

Newsletter
June 2000

Intellectual property

In this issue

Major items of interest

- 1 M & S wins appeal against copyright licensing agency
- 1 Recent EU initiatives on copyright
- 5 Court gives guidance on construing a patent licence
- 7 Second thoughts on trade marks for retail services?
- 10 Chancellor exempts IP transactions from stamp duty
- 13 US court rules on copyright action against MP3.com

Special focus

- 14 EPO decision on patentability of plant varieties

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.

For advice or information on our Intellectual Property practice, please contact:

Robert Anderson (London)
Henning Harte-Bavendamm (Hamburg)
Milan Chromecek (Paris)
Henry Wheare (Hong Kong)
Verena Von Bomhard (Alicante)

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.

Lovells © 2000

Copyright and designs

M & S wins appeal against copyright licensing agency

On 26 May, the Court of Appeal allowed an appeal by Marks and Spencer plc against the Newspaper Licensing Agency Ltd.

The NLA operates a collective copyright licensing scheme on behalf of most national and regional newspaper publishers. Under the scheme, the publishers assign their typographical copyright (that is the copyright in the physical layout of the newspaper text and images) to the NLA. In return, the NLA licenses third parties (for example press cutting agencies) to make copies from these newspapers for a fee. The NLA then distributes royalties thus earned to the publishers in the scheme.

M & S did not belong to this scheme and, in 1997, the NLA successfully sued it for copyright infringement, on the basis that the retailer unlawfully made around a quarter of a million copies of press cuttings per year for internal distribution. M & S appealed.

Section 1 Copyright Designs and Patents Act 1988 provides that copyright subsists in, *inter alia*, the “typographical arrangement of published editions”. Section 8 defines “published edition” as “the whole or any part of one or more literary, dramatic or musical works”. The Court of Appeal held that the italicised phrase referred to the typographical arrangement of the whole newspaper, rather than to the typographical arrangement of each article published in it.

For these purposes, therefore, the NLA had to show that M & S had copied all or a “substantial part” of the typographical arrangement of the newspaper.

The Court of Appeal held that the most important, but not sole, factor, to consider here was the *quantity* of the work copied. This required a comparison of the parts copied with the whole of the published edition, which was largely a matter of impression. Applying this test, M&S’s copying did not amount to the copying of a substantial part of the copyright work.

The Court went on to decide that, had this not been the case, M & S would not have been able to rely on the defence under s 30(2) of “fair dealing for the purposes of reporting current events”. The defence was based on the public interest, while M & S was copying and distributing materials for its own private, commercial interests. However, the Court said that, had it found that the dealing *had* been for the purpose of reporting current events, it would have gone on to find that the dealing was *fair*, since the commercial motives of M&S could not be impugned.

Lindy Golding

Recent EU initiatives on copyright

The following is a summary of some recent copyright law initiatives within the European Union:

DECODERS

New regulations came into force on 28 May 2000, designed to protect pay-TV and other subscription services such as music and video on demand and on-line information services against illicit decoders.

The **Conditional Access (Unauthorised Decoders) Regulations 2000** implement EU Directive (No 98/84/EC) which aims to stop commercial dealings in illicit decoders and to harmonise the laws of Member States in this area. Subscription services are seen as important in breaking down barriers between EU Member States as they facilitate the provision of broadcasting and information services cross border.

The Regulations expand the existing provisions on illicit decoders in ss 297A and 298 Copyright Designs and Patents Act 1988. Under these provisions (as amended) it is an offence to deal commercially in unauthorised decoders, including making, distributing, storing, importing or installing them for commercial purposes or advertising them by means of commercial communications. A decoder is unauthorised (broadly) if it allows payment of a fee to be avoided.

Civil remedies are also available against people dealing in illicit decoders and against people who publish information for avoiding payment of the fee. The remedies available are the same as a copyright owner would have in respect of an infringement of copyright and may include damages, injunctions and orders for delivery up.

PROGRESS ON COPYRIGHT DIRECTIVE

A Directive harmonising certain aspects of copyright across the EU is expected to be finalised by late 2000 or early 2001. This focuses particularly on issues raised by new products and services such as on-line information and music services and digital recording media. It will implement the main elements of two 1996 WIPO Treaties on copyright and related rights.

Key features of the proposed Directive include:

- Member States must ensure that copyright owners' exclusive rights cover the situation where the work is made available for access by members of the public individually, as for example on-line information services
- in order to protect telecommunications providers it is made clear that merely providing the physical facilities for a communication will not constitute infringement
- under a mandatory exception, certain temporary or incidental copying will not constitute infringement - for example, cache copies and copies made as part of the technical process of transmitting the work over the Internet
- Member States must provide protection against activities that would enable anti-copying devices to be circumvented.

A common position on the Directive is awaited in the near future. After the common position has been reached, it is very unlikely that significant changes will be made.

E-COMMERCE DIRECTIVE

The European Parliament adopted the E-Commerce Directive on 4 May 2000. Under this, service providers will not be liable for information transmitted on a communication network, or for information stored for the purpose of making a transmission more efficient or for information stored by a "host" service provider. This is on the basis that the service provider is a "mere conduit" and does not control transmissions except in a mere technical, automatic and passive way and that it does not alter stored information.

Service providers will not be duty-bound to take positive steps to seek out infringing material, although Member States may introduce provisions requiring them to provide information about illegal activities. A service provider who becomes aware that it is storing infringing material has a responsibility to act quickly to remove or disable access to it. A court/administrative authority may require a service provider to stop or prevent an infringement and Member States may establish procedures on the removal or disabling of access to information hosted by a service provider.

Astrid Arnold
Elizabeth Newman

Liability of directors for company's copyright infringement

In *MCA Records Inc v Charly Records Limited* (unreported), the High Court had to decide when a (quasi) director of a company could be held personally liable for its copyright infringement.

MCA sued five companies in the Charly group of companies (CRL) for infringement by copying and issuing to the public certain sound recordings. In order for a director or an employee of a company to be personally liable for the company's tort, it is necessary to show either that he was the person who committed, or participated in the act constituting the tort, or that he directed or procured the tortious act by the company.

The individual in question, Mr Young, was not a director of any of the relevant companies at any material time. However, the judge (Rimer J) held that in practice he controlled the affairs of at least two of the other defendants. On the evidence, there was a compelling inference that he was the overall head of the company, to whom everyone deferred.

Rimer J held that there was insufficient evidence to make Mr. Young liable for participating in the wrongful copying and/or issuing activities.

However, he could be said to have procured CRL's unlawful copying and issuing activities. The reissue of the recordings by CRL had been made possible almost exclusively by his efforts (in bringing in master tapes etc) and he intended CRL to exploit them to the full and he knew that it was doing so. The judge further found that Mr Young had been in a position to stop CRL's actions in copying and issuing the recordings, which he had failed to do even when MCA won an action in California concluding that CRL had no title to them.

The judge therefore concluded that Mr Young was, at least, responsible for impliedly directing or procuring the tortious acts of infringement by CRL of which MCA complained. He further found the

breach of copyright to be flagrant in its continuance following the US litigation. He therefore gave judgment for the claimants.

Sarah Turner

Copyright tribunal's power to determine dubbing licence fees

In *Phonographic Performance Ltd v Candy Rock Recording Ltd*, (unreported, 30 March 2000), the Court of Appeal considered the powers of the Copyright Tribunal to determine the fees payable for dubbing licences.

Candy Rock provides background music to shops, hotels etc and had obtained a dubbing licence from PPL, the UK licensing body for the use of sound recordings. In 1995, the terms of the licence renewal offered by PPL were unacceptable to Candy Rock, so it referred the issue to the Tribunal under s 125 Copyright, Designs and Patents Act 1988.

Section 129 of the Act sets out the relevant facts to be taken into account by the Tribunal in these circumstances. These include the availability of other schemes or the granting of other licences to others in similar circumstances, and the terms of those schemes or licences. In its interim decision, the Copyright Tribunal stated that, whilst the relevant comparator was a narrowcast licence, to ensure that a dubber paid the same royalty as a narrowcaster was to ignore the commercial reality that customers of dubbers had to pay a site licence fee, while customers of narrowcasts did not.

PPL appealed to the High Court, submitting that the Tribunal had erred in law by the way in which it had determined the royalty to be paid. The High Court dismissed the appeal, holding that the Tribunal had been in error in concluding that s 129 required it to set a rate which would permit Candy Rock and other dubbers to compete with narrowcasters, but had been fully entitled to take into account the fact that Candy Rock's customers had to pay site licence fees when a narrowcaster's customers did not.

On appeal by PPL, the Court of Appeal affirmed this decision. It held that the Tribunal's task under s 125 was to arrive at terms for a licence which were reasonable in the circumstances, bearing in mind the matters set out in s 129. This required the Tribunal to have regard to all the relevant considerations (s 135), although the weight of each of these was a decision for the Tribunal. Section 129 was not limited to a comparison between licences granted by the same person, but required the Copyright Tribunal to seek to secure that there was no unreasonable discrimination between licensees, bearing in mind the commercial reality.

Richard Dickinson

Patents

Court gives guidance on construing a patent licence

In *Oxford Gene Technology Ltd v Affymetrix Inc* (unreported, 19 May 2000) Jacob J had to construe a patent licence. The clause that (implicitly) provided for the grant of a licence was silent as to the extent of the licence to be granted. The judge, as a preliminary issue in a patent infringement action, was faced with the choice between “a very unreasonable result of a licence for any purpose and a licence for the more reasonable result of Consortium purpose only”.

The judge opted for the latter construction, applying what Lord Reid said in *Wickman Tools v Schuler* [1974] AC 23 5 at p.25 1:

“The fact that a particular construction leads to a very unreasonable result must be a relevant consideration. The more unreasonable the result, the more unlikely it is that the parties can have intended it, and if they do intend it, the more necessary it is that they shall make that intention abundantly clear.”

Jacob J commented that anyone familiar with patent licences knew that they very rarely contained “standard” or usual terms. Licences were nearly always negotiated on a one-off basis. Even “boiler plate” clauses, such as accounting clauses, or clauses dealing with enforcement against third parties, came in a myriad of different forms.

The judge also commented that, in general, if the parties in such circumstances had left a clause unchanged, they must be taken to have intended it to have the same meaning in their amended agreement as it had in the original. Had they intended to change its meaning, the natural step

would have been to make an explicit alteration. A change of meaning was not to be inferred simply by reference to other clauses, even if they were new.

Graham Burnett-Hall

Proposed change to rules on patenting of software and business methods

The current system of European patents was set up by the European Patent Convention (which is independent of the European Commission). Article 52 of the Convention prohibits the patenting of computer programs and business methods as such. In practice the European Patent Office (“EPO”) has been granting patents for software-related inventions which are considered to have some “further technical effect”. Exactly what this means, however, is not clear and so has led to unpredictability as to whether patents will be granted in specific situations or not.

The more liberal approach in the US and Japan to the grant of such patents has led to concern from both the EPO and the European Commission that the current European system places the European software, financial and information services industries at a disadvantage. Both bodies have therefore both proposed changes to bring Europe into line with international developments.

The EPO initially suggested amending Article 52 to remove the exclusion of computer programs and business methods as such. The Commission proposes a Directive this autumn to harmonise EU laws to enable computer programs, but not business methods, to be patented. It has also proposed to

revive the European Community patent (established by the Treaty of Luxembourg but never actually brought into force) via a regulation, a draft of which is expected in July.

The Commission said that the Member States and European Parliament are “generally supportive” of the anticipated proposals. The UK government has also confirmed its approval, although the DTI stresses that business method inventions which receive patent protection should be of a sufficiently high quality. For the European patent system to be harmonised effectively, parallel initiatives for change must take place at both the Commission the EPO, or the system will remain impractical and continue to send a mixed message to business and industry.

Nicola Dagg

Consultation paper on implementation of the biotech directive

EC Directive 98/44 addresses the need for a harmonised approach to patent protection for biotech inventions. With this Directive the European Parliament finally acknowledged the role that biotechnology plays in a range of industries and the importance that proper protection will have for the industrial development of the European Union.

EU Member States must implement the Directive by 30 July 2000. Drafts of amendments to the Patents Act 1977 and associated Rules have been produced, although these will not fundamentally change UK patent law, under which human genes as they exist in our cells are not patentable, nor is the simple discovery of a gene sequence in nature, nor the information contained in such a sequence, since they are not of themselves inventions.

The following are the most important provisions in the directive:

PATENTABILITY

An invention is not to be considered unpatentable solely on the ground that it concerns a biological

product or process. Biological material **may** be the subject of an invention even if it previously occurred in nature, **provided** it is isolated from its natural environment or is produced by means of a technical process. For example, neither the human body, nor the mere discovery of one of its elements, can be patented, and this exclusion extends to the discovery of gene sequences. However, elements of the human body, including genes, isolated from the body or produced by a technical process can be patented, provided they meet basic patentability criteria (that is novelty, inventive step and industrial application). In the case of a gene, the function of the nucleic acid or protein for which it codes must be specified in the patent.

SCOPE

Protection for genetic material with specific characteristics resulting from the invention extends to all biological material derived from that material through propagation or multiplication. A process patent will also cover products directly obtained from the process and material derived from those products. Protection also extends to products containing protected material for example a patented gene in a product such as a transgenic plant.

How the Directive makes a difference remains to be seen. One hopes that it will ensure a more consistent approach to biotechnology inventions across Europe and encourage investment in this vital area of research.

Sarah Turner

Patent office website

It is now possible to search for UK, European and other WIPO country patents (for example the US) on the Patent Office’s website (www.patent.gov.uk). However, it is only possible to view pages one at a time, making printing a laborious business, so this facility may only be useful in urgent cases.

Graham Burnett-Hall

Trade marks

Second thoughts on trade marks for retail services?

In the UK, as in certain other EU countries, it is not possible to register trade marks for retail services. However, a recent decision in the Community Trade Marks Office (OHIM) and a test case currently before the UK Patent Office may change this.

The UK's Trade Marks Act 1994 defines a trade mark as "any sign capable of being represented graphically, which is capable of distinguishing goods and services of one undertaking from those of another". It is implicit that undertakings must be *trading* in goods or services. Retail services are seen as merely ancillary to trading in goods and, as they also do not constitute a business in the provision of services, trade marks in respect of them have been held not to be registrable.

In Germany, as in the rest of Europe, the national system is based on the 1957 Nice Agreement on the International Classification of Goods and Services for the Purposes of Registration of Marks. This contains no specific reference to registration for retail services. As trade marks are only protected in respect of the specific goods or services for which they are registered, the German Patent Office believes that a registration for retail services, which would cover any goods sold by a retailer, is too broad for the scope of protection to be determined.

However, in December 1999, the OHIM's Second Board of Appeal held (in the *Giacomelli Sport* case (R 46/1998 - 2)) that Community trade marks ("**CTMs**") *could* in principle be registered for retail services, provided that the sector in which the services were to be rendered was clear. This goes

against the OHIM President's opinions on the case and a Joint Statement by the Council and Commission that retail services are not services under the CTM Regulation ("**CTMR**").

Giacomelli had applied to register a device mark under class 35 of the Nice Classification with the specification of: "Bringing together, for the benefit of others, of a variety of goods - excluding transport - to enable consumers to view and buy the products". The examiner refused the application as the specified activity was ancillary to the sale of goods and therefore not a service. Additionally, such activities were in the interests of the applicant alone. The applicant appealed.

"Services" is not defined in the CTMR, the Board followed the dictionary definition and found they could be for the benefit of others. Furthermore, retail services *could* be mutually beneficial to both retailer and consumer. The Board also noted that there was no requirement in the CTMR that services must be for money or money's worth.

This decision will have a huge impact on EU trade mark laws, so OHIM will not follow it until the European Court of First Instance decides a case on the point. In the meantime, applications for registrations in respect of retail services will stay pending and OHIM is canvassing opinion from national trade mark offices and NGOs within the European Union.

At the end of 1999 the UK Patent Office heard a test case on this issue for registration of the "Debenhams" and "Dewhurst" trade marks. No decision has yet been issued. Although this case turns on whether retail services are services within the definition of trade mark, rather than if they are services in the ordinary sense of the word, the

Giacomelli decision may act as a persuasive indicator of shifting attitudes and a willingness to resolve this issue.

David Latham

New decision on threats of trade mark actions

L'Oréal (UK) Ltd v Johnson & Johnson (unreported, 7 March 2000) sounds a further warning on the importance of careful drafting to avoid a “threats” action under s 21 Trade Marks Act 1994.

L'Oréal launched a range of children's hair products in the UK and Ireland under the name “L'Oréal Kids”. Its packaging carried the slogan: “No Tears! No Knots!”. Johnson and Johnson (“**J & J**”), which had registered trade marks in the UK and Ireland for “Johnson's no more tears” and “No more tears” for baby shampoos, objected to the slogan.

The “threat” came about in a rather strange way. Proceedings were commenced in Ireland. L'Oréal then asked J & J to confirm that proceedings would not be brought in the UK. J & J's reply declined to give that confirmation but did not clearly state that it was planning to sue. L'Oréal alleged that this letter constituted an unjustified threat of trade mark infringement proceedings. It sought a declaration of non-infringement. In response, J & J applied for summary judgment on the ground that the claim stood no reasonable chance of success. The Master gave judgment for J & J. L'Oréal appealed to the High Court.

Lightman J allowed the appeal and reinstated the claim for a declaration. He was clearly unimpressed by the letter from J & J's lawyers, commenting that its author was:

“a master of Delphic utterances who uses all his skills to say everything and nothing and to convey an enigmatic message which has the same effect on the recipient as a threat or adverse claim, whilst disclaiming to be either.”

He considered that there had been an actionable (albeit “veiled and muffled”) threat. While the

letter appeared to say that J & J was reserving its position, it also stated that:

- (a) J & J had a six year time limit for bringing any proceedings;
- (b) other people had stopped using the “No Tears” slogan when challenged by J & J;
- (c) J & J considered L'Oréal's use unfairly sought to benefit from J & J's goodwill; and
- (d) J & J would not give L'Oréal any comfort on the question of whether or not they intended to bring UK proceedings at any point in the future.

This case adds to the growing line of decisions where threats have been found to exist in the context of letters which do not expressly threaten infringement proceedings. It also emphasises the difficulty for a trade mark owner who is undecided whether or not to sue a potential infringer. If the infringer asks for an absolute assurance that no proceedings will be brought, the trade mark owner has a dilemma. If he gives that confirmation and then changes his mind, he could be met with a defence that he is estopped from complaining by reason of acquiescence. If he says he has not yet decided whether to bring infringement proceedings, such a response could be interpreted as a threat. Like it or not, a trade mark owner can be forced into a position of having to take a decision at the insistence of an infringer, rather than in his own time.

Patrick Wheeler

ECJ decision on anti-counterfeiting regulation

On 6 April, in *Polo/Lauren Co LP v PT Dwidua Langgeng Pratama* (Case C-383/98) the European Court of Justice had to consider the application of Council Regulation (EC) 3295/94. This Regulation entitles intellectual property right owners to obtain orders from their national court, requiring customs authorities to detain goods suspected of being counterfeits of their products, which are in transit through their country.

Polo/Lauren, a US company, obtained an order requiring Austrian customs authorities to detain t-shirts featuring some of its registered trade marks. The goods were in transit from Indonesia to Poland. The Austrian Supreme Court, sought a preliminary ruling from the ECJ on whether the Regulation applied in such a situation, that is where neither country was a member of the EU. The ECJ held that it did.

Caroline Clarke-Jervoise

Scottish court decides parallel importing case

In *Joop! GmbH v M & S Toiletries Ltd* (unreported, 4 April 2000), the Scottish Court of Session had to grapple with the rules on parallel importing.

Joop! marketed its perfume in south-east Asia via an exclusive distributor based in Singapore. The exclusive distribution agreement between the parties made it plain that it was their intention that the distributor could only sell the product in the territory and was to oblige its “sub-distributors, sub-agents and/or retailers” to refrain from making sales outside it.

The defendants imported the perfume from Singapore into Scotland, via Holland. They also tampered with the product, removing bar codes, making it impossible to identify its source of origin. When the perfume was placed on the market in Scotland, Joop! sued for infringement of its UK registered JOOP! trade mark. The dispute was, as is common, essentially a commercial one: the price obtained for Joop! in Scotland was far higher than it was sold for in Singapore.

The defendants argued firstly (though this was not pursued) that Joop!’s rights in its registered trade mark were exhausted by the sale within the European Economic Area of *any* goods of the type in question, not necessarily the particular batches of goods in dispute. Secondly, and more seriously, they argued that Joop! had consented to the sale of the product within the EEA. They relied on s 12(1) Trade Marks Act, 1994, which provides: “a

registered trade mark is not infringed by the use of the trade mark in relation to goods which have been put on the market in the European Economic Area under the trade mark by the proprietor or with his consent”.

In support of this, the defendants contended that, since Joop! had not obliged its exclusive distributor to impose restrictions on *retail* customers not to export the goods from Singapore into the EEA, by implication it had consented to their export there.

The Court rejected the defendants’ arguments, stating that Joop! had done all that it reasonably could to limit sales to Singapore, and in any event had reserved its trade mark rights in the distribution agreement. The defendants’ approach came close to saying that, unless a trade mark proprietor effectively blocked every avenue of later importation into the EEA, it was at risk of having consented to such importation. It also rejected the view that the goods should have been marked with the words “Not for sale in the EEA”, or some such, since this would (a) serve to indicate to consumers that the perfume was in some way of inferior quality; and (b) have been of no contractual effect. In any event, such notices could easily be obliterated or removed.

The Court further held that it was a matter of settled law that Article 7(1) Trade Mark Directive (on which s 12(1) Trade Marks Act 1994 is based) only provided for Community wide - and not international - exhaustion of rights: Member States were precluded from adopting the principle of international exhaustion.

It should be noted that the defendants did not rely upon an aspect of English law which played a significant part in the decision of Laddie J in *Zino Davidoff SA v A & G Imports Ltd* (see our June 1999 issue), namely a rebuttable presumption that, in the absence of full and explicit restrictions being imposed on purchasers at the time of purchase, the vendor was to be treated as having consented to the goods being used as the purchaser wished, including their importation into the EEA. Although Scots law was not relevant to resolution of the present dispute it was uncertain whether such a principle would be applied, or applied in precisely the same way, there.

Simon Harper

Miscellaneous

Chancellor exempts IP transactions from stamp duty

In a bid to “boost R&D”, Chancellor Gordon Brown exempted intellectual property transactions from stamp duty in his April budget. The exemption is set out in the Finance Bill 2000. It applies to instruments executed on or after 28 March 2000 and covers transfers of patents, trade marks, registered and unregistered designs, copyright and plant breeders’ rights. The Stamp Office has confirmed that it interprets “trade marks” to include both registered and unregistered trade marks.

Transfers of goodwill remain chargeable. This raises the question: what is the borderline between trade marks and goodwill for these purposes? The Stamp Office has (informally) expressed the view that, where a trade mark is transferred with goodwill, the goodwill attributable to the trade mark is also exempt. This approach makes the exemption potentially very valuable in relation to trade marks that have a significant reputation.

The list of exemptions in the Finance Bill does not include domain names or database rights. However, the Stamp Office has also indicated that it will, nevertheless, regard these as coming within the umbrella of intellectual property for the purposes of the exemption.

If intellectual property is transferred together with assets that are chargeable to stamp duty, then the consideration must be apportioned between the intellectual property and the other assets on a “just and reasonable” basis. This applies whether or not the other assets are transferred in the same document.

On the transfer of a business including goodwill, a just and reasonable apportionment should be made between the consideration for the trade marks (registered and unregistered) with their associated goodwill and the consideration for the rest of the goodwill. Stamp duty will be payable on the latter. This apportionment may be very difficult to make and, where substantial sums are involved, it will often be advisable to obtain an independent valuation to support the apportionment.

Under the new provisions, intellectual property should also be disregarded for the purposes of a certificate of value. (A certificate of value is statement in a document confirming that it does not form part of a larger transaction or series of transactions with an aggregate consideration that could result in it being stampable, or stampable at a higher rate.)

Mr Brown’s move in exempting intellectual property from stamp duty is clearly to be welcomed, as is the Stamp Office’s favourable approach to the definition of the rights included within the exemption and to the overlap between goodwill and trade marks. It would be preferable, however, if the wording of the Finance Bill were changed to make these points clear. The Bill is in committee at the moment. It is possible, albeit unlikely, that, during its passage Government spokesmen will make statements clarifying the intended extent of the exemption.

Businesses taking advantage of the Stamp Office’s liberal approach to this exemption may wish to consider having their documents adjudicated, in order to avoid the possibility of interest and penalties at a later date. An informal expression of opinion by a Revenue official as to the scope of ambiguous legislation is unlikely to bind the Revenue if it later changes its mind. It should also

be borne in mind that other tax and/or accounting factors might make it undesirable to apportion a large part of the consideration for the sale of a business to intellectual property rights.

Astrid Arnold

EU Commission block exemption on vertical restraints

On 1 June 2000, Regulation No 2790/1999 came into force. This exempts certain types of "vertical agreements" from Article 81 EC Treaty. Art 81 (formerly 85) outlaws agreements that appreciably distort competition in the EU and affect trade between EU Member States.

The European Commission generally considers "vertical restraints", ie restrictions in agreements between businesses at different levels in the supply chain, to be less restrictive than restraints in horizontal agreements (ie where both are at same point in the chain). The new block exemption replaces the previous block exemptions for exclusive distribution and purchasing and franchising agreements, although there are transitional provisions for agreements that were already in force on 1 June 2000.

The new block exemption only applies to vertical agreements where the supplier's market share is no greater than 30%. Agreements containing "hard core" restrictions such as resale price maintenance are not covered by the block exemption. For companies with market shares of 30% or less, the new block exemption is to be welcomed, but companies with higher market shares lose the safe harbour of a block exemption for their vertical agreements.

If you would like to know more about the new Regulation, please speak to Lesley Ainsworth or your usual contact in our EU and Competition group.

Lesley Ainsworth

Court explains its role in monitoring injunctions

On 29 February 2000 the High Court indicated in *British Telecommunications plc v Nextcall Telecom plc* that it was not prepared to become embroiled in commercial and management questions to determine whether an injunction had been breached.

The defendant, Nextcall, was a new entrant into the telecommunications market and provided telephone services in competition with BT. It sold its services door-to-door. BT discovered that a number of Nextcall's employees had been lying to potential customers in order to boost sales, and had misrepresented that Nextcall was part of or associated with BT. After an exchange of letters Nextcall agreed, without qualification, neither to pass itself off as having an association with BT nor to infringe any of BT's registered trade marks.

Despite giving these undertakings, some (albeit fewer) of Nextcall's employees continued with the offending conduct. BT commenced proceedings for trade mark infringement and passing off, and sought an interim injunction pending trial. Although Nextcall was prepared to agree to an injunction, it argued that the conduct of its salesforce was not only unauthorised but also contrary to instructions. It was concerned that it would find itself in breach of an injunction because of the rogue conduct of a few low-level employees. It therefore agreed to an interim injunction with the proviso that it would not be in breach of the injunction if it maintained to the reasonable satisfaction of the Court a regulatory procedure designed to prevent a breach of the injunction.

The Court refused to grant a permanent injunction on this qualified basis. It stated that the extent to which low level employees could be controlled depended very much on management and the systems it implemented. If the Court became involved in determining such management questions, the line defining what a defendant must not do would become very unclear.

However, the Court indicated that it would not be sensible for BT to bring contempt proceedings for minor breaches of the injunction. If it did so, it was

unlikely that Nextcall would be punished, provided it had taken reasonable precautions. Indeed, the Court warned that BT might be penalised on costs if it made pointless applications.

Diane Hamer

Overseas developments

US court rules on copyright action against MP3.com

On 28 April, a US federal judge ruled that MP3.com, the US online music service, had infringed the copyright of a number of leading record labels.

The Recording Industry Association of America, on behalf of several record companies, sued MP3.com for copyright infringement in relation to two services: “Instant Listening” and “Beam-It”. With the former, a user buys a CD from an online retailer with which MP3.com has an arrangement. MP3.com then puts the CD straight into his MP3.com “locker”. With Beam-It, the user puts a copy of a CD into his ROM drive, which MP3.com puts into his MP3.com locker. Thereafter, the user can access these CDs via a computer connected to the Internet.

To achieve this, MP3.com has created a digital music library of over 45,000 albums. In both cases, it uses MP3 technology under licence, although the RIAA has no objection to the technology itself. Rather it takes issue with the fact that MP3.com has not sought permission from the rights-owners involved before copying the CDs onto this database.

Judge Rakoff, in a summary judgment, held that this amounted to copyright infringement. He rejected the defendant’s argument that the practice constituted “fair use”. The fact that MP3.com customers had to own an original copy of the CD to store it in the database did not alter the fact that MP3.com’s copying was unauthorised.

Caroline Clarke-Jervoise

Special focus

EPO decision on patentability of plant varieties

In its decision of December 1999, the EPO's Enlarged Board of Appeal decided some fundamental questions on the patentability of plant varieties. Many industrial property groups, firms active in plant breeding (for example PGS and Monsanto) and environmental organisations (Greenpeace) took interest in the case and filed statements with the Board before the decision was rendered.

The patent application (*Transgenic Plant/Novartis II*) at issue related to the control of plant pathogens in agricultural crops. It contained claims to transgenic plants comprising in their genomes specific foreign genes, the expression of which resulted in the production of antipathogenically active substances.

WHAT IS A "PLANT VARIETY"?

EPO case law has held, drawing on the UPOV Convention (an International Union for the Protection of New Varieties of Plants), that the term "plant variety" means a:

"multiplicity of plants which are largely the same in their characteristics and remain the same within specific tolerances after every propagation or every propagation cycle."

Plant breeders' rights are concerned with specific plant groupings defined by their whole genome, not only by individual characteristics.

THE HISTORY BEHIND THE PATENTING EXEMPTION FOR PLANT VARIETIES

Under Article 53(b) European Patent Convention (EPC), plant varieties may not be patented. This comes about because the 1961 UPOV Convention recognised the right of a plant breeder by granting either a special plant breeders' right **or** a patent. Simultaneous dual protection was not allowed. The Board concluded that this background suggested an intention to protect, by the plant breeders' rights systems, biological developments for which the patent system was less suited and to keep technical inventions related to plants within the patent system. In summary, Article 53(b) defined the borderline between patent protection and plant variety protection.

A CLAIM EMBRACING A PATENT VARIETY

In this case, the Board had to decide whether the application claims which embraced one or several plant varieties or parts thereof could be patented. The claims to transgenic plants in the application neither expressly nor implicitly defined a single variety.

The Board compared the Article 53(b) exemption with Article 53(a) which excludes inventions which are contrary to the "order public" or morality. The Board took the example of a copying machine with features resulting in an improved precision of reproduction. An embodiment could comprise further features of this apparatus whose only purpose would be the production of counterfeit money by reproducing the security stripes in bank notes. The claimed apparatus would cover an

embodiment which could be considered to fall within Article 53(a). However, there was no reason to consider that the copying machine would be excluded from patentability since its improved properties could be used for many acceptable purposes.

The Board held that if, as in this case, the product claimed did not identify a specific plant variety, the subject matter of the claimed invention was not directed to a plant variety (or varieties) within the meaning of Article 53(b) and a patent could be granted despite the fact that a variety or varieties might fall within the scope of the claims.

PROCESS CLAIMS FOR PRODUCING A PLANT VARIETY

The Board also held that process claims were allowed when the product obtained directly by the process was or covered a plant variety. This conforms with EPO case law confirming that the protection conferred by a process patent is extended to the products obtained directly by the process, even if the products are not patentable themselves.

Comment:

- this decision is in line with the Biotechnology Directive 98/44/EC (see above)
- the Board has indicated that the extent of the exclusion of plant varieties from product patents is the obverse of the availability of plant variety rights. As a consequence, the EPO will have to check whether one or more plant varieties are individually claimed. Where parallel plant variety protection has been applied for under the UPOV Convention or the CPVO (European Union Community Plant Variety Office) the EPO might rely on the parallel examination being carried out by these other bodies. In other cases, the EPO may consult the relevant bodies on whether the claimed product matches the requirements of a plant variety which may require experiments on the propagation.

Gerd Jaekel
Lovells, Hamburg

Is genetic modification a microbiological process?

The second half of Article 53(b) carves out, from the general exception, plant varieties produced from microbiological processes. In other words, plant varieties produced in this way are patentable. The Board considered the question of whether genetic modification of plant material is a microbiological process for the purposes of this article.

Under the UPOV Convention, it made no difference whether a plant variety resulted from traditional breeding techniques or genetic engineering. The Board concluded that the mere fact that a plant variety was obtained by means of genetic engineering did not give the producer of the plant variety a privileged position relative to breeders of plant varieties resulting from traditional breeding only. Therefore a plant variety produced by genetic engineering would fall within the exception to patentability in Article 53(b).