12th Edition

Global Intellectual Property Newsletter

IP Topics from around the Globe

Issue 12/16

CLIFFORD CHANCE

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12th Edition

Welcome to the **12th edition** of Clifford Chance's **Global IP Newsletter**. With the New Year approaching, we would like to finish 2016 with some insights on current developments in the world of Intellectual Property. This **December issue** will touch on a broad variety of IP topics such as recent case law and important legislation. In particular, we will look at trade mark law and copyright law in Europe and other jurisdictions across the globe.

The newsletter will start with a recent decision by the Federal Court of Australia on trade mark infringement. The decision regards the liability of a foreign company who owned an infringing Chinese mark, but had no relation to the third parties in Australia which actually sold the goods bearing the infringing sign.

We will then introduce the preliminary draft of the Spanish Trademark Act adapting the recent changes in EU trade mark law. We will also shed some light on the peculiarities of the so called "defensive trade mark", a uniquely Italian concept used to strengthen trade mark protection, and their compliance with European law.

This newsletter will outline the significance of limiting the geographical scope of an EU-wide injunction based on a European trade mark where infringements do not occur across the EU, but only in certain Member States due to, for example, linguistic differences in the respective regions. In the context of IP-rights infringements, the recent judgment of the CJEU in "*Tommy Hilfiger and Others*" on the interpretation of the concept of "intermediary" under European IP-law is also considered in this edition.

The newsletter will then turn to copyright law and how the CJEU dealt with the question of whether hyperlinking practices on the internet can be considered acts of communication (of copyright works) to the public and thus copyright infringements. Another case we examine relates to the potential infringement of reselling a back-up copy of copyright computer software.

Finally, we conclude our round-the-world trip by looking at a new regulation in China governing the distribution and use of mobile apps with respect to the protection of user data.

We hope you enjoy this 12th edition of the newsletter and look forward to receiving your feedback. Season's greetings and a Happy New Year!

Your global CC IP Team

Sydney: Playtime is Over! Australian Court delivers landmark decision upholding rights of Australian trade mark owners against foreign manufacturers

In *Playgro Pty Ltd v Playgo Art & Craft Manufactory Ltd* [2016] FCA 280 ("**Playgro No 1**") and *Playgro Pty Ltd v Playgo Art & Craft Manufactory Ltd (No 2)* [2016] FCA 478 ("**Playgro No 2**") (together, "**the Playgro Decision**"), a toy products manufacturer incorporated in Hong Kong (with registered trade marks in Hong Kong and the People's Republic of China) was held liable for trade mark infringement in respect of products bearing its mark sold to consumers in Australia by retailers having no corporate connection to the manufacturer. This was despite the manufacturer itself having no operations in Australia. These decisions by Justice Moshinsky of the Federal Court of Australia are a remarkable victory for Australian trade mark owners, necessitating that foreign companies must exercise a high degree of caution if they are aware that their products may be imported into and/or sold in Australia. In the absence of holding a Australian-registered trade mark, this decision highlights that infringement can occur regardless of whether or not the manufacturer holds a registered trade mark in its jurisdiction of incorporation, manufacture and/or the primary product market.

Background

In Australia, a registered trade mark will be infringed if any of the three distinct tests set out in section 120 of the Trade Marks Act 1995 (Cth) are satisfied. For the purposes of this article, only the primary test under section 120(1) is considered. The primary test provides: "A person infringes a registered trade mark if the person uses as a trade mark a sign that is substantially identical with, or deceptively similar to, the trade mark in relation to goods or services in respect of which the trade mark is registered."

Two companies incorporated in Hong Kong, Playgo Art & Craft Manufactory Limited ("**Playgo Craft**") and Playgo Toy Enterprises Limited ("**Playgo Enterprises**") (together, "**Playgo**") are members of a group of corporations which designs, manufactures, distributes and wholesales children's toys. Playgo Craft is the registered owner of a trade mark in Hong Kong and the People's Republic of China ("**Playgo Mark**").

During 2013 and 2014, Playgo Enterprises sold and delivered in the People's Republic of China goods bearing the Playgo Mark to an Australian department store operator ("**Myer**") and an Australian supermarket owner ("**Woolworths**") for sale to consumers in Australia. These goods were then offered for sale and sold to consumers in Australia by, among others, Myer and Woolworths.

Federal Court of Australia Proceedings

(i) Introduction

On 4 May 2015, Playgro Pty Ltd ("**Playgro**"), the registered owner of six Australian-registered trade marks, commenced proceedings in the Federal Court of Australia alleging, among other things, infringement of its trade marks by Playgo.

Following a trial on liability in early December 2015, Moshinsky J published reasons for judgment (Playgro No 1) on 22 March 2016, finding each of Playgo

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> Chambers & Partners 2016: Global Guide: Australia – Corporate/M&A

Craft and Playgo Enterprises liable for trade mark infringement in respect of three of Playgro's Australian-registered trade marks ("**Playgro Marks**"). A further oral hearing and round of written submissions was necessary after the parties could not agree on orders giving effect to the Playgro No 1 decision. On 9 May 2016, Moshinsky J published reasons for judgment (Playgro No 2) making declarations that the Playgro Marks had been infringed and enjoining Playgo from infringing the Playgro Marks, including by way of supplying for sale in Australia goods bearing the Playgo Mark.

The primary issue at trial was whether a foreign company which had, at no point in time, manufactured, advertised or supplied for sale, goods or services in Australia could be held liable for trade mark infringement.

A subsidiary issue was whether a foreign company could be held liable as a joint tortfeasor in an Australian company's offering for sale and sale (in Australia) of goods or services which infringed Australian-registered trade marks.

(ii) Infringement

As a threshold issue, Moshinsky J needed to consider whether the Playgo Mark was "substantially identical with, or deceptively similar to" the Playgro Marks. On the facts of the case, Moshinsky J held that the Playgo Mark was not "substantially identical with" but was "deceptively similar to" the Playgro Marks, chiefly on the basis that there was a real, tangible danger of confusion between the marks, taking into account, among other things, the imperfect recollection of the notional consumer.

The next question that needed to be considered was whether Playgo had 'used' the Playgo Marks in Australia. Again, after careful consideration of the applicable legislation and the authorities on the subject matter, as well as the parties' detailed submissions, Moshinsky J held that Playgo used the Playgo Mark as a trade mark in relation to goods in Australia. The chain of reasoning can be summarised as follows:

1. The Playgo Mark was applied as a "badge of origin" to indicate a connection in the course of trade between the goods and Playgo;
2. Playgo did not cease to use the Playgo Mark upon sale or delivery of the goods to Myer or Woolworths; and
3. The goods remained in the course of trade until their ultimate sale to customers in Australia.

Moshinsky J rejected Playgo's submission that such a finding would have a 'floodgates' effect, necessitating that every foreign company throughout

the world would be liable for trade mark infringement in Australia if its marked goods are present in Australia in the course of trade, no matter how far removed the company might be from the point of sale to the consumer nor how long the chain of international trade and commerce might extend. An important consideration for Moshinsky J was a finding that Playgo was aware that its goods were to be offered for sale and sold to customers in Australia. His Honour did not consider whether a foreign company would be liable for infringement if this were not the case.

(iii) Joint Tortfeasorship

In light of Moshinsky J's findings in respect of infringement, it was not necessary for his Honour to consider the alternate basis on which Playgro's case was put (which was only in relation to Myer, not Woolworths). Moshinsky J nevertheless gave brief consideration to the matter, ultimately deciding that Playgo and Myer did not engage in the necessary "common design" to offer for sale and sell infringing goods bearing the Playgo Mark, chiefly on the basis that their relationship was merely that of vendor and purchaser. His Honour concluded that, unlike with respect to his findings on infringement, Playgo's knowledge that Myer would offer for sale and sell infringing goods to customers in Australia was insufficient to amount to a "common design", noting that at most this amounted to facilitation of infringement which was not enough to establish joint tortfeasorship.

(iv) Appeal?

Extensions in respect of the time available within which to lodge an appeal were sought and granted (including, on multiple occasions, by consent) but it appears from the court record that an appeal was ultimately not pursued.

Takeaways

The main takeaway emerging from the Playgro Decision is that foreign companies that manufacture goods or provide services in the knowledge that those goods or services will be sold or provided to consumers in Australia must exercise caution that any marks used in the course of selling goods or providing services do not infringe Australia-registered trade marks. It remains to be seen whether a foreign company that lacks that knowledge (or is wilfully blind to such matters) would be held liable for trade mark infringement in Australia.

Link directory:

1. Playgro No 1: http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/single/2016/2016fca0280
2. Playgro No 2: http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/single/2016/2016fca0478
3. Trade Marks Act 1995 (Cth): https://www.legislation.gov.au/Details/C2016C01001

Key issues:

- Foreign manufacturers/service providers that are aware that their goods or services are likely to be marketed or sold in Australia will be held liable for trade mark infringement if their goods or services bear a mark which is substantially identical with, or deceptively similar to, an Australian-registered trade mark, even if the manufacturer does not itself market or sell the goods or services in Australia.
- Mere facilitation of trade mark infringement (by way of the sale of infringing goods or provision of infringing services) in the context of a standard vendor/purchaser relationship with a standard sale/purchase agreement will be insufficient to satisfy the test of "common design" required to establish joint tortfeasorship.

Barcelona: Spain starts paving the way for the transposition of the new European Trade Marks Directive

The Trade Marks Directive (Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks) was published in the "Official Journal of the European Union" on 23 December 2015. According to its Article 54.1, Member States are expected to bring into force the laws, regulations and administrative provisions necessary to comply with it by 14 January 2019 (or by 14 January 2023, in case of the articles providing for the setting up of administrative proceedings for the revocation or declaration of invalidity of national trade marks).

Spain has recently taken a first step towards the transposition of this Directive by publishing a preliminary draft of a law aimed at amending the current Trade Marks Act (Law 17/2001, of 7 December) for public consultation, in order to align it with the provisions set forth by the Directive.

Key aspects of the new draft law

Below is a summary of some of the most significant changes to the Spanish trade marks system set out in the draft bill prepared by the Spanish Patents and Trademarks Office ("**SPTO**").

(i) Broader entitlement to apply for a Spanish trade mark

While the current Spanish Trade Marks Act states that non-national individuals or legal persons of a Member of the World Trade Organization and with no habitual residence or real and effective industrial or commercial establishment on Spanish territory **may not** obtain registration of trade marks in Spain (unless the reciprocity principle applies in their countries), the new draft law removes this restriction and entitles **any** individual or legal person to apply for and obtain a national trade mark.

(ii) Signs that a trade mark may consist of

Currently, trade mark protection is only granted in Spain for signs that can be represented graphically. The new draft law introduces a significant change by removing the requirement of graphic representation. Thus, it will merely be required that the sign can be represented, regardless of the means used to represent it, and provided that said representation allows both the authorities and the general public to understand the scope of protection granted to the right holder in a clear, precise, self-sufficient, easily accessible, intelligible, everlasting and objective way. By way of example, the draft law will make it possible to use a video file to represent a movement trade mark or an audio file to represent a sound trade mark. Technological improvements will set the limits for available representation means at each point of time.

(iii) The distinction between notorious and well-known trade marks will no longer exist

According to the current Spanish provisions, a **notorious** trade mark is a trade mark generally known in the relevant public sector for which the goods, services or activities distinguishing said trade mark are intended; and a **well-known** trade mark is one known to the public in general. The new draft law no longer upholds this distinction and establishes one single category: **trade marks well known in Spain**. In practical terms, this amendment may raise the threshold for successfully challenging the registration of trade marks on the grounds of previous trade marks registered for goods and services different to those of the opposed trade mark (i.e., mere general knowledge of the previous trade mark in the relevant sector may not be enough).

Congratulations to our Spanish Team!

Clifford Chance "**Spanish Firm of the Year: Intellectual Property Litigation**"

Managing Intellectual Property Awards 2016: Spain – Litigation

(iv) Procedure for trade mark revocation or declaration of invalidity

Unlike in the European Union Trade Marks regime, the Spanish legal framework does not allow for an administrative route to challenge the validity of a trade mark once the decision to grant it has become final (either by the SPTO or following an appeal before the Contentious-Administrative Courts). The power to declare the nullity of granted trade marks lies exclusively with the Commercial Courts. The new draft law provides for an administrative procedure before the SPTO for the revocation or declaration of invalidity of a trade mark. How efficient and expeditious this new procedure will be remains to be seen (but it will largely depend on how many additional human, material and financial resources are allocated to the SPTO for carrying out this new task). Commercial Courts will retain jurisdiction to revoke or declare trade marks invalid only in cases where an infringement action is filed and the defendant brings a counterclaim. The administrative procedure for the revocation or declaration of invalidity of a trade mark before the SPTO will not be available until 14 January 2023.

(v) Rights and limitations of trade mark rights

The new draft law expressly provides that the trade mark rights will extend to unauthorised uses of the trade mark as a trade name or a corporate name. Thus, trade mark owners will only be prevented from enforcing their rights against the use of in financial transactions by individuals of their names (provided that such use complies with fair industrial or commercial practices).

(vi) Locus standi to bring infringement actions

The draft law amends the *locus standi* regime for bringing infringement actions by aligning it with that which governs the EU Trade Marks system. In short, licensees will not be entitled to file actions without the right holder's consent, however, exclusive licensees will be allowed to do so if the right holder fails to bring an action after the licensee requested it to do so. Notwithstanding the foregoing, the draft law clarifies that any licensee will be entitled to participate in infringement proceedings in order to claim its own damages. In light of this last provision, infringers will most likely refrain from raising their typical defence consisting of challenging the *locus standi* of non-exclusive licensees in order to resist their damages claims.

The future

The European Trade Marks Directive was enacted to approximate both substantive law and procedural rules in order to strengthen trade mark protection in the Member States, bringing them in line with the European Union Trade Marks system.

The transposition process has just started in Spain. It is expected that when this process ends, the new Spanish Trade Marks Act entering into force in January 2019 will help to iron out some of the differences that currently exist between the practice of the European Union Intellectual Property Office and the practice of the SPTO. In the meantime, it will be worth keeping an eye on how the process progresses.

Key issues:

- The aim of the new European Trade Marks Directive is to approximate both substantive law and procedural rules in order to strengthen trade mark protection in the Member States. The transposition process has just started in Spain.
- The entitlement to apply for and obtain a Spanish trade mark will be broader.
- The new draft law no longer upholds the distinction between notorious and well-known trade marks.
- An administrative procedure for the revocation or declaration of invalidity of a trade mark before the Spanish Patent and Trade Mark Office will be implemented and in force in January 2023.
- The draft law clarifies that any licensee will be entitled to participate in infringement proceedings in order to claim its own damages.

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"**Miquel Montañá** is a prolific patent litigator who is in high demand on the innovator side of major pharmaceuticals cases.

Sources describe him as "thorough, analytical, rigorous and comprehensive, "adding: "He is persistent up to the end of a case and doesn't drop things."

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"I especially like the lawyers' knowledge of our organisation and their availability to help with urgent matters."

Chambers & Partners 2016: Europe Guide:
Spain – Intellectual Property

Milan: Italian defensive trade marks

The defensive trade mark (*marchio difensivo*) is a uniquely Italian legal concept. The debate persists as to whether it is **compatible** with European Union legislation. Another open question within the Italian legislative framework regards the degree to which the defensive trade mark is compatible with (i) the prohibition against registration in bad faith and the principle that prohibits appropriation of "ghost trade marks" **in the absence of a true intent to use the trade mark;** and (ii) the more general prohibition against the unlawful retention of a trade mark for anti-competitive aims.

General overview

Under Italian law a "principal" trade mark is one which an owner has a direct commercial interest in. A defensive trade mark is a mark similar to the principal trade mark and registered to **strengthen** the protection of that principal trade mark.

A defensive trade mark, also called a "protective" trade mark, **never expires for lack of use** as long as (i) the main trade mark is **effective;** (ii) the defensive trade mark is registered for the **same classes** of goods or services as the principal trade mark; and (iii) the defensive trade mark and the principal trade mark are registered in the name of the **same owner.**

A substantial number of Italian Court decisions have held that the defensive trade mark offers a sphere of protection that is **independent from** or **reinforces** the protection available to the principal trade mark. For example, OP-LA', LOLA', OILA' have been regarded as defensive trade marks of OLA' and Farmotal has been regarded as a defensive trade mark of Farmitalia.

Although certain opposing minority opinions exist, the leading position is that a defensive trade mark must be similar to the principal trade mark. However, the requirement for similarity does not mean that there must be a likelihood of confusion between the defensive trade mark and the principal trade mark. If there was, the role of a defensive trade mark would cease to exist. A defensive trade mark is what prevents third parties from "coming near" the main trade mark "even to an extent that would otherwise be lawful" (*VANZETTI-DI CATALDO*).

The use of a defensive trade mark is different to the use of a principal trade mark in a form with differing elements which do not alter its distinctive character. The latter does not imply the use of an entirely different trade mark, but rather reflects a different form of the same mark by the same owner (**"Equivalent Direct Use"**).

The European position on defensive trade marks

The concept of Equivalent Direct Use is envisaged in European Union legislation (Article 10(1)(a) of the Trade Mark Directive), while the concept of a defensive trade mark is not.

In European jurisprudence, the leading case is *Il Ponte Finanziaria SpA v OHIM* (C- 234/06, 13 September 2007). Here the Court of Justice of the European Union ("**CJEU**") held that: "The argument that the holder of a national registration who opposes a Community trade mark application can rely on an earlier trade mark the use of which has not been established on the ground that, under national legislation, that earlier mark constitutes a 'defensive trade mark' is **incompatible** with Article 43(2) and (3) of Regulation No 40/94".

More recently, the CJEU delivered another decision in *Bernard Rintisch v Klaus Eder* (C-553/11, 25 October 2012). The reference was made in proceedings between Mr Rintisch and Mr Eder "concerning the genuine use of a trade mark, used in a form differing in elements which do not alter its distinctive character from the form in which that trade mark was registered, the **form used being itself registered as a trade mark**".

Without any contradiction to its previous decision, the CJEU held that "the proprietor of a registered trade mark is not precluded from relying, in order to establish use of the trade mark for the purposes of (Article 10(2)(a)), on the fact that it is used in a form which differs from the form in which it was registered, without the differences between the two forms altering the distinctive character of that trade mark, **even though that different form is itself registered as a trade mark.**"

Reading the two decisions together, it may be argued that Italian law is not fully compatible with EU law. A European registration cannot be invalidated, neither by opposition nor by a nullity claim, by national Italian trade marks for which serious use has not been proven. Conversely, a national registration can be invalidated in a nullity claim by a defensive trade mark, for which use is not required. In opposition proceedings, the Italian Intellectual Property Code expressly requires proving that the trade mark being opposed is used. Given this very complicated situation, the owner of a defensive trade mark may prefer to wait for the Italian registration. Defensive trade marks that do not alter the distinctive character of the principal trade mark are compatible with European Union law (see the *Rintisch* case). In these circumstances, registration of the defensive trade mark may not be strictly necessary.

> IP department head **Monica Riva** of Clifford Chance LLP is lauded for the "commercial orientation of her strategies, her ability to communicate clearly and her efficiency." She is also praised for her cross-border capabilities and described as a "promising lawyer."
>
> Chambers & Partners 2016: Global Guide:
> Italy – Intellectual Property

Registration in bad faith

Under Italian law, registration of a trade mark in bad faith is prohibited. According to Italian Scholars and case law, there is a lack of clear criteria for what constitutes bad faith. However, opinions suggest that trade marks may be considered to be made in bad faith if they are not used but **obstruct** the registration of a third party trade mark. Therefore, defensive trade marks cannot be construed as exceptions to the prohibition of registering trade marks in bad faith.

Conclusions

The concept of a defensive trade mark is arguably obsolete and potentially dangerous as it is not fully compatible with EU, although it is not expressly prohibited as such.

Defensive trade marks must also be assessed in light of the prohibition against speculative registrations, especially because defensive trade marks must be aligned to the final specifications of a principal mark for which exclusivity is granted.

Key issues:

- If certain requirements are met, defensive trade marks do not ever expire for lack of use
- A substantial number of Italian Court decisions have held that the defensive trade mark offers a sphere of protection that is independent from or ancillary to or reinforces the protection available to the principal trade mark
- A later European registration cannot be invalidated, neither by opposition nor by nullity claim, by Italian trade marks for which genuine use has not been proven.

Düsseldorf: Litigating EU trade marks – The geographical scope of injunctive relief in the EU – "Combit/Commit"

In a recent decision, the Court of Justice of the European Union ("**CJEU**") made clear that although European trade marks ("**EUTM**") generally take effect in all EU Member States from the date of registration at the European Union Intellectual Property Office ("**EUIPO**"), the scope of injunctions against the use of a sign likely to cause confusion or free ride on the mark's reputation may be limited to certain territories (Case C-223/15, Decision from 22 September 2016 – *Combit/Commit*). In light of the CJEU's decision, this article highlights the many legal challenges parties to such a "fragmented" infringement action might face and provides useful guidance on how to overcome them.

Introduction

A core aspect of EUTMs is their EU-wide protective effect. Once the EUIPO grants a registration, the owner may invoke trade mark rights in all 27 Member States without requiring trade mark offices to confirm the protective effect of the mark at a national level. The advantages of this unitary system (such as cost reduction, streamlining of procedures and legal certainty) are reflected by the growing numbers of EUTM applications in recent years.

However, although the EUTM's unitary character stipulated by Article 1(2) of Council Regulation No. 207/2009 on the European Trademark ("**EUTM Regulation**") is quite clear in regards to the mark's general scope of protection, the **legal enforcement of an EUTM might be an issue if the alleged act is not considered to be infringing in all Member States**. Does the principle of uniformity bind the court to grant an EU-wide injunction? Or must the court dismiss the claim entirely because a "true" uniform enforcement would otherwise not be possible due to territorial differences? Both options would be highly unsatisfying for EUTM owners as well as competitors. Unfortunately, the EUTM Regulation does not provide clear guidance in this respect. Thus, the CJEU had to find a compromise in order to take into account the interests of both sides involved.

"**Claudia Milbradt** of Clifford Chance is best known for patent litigation, most notably regarding infringement, counterfeits and licensing."

Chambers & Partners 2016: Global Guide: Germany – Intellectual Property: Patent Litigation

Claudia Milbradt is ranked as Trade mark star and Patent star in Managing Intellectual Property – IP Stars: Germany

Claudia Milbradt is highly recommended by JUVE Handbook 2016/2017 Germany in the category Patent Law

"Combit" vs. "Commit"

In the case *Combit/Commit*, the German owner of an EUTM (and a German mark) for the word "combit" for IT-related goods and services brought an action for trade mark infringement against an Israeli company who marketed their software under the sign "commit" in its online German shop. On the basis of its EUTM the plaintiff sought an order that the defendant refrain from using the sign "commit" for software across the EU. However, the German court held that the alleged likelihood of confusion (Article 9(1) of the EUTM Regulation) due to the signs' phonetic similarities to the average-German consumer would not apply to English-speaking consumers in other parts of the EU. The court hesitated to comply with the plaintiffs request for an EU-wide injunction and referred the case to the CJEU for a final decision.

Confirming a previous decision (Case C-235/09, Decision from 12 April 2011 – *DHL/Chronopost*), the CJEU reiterated that, in principle, "*in order to guarantee the uniform protection which EU trade marks are afforded throughout the entire area of the European Union, the prohibition on proceeding with acts which infringe an EU trade mark must, as a rule, extend to the whole of that area*". However, the court must limit the scope of the injunction in regards to those areas where the functioning of the mark as an indicator of origin is not affected (Case C-223/15, Decision from 22 September 2016 recitals 30 and 31 – *Combit/Commit*). The burden to rebut the plaintiff's claims then lies on the defendant.

Practical considerations

There are several practical issues to consider when filing suit for injunctive relief on the basis of an EUTM.

1. Competent court

In order to receive EU-wide injunctive relief, the plaintiff must file suit at a national court with exclusive jurisdiction in EUTM matters ("**EUTM Court**"; Article 95 of the Regulation). Germany, for example, provides over 30 EUTM Courts of first and second instance. However, the suit must also be filed at a court of the defendant's domicile. For EU-wide injunctive relief to apply, the trade mark owner may file in the EU Member State where the alleged infringement occurred only if the defendant is located outside the EU (like in *Combit/Commit*).

While the trade mark owner is free to turn immediately to an EUTM Court in the Member State where the infringement occurred, that court's jurisdiction is limited to the territory of that Member State if the defendant's domicile is elsewhere in the EU.

2. Necessity to limit the scope of the suit

There exist several scenarios in which a limitation of the scope of the injunction might be necessary, for example:

- The relevant public of one or more Member States does not perceive the sign to be used "as a trade mark" (e.g. in the language of a Member State, the sign is perceived to be descriptive). Thus, the used sign does not interfere with the EUTM's function as indication of origin.
- The relevant public of one or more Member States does not have the necessary foreign language skills to correctly comprehend the meaning of the used foreign word or differentiate between phonetic nuances (like in Com**b**it/Com**m**it). Hence, a likelihood of confusion between the signs is impossible.
- The EUTM is famous in only some but not all Member States. Thus, free riding on the reputation of the mark is not possible in all parts of the EU.

3. Court litigation

Trade mark owners are free to limit the scope of their request for injunction regarding certain Member States in order to avoid additional costs (e.g. due to a partial dismissal of the suit) and to speed up proceedings (e.g. to avoid the lengthy taking of evidence). The plaintiff must then explicitly define the area in which the injunction should take effect. In addition, the plaintiff should provide evidence of infringement in the defined territory. If he chooses a broad approach without limiting the scope of the injunction, evidence of an infringement in at least one Member State can, in some jurisdictions, trigger a legal assumption for an EU-wide infringement. In addition to the suit's main proceedings, plaintiffs should also consider filing a preliminary injunction to stop the infringing acts as soon as possible.

However, trade mark owners should also keep in mind that the defendant may provide evidence of a different perception held by the relevant public with different linguistic capabilities (e.g. Spanish native speakers) or in another Member State. Further, the defendant might raise a plea of non-use of the EUTM in the respective territory (Article 99(3) of the Regulation) or try to pursue cancellation proceedings against the EUTM in dispute.

Conclusion

The unitary effect does not only have an impact on the general scope of protection of EUTMs, but also on the possible scope of injunctive relief. However, since infringements do not necessarily occur across the entirety of the EU, the CJEU requires courts and plaintiffs to limit the scope of a granted injunction. Defendants will need to more actively assert their rights and provide evidence to try and limit the scope of an injunction. Therefore, a coordinated litigation strategy that takes into account all facts of the particular case (e.g. the extent of the use of the mark in the EU and linguistic differences between territories) is of the utmost importance.

Key issues:

- European trade marks have EU-wide effect. However, infringements do not always occur across the entirety of the EU.
- In consequence, the CJEU has allowed national courts to limit the scope of injunctive relief to certain territories.
- A trade mark owner/plaintiff may seek injunctive relief across the EU or only a defined area. However, a defendant will want to provide evidence that the sign at issue is non-infringing or only used in certain parts of the EU.

Prague: The CJEU on the Interpretation of an Intermediary under Directive no. 2004/28/EC

The Court of Justice of the European Union (the "**CJEU**") held in *Tommy Hilfiger and Others* (July 2016) that any entity which sublets premises to third parties who infringe intellectual property rights ("**IPR**") by selling counterfeit products is considered an intermediary whose services are used by third parties to infringe IPR ("**intermediaries**") within the meaning of Article 11 of Directive no. 2004/48/EC on the enforcement of intellectual property rights (the "**Directive**"). Such an entity may be ordered to bring to an end current infringements and take steps to prevent future infringements.

Legal Background

The Directive enables IP owners to apply for an injunction not only against infringers but also intermediaries. The conditions and procedures relating to these injunctions are left to the national laws of EU member states. In principle, however, an injunction should prevent any infringements of IPR. All measures, procedures and remedies adopted must be fair and equitable and must not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

L'Oréal (Online Marketplace)

In *L'Oréal and Others*, the CJEU considered intermediaries whose services are used by third parties to infringe IPR. In this case, some of the sellers operating on eBay, an online marketplace, infringed the trade mark rights of L'Oréal, a company which produces cosmetics, perfumes and hair-care products. The High Court of Justice (England and Wales) referred the case to the CJEU for a preliminary ruling, asking whether the Directive requires EU member states to ensure that, regardless of any liability of its own, the operator of an online marketplace could be ordered to take measures aimed at preventing further infringements.

The CJEU confirmed that eBay was an intermediary and was obliged to take actual and preventative measures to bring an end IPR infringements committed through its online marketplace. However, the CJEU also held that these measures could not consist of the active monitoring of the data of each of its customers in order to prevent any future infringement of IPR via that provider's website. Furthermore, it held that an injunction against the provider of an online marketplace cannot have as its object or effect a general and permanent prohibition on the selling of goods bearing the infringed trade marks and must be effective, proportionate and dissuasive and must not create barriers to legitimate trade.

Tommy Hilfiger and Others **(Physical Marketplace)**

In 2015, the Czech courts dealt with a similar question to the CJEU in *L'Oréal and Others*. However, in this case the IPR infringement took place in a physical marketplace. DELTA CENTER was subletting marketplace premises to third parties who infringed IPR by selling counterfeit products of brands including Tommy Hilfiger, Burberry and Lacoste. The Czech Supreme Court referred a preliminary question to the CJEU, asking whether DELTA CENTER should be classified as an intermediary. The Czech Supreme Court deemed it necessary to request a preliminary ruling in this case because, in its opinion, the judgment handed down in *L'Oréal and Others* only concerned infringements in an online marketplace, which is operated under different principles from a physical marketplace. The Czech courts argued that the interpretation of "intermediary" in *L'Oréal and Others* was too broad and could lead to absurd situations in which a supplier of electricity or the grantor of a commercial license to a market-trader could also be considered as intermediaries.

However, the CJEU held that there is no difference between an online and a physical marketplace and that the conclusions made in *L'Oréal and Others* apply to this situation as well.

UPC **(Provision of Internet Services)**

The term "intermediary" in relation to the protection of IPR is also incorporated in directive no. 2011/29/EC, on the harmonisation of certain aspects of copyright and related rights in the information society. This was interpreted in *UPC Telekabel Wien* (C-314/12). The CJEU held that an injunction that brings to an end and prevents further IPR infringements may be imposed on an internet service provider (UPC Telekabel) which provides internet to its customers, some of whom infringe IPR (copyrights of certain film production companies). Furthermore, the CJEU stated that no specific relationship between the person infringing IPR and the intermediary is required for the services to be used to infringe IPR.

Conclusion

The case law of the CJEU provides a coherent and extensive interpretation of an "intermediary whose services are used by a third party to infringe IPR". Nevertheless, regardless of how extensive this interpretation may appear, the protection of IPR is not unlimited and the CJEU clearly held the opinion that intermediaries cannot be asked to control the third parties which use their services. An injunction will always pertain to specific customers and specific infringements. Furthermore, injunctions have logically been issued in relation to operators of large standalone platforms (providers of internet services, operators of online marketplaces and lessors of physical marketplaces). In these cases, injunctions were an effective way of addressing IPR infringements. All service providers should note that they could face similar injunctions if they provide services to third parties which commit IPR infringements.

Key issues:

- Under Directive 2004/48/EC, injunctions may be granted against intermediaries whose services are used by third parties to infringe IPR.
- New case law provides that service providers, such as lessors of physical marketplaces, fall within the scope of such intermediaries.
- Service providers could be ordered to bring to an end and/or prevent the IPR infringements of third parties.

London: Intermediary liability: A new approach by brand owners in the online environment?

The sheer amount of infringing activity online means brand owners need to monitor the market so consumers can identify (and acquire) branded products from legitimate sources. For example, the claimant in the *Cartier case*[1], discussed below, claimed that it had identified nearly 240,000 websites offering potentially counterfeit products. Existing enforcement tools (recovery of domain names, the use of online reporting tools such as eBay's VeRO and EU customs authorities notification programs) target individual infringers. IP rights-holders have now focused on the involvement of intermediaries.

Under the Ecommerce directive[2], an intermediary information society service provider is not liable for a third party's infringement using those services, if it is an intermediary offering a hosting service, caching data or acting as a conduit and has no notice of the relevant wrongdoing.

Rights-holders have therefore:

- adapted strategies used originally to prevent an internet service provider ('**ISP**') allowing access to websites displaying material which infringes copyright to the counterfeit product context;
- challenged the ability of users to access the internet anonymously (requiring a wireless network operator to apply a password to secure a wireless network, where there was evidence that the network had previously been used to download a sound recording in breach of copyright); and
- applied concepts developed in respect of intermediaries offering online marketplaces to offline marketplaces.

The CJEU gave judgment in September 2016[3], in a case brought by Sony (relating to copyright infringement) establishing that:

- an individual offering the public free access to a wireless network was operating an information society service, within the course of his economic activity;
- although he was able to benefit from an intermediary exemption, his rights to operate his business had to be balanced against the rights of the IPR holder. The court therefore balanced the freedom of access to information/ability of service provider to conduct his economic activity against the rights of the IPR holder.

The options available to end the infringement were tested against the impact on each stakeholder. These included requiring the service provider to: (i) monitor all communications passing through the network; (ii) terminate the internet connection; or (iii) insist on password protected access. Use of a password was held not to damage the essence of the right to freedom to conduct business (as the measure is limited to marginally adjusting one of the technical options open to provider) or the right to freedom of information.

The CJEU also recently confirmed that there was no difference between an online marketplace and a physical marketplace for purposes of the Enforcement Directive.[4] Tommy Hilfiger[5] sought an injunction preventing the Delta Center (a tenant of a real world marketplace, which sub-let retail space to market traders) from:
(i) sub-letting/extending contracts with infringers; and (ii) concluding contracts with sub-lessees which did not include a prohibition on the sub-lessee infringing third party IPR. The CJEU referred to the *L'Oreal*[6] case law that an intermediary can be ordered to take measures aimed at bringing infringement to an end/seeking to prevent further infringement. This analysis requires a court to consider whether an injunction would be effective and dissuasive. An injunction must also be equitable and proportionate and cannot be excessively costly or create barriers to trade. As a general principle, an intermediary is not expected to exercise general and permanent oversight over its customers. However, it can be required to take measures which prevent new infringements of the same nature. This

1 Cartier International AG v BSkyB Ltd [2016] EWCA Civ 658.
2 Directive 2000/31/EC.
3 Tobias McFadden v Sony Music Entertainment Germany GmbH C-484/14.
4 Directive 2004/48.
5 Tommy Hilfiger Licensing LLC v Delta Center a.s. C-494/15.
6 L'Oréal v eBay, C-324/09.

approach offers a fair balance between protection of IP and the prevention of barriers to legitimate trade. The court considered that the objective of providing high level of protection for IP would be substantially weakened if an intermediary offering a 'real world' marketplace could not be the subject of an injunction.

The cases discussed above relate to the Enforcement directive and the Ecommerce directive (as implemented in each case into national law). *In Cartier,* the Richemont group (a luxury goods multinational) sought a so-called 'blocking' injunction against the UK's largest ISPs, requiring them to prevent continued access to certain websites which had been identified as offering counterfeit products. In July 2016, the English Court of Appeal affirmed the first instance injunction granted to Richemont.

The ISPs argued that it was conceptually harder to impose intermediary liability on service providers offering access to websites from which a consumer would have to take a series of steps to acquire the counterfeit product. This was, they argued, different from the scenario where an ISP hosts content that infringes copyright, where the infringement is the unlawful communication to the public of the copyright work on the website (without any further steps being taken by the host of the website or the website user). This was rejected by the Court as: (i) the ISPs were seen as essential actors in all of the communications between users and the operators of the target website; and (ii) the Enforcement Directive is intended to ensure that holders of rights other than copyright should be able to apply for injunctions against intermediaries whose services are being used by third parties to infringe those rights.

The Court of Appeal then considered each element of the test in *L'Oreal*. First, the person seeking an injunction needs to identify the relevant intermediary, the particular instance of trade mark infringement and have given the ISP notice of the infringing content / products. The Court then assesses whether an injunction would be an effective remedy. It concluded that, even if the terms of an injunction did not offer complete relief, or the prescribed measures were capable of circumvention, it could still be granted if it makes access to websites difficult to achieve or discourages access.

The Court considered:

(i) the comparative importance of the rights engaged and the justification for interfering with the exercise of those rights (the availability of alternative enforcement measures, impact on lawful internet users);

(ii) whether the likely costs burden on the ISPs was justified by the likely efficacy of blocking measures (and consequent benefit to rights-holders). The ISPs had incurred legal costs of over £600,000 resisting the application for injunctive relief and argued that it would cost a substantial sum per website to block access. As a comparator, the ISPs said it cost £14,000 per website to block access to websites which infringe copyright. The Court said these were costs of carrying on business as an ISP, noting that these were relatively modest for a single order. The Court also noted that the ISPs already had technology to block access to images of child abuse, to permit parental control of content viewed by children and to implement s.97A Copyright, Designs and Patents Act 1988 orders relating to copyright infringement and that this existing technology could presumably be adapted for use in the counterfeit product scenario;

(iii) the impact on innocent third parties (who might share a server with a website offering counterfeit products) and the adequacy of safeguards against abuse by rights-holders.

These decisions show rights-holders attacking the supply chain at a different point and attempting to reduce the infringing products/content available for consumers to view.

Key issues:

- Interplay between the online and 'real world' marketplaces
- Balancing of fundamental freedoms to operate a business against protection for IP rights
- Scope of exemptions from liability for intermediaries

Amsterdam: Judgment of the CJEU – Hyperlinking to illegal sources infringes copyright

The CJEU has recently concluded that hyperlinking to unauthorised content is an act of communication to the public when the person posting the hyperlinks knows (or ought to have known) that the contents have been published illegally.

Background

In 2011, GS Media BV ("**GS Media**") published an article and a hyperlink on the internet, directing viewers to an Australian website where certain photos which had been taken for Playboy magazine were made available without the consent of their copyright holder, Sanoma Media Netherlands BV ("**Sanoma**"). Despite Sanoma's demands, GS Media refused to remove the hyperlinks.

Sanoma brought the issue before the Dutch Courts, claiming, amongst others issues, copyright infringement. After several decisions and appeals, the case was referred to the Supreme Court of the Netherlands, which decided to stay the proceedings and refer questions to the Court of Justice of the European Union ("**CJEU**") for a preliminary ruling.

In essence, the questions can be summarized as follows: in what possible circumstances does posting a hyperlink on a website to protected works, that are freely available on another website without the consent of the copyright holder, constitute a 'communication to the public' within the meaning of Article 3(1) of the InfoSoc Directive[1]. This is important as communications of works to the public require authorization from the relevant rightholders.

Decision of the CJEU

In a ruling issued on 8 September 2016[2], the CJEU deviated from the opinion of the Advocate General[3] and decided that the posting of hyperlinks to protected works freely available on another website without the consent of the copyright holder may, indeed, constitute an act of communication to the public. Although a superficial consideration of the matter could lead to the conclusion that this ruling contravenes previous decisions reached by the CJEU in similar hyperlinking cases[4], there is an essential difference that cannot be disregarded.

In *Svensson* and *BestWater*, the relevant hyperlinks gave access to content that had been made available with the consent of the rightholders on freely accessible websites. By giving their consent, the copyright holders had accepted and assumed that their works could be viewed by all internet users. Consequently, the posting of the

1 Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society.
2 ECJ 8 September 2016, C-160/15 (GS Media BV v Sanoma Media Netherlands BV and others).
3 Opinion of Advocate General Wathelet 7 April 2016, C-160/15 (GS Media BV v Sanoma Media Netherlands BV and others).
4 ECJ 13 February 2014, C-466/12 (Svensson and Others) and Order of the ECJ 21 October 2014, C-348/13 (BestWater International).

hyperlinks did not add a 'new public' to the audience already taken into account by the rightholders.

Nevertheless, this rationale cannot be applied to the present case. As Sanoma never gave consent to the publication of the pictures at issue on the internet, the hyperlinks posted by GS Media gave access to a new public neither considered, nor accepted by their copyright holder.

Whilst the lack of consent is an important step to assess whether a hyperlinking practice entails an act of communication to the public, it is not sufficient. As explained by the CJEU, it also necessary that the person posting the relevant hyperlinks was acting deliberately, in knowledge of the consequences of his actions. Taking that into account, the CJEU mentions three circumstances under which it shall be understood that hyperlinking to unlawful sources constitutes an act of communication to the public.

First, when the person posting the relevant hyperlinks knew or ought to have known that he was providing access to works unlawfully published on the internet, for example if he was notified thereof by the copyright holders.

Second, when the hyperlinks were posted for profit. In these events, full knowledge is presumed to exist, as it can be expected that the person who posted the links carried out the necessary checks to ensure that the concerned works were not illegally published.

Last, when the hyperlinks allow users to circumvent restrictive measures taken by a site where protected works are published, such as limiting access to the site's subscribers. It states that these are acts of communication to the public, as posting the hyperlinks constitutes a deliberate intervention necessary to access the unlawful works.

Conclusion

In the CJEU's words, the interpretation given by the judgment to Article 3.1 of the InfoSoc Directive provides the high level of protection authors sought in that piece of law.

From now on, copyright holders in the EU may act not only against the initial publications of their works on a website. Under certain circumstances, they will also have strong arguments to denounce hyperlinking practices.

Strenghts (Quotes mainly from clients):

"We like to work with Clifford Chance for its lawyers' ability to listen, ask the right questions, get all of the relevant information and build up a very good defence in order to win the case."

"The lawyers have handled the case very well. They are very responsive, knowledgeable and proactive, and communicate clearly."

Chambers & Partners 2016: Europe Guide – Dispute Resolution

Key issues:

- Communications of copyright protected works to the public require authorization of the copyright holders.
- The CJEU concludes that some hyperlinking practices on the internet may be considered acts of communication to the public.
- For hyperlinking to qualify as an act of communication to the public, hyperlinks must direct users to illegal sources and be posted by someone aware of the illegality.

London: The recent EU copyright proposals

On 14 September 2016 the European Commission published two draft copyright Directives and two further draft copyright Regulations. Together with the December 2015 draft Regulation on cross border portability of online content services, these cover much of the ground set out in its December 2015 communication "towards a modern, more European copyright framework", as part of the wider Digital Single Market initiative.

The proposals are driven in part by the recognition that the way we consume copyright content has changed dramatically over the last decade. The Commission's previous major foray into this area, the Information Society Directive, was adopted in 2001, prior to the mass adoption of the internet.

Online retransmission of television and radio programmes

One of the draft Regulations governs copyright and related rights for online transmissions and retransmissions of television and radio programmes, and is designed to facilitate rights clearance across the EU. Following the Commission's review of the Satellite and Cable Directive, the draft Regulation adopts the approach taken in that Directive i.e. that rights are cleared on a "country of origin" basis for transmission across the EU, and rightsholders other than broadcasting organisations must exercise their retransmission rights through collecting societies.

Importantly, this draft Regulation only applies to simulcasts of broadcasts and to catch-up services available for a limited period of time following the original broadcast; it will not introduce pan-EU rights clearance for "video-on-demand" services. For these services, the Commission proposes, via the draft Directive on Copyright in the Digital Single Market, to require Member States to nominate an impartial body with relevant experience to assist would-be licensees with negotiation if they experience difficulties in doing so directly. Some will argue that the Commission has not gone far enough in respect of VoD services, as these increasingly supplement and ultimately replace broadcast media for consumers, but the Commission concluded it was too early in the evolution of the VoD market to attempt this.

Out-of-Commerce works, exemptions and addressing the "value-gap"

As well as requiring Member States to ensure there is an impartial body to facilitate VoD licence negotiation, the draft Directive on Copyright in the Digital Single Market contains other measures aiming to bring European copyright law into the digital age.

First, the Directive contains a regime for collective licensing in respect of "out-of-commerce" works for cultural heritage institutions, such as libraries and museums. Out-of-commerce works are works still protected by copyright but no longer available to the public, for example where a book is no longer in print. The collective licensing regime will allow cultural heritage institutions who have agreed a licence to digitise, distribute and communicate to the public out of commerce works or other subject matter in their permanent collections with a collecting society to apply this licence to similar works whose rightsholders have not mandated the collecting society (although non-mandating rightsholders will have an opt out right). This measure is not limited to books and journals, but would also cover other content including audio and audiovisual content. The Directive also proposes a blanket exception for cultural heritage organisations to make copies of works in their permanent collections for preservation purposes.

Other initiatives aim to ensure there is a consistent approach across the Member States to the exceptions and limitations to copyright under EU law as applied to the digital environment. For example, the proposal requires Member States to provide a mandatory exception with cross border effect for online teaching (provided this is via a secure network with access limited to pupils, students or teaching staff), but with some flexibility depending on the availability of adequate licences.

Exceptions for automated data and text mining in the digital environment have been a controversial area for some years. On the one hand, scientific and other commercial publishers fear that data mining will undermine the market for their own enhanced offerings. On the other hand, commercial research organisations say that they need the right to mine data for commercial purposes, arguing that it is an "accident" of intellectual property law that use in digital form is requires a licence, whereas reading a book or an article does not.

The proposal introduces a text and data-mining exception for non-commercial

Talking Tech

This article was originally published on www.cliffordchance.com/TalkingTech.

The Talking Tech website provides information and updates on the latest trends and innovations in the digital world.

scientific research as well as for organisations whose primary goal is to conduct scientific research (or scientific research combined with educational services) (a) on a not-for profit basis or by re-investing all profits in its scientific research or (b) pursuant to a public interest mission recognised by a Member State. The proposed exception requires that access to the results is not available on a preferential basis to any organisation exercising a decisive influence upon the research organisation.

Scientific and technical publishers will be nervous about the impact of the data mining exception. Press publishers across the EU should however welcome a new 20 year press publication right, in recognition of the fact that in the transition from print to digital they are facing problems in licensing online use of their publications and recouping their investments.

Further proposals seek to address the "value-gap" in the digital environment between the rightsholder and the content provider. The proposed Directive includes provisions aimed specifically at platforms which allow users to upload content to be enjoyed by other users. Currently, the platform benefits from the advertising revenue the content generates, but the rightsholders may not share the benefit (especially where it is uploaded without their consent). Member States will be required to ensure that rightsholders receive sufficient information on the exploitation of their works to ensure they are fairly remunerated or can prevent availability of their works on the service. This will include appropriate and proportionate use of measures such as effective content recognition technologies, and the availability of complaints and redress mechanisms.

The proposal also includes provisions to increase transparency of information provided to authors and performers about the exploitation of their works, and for mechanisms for adjustment of remuneration where contracts with authors or performers leave them disproportionately poorly remunerated compared to the revenues and benefits generated from the exploitation of their works.

Implementing the Marrakesh Treaty to Facilitate Access to Published Works for Persons who Are Blind, Visually Impaired, or Otherwise Print Disabled

The remaining draft Directive and Regulation concern the implementation of the Marrakesh Treaty to Facilitate Access to Published Works for Persons who Are Blind, Visually Impaired, or Otherwise Print Disabled. The Marrakesh Treaty, adopted in 2013, requires signatories to introduce exemptions and limitations to copyright to facilitate access to print materials to those with visual impairments or conditions such as dyslexia. The combination of a draft Directive and Regulation aims to facilitate sharing of accessible formats both within the single market and with countries outside of the EU.

Key issues:

Proposals aim to:

- simplify rights clearance for simulcasts and short term TV catch-up services
- facilitate VoD rights clearance negotiations
- enable exploitation of out of commerce works by libraries and museums
- increase harmonisation of exceptions to copyright
- introduce a text and data mining exception
- address the "value gap" between rightholders and content providers and improve transparency for rightholders about use of their works
- implement the Marrakesh Treaty for access to works for those who are blind, visually impaired or otherwise print disabled

Vanessa Marsland is one of Managing IP's "IP Stars" and "Top 250 women in IP".

Managing Intellectual Property – IP Stars: United Kingdom

Vanessa Marsland of Clifford Chance LLP is best known for her handling of contentious matters, especially copyright, licensing and trade mark disputes. A source describes her as "one of the brainiest solicitors in London."

Chambers & Partners 2016: Global Guide: UK – Intellectual Property

Stephen Reese awarded for his IP/Life Sciences practice:

"extremely smart, very detail-oriented and makes sure everything is thought through and works."

Chambers & Partners 2016: UK Guide: UK – Life Sciences: Transactional — UK-wide, Band 2

Stephen Reese is also ranked in IAM's Top 250 Patent Licensing specialists, a top rated attorney in Super Lawyers and a Legal 500 Leading Individual.

Barcelona: Judgment of the Court of justice of the European union dated 12 October 2016 (c-166/15): the rule of exhaustion of the right-holder's distribution right and the back-up copy

On 12 October 2016, the Court of Justice of the European Union ("**CJEU**") issued a judgment defining the parameters of the exhaustion of a right-holder's distribution right and back-up copies (the "**Judgment**"). In particular, the CJEU confirmed that a person who acquires a copy of a computer program with an unlimited user licence is not entitled to provide a back-up copy of that program to a new acquirer without the authorisation of the right-holder, even in the event that the first acquirer's copy has been damaged, destroyed or lost.

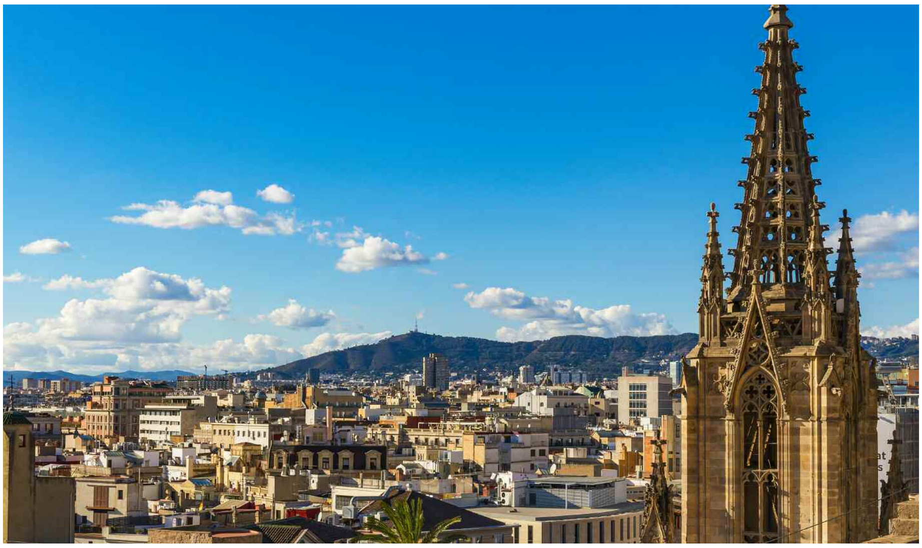
Background of the Judgment

In 2004, Aleksandrs Ranks and Jurijs Vasiļevičs sold more than 3,000 copies of copyright protected programs published by Microsoft in Lativa. The copies sold were **back-up copies** of the Microsoft programs. Both Ranks and Vasiļevičs were declared guilty of several crimes, including intellectual property infringement.

After multiple appeals, the *Rīgas apgabaltiesas Krimināllietu tiesu kolēģija* (Criminal Law Division of the Riga Regional Court) posed two questions to the CJEU for a preliminary ruling. These questions referred to the interpretation of Articles 4.2, 5.1 and 5.2 of Directive 2009/24 on the legal protection of computer programs (the "**Directive**").

Specifically, the Latvian court asked the CJEU whether a person who has acquired a computer program with an unlimited user licence is entitled, provided that the copy of the program was damaged, destroyed or lost, to distribute the back-up copy of the program to a new acquirer without the authorisation of the right-holder.

The response to this question required the CJEU to analyse the two following legal concepts: (i) the exhaustion of a right-holder's distribution right, and (ii) the back-up copy.



Exhaustion of a right-holder's distribution right

By virtue of the Judgment, the CJEU, following the doctrine commenced in *UsedSoft* (C-128/11, dated 3 July 2012), declared that the holder of the copyright in a computer program, who has sold, within the European Union, a copy of that program on a material medium (for instance, a CD-ROM) with an unlimited user licence, cannot prevent the acquirer of that material medium to resell that copy. This is extended to the subsequent acquirers and to the subsequent resales of the copy.

Therefore, the distribution right of the right-holder ends with the first sale in the territory of the European Union when it comes to copies provided on the original material medium. The difference with the current case lies in the fact that the copies of the computer program that were resold were back-up copies, and not copies stored on the original material medium. This leads to the second legal concepts examined by the CJEU: the back-up copy.

Back-up copy

After analysing the exhaustion of a right-holder's distribution right, the CJEU stated that the right to resell copies of a computer program after its first sale in the European Union is not absolute and has certain limits. One of these limits is that reproduction rights and their exceptions outlined in the Directive are respected.

In this regard, the CJEU established that, pursuant to Article 5.2 of the Directive, a person who has the right to use a computer program can make a back-up copy of the same "*in so far as it is necessary for that use*". In addition, the CJEU stated that this rule, as it is an exception to the reproduction right of the holder of the copyright, must be interpreted in a restrictive manner.

Consequently, a back-up copy of a computer program can only be made to satisfy the needs of the person who is entitled to use such computer program, and not for the resale of the program to a third party.

Conclusion

The CJEU has confirmed that in those cases where the original material medium of the copy of a computer program is damaged, destroyed or lost, the acquirer of such a copy cannot resell the back-up copy of the program to a new acquirer without the authorisation of the right-holder. The trigger to determine the legality of the resale of the computer program will be the material medium in which the computer program is stored. If it is the original material medium, the resale of the computer program should be legal. Conversely, the resale of a back-up copy cannot find shelter in the exhaustion of the right-holder's distribution right.

This decision highlights the importance of the original material medium when it comes to the resale of computer programs.

Link directory:

1. Judgment of the Court of Justice of the European Union dated 12 October 2016 (C-166/15): http://curia.europa.eu/juris/document/document.jsf?text=&docid=184446&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&part=1&cid=156910
2. Judgment of the Court of Justice of the European Union dated 3 July 2012 (C-128/11): http://curia.europa.eu/juris/document/document.jsf;jsessionid=9ea7d0f130d62397a73d0c8f43a89c14939866cc83fb.e34KaxiLc3eQc40LaxqMbN4Pah4Te0?text=&docid=124564&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&part=1&cid=156816

Key issues:

- The CJEU has confirmed the "*UsedSoft's doctrine*" (C-128/11, dated 3 July 2012) regarding the exhaustion of a right-holder's distribution right.
- The CJEU has further defined the rights to a back-up copy and concluded that this has to be interpreted restrictively.

Hong Kong: Mobile apps in China – new rules bring stricter regulation and enhanced user protection

The Provisions for the Administration of the Information Services of Mobile Internet Application (the "**Provisions**"), issued by the Cyberspace Administration of China (**"CAC"**), took effect on 1 August 2016. The key concepts introduced by the Provisions are set out in more detail below. More clarity will, however, be required from the authorities, especially as there is some overlap between the Provisions and other PRC laws which, to a varying extent, may be applicable to mobile apps (including but not limited to existing guidelines and rules issued by the Ministry of Industry and Information Technology ("**MIIT**"), the State Administration of Press, Publication, Radio, Film and Television ("**SAPPRFT**") and the Ministry of Culture).

Definitions and Scope

The Provisions apply to both "App Stores" and "App Providers".

Article 2 of the Provisions defines an app as "*a piece of application software…that runs on a smart mobile terminal and provides information services to users*". App Stores are defined as platforms that provide "*via the internet, browsing, search or download services for application software or publication services.*"

App Providers are defined as the owners <u>or</u> operators of apps that provide information services.

Only App Providers who provide "information services" are subject to the Provisions. However, the term "*information services*" itself is not defined (despite appearing in the title). By contrast, App Stores will be subject to the Provisions whether they provide information services or not.

As such, in a case where the owner and operator of an app are different, it is unclear whether it should be the owner or the operator who has the obligation to comply with the Provisions.

Obligations – App Providers

According to Article 7 of the Provisions, all App Providers must, amongst other obligations:

- verify the basic identification details of their registered users;
- establish a suitable mechanism to protect personal data of the users;
- create a robust content monitoring system to filter out illegal content with features including suspension and restriction of an individual user's account;
- protect users' rights to be informed if the app needs to gain access to the user's details (such as contact lists or location, etc.);
- respect and protect IP rights; and
- record users' login information and keep it on file for at least sixty days.

In addition to the above, Article 5 of the Provisions also sets a qualification threshold, stating that "*relevant qualifications specified in laws and regulations*" must be demonstrated before an operator can provide mobile app-related services. It remains unclear what exactly these qualifications are. Reference has to be made to other pieces of legislation, some of which imply the need for operators to apply for specific licences. The pieces of legislation are as follows:

Catalogue of Telecommunications Business (MIIT) 2015.12.28 (Telecom Catalogue)

Telecom Catalogue contains a category called "information service business" which is listed as a Type II value-added telecom service ("**VATS**"). These services include social media, instant messaging, voice and video calling, anti-virus software and spam filtering services.

Given that VATS providers are required to apply for licences according to Article 4 of the *Administrative Measures for the Licensing of Telecommunications Business Operations (MIIT) 2009.3.1*, it seems that App Providers will need to do the same. Furthermore, licence applications will only be accepted from companies instead of individuals, severely restricting individuals from owning or operating apps.

Provisions on the Administration of Online Publishing Services (SAPPRFT & MIIT) 2016.2.14 (Online Publishing Provisions)

The broad definition included within the Online Publishing Provisions published by SAPPRFT and MIIT comprises all digital works that (i) include features such as editing, producing and processing, and (ii) are offered to the public over information networks. As a consequence, a large proportion of the information provided by app providers would likely qualify as an online publication and require a licence.

Administrative Measures on Internet Information Services of the PRC (State Council) 2000.9.25 (Internet Information Services Measures)

Under the Internet Information Services Measures, internet information services are divided into profitable and non-profitable services. "Profitable" internet information service providers are required to apply for VATS licences, whereas "non-profitable" providers are only required to be registered with the relevant local authorities, with no licensing requirement.

Obligations – App Stores

According to Articles 5 and 8 of the Provisions, all App Stores must:

- register with their local CAC within thirty days of going online;
- verify the identity of App Providers on their platforms;
- make sure that App Providers protect users' personal information and respect relevant IP rights; and
- remove non-compliant apps from the store.

Foreign Service Providers

The Provisions apply to App Providers and App Stores operating within the PRC. It is unclear whether foreign service providers operating offshore are allowed to engage in app-related businesses or, if they are allowed to do so, whether they are likely to face any additional obligations or compliance burdens.

Ling Ho attracts praise for her wealth of experience and commitment to her clients. She heads both the Asia-Pacific intellectual property group and the China litigation and dispute resolution practice. She has particular expertise in trade mark infringement and unfair competition, as well as global portfolio management. Work highlights include managing the brand portfolio of Aston Martin Lagonda.

Chambers & Partners 2016: Global Guide:
China – Intellectual Property (International Firms)

Notably, Apple's App Store is technically outside the scope of the Provisions as it is an offshore platform. In any event, Apple complies voluntarily with PRC standards and its popularity with consumers has meant the authorities have largely tolerated its presence in the market.

Conclusion

The new app regulations follow swiftly on from the new strict regulations for mobile games that took effect on 1 June 2016. The *Circular Regarding the Administration of Mobile Game Publication Services* makes it clear that games that are not submitted for approval will be deemed illegal publications and their publishers liable to penalties. In serious cases, the publisher's licence will be revoked.

As for apps under the new regime, the user experience is likely to be mixed: if the Provisions are properly enforced, app users can expect their favourite apps to be of higher quality and at the same time enjoy greater security of their personal information. Conversely, the range of content app users can enjoy may be more limited in the future and the requirement to track and keep records of user behaviour may limit the app user's freedom of expression.

Despite the increased regulation, the opportunity for businesses remains significant. According to the media research group *iiMedia*, the first quarter of 2016 saw 444 million active users of third party mobile app stores. *China Internet Watch* counted 33,000 mobile apps with categories such as photography, health and fitness, travel and navigation, lifestyle, shopping and social/messaging apps all proving popular.

Key issues:

- New laws in China aim to regulate the internet mobile app industry by imposing certain requirements and obligations on App Providers and App Stores including license qualification requirement for App Providers and a new set of obligations on App Stores, notably the registration requirements with the local CAC.
- Although it is unclear whether the Provisions apply to foreign App Providers, it may be expected that there will be increased regulatory control in this area.

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Michal Jasek	Sara van Mourik	Eugenia Tonello
James Jeffries-Chung	Jack Oakley	Tina Wu

Contacts

Australia

Tim Grave
Partner, Sydney
T: +61 28922 8028
E: tim.grave
@cliffordchance.com

Belgium

Thomas Vinje
Partner, Brussels
T: +32 2 533 5929
E: thomas.vinje
@cliffordchance.com

China

Ling Ho
Partner, Hong Kong
T: +852 2826 3479
E: ling.ho
@cliffordchance.com

France

Diego de Lammerville
Partner, Paris
T: +31 1 4405 2448
E: diego.delammerville
@cliffordchance.com

Emmanuelle Levy
Senior Associate, Paris
T: +31 1 4405 2439
E: emmanuelle.levy
@cliffordchance.com

Germany

Claudia Milbradt
Partner, Düsseldorf
T: +49 211 4355 5962
E: claudia.milbradt
@cliffordchance.com

Florian Reiling
Senior Associate, Düsseldorf
T: +49 211 4355 5964
E: florian.reiling
@cliffordchance.com

Italy

Fabio Guastadisegni
Partner, Milan
T: +39 02 8063 4353
E: fabio.guastadisegni
@cliffordchance.com

Monica Riva
Counsel, Milan
T: +39 02 8063 4383
E: monica.riva
@cliffordchance.com

Japan

Hidehiko Suzuki
Partner, Tokyo
T: +81 3 5561 6662
E: hidehiko.suzuki
@cliffordchance.com

Poland

Krzysztof Hajdamowicz
Counsel, Warsaw
T: +48 22 429 9620
E: krzysztof.hajdamowicz
@cliffordchance.com

Romania

Mihaela Mindru
Counsel, Bucharest
T: +40 21 6666 137
E: mihaela.mindru
@cliffordchance.com

Russia

Torsten Syrbe
Partner, Moscow
T: +7 49 5725 6400
E: torsten.syrbe
@cliffordchance.com

Spain

Miquel Montañá
Partner, Barcelona
T: +34 93 344 2223
E: miquel.montana
@cliffordchance.com

Montserrat López-Bellosta
Of Counsel, 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

Stephen Reese
Partner, London
T: +44 20 7006 2810
E: stephen.reese
@cliffordchance.com

US

Daryl Fairbairn
Counsel, New York
T: +1 212 878 4960
E: daryl.fairbairn
@cliffordchance.com

Notes

Notes

Worldwide contact information
34* offices in 24 countries

Abu Dhabi
Clifford Chance
9th Floor, Al Sila Tower
Abu Dhabi Global Market
Square
PO Box 26492
Abu Dhabi
United Arab Emirates
T +971 2 613 2300
F +971 2 613 2400

Amsterdam
Clifford Chance
Droogbak 1A
1013 GE Amsterdam
PO Box 251
1000 AG Amsterdam
The Netherlands
T +31 20 7119 000
F +31 20 7119 999

Bangkok
Clifford Chance
Sindhorn Building Tower 3
21st Floor
130-132 Wireless Road
Pathumwan
Bangkok 10330
Thailand
T +66 2 401 8800
F +66 2 401 8801

Barcelona
Clifford Chance
Av. Diagonal 682
08034 Barcelona
Spain
T +34 93 344 22 00
F +34 93 344 22 22

Beijing
Clifford Chance
33/F, China World Office
Building 1
No. 1 Jianguomenwai Dajie
Beijing 100004
China
T +86 10 6535 2288
F +86 10 6505 9028

Brussels
Clifford Chance
Avenue Louise 65
Box 2, 1050 Brussels
T +32 2 533 5911
F +32 2 533 5959

Bucharest
Clifford Chance Badea
Excelsior Center
28-30 Academiei Street
12th Floor, Sector 1,
Bucharest, 010016
Romania
T +40 21 66 66 100
F +40 21 66 66 111

Casablanca
Clifford Chance
169 boulevard Hassan 1er
20000 Casablanca
Morroco
T +212 520 132 080
F +212 520 132 079

Doha
Clifford Chance
Suite B
30th floor
Tornado Tower
Al Funduq Street
West Bay
P.O. Box 32110
Doha, Qatar
T +974 4 491 7040
F +974 4 491 7050

Dubai
Clifford Chance
Level 15
Burj Daman
Dubai International Financial
Centre
P.O. Box 9380
Dubai, United Arab Emirates
T +971 4 503 2600
F +971 4 503 2800

Düsseldorf
Clifford Chance
Königsallee 59
40215 Düsseldorf
Germany
T +49 211 43 55-0
F +49 211 43 55-5600

Frankfurt
Clifford Chance
Mainzer Landstraße 46
60325 Frankfurt am Main
Germany
T +49 69 71 99-01
F +49 69 71 99-4000

Hong Kong
Clifford Chance
27th Floor
Jardine House
One Connaught Place
Hong Kong
T +852 2825 8888
F +852 2825 8800

Istanbul
Clifford Chance
Kanyon Ofis Binasi Kat. 10
Büyükdere Cad. No. 185
34394 Levent, Istanbul
Turkey
T +90 212 339 0000
F +90 212 339 0099

Jakarta**
Linda Widyati & Partners
DBS Bank Tower
Ciputra World One 28th Floor
Jl. Prof. Dr. Satrio Kav 3-5
Jakarta 12940
T +62 21 2988 8300
F +62 21 2988 8310

London
Clifford Chance
10 Upper Bank Street
London
E14 5JJ
United Kingdom
T +44 20 7006 1000
F +44 20 7006 5555

Luxembourg
Clifford Chance
10 boulevard G.D. Charlotte
B.P. 1147
L-1011 Luxembourg
T +352 48 50 50 1
F +352 48 13 85

Madrid
Clifford Chance
Paseo de la Castellana 110
28046 Madrid
Spain
T +34 91 590 75 00
F +34 91 590 75 75

Milan
Clifford Chance
Piazzetta M. Bossi, 3
20121 Milan
Italy
T +39 02 806 341
F +39 02 806 34200

Moscow
Clifford Chance
Ul. Gasheka 6
125047 Moscow
Russia
T +7 495 258 5050
F +7 495 258 5051

Munich
Clifford Chance
Theresienstraße 4-6
80333 Munich
Germany
T +49 89 216 32-0
F +49 89 216 32-8600

New York
Clifford Chance
31 West 52nd Street
New York
NY 10019-6131
USA
T +1 212 878 8000
F +1 212 878 8375

Paris
Clifford Chance
1 Rue d'Astorg
CS 60058
75377 Paris Cedex 08
France
T +33 1 44 05 52 52
F +33 1 44 05 52 00

Perth
Clifford Chance
Level 7
190 St Georges Terrace
Perth WA 6000
Australia
T +618 9262 5555
F +618 9262 5522

Prague
Clifford Chance
Jungamannova Plaza
Jungamannova 24
110 00 Prague 1
Czech Republic
T +420 222 555 222
F +420 222 555 000

Rome
Clifford Chance
Via Di Villa Sacchetti, 11
00197 Rome
Italy
T +39 06 422 911
F +39 06 422 91200

São Paulo
Clifford Chance
Rua Funchal 418 15ºandar
04551-060 São Paulo-SP
Brazil
T +55 11 3019 6000
F +55 11 3019 6001

Seoul
Clifford Chance
21st Floor, Ferrum Tower
19, Eulji-ro 5-gil, Jung-gu
Seoul 100-210
Korea
T +82 2 6353 8100
F +82 2 6353 8101

Shanghai
Clifford Chance
40th Floor, Bund Centre
222 Yan An East Road
Shanghai 200002
China
T +86 21 2320 7288
F +86 21 2320 7256

Singapore
Clifford Chance
Marina Bay Financial Centre
25th Floor, Tower 3
12 Marina Boulevard
Singapore 018982
T +65 6410 2200
F +65 6410 2288

Sydney
Clifford Chance
Level 16, No. 1 O'Connell
Street
Sydney NSW 2000
Australia
T +612 8922 8000
F +612 8922 8088

Tokyo
Clifford Chance
Palace Building,
3rd floor 1-1,
Marunouchi 1-chome,
Chiyoda-ku,
Tokyo 100-0005
Japan
T +81 3 6632 6600
F +81 3 6632 6699

Warsaw
Clifford Chance
Norway House
ul.Lwowska 19
00-660 Warsaw
Poland
T +48 22 627 11 77
F +48 22 627 14 66

Washington, D.C.
Clifford Chance
2001 K Street NW
Washington, DC 20006 –
1001
USA
T +1 202 912 5000
F +1 202 912 6000

Riyadh***
Abuhimed Alsheikh Alhagbani
Building 15, The Business Gate
King Khaled International Airport
Road
Cordoba District, Riyadh
P.O. Box: 90239, Riyadh 11613,
Kingdom of Saudi Arabia
T +966 11 481 9700
F +966 11 481 9701

*Clifford Chance's offices include a second office in London at 4 Coleman Street, London EC2R 5JJ. **Linda Widyati and Partners in association with Clifford Chance.
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