

Newsletter
June 2001

Intellectual property

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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

Matthew Read 1 - Arsenal - 0

Arsenal Football Club recently suffered a surprising setback when it sued a seller of Arsenal football merchandise. The club had registered the Arsenal crest and cannon as trade marks in the 1990s. It sold a wide range of Arsenal merchandise from the ground and also through licensees, some of whom were licensed to sell trade marked goods to unlicensed vendors. Any merchandise sourced or sold by the club indicated prominently that it was "official" and was manufactured on its behalf.

Matthew Read was a long-time Arsenal fan, whose company had been selling football souvenirs and memorabilia for over 30 years. He sold "Arsenal" goods from a stall outside the football ground. Some emanated from the club's licensee but the majority came from unofficial sources.

The club sued Mr Read for passing off and trade mark infringement. Laddie J (unreported - 6 April 2001) dismissed both claims. On passing off, he held that the club had failed to prove any confusion between the two sets of goods. Mr Read had carried on his trade for many years and a sign on his stall made clear that only goods with official Arsenal merchandise tags were official Arsenal merchandise. Another stated that some scarves on his stall were cheaper than others, because the latter were "official". On a balance of probabilities, Laddie J held, the reason that the club had not been able to produce evidence of actual confusion was that no such confusion had taken place. The club had not, therefore, suffered any relevant damage through Mr Read's activities.

As for trade mark infringement, the mere fact that words or designs were used on an item of clothing does not mean that they were being "used as a trade mark" for the purposes of the Trade Marks Act 1994. In the judge's opinion, Arsenal supporters would view the logos on Mr Read's goods as badges of support, loyalty or affiliation, not as trade marks to indicate trade origin.

The judge said that the question whether or not non-trade mark use constituted infringement of registered trade mark rights was a matter which, despite a referral by the Court of Appeal on the same point (in *Philips Electronics NV v Remington Consumer Products Ltd*) would probably still need to be resolved by the ECJ. This was because he suspected that the ECJ would not determine the point in that referral due to the way in which the Advocate General in Philips had framed his opinion.

In the *Philips* case (Opinion dated 23 January 2001), Advocate General Colomer stated that the question as to whether an indication of trade origin is required for a sign to infringe referred by the English Court of Appeal was rendered hypothetical by his answer to other questions at the core of the case. In summary, he found that under Article 3(1)(e) of the Trade Marks Directive, a shape, the essential features of which lead to the achievement of a technical result, cannot be registered, even if there are other shapes which can achieve the same result (in this case, rotary shavers). The Court of Appeal's question on trade origin was, in his view, another way of looking at the distinctiveness of a mark. That point was not in issue due to his view (and that of the Court of Appeal) on the unregistrable nature of certain shapes.

The ECJ will be asked to decide the following questions from the *Arsenal* case:

- (a) Does an alleged infringer have a defence if his use of a sign which is identical to the registered mark does not indicate a trade connection between the goods and the trade mark owner?
- (b) Is the use of a badge of support, loyalty or affiliation to the owner enough to indicate that connection?

The second question may not be decided if the ECJ holds that no indication of trade connection to the owner is necessary when the sign and the trade mark are identical.

Alastair Shaw

Who has the right to use the "Asprey" name?

Asprey & Garrard v WRA (Guns) Ltd (t/a William R Asprey Esq) (unreported, 18 May 2001 demonstrates the limits of the defence to trade mark infringement under s 11(2)(a) Trade Marks Act 1994.

The claimant was an established family business which, following a merger in 1995, had traded under the name Asprey & Garrard. The defendant was directly descended from the original founder of the company and had worked for the company for nine years. For the last three years of his employment he had run their gunroom. He left the company in 1999 (blaming the merger) and set up his own company specialising in guns, trading under the name William R Asprey Esq.

The defendant sold many products featuring the name "Asprey", including guns (for which Asprey had a UK registered trade mark). His shop was based in the West End of London, near the claimant's shop. The defendant also displayed a showcase at the Dorchester Hotel, which the claimant had previously done. The claimant brought proceedings for trade mark infringement and passing off. The defendant raised the defence

of "use of own name" under s 11(2)(a) Trade Marks Act 1994. The claimant applied for summary judgment.

Granting the application, the Court reiterated that an individual was entitled to carry on his business under his name, provided he did not do anything more than that to cause confusion with the name of the business of another and so long as he did so honestly. The defendant, by continuing to use the name, despite instances of proved confusion, had made deceptive use of the name "Asprey" and therefore failed the objective test of honesty. He therefore had no arguable defence under s 11(2).

Richard Evetts

Advocate General gives Opinion on exhaustion of rights

INTRODUCTION

On 5 April 2001, Advocate General Stix-Hackl delivered her Opinion (available at www.curia.eu.int) on the questions referred to the European Court of Justice by the English High Court in *Davidoff, Levi Strauss v Tesco and Levi Strauss v Costco & Others*. The ECJ, which usually follows its Advocate General's Opinions, will deliver its full judgment later this year.

These cases raised once again the problem of the principle of exhaustion of the rights conferred by a trade mark under Article 7 of the EC Trade Marks Directive, in the context of parallel imports, and the interpretation of the concepts of consent and legitimate reasons of the owner of the trade mark to oppose marketing of trade marked goods in the EEA.

In 1998, in *Silhouette v Hartlauer* [1998] ECR I-4799, the ECJ had held that a trade mark owner could prevent the importation of goods into the EEA if he had not "consented" to the imports. The Court elaborated on this in *Sebago v GB Unic SA* [1999] ECR I-4103, holding that trade mark rights

were only exhausted if the trade mark owner had consented to the placing on the market in Europe of each item.

In an English case, *Zino Davidoff SA v A&G Imports* [1999] 3 All ER 711, Davidoff sold or consented to the sale of genuine Davidoff perfume and aftershave, which bore its registered trade marks, in Singapore. Bar codes, containing source information, had been affixed to the products in accordance with Davidoff's obligations under the EC Cosmetics Directive.

A&G Imports Limited bought the goods and somewhere along the distribution chain, the bar codes were removed. When Davidoff sued for trade mark infringement, A&G alleged that Davidoff had impliedly consented to the importation of the goods into the EEA. Laddie J concurred, and held that, unless express instructions confirming that no such consent had been given were imposed on all parties in the distribution chain, Davidoff was presumed to have consented. Nevertheless, he decided that the proper construction of aspects of Articles 7(1) and (2) had not been determined and so referred a set of extremely detailed questions to the ECJ. ([2000] 2 CMLR 750).

In two unrelated trade mark infringement cases, *Levi Strauss & Co* and its licensee had refused to supply jeans bearing its marks to the UK's leading supermarket chain, Tesco, or to Costco UK Ltd, a membership-only discount warehouse chain. Tesco and Costco accordingly obtained them from other suppliers, including some who sourced their goods from North America, and none of whom stipulated where the goods could be sold.

Tesco and Costco both argued that they had an unlimited right to sell the jeans wherever they wished, whilst Levi Strauss said that it had imposed contractual restrictions on the resale of the jeans in North America, effectively prohibiting their importation into the EEA. Again, the English High Court decided that the cases raised fundamental questions on the meaning of "consent" in Article 7(1) and referred the matter to the ECJ (OJ 2000 C79 18/03/2000), which decided to join the three cases.

ARTICLE 7 OF THE DIRECTIVE

The concept of exhaustion of rights is spelled out in Article 7(1), which states that:

"The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent."

The effect of Article 7(1) can be negated by Article 7(2) where:

"there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market."

In *Davidoff*, Laddie J had decided that consent within the meaning of Article 7(1) should be construed on the basis of the law applicable to the first contract in the distribution chain. The Advocate General initially rejected this argument because of the practical difficulties it would cause. She also thought that such an approach was contrary to the directly stated objectives of the Directive as it was likely to re-import international exhaustion and impede the harmonisation of European trade mark laws. "Consent" should, therefore, be interpreted under Community law rather than under the relevant national law governing a particular contract.

The Advocate General then reviewed the case law concerning the condition of consent in relation to exhaustion of rights. She concluded that, as Article 7(1) draws a distinction between the marketing of goods by the trade mark proprietor or with his consent, "consent" must be more than the expression of legal intent necessary to conclude a contract. Consent is the action attributed to the trade mark proprietor which allows the legal consequences arising from exhaustion to take effect and which prevents him impeding the free movement of goods by artificially partitioning the market. The aim of the Community's national courts should be to determine objectively whether consent was given,

although this is subject to the condition that he had or could have had an opportunity to exercise his right to first market the goods bearing the trade mark within the EEA.

This right should however be balanced against general commercial interests, including those of the parallel importer. Consent under Article 7(1) solely relates to this exclusive right and control over marketing so that the proprietor should only be able to counter parallel imports if he had not yet exercised his exclusive right to control marketing of the goods within the EEA or had been unable to do so. A third party cannot therefore assume that the proprietor has consented to goods being placed on the market or has waived his right to do so, although he will not be protected if he has simply failed to act.

In order to determine whether the proprietor had exercised consent or had been given an opportunity to do so, it was crucial to determine who was responsible for the distribution chain. The national court, having regard to Community law, would have to balance the requirements of free movement of goods against the need to protect the trade mark and examine whether the trade mark proprietor's conduct, in all the circumstances of the case, could sufficiently justify a subsequent purchaser's belief that the proprietor had waived the exercise of his trade mark rights in the EEA. The court would then have to consider its conclusion against the principle of Community wide exhaustion rights set out in Article 7(1) so that it was not made practically impossible for the trade mark proprietor to rely on his exclusive right to first marketing in the EEA.

BATCH/BAR CODES AND ARTICLE 7(2)

The Court was also asked by the English High Court in *Davidoff* whether there were circumstances in which the removal or obliteration of a batch code number affixed to a product in pursuance of a statutory obligation could be treated as a "legitimate reason" within the meaning of Article 7(2).

In *Davidoff*, the batch code numbers had been damaged or erased so that it would be more difficult for Davidoff to trace the goods. The Advocate General considered that "legitimate reasons" in the

context of Article 7(2) would mean that further sales of the goods bearing the trade mark would affect the essential function of the trade mark in a way that the trade mark proprietor could not be expected to tolerate. Such sales must be liable to damage seriously the value, allure or image of the trade mark.

The Advocate General concluded that, in the absence of other repackaging or relabelling, damage to bar codes would only be relevant if it had a disproportionately adverse effect on the specific subject matter of the trade mark. This was the only case where an infringement of the EC Cosmetics Directive would be directly relevant to trade mark rights although the Advocate General thought that the position might be different if such an infringement imposed criminal liability on the trade mark proprietor.

CONCLUSION

Brand owners who felt that the English Courts' attitude was out of step with other jurisdictions, may take some comfort from this Opinion. In *Davidoff & Joop v M&S Toiletries Ltd*, on facts almost identical to those in the English *Davidoff* case, the Scottish court reached the opposite, and perhaps more orthodox, conclusion and was altogether less tolerant of parallel importers' efforts to demonstrate consent. An appeal against this decision was unfortunately abandoned on 29 May 2001, just before it was due to be heard, and so the Advocate General's Opinion will not now be tested until the ECJ issues its judgment later this year.

Until then, brand owners would be wise to review their standard terms and conditions to check that they have not consented, or apparently waived their right to consent, to the importation of trade marked goods into the EEA. Parallel importers should assess critically whether they will be able to prove that such consent, or a waiver equivalent to it, was given.

Sahira Khwaja

UK and Sweden urge move towards international exhaustion

On the subject of exhaustion of rights, the Swedish Government, currently the EU President, and the UK Government have launched a campaign to reform the EC Trade Mark Directive by introducing international exhaustion.

The two Governments, suspecting that goods are priced unduly, perhaps artificially, high in their countries, commissioned a survey (available on the DTI's website: www.dti.gov.uk) comparing prices charged for branded goods in the UK and Sweden. It apparently showed that certain branded goods, particularly CDs, DVDs, videos, computer games and some electrical and household goods, were significantly more expensive in Sweden and the UK than elsewhere in the Community. Both Governments advocate changes to the EC Trade Marks Directive to permit retailers to import products from anywhere in the world. They believe that this would increase competition in retail markets, encourage innovation, meet consumer needs and put downward pressure on the prices of many branded goods.

The European Parliament has already been considering this issue, and is expected to support the change, albeit in a less strongly worded form. However, the EC Commission does not share this view. Having analysed the position last year, it concluded that price differences for branded goods between Member States are not in fact caused by Community exhaustion of rights but by a number of other, largely domestic, factors, for example chains of distribution, levels of competition, indirect taxation and consumer preferences. In its view, therefore, a move to international exhaustion would only have a minimal impact on consumer prices. This view is shared by the EU's Economic and Social Committee, which concluded that it would be inadvisable to introduce international exhaustion.

This debate, therefore, is likely to run and run.

Sahira Khwaja

Licensing question referred to the ECJ

In *Scandecor Development AB (SD) v Scandecor Marketing AB (SM)* (unreported, 4 April 2001), the House of Lords referred to the European Court of Justice a number of important questions on the licensing of trade marks.

In *Scandecor*, the parent company ("ParentCo") was jointly owned by a Mr Huldtgren and a Mr Hjert. ParentCo owned UK trade registrations for SCANDECOR and distributed its poster products bearing the SCANDECOR name in the UK through its sole distributor and wholly owned subsidiary, SubsidCo.

In 1984 there was a reorganisation of the group, following which Mr Huldtgren owned SubsidCo and Mr Hjert ParentCo. Following this re-organisation, SubsidCo remained sole UK distributor for Scandecor posters originating from ParentCo and was also exclusively licensed to develop and sell its own cards and calendars under the SCANDECOR name in the UK. This licence contained no provisions allowing ParentCo to control the quality of the licensed card and calendar products put on the market by SubsidCo (a "bare licence").

In 1994 ParentCo became insolvent and as a result SubsidCo's distributorship and licence agreements terminated. Despite this, however, ParentCo continued to supply its SCANDECOR marked posters to SubsidCo until 1997. SubsidCo then decided to sell products produced by itself or obtained from other sources under the SCANDECOR name in the UK.

ParentCo sued for trade mark infringement. SubsidCo contended that the trade marks should be revoked under s 46 (1) (d) Trade Marks Act 1994. This allows a registration to be revoked if "...in consequence of use made of [the mark] by the proprietor or with his consent... it is liable to mislead the public, particularly as to the nature, quality or geographical origin of those goods or services".

SubsidCo argued that, if these marks were distinctive of ParentCo then, at least as regards calendars and cards, the marks had become deceptive. A trade mark must be an indication of origin., yet, for years, ParentCo had not been the origin of these goods, nor had it exercised quality control over them. SubsidCo submitted that, if a mark belongs to X but with X's consent it is used in relation to the goods of Y, over whom X has no quality control, the mark has ceased to be distinctive.

When the issue reached the House of Lords, Lord Nicholls, giving the main judgment, disagreed. In his view, one had to consider first the current purpose of a trade mark, which was to indicate that goods came from one "business source". That business source is the person who, for the time being, is entitled to use the mark either as proprietor or exclusive licensee. However, he referred to the ECJ the question of whether use of a trade mark is liable to mislead where it is used under a bare licence.

SubsidCo also relied on the "own name" defence under s 11(2) (see *Asprey* above), that is it claimed to be entitled to continue using the name Scandecor on the basis that this was its own name. In their Lordships' view, this defence could apply both to natural and legal persons (for example companies) but, again, they referred this issue to the ECJ.

The "own name" argument was not limited to a defence for infringement. The argument (set out clearly in Lord Scott's judgment), was that if SubsidCo was allowed to continue using the Scandecor name (being its "own name") when the proprietor was continuing to use the mark, then the public might be misled and the mark could be revoked. Lord Scott noted that the situation would be quite different if Scandecor had been required (presumably, contractually), on termination of its licence, to cease use of the Scandecor name.

The Lords also referred to the ECJ the question of how one determines what is an "undertaking" for the purposes of the trade mark directive and Act. To be valid, a trade mark must be capable of distinguishing the goods of one "undertaking" from those of another. If SubsidCo and ParentCo had continued

to be part of the same "undertaking" because of the way they co-operated then, so the argument goes, the public could not be misled.

Whatever the outcome of this reference to the ECJ, this dispute highlights the need to limit a licensee's use of a licensed trade mark in its corporate or trading name, and to make clear that, on termination of the licence, this use must also terminate. It is also a useful reminder of the need to include suitable quality control provisions in any licence.

Stephen Bennett

Court upholds opposition to alpha numeric trade mark

Alpha-numeric telephone numbers were re-introduced in the UK in the early 1990's. Each number on a telephone keypad is allocated three letters, for example, number 2 on the keypad corresponds to the letters A, B, C. It is, therefore, possible that some combinations of telephone numbers can spell out words. Several companies realised that they could make their telephone numbers more memorable by using the widely available prefix of 0800 (which meant it was a free telephone call) followed by certain words.

This case concerned the alpha numeric number 0800 FLOWERS, which corresponds to the telephone number 0800 356 9377.

A US company, 1-800 Flowers Inc, had applied to register "800-FLOWERS" as a service mark in February 1993 for use in relation to the transfer of orders for flowers, the use of 800 and FLOWERS when used separately, being disclaimed. The applicant had been using the mark "800-FLOWERS" and the telephone number 1-800 356 9377 in the US for some time and had decided to expand its business to the UK and Ireland. It was well known that a telephone number beginning with 1-800 was the freephone number in the US and that the UK used 0800.

However, in late 1993 the opponent, Phonenames Ltd, obtained the use of the telephone number 0800 356 9377. It opposed the application for the "800 FLOWERS" service mark. The Court of Appeal (in *800 Flowers Trade Mark Application* - unreported, 17 May 2001) upheld the opposition on the grounds that:

1. The mark was not inherently distinctive. It was common knowledge in the UK that freephone numbers began with 0800 and the mark "800-FLOWERS" had clearly been adopted because of its telephonic significance. Although the number 800 had been used instead of 0800, the UK public would still understand that it was meant to indicate a freephone number. The mark was no more than an encoded telephone number and so did not have the inherent capacity to distinguish under s 10 of the 1938 Act.
2. The mark was likely to cause confusion. Importantly, the applicant had never been able to obtain the telephone number 0800 356 9377. If a customer phoned 0800 FLOWERS, it would in fact be phoning the opponent and this would clearly cause confusion contrary to the provisions of s 11 of the 1938 Act.
3. On the facts of the case, the applicants had been unable to establish even minimal use of the mark in the UK as required under ss 17 and 68 of the 1938 Act. Moreover the applicant's intention to use the mark in the UK in the future was plainly conditional on its acquiring the corresponding telephone number in the United Kingdom, which it had been unable to do.

Doris Myles

Patents

Government publishes conclusions on patentability of software

On 22 March, the Government published its conclusions on the extent to which computer programs and Internet trading methods should be patentable. This followed consultation with industry and other interested parties on the subject in November 2000. Summaries of the 285 responses received and the Government's conclusions are available on the Patent Office website (www.patent.gov.uk/index.htm).

Responses were, perhaps inevitably, polarised. Some argued that it should be easier to patent software, while others considered that patents represent a threat to the development of new applications. There was, however, widespread agreement with the Government's conclusion that business methods should not be protected by patents.

The Government's principal findings were that: there should be no significant change to the patentability of software, but that the law was not clear enough as to the type of software which was patentable and which was not. This required clarification from the European Commission, which in October 2000 launched a consultation process on the subject (available on its website: http://europa.eu.int/comm/internal_market/en/intprop/index.htm).

The UK's Patents Act 1977 and the 1973 European Patent Convention exclude computer software "as such" (for example which does not give rise to a "technical effect") and methods of doing business "as such" from patent protection. In the Government's view, patents should still only be available for

technological innovations, which benefit consumers. However, the growing importance of e-commerce is calling into question the current regime. In the US, this question is being answered by a growing trend towards the grant of patents for software and non-technical business methods.

Nicola Dagg

Copyright and designs

Imminent changes to registered design law

Important changes to UK registered design law will be introduced with effect from 28 October 2001. The changes will implement the European Designs Directive (98/71), the aim of which is to harmonise the main features of registered design laws in the EU member states. Unregistered design right and copyright are not affected.

The Patent Office is currently consulting on some of the more minor aspects of the way in which the changes are to be introduced, but the main features of the new law are determined by the Directive and this cannot be changed.

Key points of the new law will be that:

- (a) **Designs will no longer be registered in respect of specific types of articles**

The protection given to a design will extend to any product in which the design is incorporated. So, for example, a design registered in respect of a teapot could be infringed by being used on a vacuum cleaner. The Patent Office has indicated that applicants will still be required to state on the application form the type of article to which the design will apply. However, this is intended to aid classification and will not affect the scope of protection given to the design.

- (b) **A wider range of designs will be capable of registration**

The definition of what can be registered will be broadened to include all aspects of the appearance of a product including texture and

materials. The current requirement that only designs with "eye appeal" can be registered will go, potentially opening the way for the registration of more functional designs.

However, there will be a specific exclusion for designs dictated solely by technical function. The extent to which functional designs will in practice be registrable under the new regime depends therefore on how this exclusion will be interpreted. Current UK case law (interpreting a slightly differently worded exclusion in the current law) suggests that it should be interpreted as meaning that the designer only had functional concerns in mind when making the design and did not in fact produce something with eye appeal, so excluding the vast majority of functional designs. It remains to be seen, however, whether this approach will be followed by the courts in interpreting the new law, particularly in the absence of a requirement of "eye appeal".

The current exclusions for items of primarily literary or artistic character and for portraits of living or recently dead people will also go so that, for example, postcards and posters with paintings on them, calendars and sculptures could be protected. Potentially a portrait of a famous person could be registered. It remains to be seen, however, how such an application would be dealt with in practice. Conventional portraits may find it hard to meet the new test of "individual character" (see below).

- (c) **Stricter conditions for registration, but wider protection once registered**

To qualify for registration a design will need to be "new" and to have "individual character". It will be regarded as new if it differs (in more

than immaterial details) from existing publicly available product designs. For this purpose a "publicly available" design is one which could reasonably have become known in the normal course of business to the circles specialised in the sector concerned in the EEA. An explanatory memorandum by the European Commission makes clear that this formulation is intended to avoid designs being invalidated by prior designs which are only available in "museums and remote places".

A design will have "individual character" if the overall impression it produces on the informed user differs from the overall impression produced by any such existing publicly available design. In many cases it seems that the "informed user" will be the consumer, but in some cases it could be somebody else, such as the person repairing the design.

These requirements are likely to amount to a more stringent test than that under current law, where a design must differ from existing designs published in the UK in more than immaterial details or variants commonly used in the trade, without anything corresponding to the "individual character" test.

The new registered design right may be infringed by any design that does not create a different overall impression on the informed user. This is likely to give wider protection for many designs than is available under current law where the test for infringement is whether the allegedly infringing design is "substantially different" from the one registered.

(d) **12 month grace period**

Disclosure of the design by the designer within 12 months before the application or priority date will not invalidate the registration. A priority date earlier than the application date arises if priority is claimed (under international conventions) from an earlier design applied for abroad. This is possibly the most important change in practice. Under current law a non-confidential disclosure of the design before the application or priority date invalidates the registration.

The new law will allow the designer (and anybody promoting the design with his consent) to exhibit and market the design for up to 12 months before application, giving a breathing space in which to test the market before deciding whether to incur the expense of registration. However, the designer is not protected from the possibility that during this grace period a similar, independently created design may be published which could preclude the earlier design from registration. Wherever possible, therefore, it will still be wise to apply for registration before major expenditure is incurred in relation to the product.

(e) **Amendment to rules on spare parts**

As under the current law, the design of a part of a larger product will be registrable. However, if it is a component part of a complex product - for example a car part - it will not be registrable unless it remains visible during normal use of the complex product. "Normal use" here means use by the end user - for example the driver. It does not include maintenance, servicing or repair work so the fact that it is visible to the repairer will not count. The effect of this provision, therefore, is generally to ensure that "under the bonnet" parts will not be registrable.

The extent of the protection that should be given to spare parts that are visible, for example car body panels, was a very contentious issue during the passage of the Directive, so much so that the EU Member States could not come to an agreement on it. Eventually, in order to save the rest of the Directive it was decided to leave it out but to allow Member States to retain their existing laws on this issue for the time being subject to a review in three years' time.

The Department of Trade and Industry has indicated that UK law will retain the existing "must match" exception, which excludes the registration of designs that are dependent on the appearance of a larger article in which they are intended to be incorporated.

Astrid Arnold

EU Council approves Copyright Directive

On April 9, the European Council approved the directive establishing EU-wide rules on copyright and related rights in the information society, after over three years' negotiation between the various EU institutions involved. The text, as adopted, includes all nine of the compromise amendments passed by the European Parliament at its February 2001 plenary session.

Adoption and implementation of the directive will enable the EU and its Member States to ratify the WIPO Copyright Treaty on the protection of authors and the WIPO Phonograms and Performances Treaty on the protection of performers and phonogram producers, which were adopted by WIPO in December 1996.

The directive aims both to harmonise the rights of reproduction, distribution, communication to the public, the legal protection of anti-copying devices and rights management systems, and to bring EU copyright law into the digital age. Particular features of the directive include a mandatory exception for technical copies on the Internet for network operators in certain circumstances, an exhaustive, optional list of exceptions to copyright which includes private copying, the introduction of the concept of fair compensation for rightholders and finally a mechanism to secure the benefit for users for certain exceptions where anti-copying devices are in place. However, concern has already been expressed that the directive is already out of date in the light of developments in digital media during the directive's passage.

The provision which received some of the greatest attention in the final stages of the directive's passage concerned an exception for private copying. The final debate on the directive following, as it did, hot on the heels of the Napster Appeal ruling in the US meant that European Parliament members were well aware of the issues raised in that case. The final form of the exception, which can be applied at the option of individual EU Member States in relation to both digital and non-digital reproduction, allows reproductions "made by a

natural person for private use and for ends that are neither directly or indirectly commercial, on condition that rightholders receive fair and reasonable compensation...".

This wording leaves it open to one natural person to copy for the private use of another. How Member States' courts and the European Court of Justice interpret the caveat in the words "ends that are neither directly nor indirectly commercial" will be most interesting. It will be up to Member States to decide what forms this compensation may take, leaving open some form other than blank tape and R-CD levies to which the UK government, for one, has long been opposed.

Member States will be entitled to retain existing exceptions so far as they relate to non-digital use but after implementation only those exceptions expressly set out in the directive may be applied to digital uses of copyright works.

The directive is expected to be published in the Official Journal shortly. Member States will then have 18 months to implement it in their national law. The UK government has welcomed the adoption of the final amendments to the Directive which it said will give flexibility to allow the UK to maintain its existing balance in respect of copyright laws and strengthen protection for rights holders especially in relation to digital copying.

The number of optional exceptions to the reproduction, communication and distribution rights provided for in the directive are likely to result in a degree of continuing dis-harmony in digital copyright matters throughout the EU. Lovells will be producing a Client Note on the likely effects of the directive once key Member State governments have put forward draft implementing legislation.

Alastair Shaw

Overseas developments

Hong Kong - draft copyright (Suspension of Amendments) Bill 2001

On 1 April 2001, the Intellectual Property (Miscellaneous Amendment) Ordinance 2000 (the "Ordinance") came into effect. The Ordinance has been somewhat controversial as it amends, among other things, the Copyright Ordinance and the Copyright Piracy Ordinance.

The amendments to the Copyright Ordinance now make it an offence for any business (not just those whose business was *dealing in* infringing articles) to possess and use in the course of business infringing articles. The main aim of the Ordinance was to contain corporate end-user piracy activities, in particular the use of pirated software by businesses in Hong Kong. However, the criminal sanctions which it introduced do not catch only software piracy but also seemingly less "serious" acts of infringement such as making copies of newspaper articles and using them in the course of teaching.

In order to clarify and narrow the scope of the Ordinance, the Copyright (Suspension of Amendments) Bill 2001 was gazetted on 27 April 2001. This Bill proposes the suspension of the blanket criminal sanctions introduced by the Ordinance, with the exception of four categories of work to which these sanctions will continue to apply. These are movies, television drama, sound recordings of films and musical works and computer software.

The Amendment Bill proposes a suspension of the provisions of the Ordinance (with the exceptions mentioned) until 31 July 2002.

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