



## PATENTS

### Human Stem Cell Inventions

The much anticipated ruling of the Enlarged Board of Appeal of the European Patent Office (EPO) in G2/06 (Wisconsin Alumni Research Foundation) clarifies questions relating to patentability of human stem cells.

#### BACKGROUND

Wisconsin Alumni Research Foundation's (WARF) European patent application, claiming primate embryonic stem cell cultures, was originally refused by the EPO's Examining Division because the application taught that use of human embryonic stem cells is necessary in order to obtain the claimed product. A patent concerning uses of human embryos for industrial or commercial purposes may not be granted under the provisions of the European Patent Convention for being contrary to "ordre public" or morality.

This decision was appealed and the Technical Board of Appeal considered the questions raised to be so important that it referred the matter to the Enlarged Board of Appeal. In an unusual step, the EPO invited public comments on the patent.

#### DECISION

The Enlarged Board found that the European Patent Convention forbids the patenting of claims directed to products which, at the filing date, could be prepared exclusively by a method that necessarily involves the destruction of human embryos, even if that method is not part of the claims. In the words of the Enlarged Board:

*"...it is not the fact of the patenting itself that is considered to be against the ordre public or morality, but it is the performing of the invention, which includes a step (the use involving the destruction of a human embryo) that has to be considered to contravene [the EPC]."*

This does not change even if technical developments after the filing date enable the same products to be obtained without having to recur to a method that involves necessarily the destruction of human embryos. This is because allowing a patent in these circumstances would be to the detriment of a third party that, after the filing date, provided an "innocuous" way of carrying out the invention.

The Enlarged Board stressed that the decision is not concerned with patentability of human stem cell inventions in general, but only those that require destruction of human embryos.

#### REACTION

The EPO's decision has been welcomed by, among others, the President of the European Parliament Bioethics Intergroup and The Conference of European Bishops.

On the other hand, advocates of embryonic stem cell research are concerned that this decision may dramatically affect European stem cell research for commercial purposes if patent protection will no longer be available for such research.

### Business Methods

On 30 October 2008, the U.S. Court of Appeals for the Federal Circuit issued its highly-anticipated decision in *Bilski* (Federal Circuit 2007-1130). Examining both its own jurisprudence and that of the U.S. Supreme Court, the Federal Circuit adopted a test for patent eligibility that effectively narrows the scope of patent-eligible subject matter with respect to business methods and process claims in general. While this decision will perhaps not lead to a dramatic change as regards what is protectable overall, it is significant because it raises the bar for pure business methods, making subject matter in certain formats difficult to protect and highlighting the importance of selecting the right claim language to define the invention.

#### CLAIMS AT ISSUE

The claims at issue were directed to a pure business method for managing the consumption risk costs of a commodity through counter-balancing transactions between a commodity provider and both a consumer of the commodity and a market participant for the commodity. The claims were rejected by the United States Patent and Trademark Office (USPTO) as not being drawn to patent-eligible subject matter. The Federal Circuit issued its affirming decision following an *en banc* hearing of the case.

#### PATENT ELIGIBILITY

Patent eligibility analysis begins with a determination of whether a claim falls into one or more categories of invention listed in 35 U.S.C. Section 101: process, machine, article of manufacture or composition of matter. In general, claims that fall into one of these four broad categories are deemed patentable subject matter unless they are drawn to one of

several exclusions defined by the Supreme Court, namely laws of nature, natural phenomena and abstract ideas. These exclusions are referred to collectively as “fundamental principles” by the Federal Circuit. If a fundamental principle is recited in a claim, it must be determined whether that claim is limited to a particular application of the fundamental principle or whether the claim pre-empts substantially all uses of the fundamental principle.

The Federal Circuit reviewed the jurisprudence on the appropriate test under Section 101. It began by considering the Freeman-Walter-Abele two step test, which determines whether the claim recites an “algorithm” within the meaning of the Supreme Court’s *Benson* decision and, if so, whether that algorithm is “applied in any manner to physical elements or process steps.” However, this test was deemed inadequate by the Federal Circuit, which considered the Supreme Court’s “machine-or-transformation test” to be the appropriate test.

The Federal Circuit reduced the importance of the more recent “useful, concrete, and tangible result” test, set forth in the *State Street* and *AT&T* decisions, to merely providing “useful indications of whether a claim is drawn to a fundamental principle or a practical application of such a principle.” The Federal Circuit concluded that this test was insufficient to determine patent eligibility and was never intended to replace the Supreme Court’s machine-or-transformation test.

The Federal Circuit declined to adopt a “technological arts test”, noting a lack of precedential support for such a test and contending that the ambiguous and ever-changing meanings of the terms “technological arts” and “technology” make the test unclear. The Federal Circuit also declined to extend the judicially defined exclusions to patent-eligible subject matter to include either business methods or software-related inventions. Relying in particular on the Supreme Court decisions in *Benson*, *Diehr* and *Flook*, the Federal Circuit reiterated the “machine-or-transformation” test as the exclusive test to determine the patent-eligibility of a process claim. Under this test, a claimed process is patent eligible if “it is tied to a particular machine or apparatus,” or “it transforms a particular article into a different state or thing.” The Federal Circuit explained that the machine-or-transformation test effectively determines when a process claim “encompass[es] only a particular application of a fundamental principle rather than to pre-empt the principle itself.”

#### **APPLYING THE MACHINE-OR-TRANSFORMATION TEST**

In applying the test, the Federal Circuit stated that “mere field-of-use limitations are generally insufficient to render an otherwise ineligible process claim patent-eligible.” Furthermore, “the use of a specific machine or transformation of an article must impose meaningful limits on the claim’s scope to impart patent eligibility.” In other words, “the involvement of the machine or transformation in the claimed

process must not merely be insignificant extra-solution activity.”

Regarding the claims in *Bilski*, the Federal Circuit noted that none of the claims was limited to a particular machine or apparatus. Accordingly, the Federal Circuit deferred any elaboration on the first prong of the test to future cases. The Federal Circuit did provide some guidance in connection with the second prong of the test.

Physical objects or substances clearly constitute “articles” under the machine-or-transformation test. However, the Federal Circuit acknowledged that “[t]he raw materials of many information-age processes... are electronic signals and electronically manipulated data.” In this regard, the Federal Circuit indicated that data representing a physical and tangible object constitutes an article under the second prong of the test. For example, x-ray attenuation data of bones, organs and other body tissues produced by a computed tomography scanner, as described in the *Abele* decision. Transformation of this data into a visual depiction of the underlying physical objects was identified by the Federal Circuit as one example of a transformation under the second prong of the machine-or-transformation test.

Referring to the claims at issue in *Bilski*, the Federal Circuit noted that the legal obligations and business risks in the claimed business method did not involve a physical object or data representing a physical object. Accordingly, the transformation or manipulation of legal obligations and business risks could not satisfy the second prong of the machine-or-transformation test.

The Federal Circuit left a number of issues outstanding, however. Foremost, the Federal Circuit did not elaborate on the first prong of the machine-or-transformation test, *i.e.*, whether the claimed process is tied to a particular machine or apparatus. Additionally, the Federal Circuit provided minimal guidance on the meaning of a “transformation of a particular article” in the context of electronic data. The Supreme Court may ultimately decline considering the *Bilski* decision in order to provide the Federal Circuit the opportunity to flesh out the machine-or-transformation test.

#### **COMMENT**

The deficiencies of the *Bilski* decision should be considered, however, when devising patent strategies for business methods and software-related inventions. For example, the patent-eligibility standards for the statutory categories of claims besides processes, such as machines and articles of manufacture, are apparently not modified by *Bilski*. Furthermore, process claims that would otherwise fail the machine-or-transformation test may be salvaged by emphasising relationships between electronic data and

corresponding physical objects as well as any transformations of the data affecting how it is ultimately displayed or outputted. *Bilski* arguably represents a compromise between the position of recent years according to which novel and inventive business methods have been routinely allowed by the USPTO and the demands from lobbyists for pure business method patents to be outlawed in the United States, as they are in most other jurisdictions.

### UK-IPO Press Release Regarding Computer Program Patents

On 7 November 2008, the UK Intellectual Property Office (UK-IPO) issued a press release regarding the patentability of computer programs following the recent Court of Appeal decision in *Symbian v Comptroller General of Patents* in which the UK-IPO's approach relating to patentability of computer programs was decisively overturned by the Court. The Court of Appeal emphasised the need for consistency of approach between the European Patent Office (EPO) and the UK-IPO regarding software patents. In *Symbian*, the UK-IPO was found to have been wrong to deny *Symbian* a patent related to dynamic link libraries in computing devices.

### REFERRAL TO THE ENLARGED BOARD OF APPEAL

The Court of Appeal did not give the UK-IPO leave to appeal to the House of Lords because in its view it would be premature for the House of Lords to decide whether and in which circumstances computer programs are patentable before the issue has been considered by the Enlarged Board of Appeal of the EPO. The President of the EPO has referred a series of questions on the patentability of computer programs to the Enlarged Board of Appeal.

### QUESTIONS REFERRED

The questions being referred to the Enlarged Board of Appeal are as follows:

1. Can a computer program only be excluded as a computer program as such if it is explicitly claimed as a computer program?
2. (a) Can a claim in the area of computer programs avoid exclusion under Article 52(2)(c) and (3) of the European Patent Convention merely by explicitly mentioning the use of a computer or a computer-readable data storage medium?  
  
(b) If question 2(a) is answered in the negative, is a further technical effect necessary to avoid exclusion, said effect going beyond those effects inherent in the use of a computer or data storage medium to respectively execute or store a computer program?
3. (a) Must a claimed feature cause a technical effect on a physical entity in the real world in order to contribute to the technical character of the claim?

(b) If question 3(a) is answered in the positive, is it sufficient that the physical entity be an unspecified computer?

(c) If question 3(a) is answered in the negative, can features contribute to the technical character of the claim if the only effects to which they contribute are independent of any particular hardware that may be used?

4. (a) Does the activity of programming a computer necessarily involve technical considerations?

(b) If question 4(a) is answered in the positive, do all features resulting from programming thus contribute to the technical character of a claim?

(c) If question 4(a) is answered in the negative, can features resulting from programming contribute to the technical character of a claim only when they contribute to a further technical effect when the program is executed?

### POSITION OF THE UK-IPO

Although the Court of Appeal did not accept the UK-IPO's view on the patentability of *Symbian*'s invention, the UK-IPO believed that the Court of Appeal has confirmed that the so called Aerotel/Macrossan four-step test, previously established by the Court of Appeal, provides a legitimate approach to analysing whether an invention should be refused as no more than a computer program. The Court of Appeal declined to follow the EPO approach, as it considered it "unclear" at present. Therefore, the UK-IPO has announced that it will continue to use the Aerotel/Macrossan test, but in doing so it will take account of the Court of Appeal's judgment in *Symbian* whenever appropriate.

### COMMENT

There can be little doubt that the decision by the Enlarged Board is greatly anticipated and will be dissected by nearly every patent practitioner and computer software designer in the United Kingdom, Europe and elsewhere. It is clear that the approaches and principles of the EPO and UK-IPO should be in line with one another as far as is possible, and as seen in this case the differences in approaches need to be minimised when considering the outcome of patent cases.

## TRADE MARKS

### Counterfeit Products: Trade Mark Use

In *R v Gary Boulter* [2008] EWCA Crim 2375, the English Court of Appeal has upheld the Bristol Crown Court's ruling that it is no defence to a charge of unauthorised trade mark use that the reproduction of the mark was of such poor quality that nobody would be confused into believing that the goods originated from the owner of the trade mark.

## BACKGROUND

In December 2005, police and trading standards officers seized over 2,000 counterfeit DVDs and CDs from the home of Mr Boulter. The packaging bore trade marks of (amongst others) EMI. Mr Boulter was charged with the criminal offence under Section 92(1)(c) of the Trade Marks Act 1994 of having in his possession goods bearing a sign identical to, or likely to be mistaken for, a registered trade mark, with a view to selling, hiring, or offering such goods for sale or hire. Mr Boulter was tried on 19 counts of the Section 92 offence and asked for a further 144 offences to be taken into account.

In his defence, Mr Boulter cited authority in which it was held that a person could not be guilty under Section 92 unless the trade mark in question was infringed under Section 10 of the Trade Marks Act. Mr Boulter attempted to argue that there was no likelihood of confusion due to his material's poor quality and that, therefore, there was no infringement under Section 10. In the Crown Court, HHJ Darwall-Smith ruled that the quality of reproduction of the trade mark was irrelevant to the charge, at which point Boulter pleaded guilty. He nevertheless sought leave to appeal that ruling.

## THE COURT OF APPEAL'S DECISION

The Court of Appeal drew attention to the distinction between Section 10(1) and Section 10(2). Under Section 10(1), a mark is infringed by the use of an identical sign for identical goods, for which there is no requirement for confusion. Under Section 10(2), infringement is by use of an identical sign for similar goods or services, or a similar sign is used for identical or similar goods or services and a likelihood of confusion is required.

As Mr Boulter had applied an identical mark (albeit poorly reproduced) to identical goods, the trade mark was infringed under Section 10(1) and there was no requirement for likelihood of confusion. The authorities cited by Mr Boulter in his defence were Section 10(2) cases and could be distinguished on that basis.

## Medicines and the Average Consumer

In *Aventis Pharma v OHIM* [2008] T-95/07, the Court of First Instance (CFI) agreed with an Office for Harmonization in the Internal Market (OHIM) Board of Appeal finding that health professionals and end-users of medicines are likely to pay above-average attention to the differences between two trade marks, thereby diminishing the likelihood of confusion. However, the CFI disagreed with the Board that the marks PRAZOL and PREZAL had only a low-level of similarity and overturned the Board's decision that there was no likelihood of confusion between the marks.

## BACKGROUND

Nycomed filed a Community trade mark application for PRAZOL in Class 5 covering medicines. Aventis opposed the

registration on the basis of its earlier registration for PREZAL in Class 5 covering pharmaceutical, veterinary and hygienic products. OHIM's Opposition Division found a likelihood of confusion between the two marks. Nycomed appealed to OHIM's Fourth Board of Appeal.

The Board of Appeal annulled the Opposition Division's decision on the basis that there was a low level of similarity between the opposing marks, they had no meaning, there was a clear phonetic difference and that the relevant public, being health professionals and end-users of medicines, would be sufficiently careful that there was no likelihood of confusion.

Aventis appealed to the CFI, contesting the Board's assertion that health professionals and end-users of medicines would give above-average attention to the two marks.

Nycomed, as intervener, contested the Board of Appeal's decision that the goods covered by its application for PRAZOL were identical to the goods for which the earlier mark was registered. Nycomed argued that it was improbable for the two marks to appear on the same products, as PREZAL was used only in respect of gastro-intestinal medicines.

## DECISION

The CFI held that the Board of Appeal had been correct to find that health professionals and end-users of medicines would give a high level of attention to the medicines which they were prescribing or receiving.

The CFI rejected Nycomed's assertion regarding the relevant goods, holding that the goods covered by the earlier mark also covered the goods for which the new mark was applied and that the Board of Appeal was correct to find that the goods were identical.

The CFI applied the test in *Phillips-Van Heusen v OHIM (BASS)* [2003] T-292/01 ECR II-4335 in making a global assessment of the likelihood of confusion. The Court took into account the visual, phonetic and conceptual similarity and the overall impression given by the marks, bearing in mind their distinctive and dominant components.

Holding that the visual similarities between the marks outweighed the dissimilarities, the CFI observed that, out of six letters, the two marks shared five and that all four consonants appeared in the same order. It disagreed with the Board of Appeal that there was a clear phonetic difference between the two marks, finding that both marks had two syllables and the similarities resulting from the combination of "PR" at the beginning, a Z in the middle and an L at the end, cancelled out the small phonetic difference made by the different vowels in the two syllables.



Conceptually, the CFI disagreed with OHIM's suggestion that the word *prazol* would have meaning to the relevant public, by reason of its membership in the *omeprazol* family of drugs. The CFI held that, even where the portion of the relevant public represented by end-users was more than averagely attentive, it was unlikely to have the medical knowledge required to make this connection.

Having found a high level of visual and phonetic similarity, the CFI overturned the Board of Appeal's decision that the relevant public were unlikely to be confused. The CFI stated that the fact that the relevant public included end-consumers whose level of attention could be considered to be above average, was not sufficient, given the identical nature of the goods concerned and the similarity of the signs in dispute, to rule out the possibility that those consumers might believe that the goods come from the same undertaking or from economically-linked undertakings.

#### COMMENT

This case confirms that where the relevant public includes consumers as opposed to professionals, the threshold for likelihood of confusion is lower, even if the market for the goods concerned means that those consumers are likely to be more sophisticated and display an above average level of attention.

#### Shapes: Technical Result Objection

In *Lego Juris A/S v OHIM* [2008] T-270/06, the Court of First Instance (CFI) has upheld an Office for Harmonization in the Internal Market (OHIM) Grand Board of Appeal decision that Lego's Community trade mark (CTM) registration of a red four-by-two brick was invalid because it consisted exclusively of the shape of goods that was necessary to obtain a technical result.

#### BACKGROUND

Lego applied to register a red, three-dimensional representation of a Lego brick as a CTM in Classes 9 and 28 (scientific equipment and games). The mark was registered on 19 October 1999 and two days later, Mega Brands applied for a declaration that the mark was invalid under Article 51(1)(a) of the Community Trade Mark Regulation (40/94/EC) on the ground that the registration was contrary to the absolute grounds for refusal set out in Article 7(1)(a), (e) (ii) and (iii) and (f) of the Regulation. In other words, the mark was not capable of distinguishing goods from those of other undertakings, it consisted solely of a shape necessary to obtain a technical result and its registration was contrary to public policy.

OHIM's Cancellation Division granted Mega Block's declaration of invalidity under Article 7(1)(e)(ii).

Lego appealed to OHIM's First Board of Appeal, subsequently requesting that due to the complexity of the case, it should be referred to OHIM's Grand Board of Appeal and should be dealt with in an oral hearing, as opposed to the usual appeal on paper. The Grand Board of Appeal was convened but rejected Lego's request for an oral hearing and dismissed its appeal.

The Grand Board of Appeal held that the acquisition of distinctive character, which under Article 7(3) of the Regulation could overcome objections under some of the absolute grounds for refusal, could not rescue a mark that had been rejected under 7(1)(e). This was because this provision was designed to maintain shapes necessary to achieve a technical result free for use by anybody. The Grand Board further stated that the addition of an arbitrary element, in this case the colour red, did not take the mark outside the scope of the prohibition. The Grand Board of Appeal also rejected as irrelevant Lego's argument that the article did not apply because there was no need to preserve the shape for use by all, since there were other shapes that could achieve the same technical effect. Lego appealed the decision of the Grand Board to the CFI.

#### APPEAL TO THE CFI

Lego argued on appeal, *inter alia*, that Article 7(1)(e)(ii) was intended only to exclude shapes that consisted *exclusively* of a shape *necessary* (author's emphasis) to achieve a technical result and it did not catch shapes that had at least one non-functional element, or shapes that could be altered without losing their functionality. Following *Philips v Remington* [2002] ECR I-5475, argued Lego, the purpose of Article 7(1)(e)(ii) was only to exclude from registration functional shapes, the protection of which would create a monopoly on technical solutions, or on the functional characteristics of the shape that a user may seek in the products of competitors. Following *Philips* did not mean that the existence of alternative shapes would automatically take a mark outside the scope of Article 7(1)(e)(ii). It would do so only if there were functionally equivalent shapes that used the same "technical solution" to achieve the same "technical result".

#### THE CFI'S DECISION

The CFI dismissed Lego's appeal. The Court stated, *inter alia*, that the word "exclusively" must be read in the light of the expression "essential characteristics which perform a technical function", used in the *Philips* decision. It is apparent from that expression that the addition of non-essential characteristics having no technical function does not prevent a shape from being caught by that absolute ground of refusal if all the essential characteristics of that shape perform such a function. It follows that the expression "necessary to obtain a technical result" does not mean that the absolute ground for refusal applies only if the shape at issue is the only one that could achieve the intended result.

In addition, the European Court of Justice (ECJ) in *Philips* had dismissed the relevance of the existence of “other shapes which could achieve the same technical result” without distinguishing shapes using another “technical solution” from those using the same “technical solution”. The Court stated in *Philips* that “a shape whose essential characteristics perform a technical function... may be freely used by all.” That aim did not relate solely to the technical solution incorporated in such a shape, but to the shape and its essential characteristics themselves. Since the shape as such must be capable of being freely used, the distinction advocated by Lego could not be accepted.

Accordingly, the CFI applied the ECJ ruling in *Philips*. The Court confirmed that the ground for refusal or invalidity of registration for a mark based exclusively of the shape of goods that was necessary to obtain a technical result cannot be overcome by establishing that there are other shapes that allow the same technical result to be obtained.

### Dilution

The European Court of Justice (ECJ) has handed down its judgment in *Intel Corporation Inc v CPM United Kingdom Ltd* [2008] C-252/07 on the referral by Lord Justice Jacob on the extent to which a mark that enjoys huge reputation will suffer from use of that mark on any third party goods or services.

### BACKGROUND

Intel sought a declaration of invalidity in relation to CPM’s registration of the word INTEL MARK on the basis that CPM’s mark would take unfair advantage of, or be detrimental to, the distinctive character or repute of Intel’s mark, INTEL. The Trade Marks Registry refused the declaration on the basis there would be no material damage to the distinctiveness or repute of the Intel brand if INTEL MARK was used in a normal and fair manner in relation to the services for which it was registered. The decision was upheld in the High Court, whereupon Intel appealed to the Court of Appeal.

Intel relied upon *Adidas-Salomon v Fitness World* [2004] FSR 21, arguing that a mere “bringing to mind” was enough and any kind of mental association between the later mark and the earlier mark was a sufficient degree of similarity between marks.

Jacob LJ referred the matter to the ECJ, but stated that he considered that a mere “bringing to mind” was insufficient ground for a declaration of invalidity and that the later mark should have an effect, or be likely to have an effect, on the economic behaviour of the consumer for it to infringe the earlier mark or be barred from registration.

### LINK BETWEEN THE MARKS

The ECJ summarised part of Jacob LJ’s questions as asking essentially what the relevant criteria are for the purposes of establishing whether there is a link (as per *Adidas-Salomon*)

between the earlier mark with a reputation and the later mark, in respect of which a declaration of invalidity is sought. It held that a global assessment is necessary, taking into account, *inter alia*, the following:

- The degree of similarity between the conflicting marks.
- The strength of the earlier mark’s reputation.
- The existence of the likelihood of confusion on the part of the public, taking into account all relevant factors.

The ECJ found the existence of a link within the meaning of *Adidas-Salomon*.

### DILUTION

The ECJ summarised Jacob LJ’s remaining questions as asking essentially: what criteria are necessary to establish that the use of the later mark takes, or would take, unfair advantage of, or is or would be detrimental to, the distinctive character of the earlier mark; and what criteria are relevant for the purposes of assessing whether the use of the later mark is or would be detrimental to the distinctive character of the earlier mark.

The ECJ held that it was not necessary for the earlier mark to be unique in order to establish actual or likelihood of injury to the mark, finding that a mark with reputation is, necessarily, distinctive, whether inherently or through use. It is distinctiveness, not “uniqueness” that may be weakened by use of the later mark. However, if the earlier mark is unique, the more likely it is that use of an identical or similar mark will be detrimental to its distinctive character and that this injury could, in some instances, be caused by the very first use of the later mark.

The Court found that detriment to the distinctive character of the earlier mark is caused when that mark’s ability to identify the goods or services for which it is registered as coming from the proprietor of that mark is weakened. This is particularly the case if, in order to establish this, the proprietor must adduce evidence of a change in the economic behaviour of the average consumer of the goods or services for which the earlier mark was registered.

It was immaterial, however, for the purposes of assessing whether the use of the later mark is or would be detrimental to the distinctive character of the earlier mark, whether or not the proprietor of the later mark draws real commercial benefit from the distinctive character of the earlier mark.

### COMMENT

The ECJ found that while the necessary link between marks for the purposes of a dilution claim will arise on a mere calling to mind of an earlier mark with a reputation, such a claim will not succeed unless the owner of the earlier mark can prove actual damage to its mark, or a serious likelihood of damage.

Some commentators have viewed this decision as “anti-brand”. However, some have argued that it must be right that a brand must have achieved extraordinary reputation in order to benefit from protection beyond the scope of its registrations. As such, the ECJ’s ruling has vindicated Jacob LJ’s view that INTEL is simply not in the same league as ROLLS ROYCE.

### **MONGOLS™ Injunction**

In October 2008, 61 members of the violent Mongols Nation Motorcycle Club were arrested in Los Angeles and other U.S. cities after being named in an 86-count US Federal indictment regarding various activities related to organised crime.

In view of the extensive charges brought against the gang members and owing to the fact that the gang used its logo to promote, at best, morally questionable activities, U.S. District Court Judge Florence-Marie Cooper granted a landmark injunction. For the first time in U.S. legal history, Judge Cooper granted an injunction prohibiting Club members, their family members and associates from wearing, licensing, selling or distributing their gang’s identifying logo, which had been registered at the U.S. Trademark Office.

### **BACKGROUND**

The Mongols Nation Motorcycle Club was formed in the 1970s by a small group of Latin Americans who reportedly had been rejected by the granddaddy of all biker gangs—Hells Angels. The Mongols now have between 500 and 600 members. According to the Federal indictment, the Club made its money largely through the sale of methamphetamines.

As with many such organisations, badges or patches are awarded to signify the status or “achievements” of its members. For instance, according to the indictment, a skull and crossbones patch or one proclaiming “Respect Few, Fear None” was allegedly given to members who committed murder or other acts of violence on behalf of the Club.

If one places credence in the numerous articles written about this notorious gang of bikers, they also appear to employ logo patches associated with the Club’s alleged sexual rituals. This was one of the various “offences” cited as part of the indictment presented by the U.S. Attorney against the Club.

### **FORFEITURE APPLICATION**

In a public announcement immediately prior to the hearing before Judge Cooper, the U.S. Attorney stated as follows:

*“In addition to pursuing the criminal charges set forth in the indictment, for the first time ever, we are seeking to forfeit the intellectual property of a gang...[t]he name ‘Mongols,’ which is part of the gang’s ‘patch’ that members wear on their motorcycle jackets, was trademarked by the gang (US Trademark No. 2916965). The indictment alleges that this trademark is subject to forfeiture. We have filed papers seeking a court order that*

*will prevent gang members from using or displaying the name ‘Mongols.’ If the court grants our request for this order, then if any law enforcement officer sees a Mongol wearing his patch, he will be authorized to stop that gang member and literally take the jacket right off his back.”*

The Mongols patch is typically accompanied by an insignia of a pony-tailed, Genghis Khan-like figure riding a chopper motorcycle and wearing sunglasses. The 2003 registration is for Class 35 services, namely “promoting the interests of persons interested in the recreation of riding motorcycles”.



### **LANHAM ACT**

Section 2(a) of the Lanham Act (15 U.S.C. 1052), bars the registration of trade marks that are deemed “immoral” or “scandalous”. The United States Patent and Trademark Office (USPTO) must demonstrate that the mark is “shocking to the sense of truth, decency, or propriety; disgraceful; offensive; disreputable; ... giving offense to the conscience or moral feelings; ... [or] calling out [for] condemnation”. Furthermore, whether the mark, including innuendo, comprises scandalous matter is to be ascertained first from “the standpoint of not necessarily a majority, but a substantial composite of the general public,” and, secondly, “in the context of contemporary attitudes”.

### **THE CHURCH CHAT LADY**

In practice, the question asked is: “Would the mark bring a blush to the cheeks of the ‘church chat’ lady?” If so, then the mark is rejected. Presumably when the MONGOLS mark was filed in 2003 no such issues were raised either by the Registrar or through any opposition proceedings. The Class 35 services were seemingly harmless enough and there appeared nothing to upset a group of “church chat ladies”.

### **COMMENT**

Not surprisingly, some legal observers have questioned the legality of the injunction, especially as the mark was legally obtained and the injunction could amount to a violation of freedom of speech under the First Amendment to the U.S. Constitution. It could also be interpreted as a flat out denial of due process under the law for those members not indicted and now no longer able to “enjoy the use” of the MONGOL logo.

The Mongols might in fact still have the last laugh as the “offending mark” was assigned to Shotgun Production LLC by

the Mongol Nation in March 2008. At present there is no information provided by the Federal authorities that Shotgun Production is involved in any of the alleged nefarious activities of the Club. As a result, the U.S. Attorney could be defending a lawsuit brought by the current owners of the MONGOLS trade marks for unlawfully depriving a rightful owner of its property.

## INTELLECTUAL PROPERTY

### UK-IPO Considers Derogation Extension for Deceased Artists

After a recent consultation, the UK Intellectual Property Office (UK-IPO) is currently assessing the likely impact of the “Artist’s Resale Right” and the special derogation for deceased artists on the UK art market. The consultation sought views on whether to maintain the existing derogation, which applies to works by a living artist, for a further two years until 1 January 2012, or to allow the derogation to lapse. If the derogation is allowed to lapse, works by deceased artists that are still in copyright will become eligible for the resale right.

#### BACKGROUND

The Artist’s Resale Right came into force in the United Kingdom on 14 February 2006 when the Artist’s Resale Right Regulations 2006/346 transposed into UK law Directive 2001/84/EC. Its introduction was met with some negativity, especially by various domestic art auction houses. In brief, the right entitles living authors of original works of art to a royalty each time one of their works is resold in a sale involving an art market professional. The right only applies to sales of €1,000 or more with a maximum royalty payable on any single sale capped at €12,500. The royalty is subject to compulsory collective management so artists cannot claim their royalty independently but instead must claim through a middle man collecting the royalty on their behalf.

Currently, by virtue of the derogation, the artist’s resale right only applies to works created by artists who are still living. However, as from 2010 the right will also apply to works created by artists who have been dead for less than 70 years.

There were some 400 responses to the consultation from a wide variety of interests with a reported 90 per cent of those responding answering “no” to the question: “Should the UK maintain the derogation for an additional two years?” Not surprisingly, most of the artists and artists’ estates who expressed an opinion on the derogation have said that they thought that it should be allowed to lapse; and not surprisingly almost all of the responses from the art trade were in support of extending the derogation until 2012.

#### COMMENT

With many of the 20th century’s finest and most revered artists (both alive and dead) commanding enormous sums for their

works, a change in the derogation could result in a significant number of additional sales qualifying for payment of this royalty. The domestic auction industry may have renewed concerns about additional royalties as this could have the effect of driving larger auctions to territories where such artist resale royalties are not charged.

If the UK-IPO decides it is necessary to extend the derogation, it has to make a case to the European Commission by the end of this year.

### Online Libel: No Inference of Substantial Publication

Ruling on preliminary issues in a libel action, *Shaun Brady v Keith Norman* [2008] EWHC 2481 (QB), Richard Parkes QC sitting as a Deputy High Court Judge ruled that there was insufficient evidence from which it could be inferred that anyone had read an online version of an article other than those who had a legitimate interest in doing so. As such, the decision appears consistent with the ruling in *Al Amoudi v Brisard* [2007] 1 WLR 113 that the claimant in a libel action has the burden of proving that the material in question has been read by individuals in circumstances in which publication was not protected by qualified privilege.

#### BACKGROUND

The Claimant, Shaun Brady, was the former General Secretary of the Associated Society of Locomotive Engineers and Firemen (ASLEF) and the Defendant, Keith Norman, was its current General Secretary. Mr Brady had been dismissed from ASLEF, but was subsequently awarded substantial compensation for unfair dismissal.

An edition of the *Loco Journal*, ASLEF’s monthly magazine, contained a number of reports on a then-recent ASLEF conference and was posted in full on ASLEF’s website. One report stated that the union’s “Certification Officer had ruled... that Mr Brady had legitimately been excluded from ASLEF membership for bringing the union into disrepute”. Mr Brady subsequently sued for libel.

Mr Brady conceded that members of ASLEF had a legitimate interest in receiving information about what took place at the union conference. He argued, however, that by having been made available online, the article had also been available to the wider public, who did not have such a legitimate interest.

#### INFERENCE OF WEBSITE PUBLICATION?

It was commonly accepted that the *Loco Journal* was published on the ASLEF website, where it would have been open for anyone to read, as well as in hard copy. Mr Brady argued that the article would have been read on the website by an unknown number of readers, although he did not adduce any evidence on this point.



The deputy judge, however, agreed with Mr Norman's submission that there was no proper basis on which an inference could be drawn that a substantial number of people without a legitimate interest in the matter would have read the words complained of on the website. Mr Norman pointed out that, as held in *Al Amoudi v Brisard*, there was no rebuttable presumption of law of publication on the internet to a substantial but unquantifiable number of people within the jurisdiction. Therefore, the Claimant had the burden of proving that the material in question had been accessed and downloaded.

In the deputy judge's view, there appeared no basis on which it could safely be inferred that anyone who lacked a proper interest would have read the article. Without some evidence to justify the inference (for instance, evidence that the ASLEF site and the information contained in it provided an attractive resource for transport enthusiasts generally, rather than simply for members and staff) it appeared to be no more than pure speculation to infer that an "outsider" would have read the words complained of. The deputy judge therefore concluded that there was no sufficient evidence of website publication to individuals in non-privileged circumstances.

#### COMMENT

It was common ground that publication to ASLEF members was privileged. The question was: who else had read the report? According to Mr Brady it was a foregone conclusion, albeit a rebuttable one, that a substantial number of people had done so simply because it was posted on a publicly accessible website. That, however, is not the position that has been adopted by the courts.

## COMMERCIAL

### Consumer Rights Directive: Potential Changes to UK Consumer Protection Legislation and Regulation

"We are all consumers and the way we all shop is changing." Stating the obvious is perhaps an inauspicious start to the UK's Consultation on EU proposals for a Consumer Rights Directive, but the consultation paper published by the Department for Business Enterprise & Regulatory Reform is as good a place as any to become acquainted with the implications for change to the way in which business-to-consumer online trading is regulated in the United Kingdom.

#### BACKGROUND

The Consumer Rights Directive aims to unite the Unfair Contract Terms Directive (93/12/EEC) and the Doorstep Selling Directive (85/577/EC). Its purpose is not only to bring consumer protection law into the 21<sup>st</sup> century but to iron out some of the problems caused by the "minimum requirement" approach to harmonisation under these Directives. The Commission therefore proposes a full harmonisation approach under the new Directive which, by consolidating and updating

the four key Directives, will provide for rules consistent throughout the European Union on the provision of pre-contractual information to consumers, information and withdrawal rights for distance and off-premises contracts, sales contracts and unfair terms in consumer contracts. It also redefines key terms under the consumer legislation and in so doing eradicates some of the inconsistencies in definitions that exist between the various pieces of legislation.

#### KEY ISSUES

The Commission's proposals were broadly welcomed on publication although BERR has identified three key issues. The first relates to the scope of the draft Directive. Specifically, BERR is concerned that the proposals are restricted to simply merging four current Directives, eschewing a "more ambitious approach that would meet the actual consumer experience".

The second key issue is that, as a full harmonisation measure, the proposed Directive may cause a possible reduction in consumer protection in some areas and potentially increase costs to businesses in others, as the Directive is too black and white.

The third issue is that the consultation paper reflects the immediate concerns that the proposed change to the remedies available to consumers when they purchase faulty goods (allowing the trader to choose between repair and replacement where there is lack of conformity in a product bought by a consumer) will mean that UK consumers will lose their right to reject faulty goods, a right that is highly valued.

#### COMMENT

It is slightly paradoxical that a Directive intended to upgrade and overhaul consumer rights online has the effect, as far as the UK consumer is concerned, in some respects of reducing the protection the consumer enjoys. This is a result of the UK's robust transposition of the existing Directives and is also, ironically, a legacy of the minimum requirement approach that the European Commission is seeking to replace.

On the whole, EU Member States, including the United Kingdom, will welcome the Commission's initiative not least because it will eradicate a whole swathe of Community measures. The inconsistency of these has been more than compounded at national level as a result of the minimum requirement approach to harmonisation.

## DATA PROTECTION

### Data Sharing, ICO Powers and Data Breach Notification

On 24 November 2008, the UK Ministry of Justice, (MoJ) announced that "the Information Commissioner [ICO] is to be given tougher powers to regulate the Data Protection Act",

referring to the MoJ Response to the Data Sharing Review Report.

## **BACKGROUND**

The Data Sharing Review Report of July 2008 (commissioned by the Government to: consider whether changes are needed to the Data Protection Act 1998 (DPA); provide recommendations on the powers and sanctions available to the Information Commissioner and the courts in data sharing and data protection legislation; and provide recommendations on how data sharing policy should be developed to ensure proper transparency, scrutiny and accountability), made various recommendations. Following consultation, the Government published an official response to the Report confirming its proposals regarding the key recommendations. Certain proposals regarding the regulatory framework and the role of the ICO are summarised below.

## **DATA SHARING CODE OF PRACTICE**

The ICO will be given a statutory duty to prepare, publish and review a code on the sharing of personal data in order to maintain high standards in the provision of public services. This will provide practical guidance to the public, particularly data controllers and processors, about how to share personal data in accordance with the DPA and will also promote good practice in personal data sharing. Data sharing will be defined to cover references to the disclosure of data by transmission, dissemination or otherwise making it available. A breach of, or compliance with, the code will be considered by the courts, the Information Tribunal and the ICO whenever relevant to legal or enforcement proceedings. Compliance with the Code will also be considered in criminal proceedings regarding offences under Section 55 DPA.

## **ICO POWERS**

The recently inserted Section 55A DPA gives the ICO power to issue civil financial penalties for serious breaches of the data protection principles likely to cause substantial damage or distress. It will apply in cases of deliberate breach, or where a data controller is (or should have been) aware of a risk of serious breach likely to cause substantial damage or distress, but fails to take reasonable steps to prevent it. The MoJ and the ICO are currently deciding the maximum penalty regarding such breaches (the financial penalties model used by the Financial Services Authority is being considered).

Following the consultation, it was decided that the ICO should not be able to apply for warrants to carry out random on-site compliance inspections in circumstances where the Commissioner does not have reason to suspect non-compliance with or breach of the data protection principles, or where the commissioner has no reason to suspect such non-compliance or a breach, but has completed a risk assessment identifying the data controller as high risk.

## **NOTIFICATION OF DATA SECURITY BREACHES**

The Government agrees that “as a matter of good practice” any significant data breach should be notified to the ICO, which should work with the organisation involved to ensure remedial action is taken. From June 2008, Government departments have been obliged to share details of significant actual or potential losses of personal data with the ICO. Additionally, the ICO has produced guidance for data controllers on when data breaches should be notified as a matter of good practice. The ICO will also publish guidance for organisations on when to notify breaches of the data protection principles and will take account of any failure to notify when considering enforcement action. The Government does not intend to implement data breach notification legislation similar to the relevant U.S. legislation, believing this contributes little towards personal data security, with the framework being of “diminishing utility over time”.

## **COMMENT**

The response document clarifies Government data protection policy in areas highlighted as significant following various recent high profile security breaches.

# **SPORT**

## **Unfair Contract Terms: Match Ticket Refunds and Health Club Membership Agreements**

The Office of Fair Trading (OFT) is calling generally on all clubs to ensure their terms and conditions are compliant with the law, in particular the Unfair Terms in Consumer Contracts Regulations 1999 (UTCCRs). The move, announced by the OFT on 4 December 2008, comes after the OFT took action against Tottenham Hotspur FC and Fitness First, the health club chain, for potential breaches of the UTCCRs.

## **COME ON YOU SPURS!**

The standard terms and conditions on Tottenham Hotspur FC's website stated that “tickets cannot be refunded or exchanged under any circumstances”. Following a number of complaints by fans to Haringey Trading Standards, the OFT secured an agreement from Tottenham FC to amend its conditions relating to ticket refunds on the basis that they were likely to breach the UTCCRs by disadvantaging fans who purchase tickets for a match that is subsequently postponed and who are unable to attend the rearranged date.

As a result, the OFT has written to the Football Associations of England, Wales, Scotland and Northern Ireland asking them to remind member clubs to ensure that they provide fans with the option of a ticket refund where a match is postponed, and “asking all football clubs in the UK to ensure their terms are compliant with this aspect of the law”. Indeed, this will also ensure that where they don't already, clubs from now on abide by the English FA's ticket refund policy, which states that a person unable to attend the rearranged playing of a match shall

be entitled to a refund of the face value of the ticket (including any booking fee and related transaction charge).

#### CONSUMERS FIRST

Meanwhile, after the OFT received complaints regarding a number of potentially unfair terms, the health club chain Fitness First has been required to provide assurances and improve its membership agreements so that they are much clearer for consumers. In particular, Fitness First has submitted undertakings to the OFT that show that its membership contract:

- Will specify that members can cancel and receive some refund of fees during the minimum contract period if there are genuine medical reasons or if Fitness First is in breach of contract.
- Contains much clearer terms relating to its acceptance of liability.
- Makes clear that Fitness First is not offering credit to consumers.
- Is now much shorter and simpler and therefore easier for members to understand.

#### COMMENT

All suppliers, including football clubs, using standard terms with consumers must comply with the UTCCRs, which implement the Directive on Unfair Terms in Consumer Contracts (93/13/EEC). A term is likely to be considered unfair if, contrary to the requirement of good faith, it causes a significant imbalance in the parties' rights and obligations under the contract, to the detriment of consumers. Where a term is considered unfair, enforcement action may be taken on behalf of consumers to stop its use, if necessary by seeking a court injunction, although the OFT cannot take action on behalf of, or seek redress for, individuals. The protection for the consumer lies in the fact that where a term is found by a court to be unfair it is not binding. In addition, Part 8 of the Enterprise Act 2002 gives the OFT separate powers against traders who breach consumer legislation. Under Part 8, the OFT can seek enforcement orders against businesses that breach UK laws, giving effect to specified EC Directives, including the Unfair Contract Terms Directive, where there is a threat of harm to the collective interests of consumers.

Fitness First's main problem appears to have been one of transparency. Transparency is fundamental to fairness. Regulation 7 of the UTCCRs (clearly an OFT favourite) says that standard terms must use plain and intelligible language. Thus even though a term would be clear to a lawyer, the OFT will probably conclude that it has the potential for unfairness if it is likely to be unintelligible to consumers and thereby cause detriment, or if it is misleading, in which case its use may also be actionable as an unfair commercial practice under the Consumer Protection Regulations (CPRs) that came into force on 26 May 2008.

The OFT only recently released its revised guidance on the application of the UTCCRs. The guidance, which is compulsory reading for high profile organisations dealing with the public on standard terms, also explains the potential overlaps between those Regulations and the CPRs.

## ADVERTISING AND MARKETING

#### TV and Radio Codes: Reflecting the CPRs

The Broadcast Committee of Advertising Practice (BCAP) has revised its TV and Radio Advertising Standards Codes to reflect the requirements of the Consumer Protection from Unfair Trading Regulations 2008 (CPRs). The changes to the Codes came into force in November 2008.

#### BACKGROUND

The CPRs, which came into force on 26 May 2006, implement the Unfair Commercial Practices Directive (2005/29/EC). The CPRs prohibit unfair trading practices and identify misleading and aggressive practices as forms of unfair practice. They introduce legal definitions of unfair, misleading and aggressive trading practices and set out a framework for the assessment of commercial practices that are alleged to be unfair. The CPRs also blacklist 31 specific practices considered unfair in all circumstances.

BCAP published a consultation paper in June 2008 on its proposals to bring the TV and Radio Advertising Standards Codes into line with the CPRs. BCAP's summary evaluation of consultation responses provides an insight into how BCAP might expect the ASA to apply certain aspects of the Codes and in that sense constitutes valuable, if informal, guidance.

#### USE OF "FREE"

For example, BCAP refutes the suggestion that whereas the CPRs allow marketers to offer "free" items conditional on the purchase of another item, the revised TV Code does not allow conditional-purchase offers. As far as BCAP is concerned, its 2007 *Guidance on the Use of Free* remains in force and this explicitly sets out the conditions under which "free" claims, including those for products that are offered only on condition that the consumer buys another product, are allowed.

#### INVITATIONS TO PURCHASE

Because "invitation to purchase" is a significant aspect of the CPRs and a new concept that did not previously exist in the regime for advertising regulation, on consultation BCAP proposed to include in the Codes the CPRs' prohibition of misleading omissions in advertisements that feature invitations to purchase.

Broadcasters used this as an opportunity to suggest that the information specified as material for advertisements that include invitations to purchase might acceptably be supplied through a website. In other words, it needn't be included in the

advert itself. The implication being that this should be reflected in the BCAP Codes. BCAP agrees with this interpretation to the extent that the rule that lists material information for invitations to purchase does not imply that the material information need be included in *all* advertisements (author's emphasis). In BCAP's view, the rule is clear that material information must be included if its omission would affect consumers' decisions about whether or how to buy the advertised product and that, in the case of advertisements that are limited by time or space, the measures taken to communicate material information by other means will be taken into account.

BCAP also discusses the definition of invitations to purchase, a matter upon which it has sought guidance from BERR and the Office of Fair Trading (OFT). It rejects the view expressed by one respondent that advertisements are invitations to purchase only if they include direct response mechanisms on the basis that this is not supported in the CPRs themselves or in OFT guidance. BCAP understands from the OFT that the law is likely to be interpreted to mean that indications of product characteristics together with price constitute invitations to purchase, with or without the provision of direct response mechanisms.

#### COMMENT

Invitations to purchase, as BCAP sees them, are not just promotions that allow immediate purchase of an advertised product through direct response mechanisms. This may not have occurred to everyone and will come as an unpleasant surprise to some. It also puts invitations to purchase in a grey area, if they weren't there already. The more liberal interpretation of the CPRs regarding limitations on time and space, however, will be welcomed by advertisers in this context. Moreover, in the context of non-broadcast promotions, such an interpretation may have particular significance for mobile service providers.

Nonetheless, lack of clarity on how such information can be provided, whilst arguably inevitable, poses a further problem for advertisers. However, the inference to be drawn from BCAP's refusal to accept that it is always sufficient for such information to be provided through a website is that a link to online information will only be appropriate where it forms part of the process of the transaction.

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