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Welcome to Clifford Chance's Global Intellectual Property Newsletter. In this quarterly publication we provide overview of the most recent IP developments in major jurisdictions around the world.

In this issue we cover diverse current IP topics, ranging from the new EU rules on customs enforcement for Member States, the EU "Patent Package", the new Chinese Trade Mark Law, patent cases from courts of the U.S, U.K, Spain, Germany and China, and the recent Court of Milan decision between two famous rival fashion houses, Gucci and Guess.

European Union: New EU Customs Regulation

This new Regulation, forming part of a wider European intellectual property strategy, seeks to modernize and streamline the system for dealing with counterfeit goods.

Introduction

With a view to eliminating international trade in goods infringing intellectual property rights (IPR), the European Parliament and the Council recently introduced "Regulation (EU) No.608/2013" (the "new Regulation"), repealing an earlier Council Regulation (CE) 1383/2003. The new Regulation, which will take effect on 1 January 2014, creates procedural rules for customs authorities to detain counterfeit or pirated goods. The main changes relate to new customs enforcement procedures for detention and destruction of counterfeit goods, information sharing and costs. It also expands the scope of IPR protected.

New and improved?

In announcing the new Regulation, the European Parliament commented that "*imports that infringe IPR are a growing problem in the EU due in particular to the rising volume of goods bought by EU citizens online and shipped to them by post from countries outside the EU. Piracy and counterfeiting alone cost European businesses € 250 billion in lost sales each year*."

However, the new Regulation may not have changed the position established by the Court of Justice of the European Union (CJEU) in the recent Nokia-Philips case, which involved infringing "goods in transit" or in transshipment, e.g. passing through the EU from one non-EU country to another. In that case, the CJEU held that counterfeit "goods in transit" that were not intended to be introduced into EU Member States' could be seized by customs authorities if there was clear, supporting evidence to show that such goods were marketed in EU territory. Practitioners expect additional clarification to be provided by "Regulation No. 207/2009 on the Community trade mark", which will soon be discussed by the European Parliament.

Extended scope and wider definitions

The new Regulation applies to a wider range of goods and expands the list of protected IPR to include trade names (where protected as exclusive property rights under national law), topographies of semiconductor products, utility models, and devices to circumvent technological protective measures (e.g. DRM systems).

Exclusions

It does *not* apply to:

- Infringements from so-called parallel trade and "overruns"
- goods of a non-commercial nature contained in travelers' personal luggage.

Simplified and accelerated procedure

A simplified and accelerated procedure is included to allow for the destruction of goods under customs supervision without a court order, provided that the IPR holder agrees and the importer does not object.

This measure – previously discretionary – has now been made compulsory for all Member States.

A specific procedure is recommended to be introduced in relation to small infringing consignments purchased online via websites operating outside EU jurisdictions.

Key issues

- New EU Regulation strengthens customs IPR enforcement at EU Member States borders
- Applies to wider range of goods
- Simplified procedure for destruction of counterfeit & pirated goods
- New rules for small consignments
- Does not apply to "overruns" or to non-commercial goods in travellers' personal luggage

This new procedure allows customs authorities to destroy the small allegedly infringing consignment if no opposition is raised by the importer within 10 working days of notification. Should the importer raise an objection, the procedure will revert to the traditional course (i.e. an action before the courts).

Goods in transit

Earlier in 2011, the CJEU specified the conditions under which customs authorities may act on the suspicion that goods arriving from a non-Member State were actually intended to be sold in the EU, ruling that customs could validly detain those goods *only* if it found an act of infringement or a sufficient suspicion of infringement (c.f. C-446/09; C-495/09).

This earlier ruling made it difficult in practice to adduce practical evidence of an infringement. Unfortunately, this has not been upheld by the new Regulation nor has it been modified.

The improvements brought by the new Regulation are a result of the official recognition that custom authorities must abide by EU's international commitments and on information sharing (Article 31). Indeed, where EU customs detect a consignment of counterfeits in transit, they are authorized to relay that information to the customs authority in the destination country to encourage seizure on arrival. IPR holders may use information concerning the consignor and consignee provided by customs, not just to initiate civil infringement proceedings or to obtain consent for destruction, but also as a basis for criminal proceedings and to seek compensation. It is likely that the frequency of seizures will increase.

Destruction and storage costs

The IPR holder will bear the costs incurred by the customs authorities in taking action to destroy and store the infringing goods. In theory, it may be possible for the IPR holder to seek compensation from the infringer (Article 29), but in practice, this will be difficult to achieve as the infringer, in most cases, is also the importer and very often cannot be traced.

Click here for link to Regulation No. 608/2013:

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:181:0015:0034:en:PDF

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European Union: European Patent Package

The "Patent Package" creates a single patent with unitary effect in 25 EU Member States and introduces a single and specialized patent court.

Introduction

For several decades, the member states of the European Union (EU) have been negotiating a unitary patent package. The unitary patent package will enable patent protection across the 25 participating Member States on the basis of a single application and without further administrative formalities, such as validation and translation requirements. The unitary patent package consists of the following essential elements:

- a European patent with unitary effect (the "Unitary Patent");
- translation arrangements; and
- the Unified Patent Court ("UPC").

This section looks into these elements and discusses the expected advantages.

The Unitary Patent

The Unitary Patent will be a single patent with unitary effect in the EU member states, with the exception of Spain, Croatia and Italy. A Unitary Patent will be granted by the European Patent Office ("EPO") under the provisions of the European Patent Convention. At the applicant's request, this will give unitary effect for the territory of the 25 participating states.

Applicants will be able to choose between Unitary Patents, the currently-existing 'regular' European patents (without unitary effect, which are validated in individual Member States) or national patents (to be filed in all member states). The Unitary Patent will co-exist with national patents and the 'regular' European patents.

Applicants can apply for a Unitary Patent from the later of 1 January 2014, or the date of entry into force of the Agreement on a Unified Patent Court.

The Unitary Patent is hoped to give applicants access to the markets of all participating states at reduced cost, with fewer administrative hurdles to overcome.

The translation arrangements for the new Unitary Patent

Once the Unitary Patent takes effect, the current requirement for translation into official EU procedural languages will no longer apply. In order to reduce the burden of translation costs, applications for Unitary Patents may be in English, French or German. After a patent is granted, only the claims (which define the scope of the subject-matter for which patent protection is sought) must be made available in the other two official EPO languages.

After a transitional period (of up to 12 years) all required translations will be done by a high-quality machine translation, expected to result in lower translation costs and cheaper pan-European protection.

The Unified Patent Court

Once ratified, the UPC will have exclusive jurisdiction for the enforcement of Unitary Patents and 'regular' European patents.

Actions for infringement or for revocation regarding 'regular' European patents can, however, still be brought before national courts during a transitional period of 7 years (which may be prolonged for up to 7 more years). Applicants and owners of 'regular' European patents granted or applied for before the end of the transitional period can opt out from the exclusive jurisdiction of the UPC during the transitional period, unless an action has already been brought before the UPC. Unitary Patents, however, will in no event have the possibility to opt out from the exclusive jurisdiction of the UPC.

Key issues

- Earliest date for entry into force of Unitary Patent and Unitary Patent Court is 1 January 2015
- Unitary Patent consists of European patent with unitary effect
- Unitary Patent will co-exist with national and existing 'regular' European patents
- Limited translation requirements for Unitary Patent
- Unified Patent Court will have exclusive jurisdiction for Unitary Patent and existing 'regular' European patent

The UPC will rule on actions regarding infringement, provisional and protective measures, injunctions, revocation, counterclaims for revocation, decisions of the EPO relating to Unitary Patents, and actions for damages or compensation from provisional protection by published applications. National courts will retain jurisdiction over actions which do not come within the exclusive competence of the UPC.

The UPC is expected to simplify procedures and lead to quicker decisions. By having a single court, parallel litigation in national courts across Member States may be avoided. The UPC's ruling will have effect in contracting Member States that have ratified the UPC Agreement. In this way, the current difficulties of parallel patent proceedings, such as high costs, risk of diverging decisions and lack of legal certainty and accompanying forum shopping are being addressed. On the other hand, patent owners risk losing their patent (rights) in all 25 participating Member States in a single adverse court judgment. Applicants should carefully weigh the risks and benefits before opting for Unitary Patent protection.

When will the UPC be up and running?

The UPC will consist of a Court of First Instance, a Court of Appeal in Luxembourg and a Registry at the Court of Appeal. The Court of First Instance will be composed of a central division as well as several local and regional divisions.

The UPC will come into existence and start its operations immediately after the Agreement on a Unified Patent Court enters into force, which agreement is yet to be ratified by the required member states. The earliest the UPC may become effective is early 2015.

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China: Key changes introduced by the third amendment of the Trade Mark Law

The Standing Committee of the National People's Congress of the People's Republic of China ("PRC" or "Mainland China") passed the long-awaited third amendment of the PRC Trade Mark Law on 30 August 2013. It has been 10 years since the last amendment of the Trade Mark Law. The Revised Trade Mark Law, which will come into effect on 1 May 2014, significantly changes the current trade mark regime.

Statutory damages for infringers have been increased, and legitimate trade mark owners have been given more protection against trade mark squatting, which is still a rampant and serious issue in Mainland China. These and other changes, particularly those on improving efficiency of the trade mark system, are a welcomed and much needed development for China, which ranked first in the world in terms of the number of trade mark applications and registrations. This section sets out an overview of the new changes brought about by the Revised Trade Mark Law.

Strengthening protection against malicious trade mark squatting

New grounds for contesting bad faith applications

The new law has introduced a new general provision which requires that all trade mark applications be applied and used in good faith (with the statutory wording being "in accordance with the principles of honesty and integrity"). Also, it specifically provides that an applicant cannot register another's trade mark if he/she has become aware of the trade mark through a contractual relationship, business dealings and other relationships.

Recognition of a prior use defence

Under the new law, a registered trade mark owner is not allowed to prohibit a prior user from continuing to use an identical/similar mark within their original scope of use if the prior mark has obtained "*certain influence*", but may request that the prior user add appropriate markings to distinguish between the marks.

This means that if a trade mark squatter obtained a registration, he/she will not be able to stop a legitimate owner's prior use of the mark. However, it remains to be seen how "*original scope of use*" and "*certain influence*" will be interpreted. Hopefully the upcoming Implementing Regulations of the revised law will shed light on this.

Legal obligations of trade mark agencies

The new law also prohibits trade mark agencies from accepting applications if it knows or should know that the applied for mark has been filed in bad faith, has infringed a third party's prior rights or has been filed to pre-empt the rightful owner.

Well-known trade mark protection

Many Mainland Chinese companies are keen to obtain a well-known trade mark recognition to enhance their brand image. This has caused abuse of the system in the past years because many Chinese companies have filed "fake" oppositions merely with a view to obtain the recognition.

The revised law prohibits owners of officially recognized well known trade marks to use the term "well known trade mark" on goods, in advertising or for other business activities. Violation of this non-publicity provision is subject to injunction and monetary penalties. With this measure, the authorities hope to reduce abuse of the system.

Strengthening trade mark enforcement

The new law introduces for the first time an award of punitive damages, which will be granted against serious cases of infringement. The maximum amount of the punitive damages is up to three times the actual loss suffered by the trade mark owner.

For civil compensation, the amount of damages may be determined with reference to the actual loss suffered by the trade mark owner, the gain obtained from the infringement by the infringer or loss of trade mark licence fees. In cases where the loss is difficult to assess, statutory damages can be ordered. The statutory maximum has increased six times from RMB 500,000 (approximately USD 80,000) to RMB 3,000,000 (approximately USD 480,000).

An important point to note is that, when claiming damages, trade mark owners may now be requested to adduce proof of use of their registered trade mark during the preceding three years if the infringer raises this issue. No damages will be awarded if proof of use cannot be adduced.

Changes to trade mark opposition procedures

To shorten the time required for opposition procedures, the revised law has introduced a material change to the current opposition system. Under the new law, if the TMO dismisses an opposition, the mark will immediately proceed to registration. The losing opponent will no longer be entitled a right of appeal to the PRC Trade Mark Review and Adjudication Board ("TRAB"), and the only recourse is to challenge the registration by filing an invalidation petition with the TRAB, a new procedure introduced by the revised law which can be based on either absolute or relative grounds.

This means that brand owners who have lost an opposition will face the disadvantageous situation where the bad faith applicant has obtained registered rights while the invalidation proceedings are on-going. While some brand owners may be entitled the prior use defence as mentioned above, others who have not yet used their brands in China will be put in a difficult situation where the use of their brand in Mainland China will be subject to infringement risks if the opposition is unsuccessful. It is hoped that the Implementing Regulations will address/clarify how such problems may be solved.

Changes which improve procedural efficiency

The new law has stipulated statutory timeframes for examining trade mark applications (9 months), review (9 months), and oppositions and invalidation proceedings (12 months). This aims to introduce certainty and predictability to the system and addresses the frustration currently faced by trade mark applicants due to long periods of time for obtaining registration and outcomes to oppositions/cancellation proceedings.

Key issues

- Maximum statutory damages for trade mark infringement increased six times to RMB 3 million
- Punitive damages have been introduced for the first time
- Brand owners must be able to produce evidence of use of their mark in China for at least three years prior to any infringement action; otherwise no damages will be awarded if challenged
- Invalidation proceedings based on absolute and relative grounds introduced for the first time
- Multi-class applications, registration of sound marks and statutory timeframe for examination introduced

Other changes to the trade mark application system are the introduction of:

- E-filing,
- Multi-class application; and
- Official actions, for which the TMO will issue a notification (i.e. official action letter) prior to a possible refusal so as to allow the applicant an opportunity to clarify/modify the application.

Registration of sounds as trade mark

Under the new law, Mainland China now allows registration of sounds as a trade mark. The Mainland Chinese trade mark authorities have, in practice, been rather conservative in allowing non-traditional trade marks (such as 3D trade marks). It remains to be seen how the authorities will devise appropriate examination guidelines to examine distinctiveness of sounds for the purpose of trade mark registrations.

Conclusion

The new law has addressed many concerns raised by the public over the years on the Mainland China trade mark system, such as cumbersome trade mark registration procedures and well known trade mark and trade mark infringement protection. It remains to be seen how the new provisions will be implemented in practice. There are still many areas which require clarification. It is expected that some of these issues will be clarified in the Revised Implementing Regulations of the PRC Trade Marks Law which should be published for public consultation in the near future.

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USA: Limitations of ITC exclusion orders in connection with SEPs

Recent U.S. judicial and administrative decisions call into question the enforceability of ITC exclusion orders concerning SEPs. As a result, the future of the ITC as an attractive forum for adjudicating SEP disputes may be in question.

Introduction

Following the U.S. Supreme Court's decision in *eBay Inc. v. MercExchange, LLC*, U.S. district courts must find that monetary damages are an insufficient remedy for patent infringement before issuing an injunction. It is particularly difficult to satisfy this requirement in cases involving standard-essential patents or "SEPs," which claim an invention that is necessarily infringed by compliance with a technical standard. Given that SEP holders pledge to license their patents on terms that are fair, reasonable and non-discriminatory ("FRAND"), it is difficult to establish that monetary damages are insufficient to remedy infringement. As a result, SEP holders seeking to block U.S. sales of infringing products have increasingly turned to the U.S. International Trade Commission ("ITC"), an independent, quasi-judicial Federal agency with broad investigative responsibilities on matters of trade and authority to adjudicate cases involving imports that allegedly infringe intellectual property rights.

ITC not bound by eBay ruling

Unlike the Federal courts, the ITC is not bound by the Supreme Court's *eBay* ruling and may grant injunctive relief in the form of an exclusion order regardless of the availability of monetary damages. ITC exclusion orders direct U.S. Customs and Border Protection ("CBP") to block infringing imports from entering the United States. However, the Obama administration's recent veto of an ITC exclusion order against Apple Inc., combined with a recent U.S. federal court ruling restricting enforcement of ITC exclusion orders regarding SEPs, call into question the advantage of proceedings before the ITC.

Background

On August 3, 2013, U.S. Trade Representative Michael Froman overturned an ITC order barring imports of some Apple iPhones and iPads found to infringe an SEP owned by Samsung Electronics, the first such reversal since the Reagan administration. Froman reasoned that import bans based on such SEPs can give companies "undue leverage" through the threat of exclusion orders. Froman suggested that ITC exclusion orders for SEP-infringing products should be issued only in rare circumstances where, for example, a licensee refuses to pay what has been determined by a third party to be a fair royalty rate or refuses to engage in negotiations to determine fair terms.

U.S. district courts' positions

U.S. district courts have taken a similar position in recent civil suits:

- In May 2013, a federal judge in California granted a preliminary injunction in *Realtek Semiconductor v. LSI*, barring LSI from enforcing any injunctive relief obtained from the ITC with respect to its wireless technology SEPs pending a full determination of LSI's FRAND obligations.
- In June and November 2012, federal judges in Chicago and Seattle ruled that Google's Motorola Mobility SEP could not block sales of Apple or Microsoft products respectively.

Notably, the *Realtek* Court's injunction was limited to preventing "defendants from enforcing any exclusion order or injunctive relief by the ITC." It did not prevent the ITC from continuing its investigation and issuing an exclusion order or prohibit LSI's participation in the investigation. LSI has continued its ITC proceeding, and the ITC Administrative Law Judge ("ALJ") has recommended against imposing an injunction, having found no infringement of the SEPs at issue. The ALJ recommended, however, that in the event the Commission were to reverse the infringement findings on the asserted SEPs, an exclusion order and cease and desist order should issue. The ALJ also addressed the preliminary injunction entered by the district court, stating "there is no indication at this time that the Commission, as a matter of law, has determined to treat RAND obligations as contractual obligations that must be satisfied before exclusion orders may issue."

It is still unclear how the injunction issued by the *Realtek* Court would interplay with an exclusionary order from the ITC, particularly because exclusion orders are automatically enforced by CBP. CBP could potentially enforce an ITC exclusion order regardless of the *Realtek*

Court's intent. That said, it is common for complainants to interact with the Intellectual Property Rights branch of CBP, and the *Realtek* preliminary injunction could prohibit LSI from doing so.

Key issues

- The U.S. Trade Representative may veto ITC exclusion orders banning the import of SEPs
- U.S. federal courts may restrict enforcement of ITC exclusion orders regarding SEPs
- Given the uncertainty regarding the enforceability of ITC exclusion orders, the ITC may now be a less attractive forum for adjudicating SEP disputes

Still, the uncertainty as to whether the U.S. Trade Representative can veto or U.S. courts can block an ITC exclusion order calls into question the attractiveness of the ITC as a forum for adjudicating SEP disputes. The ITC may no longer be viewed as a favorable forum for infringement claims relating to SEPs.

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United Kingdom: Virgin Atlantic Airways v Zodiac Seats UK

Supreme Court changes approach where a European patent designating the UK has been revoked or partly revoked by the EPO after the national court's determination of liability and validity.

Facts and chronology

Virgin Atlantic hoped to recover damages of about 50 million pounds for infringement of Virgin's European patent for an airline seating system.

- 2007 – patent granted and Virgin began infringement proceedings against the defendant
- February 2008. Defendant began opposition proceedings at the EPO, together with a number of third parties
- January 2009. English first instance decision issued. The judge held that the defendant did not infringe but found for the patentee on validity. Both parties appealed.
- 31 March 2009. The EPO Opposition Division substantially upheld the patent. The opponents indicated that they would all appeal this finding to the Technical Board of Appeal. The English Court of Appeal refused to grant a stay of proceedings.
- October 2009. The English Court of Appeal held the patent to be valid and infringed. The defendant then applied for a stay of the order, pending an appeal to the Supreme Court and the conclusion of the EPO opposition proceedings. This was refused, on the basis of earlier English case law, as the decision of the national court would bind the parties as *res judicata*.
- September 2010. The EPO held that all the claims of the patent which were found to be infringed in the English proceedings were invalid over the prior art. The defendant then sought to vary the English Court's order (which had ordered an injunction, an order for enquiry of damages and the payment of a sum upfront pending conclusion of the enquiry into damages).
- February 2011. The Court of Appeal refused to vary the order.
- April 2013. The Supreme Court heard arguments on whether the defendant was entitled to rely on the EPO revocation of the patent in the enquiry for damages.

Until now, the English first instance court and the Court of Appeal were bound by case law which prevented them from taking into account later revocation of the patent (whether by the EPO or the UK Patent Office) on an assessment of damages for patent infringement once the patent had been held valid and infringed by that defendant. The lower courts relied upon the English doctrine of *res judicata* to prevent a defendant 're-opening' matters which had been the subject of, and resolved in, earlier legal proceedings between the same parties in which validity and infringement was assessed. This was considered to prevent: (i) abuse of process; (ii) the re-hearing of issues at a later stage which had already been decided between the parties; or (iii) the raising of new issues which the parties should reasonably have raised in the course of proceedings.

This line of case law has now been overturned by the Supreme Court. Key reasons for changing the approach include:

- the fact of later revocation of the patent was not a 'new' argument that the parties could have run in earlier proceedings. The 'new' fact that the defendant is relying on in the assessment proceedings is the fact of revocation of the patent, rather than issues concerning invalidity of the patent; and
- when a patent is held to be invalid, this finding has effect from the date the patent was granted, in relation to the world at large, and not merely the parties between whom the validity of the patent is at issue. From a consistency perspective, the patentee should not be able to claim damages from the defendant in one case, if the patent has been held to be invalid (and revoked) in third party proceedings. Even if this defendant has been unsuccessful, post revocation the patentee has no right to insist on damages from this defendant as its property right is treated as if it had never existed.

Impact of this decision

The approach of the English courts in recent years has been to refuse a stay if the national courts were likely to decide the matter significantly earlier than the EPO (see *Glaxo Group Ltd v Genentech Inc* [2008)]. The Supreme Court recognised that its revised approach to impact of invalidity might give rise to a lack of certainty, as the patentee can never be entirely certain of the extent of its monopoly (although this risk is reduced once avenues to challenge the validity of the patent at the EPO are exhausted). However, it considered the approach pragmatically justified as an alternative to staying proceedings until the EPO has finally determined the opposition.

Key issues

- This case heralds a new approach to damages awarded in respect of patents held infringed but later held to be invalid at the EPO
- Likely to have an impact on litigation strategy in pan-European litigation and the English court's approach to the grant of injunctions / cross-undertakings in damages
- Awaiting further procedural guidance from the courts as to how a delay between the outcome of infringement and EPO opposition proceedings should be managed

The Supreme Court's decision in this case noted that it was not considering a position where damages had been fully assessed and paid such that the defendant was seeking to have damages repaid. The Court acknowledged that overturning the case law which prevented a defendant from relying on the later revocation of a patent causes procedural difficulties in such a case and that new guidance might be required.

Potentially this judgment affects the court's approach not only to financial remedies but also to remedies generally in national validity and infringement proceedings while an opposition is still pending. At present the national courts perform a balancing exercise when considering whether an injunction should be effective pending appeal within the national court system, and patentees may be required to undertake to compensate a defendant in damages if the outcome is unfavourable to the patentee. Following the Supreme Court's reasoning (and contrary to the earlier views of the Court of Appeal in this case), could this now become the position where EPO opposition proceedings are pending, even after all relevant national appeal avenues have been exhausted?

([2013] UKSC 46)

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Germany: District Court of Mannheim on extraterritorial acts of patent infringement

Suppliers from outside of Germany should be aware of their risk of liability for patent infringement within Germany, even if the sale and purchase of the relevant product is completed outside Germany.

Facts of the case

The Mannheim District Court recently decided a case where a French company supplied automotive parts protected by a German patent to a German company in France, which then imported the products into Germany. The patent owner sued the German importer and the French supplier for patent infringement in Germany. With respect to the French supplier's liability, the patent owner argued that he had threatened the French supplier by letter with a claim of patent infringement in Germany. The French company continued to supply the German company with the accused product knowing that it would be imported into Germany. These actions amount to contributory patent infringement in Germany by the French company.

The Ruling

In its ruling, the Mannheim District Court agreed with the plaintiff. The court asserted jurisdiction over the case due to the place where the harmful event occurred, according to Art. 5 (3) of the Council Regulation (EC) No 44/2001. It held that while there is no general duty for companies outside Germany to monitor patents in Germany, in the face of concrete indications of infringement in Germany, a foreign company has a duty to examine whether the use of its products by its customers in Germany infringes German patent rights. The duty can be triggered upon the receipt of a warning letter. Then the foreign company has to examine, whether the accused product infringes the relevant patent and, if yes, whether the customer is authorized to do so. Where necessary, legal advice must be sought in Germany. If the foreign company continues supplying the accused product in absence of any investigation, however, the company is in breach of its duties and liable for contributory patent infringement in Germany.

Key issues

- Suppliers supplying goods only outside Germany are not insulated from liability for patent infringement in Germany
- Receipt of a warning letter may trigger a duty to investigate the patent situation in Germany
- Ultimately, cease of supply of accused product outside Germany can be necessary to avoid liability

The ruling must be read in the light of the decision of the German Federal Supreme Court of 17 September 2009 (Case No. Xa ZR2/08) which dealt with a case where a carrier transported patent infringing electronics to Germany. Here the German Federal Supreme Court held that once a carrier – who in principle has no duty to assess whether the freight contains any patent infringing products – receives notice from customs and/or the patentee that the goods might infringe a patent, the carrier must inform his client and ask for further information and instructions. If the latter does not respond, the carrier must make his own assessment with any possible and reasonable means, which may include seeking legal advice and, if the product infringes, to agree to the destruction of the freight. The carrier may only continue to transport the goods if it is not possible to obtain a clear legal and factual picture.

The Mannheim court now extends this ruling to transactions outside Germany. The Court stated that although patents only provide territorial protection, acts performed outside of the territory may suffice to trigger contributory infringement of a domestic patent. Liability attaches to a foreign supplier with a legal duty to prevent infringement by its customer in Germany, such as upon receipt of a warning letter from the German patentee.

An appeal against the Mannheim District Court decision is currently pending at the Higher Regional Court of Karlsruhe.

Impact of this decision

Suppliers from outside of Germany should be wary if they receive a warning letter from a German patentee claiming that their goods sold outside of Germany infringe a German patent when imported into Germany. The ruling may be applied to other types of territorial IPR as well.

(LG Mannheim of 8 March 2013; Case No. 7 O 139/12)

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Spain: Damages following lifted preliminary injunctions; uncertainty will remain at least for some time

Three recent Spanish Court decisions have failed to clarify some relevant aspects related to damages claims following lifted injunctions. What is the deadline for bringing them? Is the liability of the applicant strict or does it require culpability? May the defendant ask for damages suffered even after the preliminary injunctions were lifted? All these questions still remain unclear

Introduction

The never-ending tension between innovator and generics companies, together with the regulatory provisions affecting drug prices, have prompted a remarkable increase in patent litigation in Spain over the last 10 years. An immediate effect of this higher jurisdictional activity was an increase in the preliminary injunctions ordered by Spanish Courts.

Jurisdiction to order preliminary injunctions

As in many other jurisdictions, Spanish Courts order preliminary injunctions notwithstanding the decision they may adopt in the main action. There are cases where preliminary injunctions are ordered at an early stage of the proceedings, but the judgment handed down in the main action dismisses the complaint. In these cases, the defendant is found to have been unfairly prevented from carrying out a series of acts while the main action was ongoing.

Right to claim damages

Article 721 of the Spanish Civil Procedure Act (SCPA) states that any complainant may, acting on its own responsibility, request the preliminary injunctions required to ensure the efficacy of the relief sought in the main action. However, article 745 states that when the main action is dismissed, existing preliminary injunctions will be automatically lifted and the defendant will be entitled to claim damages. For preliminary injunctions ordered *ex parte*, article 742 rules that the defendant will be entitled to claim damages as soon as an opposition to the preliminary injunction is upheld (regardless of whether or not the main action ended).

Legal uncertainty on statutory limitation and type of liability arising from recent case law?

Unfortunately, the SCPA is silent regarding some relevant aspects concerning damages claims. For instance, the deadline for bringing them is unclear; so is whether the liability of the preliminary injunction applicant is strict or requires culpability.

This lack of clarity calls for the courts to close these legal gaps. However, three recent rulings handed down by three different Spanish Commercial Courts show that uncertainty will remain for some time at least:

- On 19 September 2012, the Barcelona Court of Appeal issued a ruling finding that defendants must bring their damages claims no later than one year after the ruling lifting the preliminary injunctions becomes final. Likewise, the Court found that the applicant's liability is strict.
- However, on 6 May 2013, Barcelona Commercial Court no. 6 found to the contrary, setting the deadline for bringing damages claims at five years after the preliminary injunction is lifted by means of a final decision, and considering that the applicant's liability requires its culpability (*iusta causa litigandi*).
- On 17 July 2013, Granada Commercial Court no. 1 found that the statutory limitation period for bringing a damages claim was five years. On the liability issue, the Court stated that applying for a preliminary injunction entails assuming strict liability for the damages caused to the defendant if the main action fails.

May damages caused after the injunctions were lifted be claimed as well?

Another interesting aspect of these cases, which is likely to be raised again in future similar cases, focused on the temporal scope of the damages claimed by the generics companies prevented from launching their products when they had planned.

In short, the generics companies claimed that competition between them means that the sooner a product is placed on the market, the higher its market share during its entire lifespan. Thus, they claimed that damages caused by the preliminary injunction are not temporally limited to the specific period of time during which it was in place (allowing no sales), but extend beyond the date when the preliminary injunction is lifted and generics companies are allowed to launch their drugs (lower market shares).

Key issues

- Spanish Courts have failed to adopt a common approach on relevant aspects of post-injunction damages claims
- What is the statutory deadline for bringing the damages claims: is it one or five years after the inunctions were lifted?
- Is the preliminary injunctions applicant's liability strict? Or will it compensate damages only when it applied for the preliminary injunctions negligently?
- Defendants usually try to seek compensation for damages caused beyond the date when the preliminary injunction is lifted

Patentees challenged the generics' arguments on the grounds that the market share obtained by a generic drug does not depend on the launch date, but on other more relevant factors such as commercial efforts, discounts, characteristics of the generic product, etc. According to the patentees, any due compensation should be restricted to the damages caused during the specific period of time during which the preliminary injunction was in place.

Interestingly, Commercial Courts no. 6 of Barcelona and no. 1 of Granada reached different conclusions (the Barcelona Court of Appeal did not discuss this issue as it dismissed the damages claim on statutory limitation grounds). While the former found the claim referred to the "post-injunction period" to be unsubstantiated, the latter partially upheld it. Both decisions are quite fact specific, so their capacity to constitute reliable court precedents in future cases is uncertain. In any event, what they doubtlessly teach us is that carefully considering the particular circumstances of each case will continue to be key.

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China: First Preliminary Injunction Issued by Chinese Court in Trade Secret cases

A Shanghai Court has recently issued China's first preliminary injunction on trade secrets, a milestone ruling in the IP field.

Facts

The trade secret dispute involves Eli Lily and Company, its Chinese subsidiary (together referred to as "Eli Lily"), and a former employee of the Chinese subsidiary named Huang. It is claimed that Huang downloaded 21 confidential documents from Eli Lily's server, which is a breach of his confidentiality agreement with Eli Lily. Eli Lily subsequently terminated Huang's employment. However, Huang refused to destroy or return the confidential documents.

Eli Lily then applied for a preliminary injunction against Huang to prevent him from copying, disclosing, using or licensing any third party to use the 21 confidential documents.

The Shanghai No. 1 Intermediate Court applied Article 100 of the new PRC Civil Procedure Law (which came into effect on 1 January 2013) and granted the preliminary injunction to prohibit Huang from disclosing, using or allowing others to use the trade secret documents. Eli Lily deposited RMB 100,000 with the Court as security bond for the preliminary injunction order.

Analysis

Before the Shanghai Court's decision it was not entirely clear whether a preliminary injunction was an available form of relief in trade secret cases. While the PRC Patent, Trade Mark and Copyright Laws all provide for preliminary injunctive relief, there are no such express legal provisions for trade secret cases. Although the new PRC Civil Procedure Law has expanded the concept of injunctive relief to general civil lawsuits, there was still some uncertainty whether this would be applicable for trade secret cases until the Shanghai Court issued this milestone ruling.

Impact

Even though China does not have a case precedent system, it is believed that the milestone ruling will be an important reference for similar cases in the future.

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Italy: Courts weaken the protection of famous pattern in the fashion industry

A recent decision by the Italian Court of Milan adds one surprising chapter to the worldwide struggle between fashion houses Gucci and Guess for the use of the "G" figurative trademark. The decision is a significant setback in the protection of renowned trademarks in Italy.

Introduction: Clash of the Titans

After four years of proceedings, the Tribunale di Milano (Court of first instance) (the "Milan Court decision") gave its decision in the second round of the clash between the reputable Florence fashion maison founded by Guccio Gucci in 1921 ("Gucci") and the popular American brand Guess founded in 1981 by the Marciano brothers ("Guess").

The claims

Gucci claimed that since 2000 Guess had engaged in a continuing slavish and parasitic imitation of Gucci's products by marketing at a lower price than Gucci and copying Gucci's trademarks, models and designs. Not only did Guess ask the Milan Court to reject all of Gucci's claims, it also asked the court to declare Gucci's trademarks invalid on absolute grounds of non-registrability or, alternatively, loss of distinctive character.

Lost in N.Y, try Milan?

Although in a 2001 case brought by the two rivals in the United States District Court for the Southern District of New York, the court held that Guess *had* infringed certain Gucci trademarks, the Court of Milan - in an 83 page ruling - turned down all of Gucci's claims against Guess. The Milan Court established that Gucci's famous diamond pattern, the "G" logo and "the Flora"' Gucci pattern trademarks had been cancelled.

Key issues

- According to the Court of Milan, where both competing trademarks are renowned, it is less likely that their use is confusing
- The decision, while centered around the traditional 'confusing infringement' doctrine, seems to open the field to possible look-alike imitations
- Further decisions on the supposed imitation by Guess of Gucci's brands and products are awaited in France and China

The Milan Court decision, viewed from a trademark law perspective, is entirely based on the traditional "confusing infringement" doctrine. There was no reference in the decision to "non-confusing infringement" or look-alike issues.

The final part of the decision analysed unfair competition claims made by Gucci, with specific focus on the so called "concorrenza parassitaria" (unfair parasitic competition claim), which Italian Courts recognise where, although the single behaviour of the competitor is not unlawful, there is systematic imitation of the commercial initiatives of a competitor. Gucci's accusation was, in a nutshell, that Guess was trying to "Gucci-ize" its brand.

The Milan Court also rejected the unfair competition claims, holding, among other things, that in the present case Guess's stylistic choices could not be shown to have been inspired and driven by those made by Gucci. Rather, while both fashion houses had decided to follow the basic "fashion trends" in respect of certain choices, each had also maintained their "peculiar characterisation".

Main points

Some of the legal principles stated the Milan Court were as follows:

- the imitation of the font of two different words is not, of itself, an infringement, especially if the owner of the earlier trademark has tolerated the use of the other trademark for years, before the font of the latter was changed into the same font of the former;
- where both competing trademarks are renowned, it is less likely that their use is confusing;
- a trademark consisting only of an alphabetic letter is valid only if the relevant font is unusual or if the design is unusual; in that case, the protection covers the font or the design, and is not extended to the letter per se. As a result, slight differentiation will allow third parties lawfully to use the same letter as a trademark;

- a trademark consisting of a combination of colours is valid even if the relevant Pantone code is not quoted in the trademark application, provided that the combination appears *per se* to have a distinctive character or it proves to have it as a result of a secondary meaning;
- a specific trademark registration cannot be cancelled for non-use if its main element (the so-called "core" of the trademark) has been regularly used and the remaining elements are marginal and/or ornamental;
- the shape of a product could be the subject matter of a valid trademark only if it has a prevailing distinctive function (even though it has an aesthetic value); on the contrary, if it does not actually identify the source of the product, it has a prevailing traditional aesthetic functionality and, consequently, cannot be the subject matter of a valid trademark;
- trademarks with subject matter that is a pattern are very popular in the fashion field, but most frequently they cannot be the subject matter of a valid trademark, unless the pattern itself has a specific and original outline.

Without doubt, the Milan Court decision will not be the last word between the two fashion houses.

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USA: Supreme Court will hear three IP cases in the October 2013 Term

The Supreme Court of the United States granted certiorari in two patent cases and one copyright case.

In two cases, *Highmark Inc. v. Allcare Health Management Systems* and *Octane Fitness v. Icon Health & Fitness,* the court will address issues relating to the standard for awarding attorneys fees to targets of frivolous patent infringement cases. In the third case, *Petrella v. Metro-Goldwyn-Mayer,* (brought by Paula Petrella, daughter of the screenwriter for the 1980 movie Raging Bull), the court will decide whether the doctrine of laches is available in copyright infringement cases.

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CLIFFORD CHANCE

Contacts

China

Ling Ho
Partner, Hong Kong

T: +852 2826-3479
E: ling.ho
@cliffordchance.com

France

Diego de Lammerville
Partner, Paris

T: +31 4405-2448
E: diego.delammerville
@cliffordchance.com

Emmanuelle Levy
Counsel, Paris

T: +31 1 4405-2439
E: emmanuelle.levy
@cliffordchance.com

Germany

Thorsten Vormann
Partner, Frankfurt

T: +49 69 71 99-1417
E: thorsten.vormann
@cliffordchance.com

Claudia Milbradt
Partner, Düsseldorf

T: +49 211 4355-5962
E: claudia.milbradt
@cliffordchance.com

Anette Gärtner
Counsel, Munich

T: +49 89 21632-8712
E: anette.gärtner
@cliffordchance.com

Wolfgang Schönig
Counsel, Düsseldorf

T: +49 211 4355-5963
E: wolfgang.schoenig
@cliffordchance.com

Italy

Fabio Guastadisegni
Partner, Milan

T: +39 02 80634-353
E: fabio.guastadisegni
@cliffordchance.com

Monica Riva
Senior Associate, Milan

T: +39 02 80634-383
E: monica.riva
@cliffordchance.com

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Contacts (continued)

Japan

Hidehiko Suzuki
Partner, Tokyo

T: +81 3 5561-6662
E: hidehiko.suzuki
@cliffordchance.com

Spain

Miquel Montañá
Partner, Barcelona

T: +34 93 344-2223
E: miquel.montana
@cliffordchance.com

Montserrat López-Bellosta
Partner, Barcelona

T: +34 93 344-2255
E: montserrat.lopez-bellosta
@cliffordchance.com

The Netherlands

Alvin Khodabaks
Partner, Amsterdam

T: +31 20 711-9374
E: alvin.khodabaks
@cliffordchance.com

UK

Vanessa Marsland
Partner, London

T: +44 20 7006-4503
E: vanessa.marsland
@cliffordchance.com

US

William Wallace
Partner, Washington

T: +1 202 912-5045
E: william.wallace
@cliffordchance.com

Roni Bergoffen
Counsel, Washington

T: +1 202 912-5031
E: roni.bergoffen
@cliffordchance.com

Daryl Fairbairn
Counsel, New York

T: +1 212 878-4960
E: daryl.fairbairn
@cliffordchance.com

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