

Newsletter
December 2000

Intellectual property

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Lovells' intellectual property services advises, in the context of English, French, German, Czech, Slovak, Russian, Chinese, Polish, Croatian, European or international law, in relation to all areas of intellectual property: trade marks, patents, design rights, copyright, and rights arising from IT, new technologies and the media such as the press and Internet. We also advise our clients in the fields of entertainment and the arts. Many of our lawyers have a scientific background, enhancing their understanding of the technical and commercial issues involved.

We can help with litigation and alternative dispute resolution and with the negotiation and formation of commercial agreements. We carry out audits of technology and intellectual property rights for the purposes of investment and company flotations.

In protecting the intellectual property rights of our clients we act at all levels, from advising on, applying for, registering and enforcing rights through to devising strategies and the investigation of infringement and counterfeiting activities. In addition, we act in structuring, negotiating and drafting licences and technology transfer transactions and have considerable experience in IP disputes before the Industrial Property Offices and in IP litigation before the courts, including in cross-border or multi-jurisdictional disputes.

We offer a complete trade mark filing and prosecution service at the European Trade Mark Office as well as trade mark, industrial design, appellations of origin and domain names searches, clearances, filing and prosecution services before the national Industrial Property Offices in France, Germany, Czech Republic, Slovakia, Russia, Croatia, Poland, Hungary, Hong Kong and elsewhere in South-East Asia.

We also offer a complete global domain name protection service including clearance searches, registration, watch and investigation covering all generic TLDs (top level domains) but also, importantly, most country TLDs in some 200 jurisdictions.

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

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

Please refer to the back of this newsletter for office details.

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Trade marks

Registry guidance on registrability of domain names and slogans

DOMAIN NAMES

The Trade Marks Registry has confirmed that it will in principle permit domain names to be registered as trade marks. The Registry regards those elements of a domain name which designate the various levels and types of domain (eg **.com** or **.co.uk**) as totally non-distinctive. As a general rule, therefore, it will disregard those elements in the same way as it does **Ltd** or **PLC** in a company name.

The Registry will go on to consider the rest of the mark to see whether it is “devoid of any distinctive character” and therefore unregistrable under s 3(1)(b) Trade Marks Act 1994. However, where the addition of **.com** renders the mark distinctive overall, it may be registered. For example, the Registrar has accepted the mark **CAN AND WILL.COM**, whilst refusing the mark **CAN AND WILL**, on the basis that the latter is merely a slogan which describes an approach to conducting business, whereas the addition of **.COM** makes the mark distinctive. In the Registrar’s view, it is now common to see **.COM** added to names or descriptions of goods/services but rare to have **.COM** added to a slogan.

SLOGANS

The Registry has also published guidance on when it will register slogans as trade marks in the UK. Certain slogans will (unless they have acquired a

distinctive character through use) be denied registration under s 3(1)(c) Trade Marks Act 1994, which precludes registration of trade marks which:

“consist exclusively of signs or indications which may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of services, or other characteristics of goods or services”.

The Registry cites “**Never clean your shower again**” in respect of cleaning preparations as an example of a slogan which would be rejected, since it describes the intended purpose of the goods. Equally “**The world’s best way to pay**” could not be registered for a financial service, because it describes the quality of the service offered.

Slogans which include the applicant’s trade mark (for example “**VOLVO For Life**”) will not consist exclusively of a sign under s 3(1)(c), and may therefore be registrable.

Where a slogan is fanciful or imaginative (or just impenetrable, adds the Registry, cryptically) in respect of the goods/services involved, it may be accepted. For example “**The shoes your feet have been aching for**” might be accepted as fanciful and therefore registrable.

Both circulars are available on the Patent Office website (<http://www.patent.gov.uk>).

David Latham

Zino Davidoff SA v M & S Toiletries Ltd: Scotland 2, England 0?

This Scottish case is similar to the earlier decision in April this year (2000 SLT/19) in a case involving the same trade mark owner, relating to the importation into Scotland of *Davidoff* perfume from outside the European Economic area.

Davidoff owns the registered trade mark *Davidoff* in the UK for perfume. It applied for an interim interdict (Scottish term for an interim injunction) alleging trade mark infringement. The defendants had purchased the perfume from a third party within the EEA, although it was not clear whether or not the perfume had been first marketed within the EEA or outside of it. What was clear, however, was that the barcode apparently essential for tracing the goods in the event of a product recall had been removed and, in the words of Lord McCluskey, the Scottish judge giving the decision, the “deliberate interference with the barcodes could have no obvious purpose other than to conceal activity of a more or less nefarious character”.

In the circumstances, the judge granted the interim interdict requested, on the basis that under Article 7(2) Trade Mark Harmonisation Directive (EU Directive No 89/104) there were “legitimate reasons” to oppose further commercialisation of the goods. Article 7(2) is replicated in s 12 UK Trade Marks Act 1994, which provides that a registered trade mark proprietor’s rights in the goods are exhausted by their first marketing in the EEA by the trade mark owner or with its consent, unless there are legitimate reasons for it to oppose further dealings in the goods. “Legitimate reasons” are stated to include the case where the condition of the goods has been changed post marketing.

Whilst only an interim decision - the claimants only having to show that there was a case to try and that the balance of convenience favoured them - the case shows once again the difference in the approach taken by Scottish and English Courts. In the equivalent English case (see our June 1999 issue) in Spring 1999 (*Zino Davidoff SA v A & G Imports Ltd* [1999] 3 All ER 711, Laddie J) held that the removal

of barcodes such as those in the present case would not have prevented a product recall. There was therefore no legitimate reason entitling the trade mark proprietor to seek to use its trade mark rights to prevent further circulation of the goods.

A number of questions from the English case have been referred to the European Court of Justice for determination. The ECJ has heard the case and a decision is expected shortly.

Simon Harper

Trade mark Infringement by the Euro sign?

Thomas Cook Group Ltd and Interpayment Services Ltd have brought proceedings against the Commission of the European Communities, alleging infringement of their trademark by its use of the sign for the Euro. The relevant logo and the Euro sign are set out below and you may judge for yourselves whether such a claim could be justified.

The claimants allege not only infringement by the Commission, but also contend that the Commission’s use of the mark induces third parties to infringe.

The claims for compensation are also based on the German concept of “Sonderopfer” and the French concept of “rupture d’égalité devant les charges publiques”. These concepts are civil law concepts where it is alleged that a particular act of a municipal body or government causes damage to a third party’s property which is excessive, and is more than would be expected from the normal course of commercial activity.

The claim includes a request for damages in the sum of £25.5 million, together with interest on the sum at an annual rate of 6% from the date of judgment.

It will be interesting to see how this claim proceeds.



David Latham

Patents

Another round in the nappy dispute

The long-running battle over patents for babies' nappies (*Kimberly-Clark Worldwide Inc v Procter and Gamble Ltd*) continues. We reported on an earlier decision in this action in our December 1999 issue, where the Court of Appeal determined that, as a general principle, the Court still had jurisdiction to refuse amendment of a patent on discretionary grounds.

In the most recent action (The Times 6 September 2000) the claimants alleged that their patent had been infringed by the defendants' product, which satisfied a test set out in the claim. The test included an assessment of three parameters. Unfortunately, the patentees had only included two of the parameters in the claim as granted, and sought to amend the patent so as to include the third parameter (the "temporary loading capacity") which, it was argued, should have been included from the outset.

It was also alleged that the patentee was aware of two pieces of prior art, one of which failed to fall within the claim only because it did not have the required temporary loading value and another which it was admitted satisfied the claim before amendment. The defendants therefore argued that the omission of a feature going to the essence of the invention amounted to covetousness, and that the amendments, which were otherwise permissible in law, should be disallowed on discretionary grounds.

Pumfrey J held that a claim to covetousness could not be made out unless it were "established that the draftsman of the specification sought to obtain a claim of a breadth which was unjustified on the material available to him". He further cautioned

against the use of an *ex-post facto* analysis of the significance of the materials available to the draftsman, preferring to rely on that person's *bona fide* assessment. He went on to state that it would be an incorrect exercise of the discretion to refuse amendment in the absence of blameworthy conduct (in the present case, the draftsman concerned had only come to the case once the priority document had been drafted and had considered one piece of prior art with the inventors (and satisfied himself that it could reasonably be distinguished from the patented invention), but was not apparently aware of the other).

Simon Harper

Staying patent actions pending outcome of opposition proceedings

In two cases earlier this year, Laddie J had to decide whether to grant a stay of UK patent proceedings, pending the outcome of opposition proceedings in the European Patent Office. The applications were heard less than two weeks apart. A stay was granted in the first case (*Unilever Plc v Frisa NV*, *unreported*, 3 February 2000), but refused in the second (*Minnesota Mining and Minerals v Rennicks (UK)*, *unreported*, 15 February, 2000).

The Court of Appeal had also considered the point in *Kimberly-Clark Worldwide v Procter & Gamble* [2000] FSR 235. Aldous LJ held that the preferred option was to stay UK proceedings when opposition proceedings were before the EPO, but that UK proceedings should be allowed to continue if justice requires that to happen. It is clear therefore that the grant or refusal of a stay will depend upon the facts of each case.

The likely timetable of UK and EPO proceedings and the length of time that the patent had left to run appear to have been significant factors in determining the outcome of the two decisions by Laddie J. In *Minnesota Mining* it was possible that the term of the patent would have expired before the conclusion of UK proceedings if a stay were granted until the conclusion of the EPO proceedings. The claimants would then be denied the opportunity of an injunction to restrain the defendant's allegedly infringing acts. This outweighed the undesirability of the English Patent Court having to proceed on the basis of a patent, the final form of which was yet to be granted. The application for a stay was therefore refused.

In *Unilever*, the patent (which covered the technology used to produce *Solero* ice creams) still had 17 years left to run. Laddie J considered a number of points both in favour of and against the grant of a stay. The judge was concerned that, if the UK proceedings were allowed to continue, including an appeal to the Court of Appeal, it was possible that the EPO proceedings would be concluded first, and therefore costs to the parties of up to £500,000 could be wasted. He decided that, given the likely costs of litigation when compared with the likely damages, it would not be sensible to allow parallel proceedings to continue. He therefore granted a stay.

Graham Burnett-Hall

Disclosure of privileged documents in amendment proceedings

In *Oxford Gene Technology Ltd v Affymetrix and others (No 2)* (The Times, 5 December 2000), the Court of Appeal had to consider the issue of disclosure of privileged documents in the amendment proceedings.

Oxford Gene Technology had sued *Affymetrix* for patent infringement, which resulted in amendment proceedings being commenced under s 75 Patents Act 1977. The Court of Appeal held that there was no obligation upon a patentee in amendment

proceedings to waive privilege in respect of any document. The choice whether or not to waive privilege was his, not the court's.

Furthermore, the maintenance of privilege did not enable the court to draw an adverse inference against the person who maintained it. The obligation to disclose material facts and matters did not require the disclosure of documents, nor could this obligation act as a hidden obligation to waive the privilege. On the issue of whether there had been any waiver of privilege, the court held that, applying the criteria of justice and fairness, it was not required in this case to hold that waiver of privilege had occurred.

Graham Burnett-Hall

EU Commission consults on software patents

On 19 October 2000, the European Commission launched a consultation, via the Internet, on the patentability of computer-implemented inventions. The consultation paper is available on the Commission's website (http://europa.eu.int/comm/internal_market/en/intprop/indprop/index.htm).

There is legal uncertainty surrounding the patentability of software-related inventions in Europe. The European Patent Convention ("EPC") and national legislation provides that computer programs and methods of doing business "as such" are excluded from patentability. Considerable debate has centred on the words "as such" and the European Patent Office ("EPO") has developed a body of case law which indicates that, where the software-related inventions make a technical contribution to the technological state of the art (sometimes called "further technical effect"), the invention will be patentable. A thorough examination of the EPO's current practice on computer-implemented inventions is set out in a paper to be found at http://www.jpo-iti.go.jp/saikini/tws/b3b_start_page.htm.

On the other hand, in the US, leading case law has made it clear that patent protection is available for inventive computer programs and business methods within the technological arts but regardless of technical contribution.

Some sections of European industry argue that the gap in protection between Europe and the US should not be maintained. On the other hand, a substantial number of small and medium sized enterprises, as well as those who favour the creation, use and availability of free open source software (the so-called “open source community”), are concerned about software patents.

The Commission considers that harmonisation of national patent laws and increased transparency on this subject is urgently required.

In parallel with any legislative changes proposed by the EC, amendments to the EPC are required. An inter-governmental conference held in Munich in November 2000 discussed this issue. A majority of the contracting states to the EPC seem prepared to support a move to delete computer programs from the list of items that cannot be patented in the EPC.

The Commission will define its final position after the end of the consultation process, which will take into account the likely impact of patents for computer-implemented inventions on:

- innovation and competition, both within Europe and internationally
- European businesses, including small and medium sized enterprises
- electronic commerce
- the creation and dissemination of free/open source software.

The consultation document itself is helpful in summarising the requirement for a non-obvious technical contribution for a computer-implemented invention to be patented. Annex II contains a brief summary of the *status quo* from the perspective of the Commission.

The Commission has also launched an independent study (available from its website as above) on the economic impact of the patentability of computer programs. Views are sought on its findings.

Any interested parties should direct their comments to the Directorate General for the Internal Market by mail or e-mail by 15 December 2000.

Nicola Dagg

DTI consults on patents for computer programs etc

In parallel with the EU Commission’s consultation on patents for computer-implemented inventions (see above), on 1 November 2000, the Department of Trade and Industry launched a consultation process on the need for patents to protect computer programs and Internet trading methods in the UK.

The consultation process acknowledges the impact of e-commerce and the Internet on the UK economy and the need to initiate a debate on patents in this area. In particular, the DTI seeks feedback on the patent system in the US where software and e-commerce patents are already available.

It is hoped that the Patent Office (on behalf of the DTI) will collect views from those who will be affected, including the financial and business sectors. The Patent Office’s website (www.patent.gov.uk) provides background information on this topic, as well as a dedicated news group for on line discussion (news://discuss.patent.gov.uk/patentoffice.softpat).

Nicola Dagg

EU Commission approves patent pooling agreement

On 9 October 2000, the European Commission announced that it had approved an agreement to allow some of the companies which developed the

DVD (digital versatile disc) technology to pool their respective patents.

The agreement consists of a pool for patents covering aspects of DVD technology. A DVD is the same size as a compact disc, but has more than seven times its capacity. A DVD can store video and audio signals, as well as computer data and software, allowing a single disc to hold a 2-hour feature film.

Hitachi Ltd, Matsushita Electric Industrial Co Ltd, Mitsubishi Electric Corporation, Time Warner Inc, Toshiba Corporation, Victor Company of Japan Ltd, Phillips, Sony and Pioneer have pooled their patents and agreed to license them through a single non-exclusive and non-discriminatory programme. The licensing programme will be administered by Toshiba Corporation of Tokyo, Japan. For the moment, Thomson has decided to license its patents in this area on its own.

The agreement follows on from the companies' submissions to and investigation by the Commission. The Commission concluded that the patent pool would help promote technical and economic progress by allowing for the quick and efficient introduction of DVD technology. It also concluded that the agreement does not contain unnecessary or excessive restrictions on competition, given that the pool has beneficial effects for the consumer. As a result, an administrative (or comfort) letter under Article 81(3) of the EC Treaty has been issued.

It will be interesting to see whether other companies come together to pool their patents in other technological areas for licensing purposes.

Viagra patent held invalid

The recent case of *Lilly Icos v Pfizer Ltd* (unreported, 8 November 2000) does not say anything very important in legal terms. Nevertheless it must have sent huge shockwaves around the pharmaceutical industry, in view of its subject matter.

Pfizer, the pharmaceutical company, owns a European Patent (UK) covering the medicinal use of various chemicals in the treatment of male erectile dysfunction ("MED"). These include sildenafil citrate, the active ingredient of the phenomenally successful anti-impotence drug, *Viagra*.

Lilly, one of *Pfizer's* competitors, is in the course of producing its own anti-impotence drug and sought revocation of *Pfizer's* patent on the ground (amongst others) that it was obvious. *Pfizer* countered that the commercial success of *Viagra* was evidence that the invention claimed in the patent was indeed inventive.

Laddie J held that the evidence available at the time showed that the idea of using an inhibitor pill like *Viagra* to treat MED was already available to the scientific community at the patent's priority date (June 1993). The essential facts which put the design and production of anti-impotence pills within the reach of the pharmaceutical world had already been discovered. The available knowledge at the time would have led a man skilled in the art to suspect the usefulness of the compounds researched in the treatment of erectile dysfunction. The patent was therefore invalid through obviousness.

Graham Burnett-Hall

Who is the Addressee of a Patent?

In *Minnesota Mining and Manufacturing Co v ATI Atlas Ltd* (unreported, 31 October 2000), Pumfrey J had to decide who was the addressee of a patent specification.

Minnesota Mining brought an action for infringement of its European Patent (UK). The patent was concerned with certain devices that could be used in sterilisation equipment. Argument arose over the nature of the person or team that constituted the addressee of the patent. The claimant claimed that the patent was addressed to a microbiologist alone, whereas the defendant's case was that the invention would be obvious to any enzymologist. Pumfrey J held that the addressee of a specification was a person who was likely to have

a practical interest in the invention. Moreover, as a matter of principle, invention could not lie in bringing into a notional team working on a particular problem a new notional member with different skills from those of the existing notional team. On the facts, the claimed invention was obvious on the basis of an article published in the German Democratic Republic in 1986.

Graham Burnett-Hall

Copyright and related rights

Lords ruling on copyright appeals

On 23 November, the House of Lords (The Times, 28 November 2000) implicitly rebuked the Court of Appeal over its handling of an appeal in a copyright action.

The claimant, Designers Guild Ltd, is a well known designer and seller of fabrics. In 1995, it distributed pattern books (which included a design called “*Ixia*”) to its wholesale and retail customers. A year later, at an exhibition in the Netherlands, it came across a design by another designer, Russell Williams (Textiles) Ltd, entitled “*Marguerite*”. This appeared to the claimant to be a copy of *Ixia*, so it sued for infringement of copyright.

At trial, Lawrence Collins QC, sitting as a deputy High Court judge, held that *Marguerite* had been copied as a whole from the *Ixia* design. He reached this conclusion because of the striking similarities between the designs, as well as the defendant’s evidence as to how the design had come about and the fact that it had had an opportunity to copy. The defendant appealed.

The Court of Appeal compared the designs visually and concluded that the defendant had not copied a substantial part of the copyright work. The Court acknowledged, however, that it would not be appropriate for it to reach a concluded view on a subjective and unanalytical approach alone, so it went on to analyse in detail the judge’s findings of fact. The Court found that these confirmed their initial impression. It ruled that the defendant had copied the idea of the copyright work and had adopted the same techniques in designing it, but

had not copied a substantial part of the work itself. The Court of Appeal therefore allowed the appeal. The claimant appealed.

The House of Lords allowed the appeal and reinstated the deputy’s judge’s decision. Their Lordships said that, where a trial judge had determined the question of whether copyright in a design had been infringed, and where his findings of fact were not being challenged on appeal, it was not open to the Court of Appeal to analyse the individual features of the two designs and reject the judge’s conclusion. Furthermore, they went on, the Court of Appeal could not embark on the issue of substantiality again and make original findings of fact, as though it were a first instance court, unless the judge had misdirected himself. This was not the case here.

Caroline Clarke-Jervoise

When does a secondary infringer have notice of infringement

On 5 October 2000, Park J highlighted the importance of the manner in which an innocent infringer is put on notice as to the fact that he is infringing another’s design rights.

In *A Fulton Co Ltd v Grant Barnett & Co* (unreported), Park J held that the claimant owned the design rights in the shape and configuration of the handle and case of a compact umbrella known as the “Flat Compact”. The defendant was importing and selling compact umbrellas (known as the “Ultra Compact”) with handles and cases that

were held to infringe the claimant’s design rights in the Flat Compact. The judge held that the defendant did not know and had no “reason to believe” that it was importing and selling infringing goods until such time as it was put on notice of that fact by the claimants. Until such time as the defendant had “reason to believe” that it was doing so, it was not itself (by virtue of s 227, Copyright Designs and Patents Act 1988) infringing the design right.

The question therefore arose as to precisely when the defendant had been placed on notice by the claimant that it was selling and importing infringing goods. The claimant had not sent a letter before action to the defendant. Park J therefore considered whether the service of the statement of claim, on 30 June 1998, was sufficient to place the defendant on notice. In the statement of claim, the claimant alleged that the defendant was infringing design rights in a long list of component parts of (in particular) the Flat Compact. The judge held that the

“statement of claim was too general, and the reference to the handle was too much buried in a mass of other items (most of which now seem to have been irrelevancies), for [the claimant] to be able to assert with any conviction that the pleading gave the defendant reason to believe that the handles on its umbrellas were infringing articles.”

On 27 July 1998 the claimant served a substituted statement of claim which focussed attention (in particular) on the handle and case of the Flat Compact umbrella. Park J held that this was “sufficiently precise and limited in its scope to put [the defendant] on notice that its handles might be infringing articles”. However, the judge J went on to say that this did not mean that the defendant immediately had reason to believe that its handles were infringing articles and, (on the basis of an earlier case, *Monsoon Ltd v India Imports of Rhode Island Ltd* [1993] FSR 486), he decided that the defendant would have required three weeks in which to make its own investigations into whether the design of the Ultra Compact infringed the design rights in the Flat Compact handle and case. Accordingly, Park J held that the defendant had had “reason to believe” from 17 August 1998.

This case gives very useful guidance on how to put a secondary infringer of design rights on notice that it is selling or importing infringing articles. It is essential, when writing a letter before action or settling particulars of claim in such a case, that the claim is fully particularised and that the temptation is resisted to frame the claim too widely so that the aspects of the shape and configuration that are protectable are “too much buried in a mass of other items”. Park J allowed the defendants a notional period of three weeks in which to make their own investigations. The result of this is that the profits of the defendant to which the complainants are entitled will presumably be correspondingly reduced. Attempts can be made in future cases of secondary infringement to reduce in length even this period of three weeks, by supplying a defendant with full and comprehensive (and yet closely defined) particulars of title to the design right in question, together with samples of the goods in question, at the earliest opportunity.

However, regard must be had to s 253 of the Act in relation to “groundless threats”. Depending on the circumstances, it may be preferable to dispense with a letter before action and immediately serve a claim form with full particulars. It is possible that, by doing so, a defendant might argue that, since it did not have the necessary “reason to believe” at the time of commencement of the proceedings, no cause of action had accrued and that the proceedings are therefore misconceived. This situation arose in the present case. However, in his judgment, Park J seems to suggest that such an approach by a claimant would be appropriate, “particularly after the introduction of the Civil Procedure Rules”, although he was not absolutely clear as to whether his view was of general application.

James Rawson

Court defines “substantial” copying

In a case involving the pop star Robbie Williams, the High Court had to consider what constitutes “substantial copying” of lyrics for the purposes of the Copyright, Designs and Patents Act 1988.

Ludlow Music Inc owned the copyright in the lyrics of a song entitled “New York Way”. It alleged that Williams had copied these for his song “Jesus in a Camper Van”. The defendants accepted that they had used elements of Ludlow’s lyrics but argued that they had not infringed copyright because these elements did not constitute a “substantial part” of Ludlow’s work.

On 2 October (unreported) Nicholas Strauss QC, sitting as a deputy High Court judge, heard Ludlow’s application for summary judgment (ie judgment without extensive argument where the court accepts that the defendant had “no real prospect of successfully defending” the claim). He held that the copying had been substantial, although “not by much”. Quantitatively the defendants had only used one out of four verses of the claimant’s lyrics, some of which were derived from another work in any event. However, the test for substantial copying was qualitative rather than quantitative. This meant it was necessary to consider the importance of the part which had been copied in relation to the whole work. Significant in this case was that the defendants had taken the central idea of the claimant’s song, namely that the Son of God attracts bad luck by going round saying “I am the way”, and had embodied it in virtually identical words.

The court therefore found infringement and ordered an enquiry as to damages or an account of profits. However, the judge refused to grant Ludlow an injunction on summary judgement. On the ground that it was arguable that Ludlow had acted oppressively in demanding excessive sums, beyond reasonable compensation, which had effectively held the defendants to ransom because their album was already on the market. The effect of granting an injunction would have been to enable Ludlow to demand an excessive price for permitting the defendants to continue selling the album. For this reason, among others, he held that the injunction issue merited further argument and could not be resolved on summary judgement but should go to a full trial.

Astrid Arnold

Further problems for proposed directive on artists’ resale rights

In June this year, the European Council of Ministers reached a “common position” on a controversial measure which would give artists throughout the European Union the right to receive a percentage commission when their original works are resold. The right would apply to works of graphic and plastic art including paintings, drawings, photographs, sculptures and ceramics and would last for the life of the artist plus 70 years (for the benefit of the artist’s heirs).

The UK, supported by Ireland, Austria, the Netherlands and Luxembourg, vigorously oppose the introduction of resale rights and the common position was therefore very much a compromise, as borne out by the fact that it includes a fifteen year implementation period for countries like the UK which do not already have resale rights.

However, the European Commission does not want to endorse this compromise and the European Parliament is also expected to oppose it. In these circumstances it is likely that the matter will be referred to a conciliation committee, consisting of members of the Council and of Parliament, who will then try to thrash out another compromise.

Astrid Arnold

Copyright in issue in divorce dispute

A v B (unreported, 31 July 2000) is a rare instance of a specialist copyright judge dealing with a divorce dispute. During the course of a marriage, a woman had kept a personal diary. She informed her husband that she wanted a divorce. Shortly afterwards, he secretly copied a couple of pages from it and then revealed to her what he had done.

The wife, contending that her husband had infringed her copyright and misused confidential information, sought by summary judgment an order

for delivery up of the retained copies. The husband argued that the pages copied from the diary contained information relevant to allegations being made in the divorce proceedings. He therefore sought to rely on s 45(1) Copyright, Designs and Patents Act, which provides that: “copyright is not infringed by anything done for the purposes of parliamentary or judicial proceedings”. Lloyd J held that the husband had a realistic prospect of establishing this at trial. He therefore dismissed the copyright claim.

In terms of the breach of confidence claim, the judge concluded that the diary pages contained private and confidential statements, which the husband had not known about from elsewhere. In any event, he said, the fact that allegedly confidential material also contained publicly known information was irrelevant for these purposes. Lloyd J therefore allowed this claim to proceed.

Caroline Clarke-Jervoise

Local authority must take PPL licence

On 23 November (unreported), Neuberger J ruled that a local authority was not exempt from having to obtain a licence to play recordings in public.

The claimant, the Phonographic Performance Ltd, is a collective licensing body which licenses the playing of sound recordings on behalf of most record companies and then distributes the income received to the rights owners involved. The South Tyneside Metropolitan Borough Council was a local authority which played sound recordings in various of its premises, for example in sports halls and swimming pools.

The claimant asked the authority to take out a licence, but it refused, relying on the exemption in s 67(1) Copyright Designs and Patents Act 1988. This provides that the copyright in a sound recording is not infringed where the recording is played "as part of activities of, or for the benefit of, a club, society or other organisation..." provided certain conditions in s 67(2) are satisfied.

These conditions are that:

- (a) the organisation is not established/run for profit and its main objects are charitable or otherwise concerned with the advancement of religion, education or social welfare, and
- (b) that any admission charges are applied solely for the purposes of the organisation.

PPL commenced infringement proceedings against the authority and Neuberger J had to decide as a preliminary issue whether s 67(1) was wide enough to include a local authority. He ruled that it was not. The main functions of such a body were to raise money and provide statutory functions for a particular region, in relation to housing, planning, licensing and finance. None of these was within the categories in s 67(2)(a).

If s 67 could be construed to include a local authority, the exemption might be extended to all arms of national, local and regional government. This could not have been Parliament's intention.

Lindy Golding

Miscellaneous

New Inland Revenue Note on IP taxation reform

As part of the Chancellor's Pre-Budget report, the Inland Revenue has published a further Technical Note on the "Reform of Taxation of Intellectual Property, Goodwill and Intangible Assets" This is the fourth in a series of papers on this subject, the intention of which is to consult on aligning the tax treatment of intellectual property with its accounting treatment. The Note (available on the Revenue's website at www.inlandrevenue.gov.uk/pbr2000/ct_reform2.pdf):

- confirms the Government's intention to legislate on this topic in the Finance Act 2001
- proposes the extension of the new rules to all intangible assets within the scope of FRS 10, including goodwill
- proposes to confine the new rules to corporation tax, with the prospect of later extension to income tax
- discusses the need for anti-avoidance legislation to challenge aggressive write-off policies, distorted apportionments of values as between intangible and other assets, asymmetry of tax treatment as between vendor and purchaser of intangibles, and other forms of manipulation.

The most difficult issues addressed, but not resolved, by the note relate to the transition from the existing to the proposed new system, in particular in relation to goodwill. This is currently treated as a capital asset attracting rollover relief. Under the new system it will generate a revenue deduction for depreciation.

No new proposals are made to reform the requirements under current law to withhold tax from royalty payments in some circumstances. However, in a parallel announcement, it is proposed to abolish all withholding taxes on payments between two UK corporation tax-paying entities.

Chris Major

ECJ rules on application of Commercial Agents Directive

In *Ingmar GB Ltd v Eaton Leonard Technologies Inc* (unreported, 9 November 2000 - case 381/98) the European Court of Justice held that commercial agents are entitled to indemnity or compensation in the event of breach of their relations with their principal, irrespective of the law by which the parties intended the contract to be covered.

In this case, Eaton had employed Ingmar as its commercial agent in the UK. The contract between the parties was stated to be subject to Californian law. However, under Article 17(1) of the EU Commercial Agents Directive, EU Member States are required to ensure that commercial agents are, after termination of the agency, indemnified or compensated. By Article 19, the parties may not derogate from Articles 17 and 18 to the detriment of the commercial agent before the agency contract expires. The issue was whether the right to indemnity or compensation was lost because of the choice of Californian law.

The court held that it was essential for the Community legal order that a principal established in a non-member country, whose commercial agent carries on his activity within the Community, cannot evade those provisions by the simple expedient of a choice of law clause. Articles 17 -19 of the Directive were mandatory in nature.

Rona Bar-Isaac