



THE EUROPEAN IP BULLETIN

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HOT TOPICS

1. THE DIRECTIVE ON PRIVACY AND ELECTRONIC COMMUNICATIONS (2002/58/EC)

Introduction

Businesses using email or text messaging systems to market to clients need to be aware that from this October a new Directive should be implemented across the European Union with the aim of harmonising throughout the Member States the legal requirement of privacy protection in relation to the processing of personal data in electronic communications. The Directive covers a wide range of topics from subscriber directory data to location data and security.

Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (the "**Privacy Directive**") was adopted in July 2002 and must be implemented by 31 October 2003. The Privacy Directive updates the Telecoms Data Protection Directive (Directive 97/66/EC) (the "**TDPD**") to reflect new technologies and ensure that the relevant rules apply to phone and fax services, e-mail and internet usage. The Privacy Directive aims to ensure that all EU Member States apply equivalent levels of privacy protection regarding the processing of personal data in the electronic communications sector while ensuring that the free movement of data or equipment, or the provision of services in the EU is not obstructed.

Aim and Application

The Privacy Directive applies to the processing of personal data in connection with the provision of publicly available electronic communications services in public communications networks within Community. It includes provisions regarding calling and connected line identification (CLI) and call forwarding, which apply to both analogue and digital systems, except where this is technically impossible or would require disproportionate economic effort. It also applies to electronic communications and e-mail and internet usage as well as phone networks. Point to multipoint broadcasting is not covered, but point to point services e.g. video on demand, value added services and e-mail and SMS are.

Security

Network and service providers are obliged to collaborate to safeguard network security. Service providers must inform subscribers of particular security risks which, if these cannot be reasonably excluded, must include information regarding other possible remedies and their likely costs. Information concerning security risks should be free except for nominal costs incurred by subscribers while receiving or collecting information.

Confidentiality

Member States are obliged to ensure the confidentiality of

communications and related traffic data. Interception and surveillance of communications is generally prohibited unless authorised for national security, law enforcement and related purposes, or to record evidence of commercial transactions or other business transactions where necessary and authorised under national law. Parties to communications which are monitored for business purposes must be provided with certain information.

Cookies

When electronic communications networks are used to store information or gain access to information stored in the terminal equipment of subscribers or users clear and comprehensive information must be provided in accordance with Data Protection Directive 95/46/EC (the "**Data Protection Directive**") concerning the purposes of such storage. The subscriber or user must be allowed to refuse such processing. This does not apply to technical storage or access if strictly necessary to provide information society services requested by subscribers or users. These provisions apply to use of "cookies" and similar software. However, cookie free access does not have to be provided where the cookie is essential for an on-line service which has been requested or is being used for a legitimate purpose on a web-site.

Traffic Data

Electronic communications network and services providers must delete or anonymise traffic data once it is no longer required for network management, billing or dispute resolution.

Value Added Services

Providers may retain and use traffic data to market communications services and provide value added services (which can involve anything) and third parties may be involved in their provision. Subscribers and users must be informed of the data processing implications of any services, consent to the relevant service or marketing and be allowed to withdraw such consent at any time.

Itemised Bills

Subscribers are permitted to receive non-itemised bills. Member States are also obliged to ensure that privacy enhancing methods of communications or payments are available to users and subscribers. Other billing options must also be provided for.

CLI Services

Service providers are obliged to provide certain calling and connected line identification (CLI) services. Service providers are obliged to offer various CLI services to subscribers including the right to withhold CLI on outgoing calls on a per call or per line basis and the right to block incoming calls where the CLI has been withheld. Anonymous callers should receive automatic message explaining why the call is barred and how to enable the call. Some CLI services must be provided free including the suppression of CLI on outgoing calls. Network and Service Providers may override subscribers and user's CLI or location data preferences to trace malicious or nuisance calls, or assist the

emergency services.

Location Data

Network and service providers may also introduce value added services based on location data, e.g. location based advertising to mobile phones, or traffic or weather alert services. Any services can be provided and third parties can be involved in their provision. The relevant data must be anonymised or the individual concerned must consent. Prior to consent subscribers and users must be informed of the service's data processing implications and must be allowed to withdraw their consent at any time and temporarily withhold consent for free.

Call Forwarding

Subscribers must be able, freely and simply, to block third parties automatically forwarding calls.

Subscriber Directories

Subscribers must be told about the kinds of subscriber directories they may be listed in and how they will be used, including any non-standard search functions available in electronic versions. The party collecting data for inclusion in such directories (in the UK usually the network or service provider) must inform the subscribers. Subscribers must be permitted to decide whether to be listed and what personal data should be included (the information must be relevant for the directory's purposes, as decided by the directory provider). Omission from a directory or correcting or changing an entry must be provided free. Member States may impose separate consent requirements for inclusion in any directory including "reverse search" functions allowing directory users to search for subscribers' names and/or addresses based on phone numbers, rather than vice versa. Subscribers must be told if any directories they are entered in can be so used. These rights apply to subscribers who are natural persons and may be extended to legal persons. The new rules will not apply to existing editions of directories. The Privacy Directive applies to publicly available directories of subscribers of electronic communications services.

Unsolicited Commercial Communications - Automated Calling Systems, Fax, Phone, E-Mail and SMS

The Privacy Directive maintains existing controls on unsolicited direct marketing by means of automated calling systems without human intervention, fax and phone and introduces new controls on unsolicited e-mail and SMS marketing. Individual subscribers must have prior consent or opt in rights in respect of automatic calling systems, faxes, e-mails and SMS. However, there is an opt in exemption allowing e-mails to be sent on an opt-out basis in the context of existing customer relationships where the sender obtains the addressee's contact details in the context of sale of products or services and in accordance with the data processing rules in the Data Protection Directive, is marketing its own similar products or services and the addressee is always able to opt out of future marketing easily and free of charge. E-mailers must not conceal their identities. These rights apply to natural persons and may be extended to legal persons. The Privacy Directive treats unsolicited SMS for advertising in the same way as e-mail messages.

Enforcement and Sanctions, Technical Standards and Exemptions For National Security and Law Enforcement Purposes

The Privacy Directive also includes a number of provisions in respect of enforcement and sanctions, technical standards and exemptions for national security and law enforcement purposes. Certain provisions of the Data Protection Directive, RIPA and the Anti-Terrorism, Crime and Security Act 2001 are also relevant.

Conclusion

The Privacy Directive is likely to have far reaching implications for any person or entity who is involved in the provision or receipt of an electronic communications service and processes personal data in the context of it. In the UK the practical implications of the Privacy Directive should become clearer in August once the DTI publishes its consultation paper in relation to the implementation of the Privacy Directive and the draft implementing regulations. Until then be aware that changes to the current legal positions across the EU are imminent and that failure to comply with the Privacy Directive, and its related legislation, can have serious implications and, in some cases, criminal liability.

2. GERMAN MINISTRY OF JUSTICE PROPOSES BILL REFORMING ACT ON UNFAIR COMPETITION

The German Ministry of Justice has presented a bill to modernise the current Act on Unfair Competition (Gesetz gegen unlauteren Wettbewerb). Currently in Germany it is not permissible for retail outlets to reduce prices of stock unless there is a season sale or there is a special event (Sonderveranstaltungen). The proposed bill would withdraw these restrictions. It would further specify the “blanket cause” (prohibiting any acting against morality for the purpose of competition) - which is central to unfair competition law – by consolidating existing case law and principles developed by legal practice over decades. , Worth mentioning, among other things, is the newly created prohibition against spamming in section 4 lit. 3 of the bill.

In July 2001 the German legislator began its legal initiative to liberalise the economy by abolishing the Act on Discounts (Rabattgesetz) and the Regulation Governing Gifts (Zugabeverordnung). Both laws have prevented for the past 60 years the excessive use of price discounts and free goods and services offered in addition to the contract goods.

At present, despite the abrogation of those laws, it is still not possible to award limitless discounts on goods and services. Section 7 UWG (Gesetz gegen den unlauteren Wettbewerb) prohibits sales promotions on the retailers’ entire goods in stock if they do not fall within the statutorily defined periods during which seasonal sales are permitted, unless the promotion is connected to a business jubilee (such as a

celebration of the anniversary of the founding of a business). However, discounts of single items are permitted in the normal course of business.

This out-dated rule was publicly discussed when the clothing chain C & A had to pay a €400,000 penalty relating to a 20% discount on its whole stock in respect of card payments following the currency changeover in January 2002. The Düsseldorf Lower Regional Court held this promotion to be illegal despite the company's argument that this was a unique historical situation. In the aftermath, shop owners were concerned as the above mentioned repealed discounts were regarded as permitted. Bearing in mind the critical response to this case, the proposed bill rejects these restraints and instead follows the European approach, which treats the consumer as someone who is mature and able to decide by himself the quality of the deals and discounts offered. The proposal permits discounts of the whole stock regardless of timing and whether or not it is in the normal course of business. It also permits advertisements using the term "sales". To advance the transparency of prices section 5 para. 4 of the bill prohibits advertisements with so called "lunatic prices", meaning unrealistic price reductions or loss leaders. In the same way, advertisements with special discounts are prohibited if a sufficient supply of the advertised goods is not assured.

A further change will implement the introduction of the newly created claim of absorption of profit in section 9 of the bill. This legislation targets the economic stimulus for unfair trade practices. As to keep the principle of proportionality this claim can only be activated in the case of intended or grossly negligent unfair behaviour of a competitor. Those entitled to benefit under this claim are consumer protection associations and chambers of commerce. To prevent the abuse of this instrument, any profit made under a claim has to be released to the federal government.

The proposed bill makes the Act on Unfair Competition more transparent and liberal. It promotes the liberalisation of trade, abolishing needless restrictions that harm consumers more than they benefit them. The German legislator attempts in this way to dispel the overriding opinion worldwide that the German Act on Unfair Competition is a stumbling block to its economy. The bill is further intended to encourage the European Union to plan on harmonization in this area. The proposal is currently being discussed and it is expected to be brought to the Lower House of the German Parliament in due course. It is anticipated that it will come into force on 1 of January 2004.

3. THIRD WORLD INTELLECTUAL PROPERTY DAY

Following a call of the Director General of the World Intellectual Property Organisation for society to be more involved in matters relating to intellectual property, the theme of this year's World Intellectual Property Day held, as previously, on 26 April 2003 was: "Making Intellectual Property Your Business".

In 2000, member states of the World Intellectual Property Organisation (WIPO) designated 26 April, the date on which the Convention establishing WIPO entered into force in 1970, to celebrate the contribution made by innovators and artists to the development and growth of societies across the globe and to highlight the importance and practical use of intellectual property.

While the themes of the first two World Intellectual Property Days were “Creating the Future Today” and “Encouraging Creativity”, the theme of this year’s World Intellectual Property Day was “Making Intellectual Property Your Business”.

This theme highlights the key role of intellectual property both in achieving business success and in enhancing our daily lives. It is an appeal for entrepreneurs to fully capitalise on the intellectual property assets by using the tools of the intellectual property system to advance their business goals and a wider call for civil society to recognise that respect for intellectual property rights is of benefit not only to creators but to society as a whole.

Indeed, as Dr. Kamil Idris, the Director General of WIPO pointed out in a message released on that occasion, “A company’s intangible assets – ranging from human capital and know-how to inventions, brands, designs and other products of its creativity and innovation – are, today, often more valuable than a company’s physical assets”. “Making intellectual property your business is also a wider call for civil society to recognise that respect for intellectual property rights is of benefit not only to creators but to society as a whole. The intellectual property system enables innovators and creators to mint marketable inventions and works from the raw material of their artistry and ingenuity. This makes the intellectual property system a driver of technological development and ensures a force for the enrichment of our global cultural heritage, and a powerful tool for wealth creation for the benefit of all”.

WIPO Member States were also invited to participate to World Intellectual Property Day by organising events and activities. In the United Kingdom, an Electronic Database of Intellectual Property (EDIP) was launched in Oxford University on 25 April, as part of World Intellectual Property Day celebrations. Other events around the world included talks and seminars, workshops, exhibitions, special broadcasts on radio and television, all on the theme of intellectual property.

4. ROYAL SOCIETY REPORT ON THE EFFECT OF INTELLECTUAL PROPERTY RIGHTS ON RESEARCH

A report recently published by the Royal Society examines the effect of intellectual property rights on research.

The report “Keeping science open: the effects of intellectual property policy on the conduct of science” studied the effect of several intellectual property rights, i.e. patent, copyright, and database

legislation. The study highlights a negative effect of those rights on the publicly funded research and also their consequences for society. “The current intellectual property system needs to be tightened for the sake of both science and society,” said Prof. John Enderby, Vice-President of the Royal Society.

The report highlights that in public research, a focus on intellectual property rights can diminish the high quality of the research by inducing other goals and that the net income derived from intellectual property in public research is low compared to other sources of revenue such as direct investment.

The report states that the current patent system encourages a ‘gold rush mentality’, which affects the free flow of scientific information. While patents do not appear to delay publication, they appear to encourage a climate of secrecy. Also a focus on gaining patent encourages short-term research with more direct results to the detriment of long-term purely scientific programmes. Patents with broad scope in early stages of development within a field can significantly diminish research in that field. The development of digital storage and delivery technology has diminished the cost of sharing data but has inhibited the free access in conjunction with new Database Right legislation. The Royal Society’s view is that the development of information technology, alongside developing intellectual property laws has unreasonably and unnecessarily restricted access to and use of information.

The report provides several key recommendations to assess and improve the role of intellectual property rights in research. It suggests a more efficient patent examination system ensuring that their data and databases are readily available to others. Finally a further study assessing the extent to which intellectual property is driving research in publicly funded research is recommended.

5. HOW CAN THE PUBLIC SECTOR PROVIDE PEOPLE WITH INFORMATION ON, AND BUILD CONFIDENCE IN, THE WAY IT HANDLES THEIR PERSONAL DETAILS?

The Lord Chancellor's Department has published a consultation paper upon personal information and the way the public sector is handling it. The purpose of this consultation is then to assess: “(i) whether the document proposed is sufficiently clear about what people can expect from the public sector; and (ii) what else the public sector might do to address public concerns and improve confidence”. The consultation ends on 27 June 2003.

This consultation follows a previous report entitled “Privacy and Data-Sharing: the Way Forward for Public Services” that was compiled by the Performance and Innovation Unit of the Cabinet Office in April 2002. It included proposals about the better use of personal information collected by the public service, but also it stressed the need to gain the public trust in relation to that information. The public is concerned about the way personal information is used, especially with the development of

information technology and the internet, the ‘fear of erosion of privacy by a big brother government’, and the efficiency of public bodies in safeguarding the information. It also appears that the public seems unaware of the regulations and current legal safeguards built to ensure proper handling of such information. The Lord Chancellor’s Department previously produced a document, intended to address those requirements.

The consultation paper is based on a document that is an improved version of the previous one. It is intended to fulfil public expectation concerning such questions. It intends to provide sufficient information to be relevant, while being accessible to the public as well. The document is divided in three parts entitled: “When we will ask you for information we will...”, “In return we ask you to...”, and “at any time you can ask us for further details on...”; which deal respectively with: (i) the duty of the public sector to explain their actions, and its duty concerning the protection of such information; (ii) the importance of the accuracy of such information; and (iii) the possible further use that could be made of such information and third party accessibility.

COPYRIGHT AND DESIGNS

6. LINUX CREATOR SPEAKS OUT ON DIGITAL RIGHTS MANAGEMENT

‘Digital rights management’ (DRM) describes a number of techniques available to control and monitor use of works, particularly on the internet; sometimes to ensure payment for use or to limit its extent, sometimes with emphasis on attribution or authenticity. Linux says that some DRM systems may be compatible with open source policies.

The ‘open source software’ movement makes human-readable source code to its software freely available, permitting others to correct the software and to build upon it in creating new programs. It provides alternatives to the proprietary software of organisations such as Microsoft, which rely upon copyright protection of their products. Although copyright subsists automatically in original works, including software, much open source software is released by its copyright owners under the terms of the GNU GPL (General Public License) which protects the software from becoming part of a closed-source project. Such releases are often described as ‘copyleft’ (as opposed to ‘copyright’). The open source ‘GNU/Linux’ computer operating system is centred on a ‘kernel’ devised by the Finnish programmer Linus Torvalds. Torvalds has recently caused a stir by countenancing the use of Digital Rights Management (‘DRM’) with Linux. He has been quoted on the BBC website quoted as saying “DRM is perfectly ok with Linux”, although it appears that he endorses the use of only “some of the emerging technologies for digital rights management with Linux-based systems”. Digital Rights Management is often thought to be inimical to the ethos of the open source movement; however, Torvalds states that DRM techniques are neutral and capable of being used in ways consistent as well as inconsistent with open source philosophy.

We may look forward to further views on DRM from the open source community, from the commercial software organisations and from organisations affected by DRM, especially copyright collecting societies. The latter may use DRM to automate their management of authors' rights but are also threatened by use of DRM by media conglomerates.

7. BREACH OF CONFIDENCE, ALTERNATIVELY COPYRIGHT INFRINGEMENT?

Cray Valley Limited v Deltech Europe Ltd., John Scanlan & Cristopher Riley, [2003] EWHC 728

Cray Valley Limited, claimed breach of confidence and alternatively copyright infringement against the defendants. The court found that although on the facts the documents were not confidential, they were copyright, so while their content could be appropriated they could not lawfully be copied.

Cray bought a coating and structural resin business from a company called Borden, where the second and third defendants had been employed. The sale transaction only included information of manufacturing formulations and ingredients and all ongoing contracts and customers of Borden; Borden separately sold the site and plant and machinery to Deltech Europe Limited. Deltech chose to retain some employees of Borden including the second and third defendant.

Cray alleged that the second defendant downloaded confidential information from the computer when he was an employee of Borden and used that information while working for Deltech, consequentially causing harm to Cray's business.

The Court held that the information retrieved by the second defendant lacked the quality of confidence as most of it was published or was in public domain: it was commonly known to the industry, as deposed by the industry experts during the trial. The Court employed a criterion from the US Uniform Trade Secrets Act 1979, which states that one of the factors determining whether an information is a protectable trade secret or not is the measures taken by the owner to protect secrecy of information. Since there were no restrictive covenants placed by Borden between the second and third defendants during their employment by Borden, and the documents were freely accessible and were not marked 'confidential', the Court held that Borden never considered such information to be confidential.

Lastly, since Cray neglected to take all the documents from the site of Borden within the stipulated period, the Court held that Cray's conduct inferred that they too thought the information to have no or little economic value.

However, with regard to copyright infringement, the Court held that if

Cray owned copyrights in the information, it would amount to unlicensed copying. Since there had been many business transfers before Borden got hold of the information, the Court stated that it was difficult to ascertain whether copyrights were assigned or not during such transfers. The Court held that s.90(3) of the Copyright, Patents and Designs Act 1988 contemplates a valid copyright assignment to be in writing, but a mere clause transferring all 'assets' would amount to an effective and valid copyright assignment.

The Court held that though the defendants had not breached any confidence, they had infringed copyrights of Cray. This case demonstrates the interwoven and inalienable relationship existing amongst the different intellectual property rights.

8. EASYINTERNET CAFÉ SETTLES OVER MUSIC RIGHTS

EasyInternet has paid £210,000 in damages and legal costs to the UK record industry in an out-of-court settlement for running unlicensed CD-burning of music downloads in its stores.

At the end of January 2003, a High Court summary judgement issued by Justice Peter Smith found easyInternet Café, which is part of the Easy Group founded by the Greek entrepreneur Stelios Haji-Ioannou, guilty of copyright infringement.

The case was brought by the British Phonographic Industry (BPI) on behalf of a number of major labels. BPI had taken legal action after learning that the company had launched a promotion which enabled customers to come into the café and download information which could include music tracks on to a central server. An easyInternet employee would then burn the downloaded information onto a CD for the customer to take away, for £5. The BPI argued that the downloading of sound recordings from the internet without the record label's consent infringed the copyright in the sound recordings contrary to the Copyright Designs and Patents Act 1988.

During the court case, Justice Peter Smith rejected the defence of easyInternet that it should not be held responsible for what its customers did while using its computers and that downloading music was no different to recording a television program to watch later. He found easyInternet liable for damages for breach of the Copyright Designs and Patents Act 1988.

Mr Haji-Ioannou, who had first stated that he would contest the court's decision on the time-shifting issue, agreed to pay £80,000 in damages for copyright infringement and £130,000 in legal costs to the record industry in an out-of-court settlement, bringing the total to £210,000.

He said that "The BPI originally asked for £1 million in damages, so at least they've settled for a 92 per cent reduction. Every case has a settlement value. We could have spent the next year in court arguing the legal point, and that's what I think they got scared of. I'm glad I can

move on.”

“Illegal copying jeopardises the livelihoods of artists and songwriters as well as putting at risk the thousands of jobs directly and indirectly created by the recording and publishing of music” said Peter Jamieson, the BPI’s executive chairman. “We are delighted that we have won this ruling which sets an important precedent in support of authorised licensing services.”

9. DUTCH COURT BLOCKS HARRY POTTER-LIKE BOOKS

In April 2003, a Dutch Court found in favour of J.K. Rowling, the author of the Harry Potter series and prohibited the distribution of 7000 copies of a book by Russian author Dimitry Yemets entitled “Tanya Grotter and the Magic Double Bass”. The text was found to be an infringing adaptation, not a non-infringing parody.

J.K. Rowling, her Dutch publisher Harmonie and the U.S. company Time Warner Entertainment, which made the Harry Potter movies took action to prevent the release in the Netherlands of 7,000 copies by the Dutch publisher Byblos of the first western edition of a Russian book by Dimitry Yemets.

Rowling asked the court to stop the publication of Dimitry Yemets’ tale about a girl wizard entitled “Tanya Grotter and the Magic Double Bass”, which her lawyers say copies her book “Harry Potter and the Philosopher’s Stone”. There are striking plot similarities between the two books: both Harry Potter and Tanya Grotter are orphans of murdered parents with magical powers who attend wizarding schools and have unusual scars on their faces. They wear glasses and fight against terrible enemies with two close friends and their mentor.

Rowling’s lawyers alleged copyright and trade mark infringement and plagiarism. Indeed, they argued that Tanya Grotter and the Magic Double Bass not only copied the storyline of Harry Potter and the Philosopher’s stone, but also the plot and the characters. They said that Yemets “knowingly and openly copied the leading 10 characters in the Harry Potter stories, only changing their names”.

On the other hand, Dimitry Yemets, who has already sold more than a million copies of his Tanya Grotter books in Russia argued that his work is a parody, putting Harry Potter in a Russian context. The Dutch publisher Byblos commented Tanya Grotter was a “cultural response to the world hype about the mega best-seller”.

On 3 April 2003 the Amsterdam District Court found that Yemets’ “Tanya Grotter and the Magic Double Bass” was an unauthorised adaptation of “Harry Potter and the Philosopher’s Stone” by Rowling. It rejected the argument that the book was a parody and ruled that its publication would violate copyright and trade mark laws. As a consequence, the court agreed to block publication of 7000 copies of

Yemets' book by Dutch company Byblos.

Although the judgment will do nothing to stop the spread of Tanya Grotter in Russia, it fires a warning to publishing house in Europe, Asia and the United States to stay away from Tanya Grotter.

10. REGISTERED COMMUNITY DESIGNS COME ON STREAM AS OF 1 APRIL 2003

The Office for Harmonisation in the Internal Market (Community Trade Marks and Designs Registry) (OHIM) has begun processing applications to register Community Designs and has issued draft examining guidelines for consultation.

Council Regulation (EC) 6/2002 of 12 December 2001 on Community Designs establishes a mechanism for the protection of designs EU-wide. The 3-year unregistered design rights provided by Art 11 came into being 60 days from the effective date of the Regulation, and provide protection against copying. Further implementing legislation and administrative arrangements were necessary to set up procedures for registration of Community Designs at the OHIM in Alicante, Spain. The first registration date for Community Designs will be 1 April 2003. According to Art 111.3 of the Community Design Regulation, applications for registered Community designs filed within the three months leading up to that date are deemed to have been filed on 1 April. Registered designs have longer duration, of up to 25 years (Art 13) and more stringent infringement rights (Art 19).

OHIM has issued a circular letter to international non governmental organisations setting out its Draft Guidelines for examining Community Design applications. The guidelines spell out how OHIM proposes to apply Regulation 6/2002 as well as Implementing Regulation 2245/2002 and Fees Regulation 2246/2002. Comments are invited, with a deadline of 27 June 2003 for submission. It is proposed to issue the Guidelines in their final form in November 2003.

11. NEW GERMAN DESIGN LAW PROPOSED

Germany has not yet implemented Directive 98/71/EC on the legal protection of designs which was supposed to be implemented by 28 October 2001. The venerable law of Designs and Models law of 1876 (as amended) is still in force in Germany. On 26 March 2003, the council of German Federal ministers approved and published a bill for the reform of German design law.

Harmonisation will result in the lowering of thresholds for design registration in Germany and a shift from a copyright approach (albeit

copying may be presumed if a design has been made available to the public) to full exclusive rights for registered designs. Examination as to certain substantive requirements will be introduced. A 12-month general grace period will be available. Protection will be available for a broader range of subject-matter.

The ownership rules appear set to change. Formerly, any person creating a work in exchange for compensation was entitled to industrial property in a design. In future transactions, care will have to be exercised to ensure that rights are transferred. However, an employer will still be entitled to rights in designs created by employees in the course of their work, but the employee will have the right to be identified as the designer.

In accordance with existing German law, multiple applications may be made, and it will be possible to file for up to 100 designs for products in the same class.

12. UK AMENDS REGISTERED DESIGNS ACT TO ACCOMMODATE REGISTERED COMMUNITY DESIGNS

In 2001 the Registered Designs Regulations 2001 (S.I. 2001 No. 3949) amended UK design law to conform with the harmonising requirements of Directive 98/71/EC on the legal protection of designs (OJ L289/ 28). On 1 April 2003 it became possible to register Community Designs with effect for the whole EU (see previous item). Some consequential changes to UK national law were needed and these have been put in place by the Registered Designs Regulations 2003 (SI 2003/550). The new UK Regulations were laid before Parliament on 7 March 2003 and they came into effect in 1 April 2003. The main change is to allow refusal or invalidation of a national registered design on the ground of a prior Community registration (Art 11 of the Directive), with appropriate transitional provisions.

PATENTS

13. ROCKWATER WINS CASE ON INFRINGEMENT AND INVALIDITY

Rockwater Limited v Coflexip S.A. & Technip, [2003] EWHC 812 (Ch)

This was an action initiated by Rockwater, who sought revocation of the defendants' patent, whilst the defendants in turn counterclaimed for infringement. In fact, the defendants had already been successful in enforcing this patent against a third party in a previous case, maintaining the patent's validity in the process. The presiding judge then, as here, was Laddie, J, who had been partially overruled by the Court of Appeal. The patent in question related to a process and apparatus for laying flexible pipes out at sea. Both parties accepted the claim construction as set out in the previous case. However, the issues of infringement and validity, including the prior art relied upon, were quite different from those of the previous case.

The defendant accepted that the claimant had not infringed the process claims of the patent, and that there had been no use of the allegedly infringing apparatus in the manner described in the patent. The apparatus claims, though, were construed as claiming “apparatus *capable of* being used for”. Consequently, infringement of these claims was alleged despite the claimant never having put the allegedly infringing equipment to the use claimed.

In considering non-literal infringement, the judge initially declined to use the *Improver* approach, noting that although such a structured approach could be useful, it should not be seen as a straight jacket. In so doing, he emphasised that the court was trying to determine “not what the inventor intended to be covered by his claims but the meaning of what he [the inventor] said he intended to cover”. Using this unstructured approach, Laddie, J felt that the integer in question, which was missing from the claimant's apparatus, was essential to the claim and therefore there was no infringement. In reaching this conclusion, he noted that as the claim only incorporated a few integers, it was less likely that any of them would be read as being redundant. Although this settled the issue of infringement, he nevertheless also applied the structured *Improver* approach and came to the same conclusion.

Laddie, J then moved to assessing the validity of the patent. Two items of prior art were put forward, neither of which had featured in the earlier case. Because of the nature of the claims, the question was not whether the prior art disclosed equipment which had been used in the way described, but whether or not it disclosed or rendered obvious equipment which was *capable of* being used as described. The importance of taking a natural construction of prior art was emphasised, and on such a construction, Laddie, J found that certain of the claims were anticipated, and all were obvious. He thus held the patent invalid.

14. OBLIGATION OF FARMERS TO PROVIDE INFORMATION TO HOLDERS OF COMMUNITY PLANT VARIETY RIGHTS

Schulin v Saatgut-Treuhandverwaltungs GmbH, C-305/00, ECJ

In this case, the ECJ interpreted the sixth indent of Art. 14(3) of Council Regulation (EC) No. 2100/94, on Community Plant Variety Rights and Art. 8 of Commission Regulation (EC) No. 1768/95, implementing rules on agricultural exemption as provided in Art. 14(3), and held that the obligation of farmers to provide information to rights holders only extends to those who have derogated from such rights under Art. 14 and not to all farmers as such. The rights holders must demonstrate some indication that the farmer has used or would use their variety for any purposes stated in Art. 13(2) of the Council Regulation.

A German seed company engaged in the trust management of rights holders requested Mr Schulin, a farmer, to provide information under Art. 14(3), to what extent he has grown protected plant varieties, even

where the company did not have any indication about him using such plants in his field. Mr. Schulin refused to provide the information on the basis that the obligation under Art. 14(3) does not arise unless some indication is shown that the farmer has used the protected plant variety.

Art. 14(1) and (2) of the Council Regulation authorises farmers to derogate from acts relating to plant variety rights under Art. 13 and use product of their own harvest of selective agricultural crops, like fodder plants, cereals, potatoes and oil and fibre plants for propagating purposes in the field. Art. 14(3) lays down the criteria necessary for obtaining such derogation, including equitable remuneration to the right holders, obligation of farmers to provide information to right holders, etc.

Though the ECJ took notice of the difficulty of right holders in asserting their right to information, since the examination of plant does not reveal whether it was obtained by the use of a product of harvest or by purchase of seed, it took the view that the right holders could make alternative arrangements to find out the details of farmers who buy their propagating material from the distributors. The ECJ, in fact, held that Art. 13(2) second sub-paragraph empowered the right holders to require the distributors to record details of farmers buying their propagating material. It appears that though the ECJ has exonerated farmers as such from being obliged to provide information in some circumstances, it has empowered the right holders in obtaining relevant information by placing a duty on distributors to provide details of farmers buying their propagating material.

15. REFUSAL OF SUPPLEMENTARY PROTECTION CERTIFICATE TO COMBINATION DRUGS

Takeda Chemical Industries Ltd v Comptroller General of the Patent Office, [2003] EWHC 649 (Pat)

In this case, Takeda appealed to the Patents Court against the decision by the UK Comptroller of Patents to refuse a supplementary protection certificate ("SPC") in respect of a medicine consisting of a combination of two drugs. The appeal was dismissed and no SPC was granted. The patents for which SPC's were requested were held not to protect the combination despite protecting one of the two components or the use of one of the components.

Lansoprazole is protected by two patents. The first patent is to the compound itself which was developed and sold for the treatment of acid disorders of the upper gastrointestinal tract. It later became apparent that the compound could be used in treating diseases caused by the bacterium *H. Pylori* and a "swiss form" patent to cover this second medical use was filed and granted. Further research indicated that treatment of *H. pylori* using Lansoprazole was especially effective when used in combination with one of three antibiotics.

The case turned on whether the requirements of Article 3a) of the SPC

Regulation (EEC/1768/92) was satisfied namely that "the product is protected by a basic patent in force".

The Court, upholding the Comptroller's decision, found that the patents in question did not protect "the product" as a whole, rather they protected one element of the product and so Article 3(a) was not satisfied. There was no suggestion of a combination with an antibiotic in either patent nor was it claimed. It was insufficient to argue that sale of the product by a third party would infringe the patents as this was merely by virtue of the presence of Lansoprazole.

The difficulties faced by Takeda resulted from the failure to mention and claim the combination of Lansoprazole with antibiotics in the second medical use patent. This narrow interpretation of Article 3a of the SPC Regulation underlines the need to seek wide patent protection that specifically covers the potential use of combinations in drug formulations.

TRADE MARKS

16. THE COURT OF FIRST INSTANCE DISMISSED THE APPEAL OVER THE 'NU-TRIDE' MARK

Durferrit GMBH v. Office of Harmonisation in the Internal Market (Trade mark and Designs) ("OHIM") and Kolene Corporation] ECFI, T-224/01, 2003

The Court of First Instance dismissed the appeal brought by Durferrit GmbH against the decision of the First Board of Appeal of the OHIM, relating to trade mark opposition proceedings between Duferrit and Kolene Corporation, holding word marks 'NU-TRIDE' and 'TUFFTRIDE' not to be confusingly similar.

Kolene applied for Community trade mark registration under Regulation No. 40/94 "the Regulation" for the word mark 'NU-TRIDE' under categories relating to chemical products for use in metal treatment. On publication of the mark, Duferrit, who owned the mark 'TUFFTRIDE' in Germany for the same category of products, objected to the mark on the following grounds:

1. There was a likelihood of confusion and/or association between both the marks under Art. 8(1) (b); and
2. Kolene's trade mark was contrary to public policy or to accepted principles of morality under Art. 7(1) (f) of the Regulation.

Likelihood of confusion and/or association under Art. 8(1) (b):

Since, the earlier mark was registered in Germany, the Court held that the public who could potentially be confused would be in Germany. The Court also took into account the fact that the public for these chemicals comprised of a limited number of highly specialised undertakings in industrial chemical sector who are likely to take great care in the

selection of the goods. Though the Court agreed to that there was similarity between the goods covered by the earlier mark and the requested mark, that the mark owners were competitors in the market and that there was a previous commercial link between Duferrit and Kolene which could potentially lead to the public to believe there was some connection between the mark holders, the Court, relying on case jurisprudence [*Lloyd Schuhfabrik Meyer* (C-342/97), *Sabel* (C-251/95)] held that for global assessment of the likelihood of confusion, the Court must examine whether visual, aural or conceptual similarity of the marks is *sufficiently high*. The Court took the view that ‘NU’ and ‘TUFF’ were not similar and that since several other marks had suffix ‘tride’, which were descriptive of its character, the similarity between the marks was not sufficient. On reputation, the Court held that Duferrit, merely by referring to the fact that their word mark was registered as a national mark in several countries was not enough to claim greater protection under Art. 8(5) of the Regulation. The Court held that there was no likelihood of association as Duferrit was not using a series of marks ending with ‘tride’ and the commercial links between Duferrit and Kolene never existed in Germany.

Contrary to public policy or accepted principles of morality under Art 7(1) (f):

The Court held that absolute grounds for refusal contained in Art. 7 do not fall to be examined as part of opposition procedure under Art. 42 and 43; third parties can only submit observations to OHIM under Art. 41 of the Regulation. Also, the Court held that Duferrit had no right to seek review of the legality of OHIM’s decision relating to Art. 7. Furthermore, the Court held that Art. 7(1) of the Regulation dealt with the intrinsic qualities of the mark claimed, and not to circumstances relating to the conduct of the person applying for the mark, and thus denied Duferrit’s contention of ‘bad faith’ as a ground for refusal to register.

17. BURDEN OF PROOF IN PARALLEL IMPORT CASES

In *Van Doren + Q.GmbH v Lifestyle sports and sportswear Handelsgesellschaft mbH and Michael Orth*, Case C-244/00, the ECJ ruled on the burden of proof to be applied by Member States’ courts when hearing exhaustion cases. While it is permissible in principle for a Member State to require the defendant to prove that the claimant’s trade mark rights have been exhausted, in some cases the need to preserve the free movement of goods may mean that this rule has to be qualified.

Stussy Inc., an American company that owned the STÜSSY trade mark appointed one exclusive distributor of its clothing in each country of the EEA. The claimant was the exclusive distributor of STÜSSY-branded clothing in Germany. The distributors were not meant to sell the goods to intermediaries for resale outside their exclusive territories. However, the defendant was selling STÜSSY products in Germany that it had not obtained from the claimant. This meant that the defendant had either

obtained the goods from outside the EEA, as the claimant claimed, in which case the claimant's trade mark right would not be exhausted (trade mark rights are only exhausted where the trade marked goods are put on the market in the EEA by the mark proprietor or with his consent, and not when they are put on the market outside the EEA – see *Silhouette International Schmied v Hartlauer* Case C-355/96) or had obtained the goods from a distributor within the EEA who had breached the exclusive distribution agreement, or obtained the goods from an intermediary, in which case, because the goods had been put on the market within the EEA, the trade mark rights would be exhausted. In the light of this problem, the Bundesgerichtshof (German Federal Court of Justice) wished to know if the claimant had to prove that the defendant had obtained the goods from outside the EEA or if the defendant had to prove that it had obtained them from within the EEA. In other words, the question was whether the burden of proving that a trade mark right is exhausted lies on the defendant.

The German Court argued that because exhaustion of rights is a defence to trade mark infringement, in line with normal German tort law principles, it should be for the defendant to prove that the claimant's trade mark rights are exhausted under Article 7(1) of Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, either because the mark proprietor has put the goods on the market in the EEA or has consented to their being put on the EEA market. The ECJ agreed that in principle, such a rule of evidence is consistent with EU law. However, in some situations, the need to protect the free movement of goods, as set out in Articles 28 and 30 of the EC Treaty, may require the rule to be qualified. This would be the case where there is a real risk that placing the burden of proof on the defendant would allow the trade mark owner to partition national markets, thereby maintaining price differentials between the Member States.

Specifically, requiring a defendant to prove that the goods originated from within the EEA could lead to market partitioning where the goods are marketed in the EEA through an exclusive distributor system, because in order for the defendant to prove the origin of his goods, he would need to identify the member of the exclusive distribution system who has supplied him with the good in contravention of the distributor's agreement with the trade mark proprietor. This could cause the defendant's supply of exhausted goods to dry up, because the mark owner would be able to obstruct the marketing of the goods purchased and prevent the defendant from getting supplies from that member of the exclusive distribution system. However, in cases where the claimant has shown that the goods were put on the market *outside* the EEA, the defendant must prove that the trade mark proprietor consented to the subsequent marketing of the goods in the EEA for the trade mark rights to be exhausted (see *Zino Davidoff and Levi Strauss* Joined Cases C-414/99 to C-416/99).

18. ECJ RULES ON REGISTRABILITY OF SHAPES

In *Linde AG, Winward Industries Inc. and Rado Uhren AG* (Joint Cases C-53/01 to C-55/01) the ECJ considered how Articles 3(1)(b) to (d) of Directive 89/104/EEC of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks should apply to applications to register shape marks. In doing so, the Court employed two of the central concepts behind the absolute grounds for the refusal of registration of trade marks: the capability of the sign in question to distinguish the applicant's goods from the goods of other undertakings and the need to keep certain signs free for competitors to use.

Linde sought to register the shape of “motorised trucks and other mobile works vehicles, particularly fork-lift trucks” as a trade mark, while Windward applied to register the shape of a torch and Rado applied for a three-dimensional trade mark consisting of a graphic representation of a wrist watch. All three applications were turned down by the German authorities because they were said to lack distinctiveness, and in Rado's case because the shape was descriptive of the product and had to be kept free for the applicant's rivals to use in the interests of free competition. However, the Bundespatentgericht (German Federal court for intellectual property matters) referred two questions to the ECJ on the registrability of shapes:

1. When determining whether a three-dimensional shape mark is distinctive under Article 3(1)(b), should the authorities apply a stricter test than they would for other types of trade marks?
2. Should the registrability of specific shape mark applications be considered under Article 3(1)(c) (which bars the registration of descriptive marks) or do shape marks only need to be assessed under Article 3(1)(e) (which broadly prevents the registration of functional shapes)? Whichever of those provisions is relevant to assessing shape marks, in making the assessment, should the interest of the trade in having the shape available for competitors to use be taken into account?

On the first question the Court held that authorities should *not* apply a stricter test than they would for other types of marks when assessing the registrability of shape marks. Under Article 2 of the Directive, *any* sign can be a trade mark as long as it is (1) capable of being represented graphically and (2) capable of distinguishing the goods or services of one undertaking from those of other undertakings. Thus, shape marks can be registered, as long as they meet these criteria. Article 3(1)(b) prevents the registration of marks that are devoid of distinctive character. However, neither the scheme nor the wording of Article 3(1)(b) single shape marks out for special treatment when assessing their distinctiveness. Only Article 3(1)(e), which prevents the registration of certain functional shapes as trade marks, sets out a test that only applies to shapes. Once this preliminary obstacle is passed, the tests set out in Articles 3(1)(b) – (d) must still be met, but under Article 3(1)(b) the test of distinctiveness for shapes is the same as it is for all other marks: is the

mark capable of identifying the product as originating from a particular undertaking and thus distinguishing it from those of other undertakings? Nevertheless, in practice it may be more difficult to show that the public consider a shape to be distinctive of the product's origin, but even in that situation the shape may acquire distinctiveness through use.

In answering the second question the Court held that Article 3(1)(e) of the Directive is a preliminary obstacle that must be overcome when a shape mark is to be applied for. However, there is nothing in the wording of Article 3(1) or the scheme of the Directive to suggest that successfully overcoming Article 3(1)(e) immunises a shape from being assessed under the other absolute grounds for the refusal of registration, including Article 3(1)(c). Instead, each of the grounds for refusal under Article 3(1) is independent of the others and must be examined separately. When it comes to carrying out this assessment, the public interest underlying each paragraph should be borne in mind. In the case of Article 3(1)(c) this is the need to keep marks that exclusively consist of a sign that may serve to designate the characteristics of goods or a service within the meaning of that provision freely available for all. This should be assessed in the light of the concrete consideration of all of the relevant aspects of the particular application rather than in the abstract, and shape marks, cannot be refused registration on public interest grounds as a matter of principle without examining the public interest in the specific shape applied for. A different public interest underlies Article 3(1)(e), namely preventing undertakings from monopolising technical solutions or functional characteristics that consumers are likely to seek in the products of competitors.

19. REGISTRATION OF BAND NAME BY EX-MEMBERS IN BAD FAITH

Byford v Oliver & Dawson, [2003] EWHC 295 (Ch) (Unreported)

This was an appeal by one of the members of 80's rock band SAXON, who was claiming that the registration of the band's name as a trade mark by other former members of the band constituted bad faith. At first instance, the Trade Mark Registry had disagreed, believing the other members to have just as much right to the name as the appellant. However, Laddie J disagreed, believing that the goodwill in the name vested in the band as a partnership, and that by registering the trade mark as individuals, rather than as the band, the respondents were indeed acting in bad faith.

Byford sought a declaration of invalidity from the Trade Mark Registry, which dismissed his application, expressing the view that all parties had at least a residual interest in the name and it was Byford's misfortune that the others had registered first. Byford appealed to the High Court. His case rested upon s.3(6) of the Trade Marks Act 1994, bad faith as a ground for refusal of registration and hence invalidity, and on the basis that the proprietors' use of SAXON would constitute passing off, contrary to s.4.

Laddie J allowed the appeal. On bad faith, he emphasised the fact that the proprietors had applied for registration in their own names. At no stage prior to these proceedings had they asserted that they were applying on behalf of a partnership. He referred to Growmax Plasticulture v Don & Low Nonwovens Ltd [1999] RPC 367. On the question of passing off, Laddie J made analogy with cases where conflicting trade mark users were separated in space and time. He pointed out that, in recent years, the only bands performing under the name SAXON alone were Byford's, not Oliver's and Dawson's.

Laddie J considered cases on the dissolution of a partnership and its effect on goodwill and rights to use the partnership name. Citing "*The Law of Passing Off*" by Wadlow, he considered cases on this topic, including Burchell v Wilde [1900] 1 Ch551 and Dent v Turpin (1861)2 J&H 139. Significantly, he observed:-

“On dissolution of the original partnership, which is what happened when Dawson departed in 1985, he and all the other partners were entitled to ask for the partnership assets to be realised and divided between them in accordance with their respective partnership shares. But none of them "owned" the partnership assets. In particular, none of them owned the name SAXON or the goodwill built up under it.”

The bands were characterised as a series of partnerships at will. Under English law, such partnerships are not regarded as having a distinct legal personality. However, partnerships and other unincorporated associations [as in Artistic Upholstery Ltd v. Art Forma (Furniture Ltd) [2000] F.S.R. 311], generate goodwill by their activities and build up rights in trading names and other marks. This can cause problems when members leave. As Laddie J pointed out, it is advisable to make explicit provision for this.

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MORE ABOUT THIS ISSUE

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Kathrin Tauber is an associate at our Munich office, and wrote the article on the German Ministry of Justice proposed bill to modernise the current Act on Unfair Competition. Again if you would like further clarification on any of the issues raised, please do feel free to contact her directly.

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