausted because LG had not reserved its rights properly in its agreement with Intel, and therefore Intel was completely authorised to sell the licensed computer components without restriction. In addition, Quanta argued that LG’s method patents had to be exhausted since there was no other reasonable, non-infringing use for the Intel components.

The Supreme Court granted certiorari to decide whether the patent exhaustion doctrine applies to the sale of components of a patented system that must be combined with additional components in order to practice a patented method. That is, does patent exhaustion apply to method patents, and if so, under what circumstances?

The Supreme Court’s decision

First, the court held that the doctrine of patent exhaustion does apply to method patents. The court found that the application of patent exhaustion to method patents was not a new holding at all, but that the “court has repeatedly held that method patents were exhausted by the sale of an item that embodied the method”. As an example, the court cited *Ethyl Gasoline Corp v United States*⁸ and *United States v Unis Lens Corp*⁹. The court specifically rejected arguments put forward by LG proposing that method patents may never be exhausted. The court explained that denying exhaustion of method patents would “seriously undermine the exhaustion doctrine” and allow patent-holders an “end-run around” exhaustion of their patented products.

Second, the sale of components of a patented system may exhaust

a patent directed to practicing a method using the patented system if the components embody the essential features of the patented invention. The court, citing *United States v Unis Lens Co*, explained that if “an incomplete article substantially embodies the patent because the only step necessary to practice the patent is the application of common processes or the addition of standard parts” the sale of the incomplete article could exhaust the method patent.

Third, patent exhaustion is triggered only by an authorised sale by the patent holder or licensee. The court decided that because there were no conditions limiting the re-selling of the patented invention in the actual licence agreement between the parties, the first sale of the incomplete article was an authorised sale for purposes of patent exhaustion.

Implications for patent licences

In light of this decision, the following should be considered when a patent holder negotiates a transaction with a potential licensee or purchaser:

- Are there any reasonable uses for the product or component that would not infringe the patent holder’s method patent or patents?
- If not, and the licensee or purchaser must practise the method patent to be able to use the product or component, does the patent holder wish to retain the rights to collect royalties for its patents from third parties downstream from the potential licensee? Because this could greatly affect the value of the transaction for both parties, the financial implications should be considered in detail.

⁷ *Quanta Computer, Inc v LG Electronics Inc* 2008 U.S. LEXIS 4702; 76 U.S.L.W. 4375; 21 Fla. L. Weekly Fed. S 308.

⁸ *Ethyl Gasoline Corp v United States* 309 U.S. 436, 446, 457 (1940).

⁹ *United States v Unis Lens Corp* 316 U.S. 241 (1942).

- If the patent holder does not wish to exhaust its patent rights, a patent exhaustion or “post-sale” clause containing an express limitation should be negotiated and drafted that expressly restricts the rights of the licensee or purchaser to resell the product or component. This “post-sale” restriction clause should be explicitly stated in the main licence agreement or contract for sale – not in a peripheral agreement – and clearly indicate that both parties agree that any violation of that restriction is deemed to be an unauthorised sale.



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German court grants preliminary injunction despite “invalid” patent

For the first time in history, a German court has awarded a preliminary injunction in circumstances where the patent in suit had previously been revoked by the German Federal Patents Court. In its landmark decision¹⁰, the Appellate Court of Dusseldorf enjoined a generic company from manufacturing and distributing a generic version of the patented anti-schizophrenia medication olanzapine.

Background

The German patent law system divides proceedings concerning the validity of patents from infringement proceedings. While the Federal Patents Court and, in second (and last) instance, the Federal Supreme Court examines the validity of patents, the assessment of infringement cases is assigned to the District Courts, the regional Appellate Courts and, in the final instance, to the Federal Supreme Court. According to the previous case law, if the Federal Patents Court has revoked a patent, infringement proceedings with respect to the patent are stayed until the final decision as to the validity by the Federal Supreme Court. Applications for preliminary injunctions are rejected if the underlying patent has been revoked, because the matter is considered not to be suitable for preliminary injunction proceedings in those circumstances. However, according to the recent decision of the Dusseldorf Appellate Court, this should be handled differently in certain circumstances.

Facts of the case

In the case assessed by the Dusseldorf Appellate Court, the patent holder was a research

based pharmaceutical company which had invested substantial amounts of money and done research for more than 20 years in order to find a new medication for the treatment of schizophrenia, before finally discovering the patented drug substance. The substance’s International Nonproprietary Name (INN) is olanzapine. The corresponding product, Zyprexa®, is one of the best selling anti-schizophrenia medications.

In nullity proceedings initiated by two generic companies, the Federal Patents Court had held the invention to be not novel and thus not patentable. This was despite the fact that the cited prior art document (a test report) did not show or even mention olanzapine. However, in the opinion of the Federal Patents Court, olanzapine could be (in accordance with case law of the Federal Supreme Court) “read between the lines” of the document because it was a “neighbouring” substance to some of the substances examined and referred to in the test report. The patentee appealed the decision, and the case is yet to be heard by the Federal Supreme Court.

Following the first instance revocation of the patent, generic companies started manufacturing and selling competitive olanzapine-containing products. As the patentee strongly believed that the decision of the Federal Patents Court was wrong, and in order to protect one of its most important products, it applied for a preliminary injunction at the Dusseldorf District Court. However, the District Court rejected the application. It stated that, after the decision of the Federal Supreme Court, severe doubts as to the validity of the patent existed. In its view, an infringement court could assess the validity on its own only in exceptional cases, for example if the nullity judgment gave no grounds for the revocation.

¹⁰ 29 May 2008, I-2W 47/07 – unpublished.

The Dusseldorf Appellate Court's judgment

The Appellate Court repealed the District Court's decision and granted the preliminary injunction. It held that in circumstances where the judgment of the Federal Supreme Court was evidently wrong and the infringement court was capable of assessing the technical facts on its own, (that is, without extensive expert evidence), constitutional law demanded it to do so. It pointed out that in such a situation, effective legal protection was required since the term of a patent was limited by statute. The patent holder would be deprived of its rights if it was denied a preliminary injunction or if the proceedings were stayed. It would even be an ultimate deprivation if, as in this case, the appeal decision on the validity could not be expected before the term of the patent ended. The alternative of relying on main proceedings starting only after the Federal Supreme Court had reinstated the patent (in this case not likely until after the patent had expired) was not acceptable.

When examining the nullity decision, the Appellate Court said it could determine "with certainty" that the decision was wrong. The patented substance could not be "read between the lines" of the citation. The court said:

- At the time of the publication, the exact mechanisms of the effect of antipsychotics were widely unknown. Instead, one had to rely on "trial and error". Therefore, predictions of the efficacy of untested substances were hardly possible
- The citation recommended a certain substituent that did not exist in the patented active ingredient. For a citation to be novelty-depriving, there must be a concrete pointer to the patented substance. This was not the case.

Comment

The decision gives hope to a variety of pharmaceutical companies that have suffered from an extreme broad application of the novelty test to chemical patents by the Federal Patents Court. In the future, in cases where the decision of the Federal Patents Court is evidently wrong, technically skilled courts like the Dusseldorf courts will examine more carefully the nullity decision and the cited documents of prior art. This applies to both proceedings for a preliminary injunction and proceedings on the merits. It is fair to say, however, that the "evidently wrong" threshold will be hard (but not impossible) to meet.

Lovells acted for the patentee.



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UK Court of Appeal may follow EPO case law

The English Court of Appeal recently handed down its decision in *Actavis v Merck & Co., Inc.*¹¹ The decision is potentially significant as the Court of Appeal decided that, in patent cases, the UK courts ought to follow the settled view of the European Patent Office (EPO) rather than its own earlier decisions.

The case concerned a second medical use claim. Jacob LJ, giving the judgment of the court, held that a new dosage regime for a known drug is enough to confer novelty on a Swiss form claim and a dosage regime does not necessarily fall foul of the method of treatment exemption. The decision marks a departure from what many had understood the previous UK position to be following the Court of Appeal's decision in *Bristol-Myers Squibb*¹² (*BMS*) in relation to the cancer drug, Taxol. This brings the UK in line with the EPO's approach, and will be welcome news to the innovative pharmaceutical industry.

The patent

Claim 1 of Merck's patent is to: "the use of [finasteride] for the preparation of a medicament for oral administration useful for the treatment of androgenic alopecia in a person and wherein the dosage amount is about 0.05 to 1.0 mg". This form of claim, "use of composition X in the manufacture of a medicament for the treatment of Y", is known as the Swiss type or form (after the practice of the Swiss Patent Office). This form allows claims directed towards a second medical use of a known product and manufacture.

¹¹ 21 May 2008 *Actavis UK Limited v Merck & Co., Inc.* [2008] EWCA Civ 444.

¹² *Bristol-Myers Squibb v Baker Norton* [1999] RPC 253.

Finasteride had previously been proposed for use in treating androgenic alopecia with daily dosages of 5mg or more. Merck successfully resisted an obviousness attack at first instance, and on appeal. Although Jacob LJ commented that usually investigation of different dosing regimes would be standard practice (and so obvious), that was not true for this invention. By the priority date, the skilled addressee would no longer have considered finasteride a suitable lead for the treatment of androgenic alopecia and consequently would not have gone on to consider different dosing regimes.

The two issues raised by Merck on appeal were Warren J's finding of invalidity based on a lack of novelty and on being a method of treatment (both grounds stemming from a reading of the *BMS* decision).

Departing from *BMS*

Actavis argued that the Court of Appeal was bound to follow its decision in *BMS* and could not follow the approach adopted by the EPO (in the well known *Eisai* and *Genentech* decisions¹³). In rejecting this argument, Jacob LJ considered the *BMS* decision in detail.

Novelty – the “different medical condition” rule

The novelty objection in this case was based on an understanding that the *BMS* decision meant that a Swiss form claim must specify a second medical use in the sense of a distinct and different medical condition. Jacob LJ concluded there was no clear ratio in the *BMS* decision and that the Court of Appeal had not set such a test. Accordingly, the court was not bound in this respect; a dosing regime could confer novelty.

Method of treatment

The method of treatment objection also stemmed from the *BMS*

decision. Article 52(4) of the European Patent Convention creates an exception to the patentability, of what would otherwise be inventions, for methods of treatment of the human body. The rationale behind the exception is to ensure that physicians are not fettered in treating their patients. In *BMS*, the Court of Appeal took this exception to preclude dosing regimes from patentability as the claim would then cover what doctors would do in relation to patient treatment. Jacob LJ concluded that *BMS* did indeed preclude such claims, but held that the EPO would not accept that as the correct approach. In his view research into new and better dosage regimes is clearly desirable and there should be a patent reward. Accordingly, Jacob LJ concluded that the EPO's approach should be followed.

The postscript in the decision

There is an interesting postscript in the judgment. Shortly before the judgment was due to be handed down on 9 May 2008, Actavis asked the court to delay. The basis was a recent reference from the EPO Board of Appeal to the Enlarged Board of Appeal in T1319/04 *Kos Life Sciences*. The reference raised three questions addressed on the “different medical condition” rule in the light of EPC 2000 which removes the need to use the Swiss form of claim for claiming second medical uses. It was suggested that the court ought to await the Enlarged Board's decision before giving its judgment. In deciding not to wait, the court extended the time limit for leave to appeal to the House of Lords until 28 days after the Enlarged Board's decision.

Following the EPO

In deciding to depart from the earlier precedent, Jacob LJ held that “this court is free but not bound to depart from the ratio decidendi of its own earlier decision if it is satisfied that the EPO Boards of

Appeal have formed a settled view of European Patent law which is inconsistent with that earlier decision. Generally this court will follow such a settled view”. It remains to be seen how far this will further harmonise UK law with the EPO. The approach to the patentability of computer programs is one area specifically raised in the decision (as it is one where the UK and EPO approaches diverge). It is clear that here the UK courts considered that no “settled view” has yet been reached.

Which courts?

An interesting question stemming from this decision is whether the Court of Appeal is bound to follow the House of Lords or the EPO case law (where the two diverge). Equally, what should the High Court do in relation to its own precedent, Court of Appeal decisions and the House of Lords where it views them as out of step with the EPO?

Jacob LJ discussed the decision at the recent launch seminar of the Institute of Brands and Innovation Law (IBIL) at University College London (UCL). In relation to both of the questions above, Jacob LJ was of the view that the court should follow the EPO. This was expressed as a preference to allowing the case to go on appeal until the EPO was followed. Lord Neuberger, who chaired the seminar, did not appear to disagree.



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¹³ *Eisai* 05/83 [1985] OJ EPO 64 and *Genentech/method of administration of IFG-I* T_1020/03.

UK High Court revokes Aerotel telephone pre-payment patent

Further to our article “High Court clarifies UK approach to computer software patents” in our April 2008 IP Newsletter, we report that the Aerotel “invention” has once again been the subject of litigation in the English courts. In the High Court¹⁴, Aerotel claimed that the defendants, all part of the Wavecrest Group, had infringed its patent. The defendants counterclaimed for the revocation of the patent, arguing that the Court of Appeal had held the patent to be valid in *Aerotel v Telco*¹⁵ as it was not made aware of certain prior art. Judge Fysh re-applied the Court of Appeal’s four step approach to excluded subject matter taking that prior art into account and concluded the patent was invalid.

Aerotel’s claimed “invention” related to a method of making telephone calls from any available telephone (which involved obtaining a special code by pre-payment and inputting that code for verification by a special exchange before inputting the number to be called), and to the hardware for doing so. The basis of the defendants’ counterclaim for revocation was three pronged:

- the “invention” consisted of excluded matter
- the “invention” lacked novelty and/or inventive step having regard to the alternatives to “conventional” calling at the priority date which were previously not considered by the Court of Appeal
- the patent failed to provide the skilled reader with the technical information necessary to put the patent’s conceptual description into effect.

Lack of inventive step

On the question of obviousness, Aerotel said that every piece of prior art was a post-payment method and pre-payment was what made the invention of the patent so different from what had been done before. However, Judge Fysh held that the idea of requiring payment in advance for telephone calls was completely obvious. Additionally, the sequence of operation of the method claimed in the patent was the inevitable consequence of choosing pre-pay as a means for charging for telephone calls.

One element which could have differentiated the patent from prior art was the concept of a “Special Exchange”. However this was not properly defined in the patent and, on hearing evidence from expert witnesses, Judge Fysh found that there was no material difference in hardware between WATS resale lines (the prior art system) and the Special Exchange in the patent. Furthermore, although the WATS resale lines catered for post-payment, Judge Fysh did not consider that the adaption of WATS resale lines to accommodate pre-payment for telephone calls involved an inventive step.

Lack of novelty

Judge Fysh was also dismissive of Aerotel’s argument that the commercial success of the “invention” was evidence of the novelty of the patent. He confirmed that, by itself, commercial success is of very little importance and that there may be a number of other reasons to account for this success.

“Invention” consists of excluded matter

In applying the four step structured approach to excluded matter proposed by the Court of Appeal in *Aerotel v Telco*, Judge Fysh construed the relevant claims narrowly. He said that the

“problems” claimed to be solved by the patent were trivial and identified the “actual contribution” as being no more than expanding the capacity of existing telephone exchanges so as to cope with pre-payment for calls rather than just post-payment. Judge Fysh then held that this “contribution” consisted entirely of excluded matter:

“First, the election to solicit pre-pay clientele is unarguably a ‘business method’. The consequence in ‘computer terms’ forms no part of the invention; it is done with appropriate software. Moreover, even if it did form part of the invention, it would therefore only involve the construction of appropriate computer programs and would also be excluded from patentability.”¹⁶

Insufficiency

Judge Fysh dismissed the defendant’s claim that the patents contained insufficient detail as a tactical point to provide a ‘squeeze’ on obviousness.

Infringement

As regards infringement, Judge Fysh held that had the patent been valid it would have been infringed by WaveCrest’s Calling Card System and GoTalk and Talkback services.



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¹⁴ 14 May 2008 *Aerotel Ltd v Wavecrest Group Enterprises Limited and others* [2008] EWHC No 1180 (Pat).

¹⁵ *Aerotel Ltd v Telco Holdings Ltd* [2007] RPC 7.

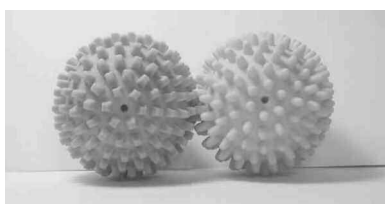
¹⁶ Paragraph 226.

Prior art for Community designs

The English Court of Appeal has clarified the sector to consider when deciding if a piece of prior art is too obscure to affect the validity of a registered Community design or the subsistence of an unregistered Community design. The court held that “the sector concerned” in article 7(1) of the Community Design Regulation¹⁷ (see text box) means the sector of the piece of prior art. The sector is not, for example, defined by the products named in the application/registration of a registered design or the products for which an unregistered design is used.

Background

Green Lane sold spiky plastic balls for use in tumble driers and owned registered Community designs for the balls’ designs. Before Green Lane had applied to register these, PMS was selling in the EU spiky plastic balls as massage balls.



Green Lane's registered Community design



PMS' product

When PMS started selling its balls for other purposes too (including as a laundry ball), Green Lane claimed this infringed the registered designs¹⁸. PMS counterclaimed that the designs were invalid because

Article 7(1) of the Community Design Regulation

For the purpose of applying articles 5 [*novelty*] and 6 [*individual character*], a design shall be deemed to have been made available to the public if it has been published following registration or otherwise, or exhibited, used in trade or otherwise disclosed, before the date referred to in [*article 5 or 6*], except where these events could not reasonably have become known in the normal course of business to the circles specialised in the sector concerned, operating within the Community...

of its prior sale of massage balls. Green Lane said that would be excluded from the prior art by article 7(1) as “the sector concerned” meant the sector of the products named in the registration as those which the design is intended to be incorporated in or applied to (as required by article 36(2)) – in this case “Flatirons and washing, cleaning and drying equipment”. The High Court had considered this question of construction as a preliminary point, and rejected Green Lane’s submissions. The Court of Appeal agreed with the High Court. Although the parties settled Jacob LJ still delivered the court’s judgment because it involved an important question of law.

The Court of Appeal's judgment²⁰

Jacob LJ said that if the sentence was read alone “circles” must be those of the prior art. This meaning was not changed by looking at the sentence in the context of the Regulation as a whole and the Regulation’s aim, recitals and travaux préparatoires²¹. His reasoning and responses to Green Lane’s submissions included the following:

- A Community design protects against use of any design which does not produce on the informed user a different overall impression²². It is not limited to articles for which the design is registered or used.
- The article 36(2) requirement to name products in the application is for administrative and searching purposes. Article 36(6) clearly states that this information shall not affect the scope of

protection – and “scope” must include “validity”. Nothing in the travaux suggested a link between this information and what can be cited as prior art. Also, this information is not available for an unregistered Community design.

- Recital 14, which describes the assessment of individual character, refers to the nature of the product which the design is applied to or incorporated in, and its industrial sector. However, this is what the informed user should consider once the prior art is identified. It is not relevant to identifying the prior art.
- The travaux clearly show that the exception in article 7(1) was included after lobbying by the textile industry, to prevent sellers of counterfeit products forging evidence that the design had already been created. The wording would only achieve this aim if “the sector concerned” was that of the prior art raised by the defendant, as it was circles in that sector who would be in a position to know whether the evidence was genuine.



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¹⁷ Regulation 6/2002/EC.

¹⁸ PMS’ right of prior use under article 22 meant that their sale of massage balls did not infringe.

¹⁹ Article 36(2).

²⁰ 23 April 2008 *Green Lane Products Limited v PMS International Group plc and others* [2008] EWCA Civ 358.

²¹ Only if evidence in the travaux préparatoires clearly and indisputably points to a definite legal intention, can that determine a question of construction: Lord Steyn in *Effort Shipping v Linden Management* [1998] 2 WLR 206.

²² Article 10(1).

Less resistance to shape trade marks in Japan?

The IP High Court in Japan has cancelled a decision of the Japan Patent Office (JPO) on a 3D trade mark. The JPO had decided that the 3D trade mark of Coca-Cola's bottle should not be registered because it did not meet the requirements for registration in article 3 of the Trade Mark Act.

Background

The Coca-Cola Company (Coca-Cola) in 2003 filed in the JPO an application to register a 3D trade mark. The application designated "beer, refreshing beverages", etc in class 32, but was later changed to "cola drinks".



Coca Cola's trade mark application

The JPO examiner refused the application and Coca-Cola filed an appeal in the JPO. However, the JPO dismissed the appeal for the following reasons:

- the 3D trade mark consisted solely of a mark indicating, in a common manner, the shape of goods, packaging etc²³; and
- the 3D trade mark itself had not acquired distinctiveness²⁴.

Coca-Cola filed an action in the IP High Court seeking cancellation of the JPO's decision.

The IP High Court's decision

On 29 May 2008, the IP High Court cancelled the JPO's decision, holding that the 3D trade mark had acquired distinctiveness.

The court said that whether the 3D mark had acquired distinctiveness should be evaluated by reference to a number of factors, including the shape of the mark, the existence of goods with a similar shape, the period and territory of the mark's use, and the goods' sales and scale of advertising.

In this case, the following was found:

- Coca-Cola's cola drinks in returnable bottles were first sold in 1916 in America. The unique and characteristic shape of the bottles was popular. The products were first sold in Japan in 1957, and the shape has remained unchanged.
- In Japan, the sales of those products increased to 2.38 billion bottles in 1971. Although the sales then decreased because of increase in cans and plastic bottles, 96 million are still sold each year in Japan.
- From 1998, about JPY three billion has been spent annually in advertising Coca-Cola's

products, including those in the returnable bottles. Coca-Cola has stressed the feature of the bottle's shape in its advertising in TV, newspapers, magazines, etc.

- Survey evidence was that when people were shown a colourless bottle with a 3D shape the same as the trade mark, between 60% and 80% responded that the bottle was from "Coca-Cola".
- Many trade mark experts use the shape as a typical example of a sign that has acquired distinctiveness.
- There are no other goods with the same characteristics as the shape of the 3D trade mark. If Coca-Cola found in the market bottles with a similar shape, it took legal action to stop their use.
- The shape has been recognised as a "brand symbol".

In summary: Coca-Cola's cola products in returnable bottles have been sold since 1957 in Japan with a very strong sales performance; the bottle's shape has remained unchanged; and Coca-Cola has stressed the feature of the shape in its advertising.

Therefore, the court concluded that, at least by the time of the JPO's decision, the 3D shape of the returnable bottle had developed an extremely strong distinctiveness as a result of its use.

The court said that the shape of the 3D trade mark still had

²³ Article 3(1)(iii) of the Trade Mark Act stipulates that a trade mark may not be registered when it consists solely of a mark indicating, in a common manner, (a) the quality, efficacy, quantity, shape of goods, or (b) the articles to be used in the provision of services or the quality, efficacy, quantity of services, etc. The intention of Article 3(1) is to avoid adverse effects, such as the registration of trade marks which are not distinctive or granting a monopoly over trade marks which anyone may wish to use.

²⁴ Article 3(2) of the Trade Mark Act provides an exception to Article 3(1). Article 3(2) stipulates that a trade mark may be registered if it has acquired distinctiveness as a result of use.

distinctiveness in spite of being used together with the label “Coca-Cola”. The JPO had argued that it is difficult for goods displaying characters, figures or signs to obtain distinctiveness in the 3D shape of the goods. However, the court commented that, even if goods have such characters, figures or signs, the other characteristic parts do not necessarily lack distinctiveness.

Comment

The criteria the IP High Court used in this case to reach its decision were almost the same as the criteria used in the “Mag-Lite” case²⁵. Therefore, the criteria themselves are not new. However, the judgment has provided some useful clarification of these.

This Coca-Cola case, together with the Mag-Lite case, is one of the few cases where the courts in Japan have held that the shape of goods (or their packaging) could be registered as a 3D trade mark.

This decision is good news for those who wish to register 3D trade marks in Japan. Although the JPO have been reluctant to register 3D trade marks, there is now greater hope for trade mark owners that the emerging trend is towards registration.



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French Supreme Court questions ECJ on keywords

The Cour de Cassation (the French Supreme Court) has asked the European Court of Justice (ECJ) questions about the liability of keyword providers for trade mark infringement²⁶. The answers will not only assist the French court to make the final decision in three long-running actions against Google (including the Louis Vuitton case) but they will have much wider implications. For example, Google may have to radically change its current AdWords program throughout the EU. Or the burden may be on a trade mark owner to monitor search results, ask Google to take appropriate action to stop unlawful use of a trade mark and, if it does not, then take legal action.

Background

Search engine providers, such as Google, obtain substantial revenue from their keyword advertising systems. When an internet user uses a keyword as a search term, an advertisement for the keyword buyer, usually containing a link to its website, is displayed with the search results. The keyword buyer pays Google for the keyword itself and then an amount related to the number of times its advertisement is displayed and clicked. Disputes arise when a keyword is the same as, or similar to, another party’s trade mark. The trade mark owner may take action against the search engine provider or the keyword buyer or both.

The *Louis Vuitton v Google* dispute

Google’s keyword service, AdWords, suggests keywords to a potential buyer in response to a description

of the products or services the buyer wishes to advertise. That description may be, for example, a generic word or a brand name. In the Louis Vuitton dispute, AdWords generated keywords such as “fake Louis Vuitton handbags” and “replica Louis Vuitton handbags” in response to the terms “Vuitton” and “Louis Vuitton”. Therefore, a seller of counterfeit Louis Vuitton goods could buy one of the keywords which, when used as a search term, would produce a link to the seller’s website.

Louis Vuitton Malletier claimed Google infringed its trade marks. Google pleaded that it was a mere host and therefore protected under the liability regime of hosting service providers as set out in article 14 of the ECommerce Directive²⁷. Google would only be liable if it was deemed to have actual knowledge of illegal activity and it did not take appropriate action after being notified by the trade mark owner. Both the Paris Court of First Instance and the Paris Court of Appeal held that Google’s activity was not limited to mere hosting. Therefore, both courts held Google liable for trade mark infringement (as well as unfair competition and misleading advertising). Google appealed to the Supreme Court.

The Supreme Court considered it necessary to refer questions to the ECJ in order to decide this case, and also the other two cases before it.

Questions for the ECJ

The Supreme Court’s questions (translated from French) are set out in the textbox overleaf.

The first question was referred only from the Eurochallenge case. It addresses the issue of whether the purchaser of a keyword, containing a mark identical or

25 27 June 2007 IP High Court Case Heisei 18 (Gyo-ke) 10555.

26 20 May 2008 Cour de Cassation, Commercial Chamber, *Google France and Google Inc v Louis Vuitton Malletier, Google France v Viaticum Luteciel (Bourse des Vols), and Google France v Cnrh and others* (Eurochallenge).

27 Directive 2000/31 EC on electronic commerce.

similar to a registered trade mark, which generates a link to a site selling products or services identical or similar to those covered by the third party's trade mark, is a type of "use" of a sign which may infringe the trade mark.

The second and third questions cover the issue of whether a search engine provider's sale of a keyword (containing a mark identical or similar to a registered trade mark) generating a link to a site selling infringing goods, constitutes a type of "use" of a sign which may infringe the trade mark.

The fourth question covers the issue of whether this activity is "hosting" under the ECommerce Directive and therefore will only

infringe after notification by the trade mark owner.

Comment

For the first time, the ECJ will give guidance in the area of keywords and trade mark infringement.

The facts in the Louis Vuitton case only relate to the use of keywords to advertise infringing goods, whereas in the Eurochallenge case the trade mark used as keyword was generating a link towards websites advertising a competitor's services. The ECJ's guidance should, therefore, apply to the liability of the buyer and of the seller of keywords when they are used to advertise infringing goods, competitors' branded

products or services. Regarding the seller, the phrase "make available to" in the second question appears to be broader than the case when the seller actually suggests keywords, and it will be interesting to see if the ECJ makes such a distinction.

The guidance in response to the fourth question is likely to be more generally applicable, whether there is unlawful trade mark infringement or any other tort.



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Questions to the ECJ

1. Does the reservation by an economic operator, by way of a payable referencing contract on the internet, of a keyword which, when entered as a search term, generates the display of a link offering to connect to a site operated by the said operator in order to offer products or services for sale, of a sign reproducing or imitating a trade mark registered by a third party in order to designate similar products or services, without the authorisation of the owner of this trade mark, constitute in itself an infringement of the exclusive rights guaranteed to the latter under article 5 of the of the Trade Marks Directive²⁸?
2. Do article 5(1)(a) and (b) of the Trade Marks Directive and article 9(1)(a) and (b) of the CTM Regulation²⁹ have to be interpreted in the sense that providers of payable sponsored links services who make available to advertisers keywords reproducing or imitating registered trade marks, and who organise, within a referencing contract and based on these keywords, the creation and the display in a privileged manner of promotional links towards sites on which infringing goods are offered, make a use of these trade marks that the trade mark owner is entitled to prohibit?
3. In the case where the trade marks enjoy a reputation, could their owner prohibit such use on the basis of article 5(2) of the Trade Marks Directive and article 9(1)(c) of the CTM Regulation?
4. In the case where such use would not constitute a use that might be prohibited by the trade mark owner pursuant to the Trade Marks Directive and the CTM Regulation, could the payable sponsored links provider be considered as a hosting service provider in the sense of article 14 of the ECommerce Directive³⁰, so that its responsibility might not be questioned before it is informed by the trade mark owner of the unlawful use of the sign by the advertiser?

28 Directive 89/104/EEC.

29 Regulation 40/94/EEC.

30 Directive 2000/31 EC on electronic commerce.

French Supreme Court allows critical trade mark parody

Two distinct chambers of the Cour de Cassation (the French Supreme Court) reached decisions³¹ on the same day in actions by two different companies, Areva (the French Atomic Energy Commission) and Exxon Mobil, against Greenpeace. In both cases the decision was that Greenpeace's use of the company's trade mark in a modified form to convey its criticism of the company did not abuse Greenpeace's right to freedom of speech. In the Exxon Mobil case the court also held that Greenpeace's modification had not tarnished the well known ESSO trade mark.

Background and summary proceedings

The cases began in 2002 when Greenpeace started using the modified trade marks on the French version of its website. Greenpeace's aim was to criticise the alleged environmentally unsound attitude of companies in the energy business. Areva and Exxon Mobil commenced separate summary proceedings for trade mark infringement, and for general tortious liability due to an abuse of freedom of speech which undermined the goodwill developed by the trade mark owner.

It soon became clear that there was no trade mark infringement based on a likelihood of confusion. This was because, even if the registered trade marks and their modified versions were confusingly similar, as the presiding judge in the Paris Court of First Instance stated in the Areva case: "The web surfer [reading the Greenpeace web pages] is not being led to believe that the information offered could originate from the owner of the trade marks or its affiliates".

On appeal, the Court of Appeal of Paris confirmed that no summary remedies were available in the two cases.

Proceedings on the merits and the Supreme Court's decisions

After various decisions at first instance and on appeal, on 8 April 2008 the Supreme Court's First Civil Chamber and Commercial Chamber gave judgments in the Areva case and the Exxon Mobil case respectively.

The Areva case

Areva claimed that, by coupling its registered "A" logo with a shadow in the shape of a skull, Greenpeace intended to make the public associate its brand with death, so undermining the goodwill of Areva and its products and services. Areva also claimed that use of the altered logo to make customers aware of the dangers of nuclear energy amounted to an abuse of freedom of speech. This was because it ignored the fact that Areva also had some non-nuclear businesses, such as cables and wires. It said these actions amounted to general tortious liability of Greenpeace.

The First Civil Chamber of the Supreme Court agreed that Greenpeace's use of the modified Areva trade mark to criticise Areva's business did amount to tortious liability of Greenpeace for wrongly affecting the business. However, the court held that the use did not amount to an abuse of freedom of speech. Therefore, Greenpeace was liable but only under general tortious liability.

The Esso case

Exxon Mobil had demonstrated that its trade mark ESSO was well-known in France. It claimed there was an abuse of freedom of speech, resulting both in the tarnishing (and therefore



infringement) of its well known trade mark and in the general tortious liability of Greenpeace. Exxon Mobil said that Greenpeace's use of modified trade marks to illustrate its criticisms was out of proportion and beyond the scope of what is covered by freedom of speech.

The Commercial Chamber of the Supreme Court held that Greenpeace's use of the modified Esso trade mark did not amount to

³¹ 8 April 2008, Cass civ 1, case no 07-11.251, Cass com case no 06-10.961.

an abuse of the freedom of speech because it was a proportionate means of conveying a polemic message. For the same reason, it did not tarnish the trade mark.

Comment

The Supreme Court appears to have harmonised the practice of French courts in relation to at least some types of trade mark parody. The Supreme Court decisions indicate that if a non-profit making organisation, whose purpose is in the public interest (such as protecting the environment), uses polemic material to attract the French public's attention and convey its message, that is a proportionate way of achieving that purpose. In those circumstances, trade mark parody will not be an abuse of the right to freedom of speech, and nor will it be trade mark infringement. However, it might give rise to general tortious liability.

Under French law parody is an exception to copyright infringement. Therefore, although modifying a logo to create a parody may still in some circumstances infringe trade mark rights, it will never infringe French copyright in the logo.



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ECJ offers some clarity on comparative advertising

The European Court of Justice (ECJ) has given its decision³² on questions from the English Court of Appeal arising from the dispute between O₂ and Hutchison 3G. O₂ claimed that Hutchison's use of moving bubbles in its TV advertising comparing the price of its pay-as-you-go service with O₂'s service infringed its registered trade mark of bubbles. On the face of it the decision would appear to be a victory for 3G, although the outcome is not certain until the Court of Appeal has given its own decision in the case.

There may still be some good news for brand owners wishing to object to comparative advertising in that, contrary to the views of the Court of Appeal³³ and the Advocate General of the ECJ³⁴, they can still (in certain cases) use trade mark infringement proceedings. However, it is now clear that they can only do so if the advertisement does not meet all the conditions under which comparative advertising in the EU is allowed, as set out in the Directive concerning misleading and comparative advertising³⁵ (the Advertising Directive) (see text box).

Infringing use

The ECJ made it clear that use of a trade mark in comparative advertising potentially falls within the scope of the trade mark infringement provisions in article 5 of the Trade Marks Directive³⁶ (see text box). It is "use" of the sign "in the course of trade". It is also use "in relation to goods or services" of the advertiser, even though it is used to identify the trade mark owner's goods or services – but how the ECJ came to this conclusion is not entirely clear.

Article 5(1)(b) and confusion

In the case in issue dealing with similar but not identical marks, the ECJ said that the word "confusion" in article 5(1)(b) of the Trade Marks Directive and in the conditions in the Advertising Directive must be interpreted in the same way. Confusion is assessed in the context of the advertisement as a whole. If a brand owner cannot show the comparative advertising is likely to cause confusion there is no trade mark infringement under article 5(1)(b). But if it does show a likelihood of confusion the advertising will not meet one of the conditions in the Advertising Directive. Although a brand owner will not in some countries have a right of action under national legislation implementing that Directive, it will be able to bring an action for trade mark infringement.

Article 5(2)

The ECJ did not give any specific guidance on the interpretation of the requirements in article 5(2) of the Trade Marks Directive for taking "unfair advantage" of, or being "detrimental" to, the distinctive character or repute of the trade mark and how these interact with the Advertising Directive conditions referring to "unfair advantage" and "discredit" or "denigrate". This point may need to be clarified.

Article 5(1)(a)

Disappointingly, the ECJ answered the question referred in relation only to article 5(1)(b) and not article 5(1)(a) which deals with identical marks and identical goods/services. The uncertainty regarding what is infringing use may need to be revisited in this context.



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Articles 5(1) and 5(2) of the Trade Marks Directive (89/104/EEC)

Emphasis added

1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade –
 - (a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;
 - (b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.
2. Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

Article 4 of the Advertising Directive (2006/114/EC)

Emphasis added

Comparative advertising shall, as far as the comparison is concerned, be permitted when the following conditions are met:

- a) it is not misleading within the meaning of Articles 2(b), 3 and 8(1) of this Directive or Articles 6 and 7 of Directive 2005/29/EC (the “Unfair Commercial Practices Directive”);
- b) it compares goods or services meeting the same needs or intended for the same purpose;
- c) it objectively compares one or more material, relevant, verifiable and representative features of those goods and services, which may include price;
- d) it does not discredit or denigrate the trade marks, trade names, other distinguishing marks, goods, services, activities or circumstances of a competitor;
- e) for products with designation of origin, it relates to each case to products with the same designation;
- f) it does not take unfair advantage of the reputation of a trade mark, trade name or other distinguishing marks of a competitor or of the designation of origin of competing products;
- g) it does not present goods or services as imitations or replicas of goods or services bearing a protected trade mark or trade name;
- h) it does not create confusion among traders, between the advertiser and a competitor or between the advertiser’s trade marks, trade names, other distinguishing marks, goods or services and those of a competitor.

32 12 June 2008 *O₂ Holdings Limited and O₂ (UK) Limited v Hutchison 3G UK Limited* C-533/06.

33 5 December 2006 *O₂ Holdings Limited and O₂ (UK) Limited v Hutchison 3G UK Limited* [2006] EWCA Cir 1656.

34 31 January 2008 *O₂ Holdings Limited and O₂ (UK) Limited v Hutchison 3G UK Limited* C-533/06, reported in our April 2008 IP Newsletter.

35 Directive 2006/114/EC concerning misleading and comparative advertising. This is a codified version of Directive 84/450/EEC as amended.

36 Directive 89/104/EEC.

Russian court recognises website content as a copyright work

The Presidium of the Higher Arbitrazh Court of the Russian Federation has issued a ruling³⁷ in which it stated that content of websites must be recognised as protectable subject matter protected by copyright. This decision is an important step towards providing owners of IP rights better protection against infringement by Russian websites.

Overall, Russian copyright law is recognised as being comparable with the laws of most jurisdictions. Russia is a member of most international copyright treaties and the new part IV of the Russian Civil Code provides a broad and non-exhaustive list of works potentially protectable by copyright.

However, practitioners share the view that successful enforcement of copyright in Russia requires more effort than, for example, enforcement of trade mark rights. The position related to rights in website content has been somewhat unclear.

The INSI case

ZAO INSI (INSI), a company based in the city of Chelyabinsk and the owner of the insi.ru domain name, filed a copyright infringement claim against OOO NPO ASK-5 (ASK), a company based in the city of Stavropol and the owner of the ask-5.ru domain name. INSI argued that elements of its website at insi.ru (such as photos, graphics and colouring) and their juxtaposition were original and were reproduced by ASK on its website at ask-5.ru.

As a result of INSI's cease and desist letter, ASK had removed the infringing content but INSI were claiming a substantial amount of damages.

INSI put forward numerous pieces of evidence of infringing content, and also provided information on the creation of the concept of the original design of the website.

Lower courts held there was no infringement. They ruled that the content of a website was not the subject matter of copyright because the criterion of originality was not met. According to the judges, similarity between websites arose from the content containing identical information and facts.

The Presidium of the Higher Arbitrazh Court reversed those decisions and remanded the case for re-hearing. The Presidium pointed out that the lower courts only analysed the text, and not the design and graphical elements of the website. Importantly, the Presidium concluded that the "content of the website is a complex work of art, whose author enjoys copyright to the selection and compilation of material (which is part of the content). Under Russian copyright law, a complex work is the subject matter of copyright. The fact that certain parts of the content, such as information, may not be protected by copyright, does not deny the protection of the content as a whole object".

Comment

Practitioners greatly welcomed the decision as extending the legal basis for copyright enforcement by IP right holders involved in developing internet content. Examples of substantial copying of website content are common, but this development

should improve the position for those developing original website content.



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³⁷ 22 April 2008 Resolution of the Presidium of the Higher Arbitrazh Court of the Russian Federation No 255/08.

Hong Kong copyright laws to catch up with technology?

The Hong Kong government has issued preliminary proposals to amend its copyright law so as to strengthen the protection of works in the digital environment. It published these in April 2008 after having received and reviewed over 600 responses to its public consultation document issued in December 2006.

The government is expected to consult on the current proposals before putting forward a draft bill before the Legislative Council later this year or early next. We outline some of the current proposals below, though it is likely that copyright owners will push for even stronger laws.

A new right of communication

A new right of communication to the public would be introduced. This would encompass all forms of electronic transmissions so as to minimise the need to amend legislation when new technology arises. There would be criminal sanctions for unauthorised acts only where communication was made:

- for the purpose or in the course of a trade or business; or
- by streaming the copyright work to the recipients and to such an extent that it prejudicially affected the copyright owner.

No criminal sanctions for unauthorised file sharing or downloading

Currently, criminal liability is imposed on those who distribute infringing copies of copyright works in a trade or business context or to such an extent as to prejudicially affect the copyright owner's interests. The government considers that this is

wide enough to catch the distribution of infringing copies by uploading them onto an online service platform or a peer-to-peer (P2P) file sharing network. It believes that this, and the proposal to introduce criminal sanctions associated with the right of communication, offer sufficient protection and there is no need to introduce additional and specific criminal sanctions for P2P file sharing activities. It believes that criminal sanctions should only be imposed on "upstream" infringers. Since there is no criminal liability for the purchase and use of infringing physical copies of copyright works, the government sees no reason why the downloading of infringing copies from the internet should be criminalised.

No alternatives to Norwich Pharmacal orders for now

A major challenge for copyright owners is to identify online infringers. Currently, a copyright owner must apply to the court for a Norwich Pharmacal order to compel an online service provider (OSP) to provide information that allows the copyright owner to identify the infringer. This is often time consuming and costly. An alternative route, akin to the subpoena process in the US' DMCA³⁸, was put forward for comment by the government in its 2006 consultation paper. This proposal is now off the table as a result of reservations expressed, amongst others by the Privacy Commissioner for Personal Data whose view is that the mere need for a quick and inexpensive alternative mechanism to facilitate effective enforcement of civil rights is not a sufficient justification for the invasion of personal data privacy. The government is not at the moment prepared to introduce any alternative which bypasses judicial scrutiny and which may compromise the protection of personal data privacy. However, the government proposes to explore other ways to help copyright owners take civil

actions against online infringements on the basis that any such mechanism would be subject to the court's scrutiny.

Temporary reproduction exemption for OSPs

OSP's would not infringe copyright by temporary reproduction which is transient or incidental in nature, is technically required for the transmission process to function efficiently and does not modify the work. This exemption is intended to cover caching activities. It would only apply to a communication of the copyright work that did not otherwise infringe and would be subject to express prohibitions by the copyright owner or its licensee.

Code of practice for OSPs

The government proposes to facilitate the process of drawing up a code of practice for OSPs by establishing a forum of OSPs, copyright owners and copyright users. The forum will explore the merits of different systems and draw up details for their implementation.

To encourage OSPs to comply with the code of practice, the law would provide that compliance with the code is a factor the court should take into account in determining whether an OSP authorised copyright infringement committed on its service platform.

No statutory damages for copyright infringement

To substantiate a claim for damages in a copyright infringement action, a copyright owner needs to provide proof of the loss it has suffered as well as the fact that the infringement caused that loss.

Various copyright owners' request for the introduction of statutory damages did not meet with much sympathy from the government.

³⁸ The Digital Millennium Copyright Act of 1998.

Its reasoning was that statutory damages are not available for other torts and there may be substantive difficulties in specifying a range of damages that could be justified over a wide spectrum of infringements.

The government instead proposes to prescribe additional factors to assist the court in determining additional damages. These would include: the conduct of the defendant after the infringement (such as attempts to hide or disguise it); possible widespread circulation of infringing copies in the case of internet piracy; and the need to deter similar infringements.



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Ferrero wins unfair competition case in China

The Chinese Supreme People's Court has upheld an appeal court's decision that the sale of chocolates in similar packaging to that of Ferrero Rocher branded chocolates breached Chinese Anti-Unfair Competition Law. Although court decisions are not binding precedents in China, this decision will provide guidance throughout the Chinese judiciary in applying the Anti-Unfair Competition Law. In particular, the court pointed out that a product's reputation outside China can be considered when determining whether the product is famous in China.

Ferrero SpA has sold its Ferrero Rocher chocolates in China since 1984. Initially, the packaging carried not only the Ferrero Rocher brand but the Chinese characters 金莎 (pronounced "Jin Sha"). Ferrero has advertised Ferrero Rocher not only in China but in other Asian countries. Although it has owned the registered trade mark for Jin Sha in Taiwan and Hong Kong since 1990 and 1993 respectively, it could not register it in China; the Chinese company Meng Te Sha Company (MTS) owns the Chinese registration for Jin Sha, having bought it from another company in 2002. In that year MTS started manufacturing and selling chocolates under the brand name Trésor Doré Jin Sha in very similar packaging to that

of Ferrero Rocher chocolates but cheaper.

Lower courts' decisions

Ferrero sued MTS in the Tian Jin No 2 Intermediate Court for unfair competition for use of packaging with decorative features confusingly similar to those used in the Ferrero Rocher packaging, but lost the case. The court found that MTS had sold its product in many parts of China before Ferrero had done so, and that the Trésor Doré Jin Sha chocolates were more famous than Ferrero Rocher chocolates. It concluded that confusion was unlikely, particularly because the trade marks on the product were different, and the products targeted different groups of consumers based on the type and locations of the shops selling them.

Ferrero appealed and in 2006 the Tianjin Higher People's Court concluded that MTS had breached unfair competition law. The Higher Court found, on the basis of its reputation not only in China but in other countries, that Ferrero Rocher had been famous in China since 1984. However, MTS petitioned the Supreme People's Court for a review of the Higher Court's decision and succeeded in obtaining a stay of its enforcement.

The Supreme Court's decision³⁹

The Supreme Court upheld the Higher Court's decision that MTS violated the Anti-Unfair Competition Law and discussed four main issues.

³⁹ 7 April 2008 *Ferrero SpA v Meng Te Sha Company*, Case No. 3, IP Civil Division, The Supreme People's Court 2006.



Ferrero's product



MTS's product

- Was Ferrero Rocher famous in China before MTS sold its product? The court held that it was, due to Ferrero's marketing efforts in China. The court rejected the Higher Court's reliance on Ferrero Rocher's global reputation but noted that fame acquired in other countries can increase the fame in China.
- Is the Ferrero Rocher packaging distinctive? The court held that, although individual elements (including the transparent plastic box and the foil wrapping) may not be distinctive, the packaging as a whole is clearly distinctive.
- Is the public likely to confuse the MTS packaging with the Ferrero Rocher packaging? The court held that although there were differences, including different trade marks, the packaging was confusingly similar. Therefore, it violated the Chinese Anti-Unfair Competition Law.
- Would damages of RMB700,000 (approximately \$100,000) be appropriate? The court held that, because Ferrero had not provided any information on MTS' profits from the sales of Trésor Doré Jin Sha chocolates, the amount should be reduced to RMB500,000. This is the maximum statutory damages for trade mark infringement and the court reasoned that it could refer to the Trade Mark Law in determining damages.



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New German IP enforcement provisions

A bill implementing the IP Enforcement Directive⁴⁰ has, after lengthy discussions, been passed in Germany. The new legislation is likely to come into force by the autumn. The Directive's objective is to ensure that the substantive law on IP is applied effectively in the European Community. Germany's implementing legislation will amend many of its existing laws relating to IP rights, in order to improve a right holder's ability to enforce its right. We look at the most important changes to the German Trade Mark Act and the German Patent Act.

Access to evidence to prove infringement

The new provisions provide that an IP right holder may request the court to order an alleged infringer to disclose specified evidence. If the alleged infringement is on a commercial scale, this may include banking, financial or commercial documents. An essential prerequisite for an order is that the claimant must present evidence that infringement is "sufficiently likely". In other words, that evidence must indicate that there is infringement. The court may make the order in interim proceedings and even by means of an ex parte interim injunction.

The court must take all measures necessary to ensure protection of confidential information. In practice, the court will most likely order that the evidence is not presented to the right holder itself but to its attorney (who is sworn to secrecy). Before disclosing the evidence, the defendant will be able to raise objections if there is a risk of disclosure of business

secrets not connected to the alleged infringement.

Information from third parties

A successful claimant will have the right to request more information than currently on the origin and distribution network of the infringing goods or services. The court will be able to order not only the infringer to provide this information but also any party possessing the infringing goods or using the infringing services on a commercial scale.

Clarification of calculation of damages

Amendments to the legislation codify long-standing case law on the calculation of damages. A right holder is entitled to an amount of damages which takes into account both the harm it suffered and the profits the infringer made from the infringement. Alternatively, the court may award damages equivalent to the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the infringed IP right.

Recall or destruction

A successful claimant will be able to request an order for the recall of infringing goods or their definitive removal from the channels of commerce. Alternatively, it will be able to request an order for the destruction of not only the infringing goods but also any materials and implements principally used in their creation or manufacture.

Before making any of these orders, the court must take into account the need for proportionality between the seriousness of the infringement and the remedies ordered, as well as the interests of third parties.

⁴⁰ Directive 2004/48 EC on the enforcement of intellectual property rights. The deadline for implementation by member states was 29 April 2006.

These remedies are:

- without prejudice to the award of any damages; and
- at the expense of the infringer – in practice the infringer is likely to have to offer to reimburse customers in order to retrieve the goods.

Publication of the decision

The right holder may request the court to order the public announcement of the court's judgment. The defendant must bear the costs of this publication.

Comment

The changes fall into one of three types:

- those clarifying the current legal situation and resolving existing uncertainties (for example, obtaining evidence from the alleged infringer and the calculation of damages);
- those strengthening existing provisions to improve the legal position of right holders (for example, the right to information and the remedies available for infringement); or
- those which are completely new provisions (for example, orders for the recall of infringing goods) – it remains to be seen how the courts will apply these.



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Liability in the US for user-generated content

A US Federal Court (the Ninth Circuit Court of Appeals) has reiterated⁴¹ that the housing website Roommates.com did not enjoy immunity from liability for user postings that violated housing laws. This was because it required users to answer allegedly improper questions, and then published the answers. The court distinguished its decision from precedent which immunised service providers, but also said that an earlier decision should be narrowed retrospectively.

Legislation

The federal Communications Decency Act (CDA)⁴² provides that “[n]o provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider”. The statute includes a broad definition of “interactive computer service” (ICS) and defines “information content provider” (ICP) as “any person or entity that is responsible, in whole or in part, for the creation or development of information provided through the internet or any other interactive computer service”. Therefore, the courts have held that, provided an ICS is not also an ICP, it will enjoy immunity from almost all claims (except IP criminal claims) based on a user-created content.

Matchmaker.com

In 2003, the Ninth Circuit considered whether the dating site Matchmaker.com could be liable for the actions of users of the site who had created false dating profiles. The district court had held that it could be liable; it said that Matchmaker.com should

be classified as both an ICS and an ICP because “a profile for each user is created from the questions asked by Matchmaker and the answers provided”. The Ninth Circuit disagreed, noting that while “the questionnaire facilitated the expression of information by individual users..., the selection of the content was left exclusively to the user... [and t]he actual profile ‘information’ consisted of the particular options chosen and the additional essay answers provided”.

Roommates.com

In Roommates.com, the plaintiff claimed Roommates.com violated the federal and state housing discrimination laws by asking its users (people seeking roommates) to provide information on their gender, sexual orientation and attitudes toward children, and then publishing the answers as user profiles. The court found that Roommates.com’s development of the “discriminatory questions, discriminatory answers and discriminatory search mechanism is directly related to the alleged illegality of the site”. The court contrasted this with an earlier case, *Carafano*⁴³, in which the site “did absolutely nothing to encourage the posting of defamatory content”. The court found Roommates.com’s involvement made it an ICP, responsible “in whole or in part, for the creation or development of information” (emphasis added).

Reflecting on its judgment in *Carafano* in 2003, the Ninth Circuit stated that, although it was correct, it was overbroad. A court could no longer categorically say that websites consisting of user-contributed content could never be liable for that content.

⁴¹ 3 April 2008 *Fair Housing Council of San Fernando Valley v. Roommates.com, LLC*, 521 F.3d 1157 (9th Cir. 2008). This case came to the court on appeal from the US District Court for the Central District of California. After an initial decision rendered in May 2007, the Ninth Circuit agreed to rehear the case, resulting in the recent decision.

⁴² 47 U.S.C. § 230 (1996).

⁴³ *Carafano v. Metrosplash.com, Inc.*, 339 F.3d 1119 (9th Cir. 2003).

Comment

Although the Ninth Circuit rationalised its different decisions in *Carafano* and *Matchmaker.com*, it could be seen as a reaction by an influential court to the broad protectionism of the CDA. This could be due to evolutionary changes in the internet since the CDA was passed in 1996. This tonal shift, if it exists, might be heard in the court's retrospective limitation of *Carafano*, as well as these statements by the court:

"The internet is no longer a fragile new means of communication that could easily be smothered in the cradle by overzealous enforcement of laws and regulations applicable to brick-and-mortar businesses. Rather, it has become a dominant – perhaps the preeminent – means through which commerce is conducted. And its vast reach into the lives of millions is exactly why we must be careful not to exceed the scope of the immunity provided by Congress and thus give online businesses an unfair advantage over their real-world counterparts, which must comply with laws of general applicability."

In view of this important new decision, providers of websites and internet services are advised to reevaluate their use of user-supplied content, and whether it might give rise to liability under the Ninth Circuit's revised approach to CDA immunity.



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The public's interest as an obstacle to trade mark protection in the EU

The decision of the European Court of Justice (ECJ) in *adidas v Marca II*⁴⁴ in April is the most recent decision in which the courts have opined on the role of the public interest in EU trade mark law. This case comprised the second reference by the Hoge Raad (the Supreme Court of the Netherlands) in a long-running dispute between adidas, which alleges infringement of its three-stripe mark, and a number of companies that have been using a two-stripe mark on sports and leisure clothing. The ECJ held that the public interest in ensuring the availability of certain signs for commercial use plays no role in assessing the scope of protection afforded to a mark in terms of likelihood of confusion or dilution.

The public interest and absolute grounds for refusal

Before turning to the issues surrounding acquired distinctiveness addressed by the court in *adidas v Marca II*, it is worthwhile first examining the relevance of the public interest in assessing the inherent registrability of trade marks in the EU.

Indeed, although more could be said regarding the inherent distinctiveness of the three-stripe mark of adidas, that subject is beyond the scope of this article, and in any event the ECJ was bound by the factual findings as put before it by the national court.

In *adidas v Marca II*, the ECJ reaffirmed that the requirement of availability is the reason underlying certain grounds for refusal of registration set out in article 3 of the Trade Marks Directive⁴⁵ (the Directive)⁴⁶.

In particular, articles 3(1)(b) and 3(1)(c) of the Directive state that signs which are either devoid of distinctive character⁴⁷, or which consist exclusively of signs or indications which may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, geographical origin, or the time of production of the goods or of rendering of the service, or other characteristics of the goods⁴⁸, shall not be registered, or if they are, shall be liable to be declared invalid.

In *Chiemsee*, the ECJ ruled that article 3(1)(c):

"...pursues an aim which is in the public interest, namely that descriptive signs or indications relating to the categories of goods or services in respect of which registration is applied for may be freely used by all, including as collective marks or as part of complex or graphic marks. Article 3(1)(c) therefore prevents such signs and indications from being reserved to one undertaking alone because they have been registered as trade marks."⁴⁹

The "public interest" angle raised here is the rationale behind article 3(1)(c). It is a principle which in English law can be traced back to the equivalent section of the Trade Marks Act 1938, the basis of which has been explained as being because "the privilege of a monopoly should not be conferred where it might require honest men to look for a defence"⁵⁰.

German jurisprudence has also wrestled with this issue, and has given us a succinct word to describe this need to keep certain marks free – *Freihaltebedürfnis*.

44 10 April 2008 *Adidas AG and adidas Benelux BV v Marca Mode and others* C-102/207.

45 Directive 89/104/EEC.

46 *adidas v Marca II*, op. cit., paragraph 23.

47 Article 3(1)(b) of the Directive.

48 Article 3(1)(c) of the Directive.

49 Joined cases C-108/97 and C-109/97 *Windsurfing Chiemsee* [1999] ECR I 2779, paragraph 25.

50 Mr Robin Jacob QC, as he then was, in his decision on behalf of the Secretary of State in the *Colorcoat trademark* [1990] RPC 511.

Following *Chiemsee*, the approach to dealing with the public interest appeared to be tweaked somewhat by the ECJ in its judgments in *Linde*⁵¹ and *Libertel*⁵².

Linde concerned a 3D shape mark. Here, the court developed the principles from *Chiemsee*, stating that when the competent authority considers article 3(1)(c), it must determine "... in the light of a concrete consideration of all the relevant aspects of the application, and in particular the public interest referred to above, whether the ground for refusing registration in that provision applies to the case at hand".⁵³

The court went on to state:

"It follows that a three-dimensional shape of product mark must, like any other category of trade mark, be examined for compliance with all the conditions listed in article 3(1)(b) to (e) of the Directive, and that these must be construed and applied in the light of the public interest underlying each one."⁵⁴

In *Libertel*, the Hoge Raad referred a series of questions relating to whether a colour mark for the single colour orange was capable of having distinctive character. Following *Chiemsee*, the ECJ held that regard must be had to the underlying public interest, but made it clear that this is achieved by means of the test of distinctiveness under article 3(1)(b). In this respect, the court noted that, while a colour per se is usually not inherently capable of distinguishing goods, a distinctive character may be acquired through use.

In *Sat.1*⁵⁵, a case concerning registrability of the term "SAT.2" for various goods and services in the media sector, the ECJ emphasised that the various grounds for refusal must be interpreted in the light of the public interest underlying each of them⁵⁶. The ECJ found that the Court of First Instance (CFI) erred in using in

its appraisal of distinctive character, a public interest criterion that it perceived to be relevant only when considering whether a trade mark is descriptive in terms of article 7(1)(c) of the CTM Regulation⁵⁷ (article 3(1)(c) of the Directive)⁵⁸.

The case law above demonstrates that the ECJ and CFI have given considerable weight to the public interest factor when assessing registrability of both word marks and non-traditional marks, such as the colour mark in *Libertel* and the 3D shape mark in *Linde*. We now turn to examine the relevance of the public interest in the case of marks enjoying acquired distinctiveness.

The public interest and acquired distinctiveness

adidas v Marca II focused on the question of the scope of protection of marks registered on the basis of acquired distinctiveness. The key question referred to the ECJ was the first one, which read as follows:

"In the determination of the extent to which protection should be given to a trade mark formed by a sign which does not in itself have any distinctive character [...] but which has become a trade mark through the process of becoming customary and has been registered, should account be taken of the general interest in ensuring that the availability of given signs is not unduly restricted for other traders offering the goods or services concerned (the requirement of availability)?"

In essence: If a trade mark would not have ordinarily met the registration requirements, but, due to becoming distinctive through use, was registered, should public interest availability arguments restrict the scope of protection that the mark affords its owner?

The basis of this question lies in the interrelationship between the absolute grounds for refusal (and

specifically those at articles 3(1)(b) and 3(1)(c) of the Directive) and the carve out contained at article 3(3) of the Directive, which provides that, if a trade mark applicant can show that distinctive character has been built up in an inherently non-distinctive mark through use, it is entitled to registration.

In referring its questions in *adidas v Marca II*, it is clear that the Hoge Raad was struggling with the right balance between affording the famous three-stripe mark of adidas a very broad scope of protection, and narrowing its scope on the basis that stripes are signs which the regional appeal court of the Netherlands (and to a lesser extent the Hoge Raad) had thought ought to be generally available to other traders.

The ECJ considered the questions which had been referred, and gave a thorough, and, some would say, unsurprising response. It affirmed that, when assessing infringement under article 5(1) of the Directive, the likelihood of confusion must be appreciated globally, taking into account all the relevant factors. The court stated:

"The fact that there is a need for the sign to be available for other economic operators cannot be one of those relevant factors. As is apparent from the wording of Article 5(1)(b) of the Directive and the case-law cited, the answer to the question as to whether there is a likelihood of confusion must be based on the perception by the public [...]"⁵⁹

The court reached the same conclusion when considering whether general availability

51 Joined cases C-53/01 to 55/01 *Linde and Others* [2003] ECR I 3161.

52 C-104/01 *Libertel* [2003] ECR I 3793.

53 *Linde and Others*, op. cit., paragraph 75.

54 *Linde and Others*, op. cit., paragraph 76.

55 C-329/02 *SAT.1 SatellitenFernsehen GmbH v OHIM* [2005] ETMR 20.

56 *SAT.1*, op. cit., paragraph 25.

57 Regulation 40/94/EEC.

58 See also the recent judgment of the ECJ in C-304/06 P *Eurohypo AG v OHIM* 8 May 2008.

59 *adidas v Marca II*, op. cit., paragraph 30.

impacted on the assessment of whether a sufficient link was created in the mind of the public under article 5(2) of the Directive.

The scope of a proprietor's rights are also limited by virtue of article 6(1)(b) of the Directive, and so the court examined this as well. Article 6(1)(b) limits the rights of a proprietor by preventing it from taking action against third parties which use indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services, provided they are used in accordance with honest practices in industrial or commercial matters.

The court stated that these limitations already account for the concept of availability. Third parties are allowed to use descriptive indicators. However, it is clear that what they should not be allowed to do is use indicators which, whilst naturally descriptive or non-distinctive, because of the way in which they are used and the fact that they are similar enough to fulfil the tests arising under article 5(1) or 5(2), begin to serve a non-descriptive and distinctive function which tends to indicate origin.

These conclusions, and the way that they are expressed, should prove helpful to trade mark proprietors. Often the alleged infringer will argue that it is using a sign "purely as an embellishment" (a reference to the decision in *adidas v Fitnessworld*⁶⁰). It is now even clearer that it is enough if there is use of a sign, and its similarity to an earlier mark is such that a link is established with the prior rights holder.

The impact of a mark's distinctiveness on its scope of protection

As discussed above, the ECJ in *adidas v Marca II* rejected the notion that the public interest had

any relevance to the global appreciation test under article 5(1)(b) of the Directive. We submit that the court erred in this respect, and that, on the contrary, the public interest is relevant in certain circumstances in establishing whether there is a likelihood of confusion on the part of the public.

Following the decision in 1997 in *SABEL*,⁶¹ it is clear that the global appreciation of the likelihood of confusion must, as regards the visual, phonetic or conceptual similarity of the marks in question, be based on the overall impression given by the marks, bearing in mind, in particular, their distinctive and dominant components.

In *Canon*⁶², the court confirmed that marks with a highly distinctive character, either per se or because of the reputation they possess on the market, enjoy broader protection than marks with less distinctive character. The converse must also be true: that is, marks with a low degree of distinctive character must enjoy a narrower scope of protection.

Bearing the above principles in mind, we consider that the public interest is and indeed must be relevant to an analysis of the dominant and distinctive elements of complex signs, involving more than one element.

In particular, where a complex mark contains a very 'weak' element which other traders may legitimately want to use in the course of trade, the approach which should be taken is that an element which does not deserve registration per se, does not deserve protection either. Indeed, in the case of a figurative mark containing a wholly descriptive word element, this approach is necessary as the option to cancel the earlier mark will not be available where the figurative aspect is relatively elaborate, and the owner of such a mark would otherwise effectively receive the scope of protection of a word mark

which would, barring it having acquired distinctiveness, otherwise be unregistrable.

So how does this approach sit alongside the ECJ's findings in *adidas v Marca II*? We submit that they are not contradictory. Unlike the *adidas v Marca II* case, which involved only one element or device, the approach we suggest should, in our view, apply only to complex marks. The reasoning behind this differing approach is because where the mark in question is a single element mark, one would always have the option to attempt cancellation on absolute grounds.

Moreover, this approach would also only apply to inherently distinctive marks, and not those enjoying acquired distinctiveness. The ECJ's findings regarding the role of the public interest in assessing the scope of protection of marks with acquired distinctiveness are therefore clearly to be welcomed. If the principle of *Freihaltebedürfnis* had been allowed to somehow reduce the scope of protection of such marks, these registrations would have effectively been relegated to a second-tier of protection compared to those which are judged inherently distinctive.



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⁶⁰ C-408/01 *adidas-Salomon AG and adidas Benelux BV v Fitnessworld Trading Ltd* [2003] ECR I-12537.

⁶¹ C-251/95 *SABEL* [1997] ECR I-6191.

⁶² C-39/97 *Canon* [1998] ECR I-5507.

Save the date! Multi-jurisdictional patent litigation conference – 16 September 2008 – New York

Lovells' New York office will host a multi-jurisdictional patent litigation conference on 16 September 2008. The conference features patent litigators from around the world, including the US, UK, Germany, the Netherlands, Japan and China. For additional information or to be added to our invitee list, please contact Ellen Auwarter at ellen.auwarter@lovells.com.

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