

FIGHTING PRODUCT PIRACY

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CLAUDIA MILBRADT (ED.)

ISABEL CARULLA, DARYL FAIRBAIRN,
ANNA GRUCHOL, JEAN-FRÉDÉRIC GAULTIER, LING HO,
HEINER HUGGER, DIANA KAUFMANN,
EMMANUELLE LEVY, MÉLANIE LOOS,
MONTSERRAT LOPEZ-BELLOSTA, BARBARA MAUCHER,
CLAUDIA MILBRADT, ALEXANDRA PYGALL,
DANIEL ROYLE, WOLFGANG SCHÖNIG AND
AUDREY SHUM



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Product Piracy In Spain

Montserrat López-Bellosta / Isabel Carulla *

1. LEGAL FRAMEWORK OVERVIEW

1.1 *Protection of intellectual property by substantive law*

1.1.1 *Spanish Trademark Act, Patent Act, Utility Model Act, Copyright Act*

The term “intellectual property” includes heterogeneous subject-matter -trademarks, patents, utility models, industrial designs, integrated circuits, geographical indications, copyright and rights related to copyright-, protected by various laws.

With regard to trademarks, § 2 and § 4 of Law 17/2001, of 7 December, on Trademarks ("**Trade-mark Act**") defines and protects as a trademark any sign duly registered at the Spanish Patent and Trademark Office, which can be represented graphically, provided that such sign is capable of distinguishing one company's goods or services from those offered by another. Unregistered but well-known trademarks are also protected, pursuant to the provisions of § 6 of the Paris Convention for the Protection of Industrial Property.

With regard to patents, § 4 of Law 11/1986, of 20 March, on Patents and Utility Models ("**Patent Act**") protects as a patent any new invention involving inventive step and capable of industrial application, even if the subject-matter of the patent is a composite, contains biological matter or consists of a process through which biological matter can be obtained, transformed or used. With regard to utility models, § 143 of the Patent Act protects as a utility model any new invention involving inventive step consisting of giving an object a configuration, structure or form that results in a material practical advantage for the use or manufacture thereof.

With regard to copyright, § 1 and § 10 of the Copyright Act¹ grants ownership and confers protection upon the author, when he/she produces an original creation, expressed in any media, tangible or intangible, known or to be invented.

1.1.2 *Role of the Spanish Unfair Competition Act*

The Unfair Competition Act² is the first regulation in Spain that systematically addresses the issue of unfair competition. Acting as a general law, it applies in cases where no special regulations apply, thus also serving as a closure mechanism. However, that does not mean that the Unfair Competition Act can be invoked when special regulations, such as the Trademark Act or the Patent Act, apply to a specific case; it is not a valid legal framework for acts that are expressly provided for in special regulations.

¹ Legislative Royal Decree 1/1996, of 12 April, approving the Codifying Legislation of the Law on Intellectual Property, regularizing, clarifying and harmonizing the legal provisions in force on the subject (*Real Decreto Legislativo 1/1996, de 12 de abril, por el que se aprueba el Texto Refundido de la Ley de Propiedad Intelectual, regularizando, aclarando y armonizando las disposiciones legales vigentes sobre la materia*) [LPI], 1996.

² Unfair Competition Act (*Ley 3/1991, de 10 de enero, de Competencia Desleal*), 1991.

The Unfair Competition Act is targeted at the market as a whole. Apart from protecting competitors' private interests on the market, it also protects the public interests of consumers as a group, since it is deemed that unfair competition not only harms competitors, but also occasionally consumers. One example of the protection of public interests is that consumer associations can file some of the actions provided for in the Unfair Competition Act.

In addition, individuals engaging in acts of unfair competition do not necessarily have to be business owners: the Unfair Competition Act also applies to acts committed by any individual or legal entity participating on the market. Lastly, an act or practice may in some cases be considered as unfair under the Unfair Competition Act, even if there is no direct competition between the persons involved in the act.

Three conditions must be met by a potentially unfair competition act for the Unfair Competition Act to apply: (i) the act must be projected externally, i.e. it must have an impact on the market; (ii) it must be performed for competitive purposes³; and (iii) it must have significant effects on the Spanish market.

1.1.3 *Criminal law*

The development of new technologies has resulted in new and more complex forms of committing intellectual property crimes. The great ease of perpetrating an offence against intellectual property, the low cost of the infringing behaviour and the substantial benefits so rapidly obtained, have attracted the interest of many individuals and international criminal organisations hoping to earn "easy money".

In Spanish law, the protection of intellectual property is established in Chapter XI of the Spanish Criminal Code⁴ (Articles 270-277), Title XIII, which is dedicated to crimes against property and socio-economic order. The first section of the said Chapter refers to copyright offences and the second section, to offences against patents, utility models, trademarks, plant variety names, geographical indications for classifying food and beverage products of a certain quality.

Spanish Organic Law 15/2003⁵, amending the Spanish Criminal Code, introduced a major change to the configuration of offences against intellectual property rights, in an attempt to provide a solution to this new social reality, by reinforcing protection against crimes. Offences against intellectual property became public crimes pursued *ex officio*. Thus, it is not necessary for the party sustaining damage to file a formal complaint in order to initiate criminal proceedings. Penalties were increased and it became possible for intellectual property right-collecting societies to take criminal action as the damaged parties. Moreover, the said law allows for special fast-track legal proceedings, provided for in the Spanish Law on Criminal Procedure, to be brought in the case of very serious intellectual property offences.

In May 2006 the Public Prosecution Office published a Circular⁶ establishing the guidelines to be followed by Public Prosecutors in Spain when prosecuting intellectual property offences.

³ An act shall be presumed to be performed for competitive purposes if, objectively speaking, it is capable of promoting or ensuring the dissemination of one's own services or a third party's services.

⁴ Criminal Code (*Ley Orgánica 10/1995, de 23 November, del Código Penal*).

⁵ Organic Law 15/2003, of 25 November.

⁶ Circular 1/2006, of 5 May, on the Public Prosecution Office against intellectual property offences after the reform of Organic Law 15/2003 (*Circular 1/2006, de 5 de mayo, de la Fiscalía General del Estado sobre los delitos contra la propiedad industrial e intelectual tras la reforma de la LO 15/2003*).

1.2 *Enforcement of intellectual property rights*

1.2.1 *Civil action*

(a) Interim injunctions v. action on the merits of the case

Under Spanish Law, the holder of an intellectual property right (trademark, patent, utility model, industrial design, integrated circuit, geographical indication, copyright or rights related to copyright) may file a claim for infringement (or, where appropriate, for unfair competition) in ordinary proceedings before the Civil Courts. The claim must be filed before the Mercantile Courts and can be brought against any third party who allegedly exploits the subject-matter of the intellectual property right, without the consent of the holder or its exclusive licensee. In the writ or complaint the holder, as the plaintiff, must state the defendant's details, provide a clear statement of facts, detail the nature of the alleged infringement, raise the legal grounds upon which the petition is based and specify the request sought from the Court, including the remedies and asking the Court to award the Court costs against the defendant.

In order to ascertain the infringement (or the unfair competition, as the case may be) the holder must prove all of the following facts: (i) that a prohibited act has been performed; (ii) that the prohibited act has been performed in Spain; and (iii) that the prohibited act falls within the scope of protection of the exclusive right to be enforced in Spain. The defendant has 20 days in which to file a writ of reply or a counterclaim. In the writ of reply the defendant can refute the facts and the legal grounds raised in the claim (including any procedural matters preventing the proceedings from continuing) and ask the Court to set it aside and award the Court costs against the plaintiff. Furthermore, the defendant can file a counterclaim (i.e. in patent cases the counterclaim may be for the patent to be declared null and void). If so, the counterclaim must meet exactly the same prerequisites as the claim and the plaintiff has 20 days in which to file its writ of reply against the defendant's counterclaim. Thereafter, the Court calls the parties to an oral hearing. At the oral hearing the Court first invites the parties to reach a settlement agreement to avoid litigation. If no settlement agreement is reached between the parties, the oral hearing continues based on any procedural matters raised by the parties in their respective writs of reply to the claim or counterclaim. If no procedural matters were raised, the parties can present complementary allegations to their petitions and propose evidence. The Court subsequently fixes the date for the trial and, once heard, delivers its Judgment.

Judgments delivered at first instance by the Mercantile Courts can be appealed before the Provincial Court in the same Province. This appeal must be announced within five days as of the Judgment and, once the Court has admitted it, must be lodged within a period of twenty days. In some very specific cases, an appeal may be lodged before the Supreme Court in Madrid against the decisions handed down by the Provincial Court.

Obviously, in order to avoid delay in the main proceedings and minimise damage, it may be appropriate to take swift action in an attempt to prevent the infringement, via interim injunctions. The application for interim injunctions shall be made in writing. In this written application, the plaintiff shall specify the measures it seeks in relation to the acts in question, and file the evidence it deems necessary, accompanied by the relevant documents. This process requires establishing *prima facie* evidence of the infringement: *fumus boni iuris*, which means that the Judge must have a certain positive opinion that the outcome of the main proceedings will be in favour of the claimant, with regard to the facts alleged and the rights claimed; and *periculum in mora* whereby it must be proven that a delay in obtaining relief could thwart the purpose of the claim. In other words, the holder must show the Court that irreparable damage will be caused unless relief is granted. To that end, the party applying for the interim injunctions should furnish a bond, sufficient to cover any loss and damage that the interim injunctions might cause (*bail*).

In patent litigation, evidence proving that the patent is worked in a World Trade Organisation ("WTO") Member State, or that serious and effective preparations have been made to that end, is required for the patentee to be entitled to apply for interim injunctions.

Interim injunctions may be sought prior to the main action, simultaneously with the main action or subsequent to the main action, and shall be heard separately. When the application is made prior to the main action, the latter must be filed within twenty days as of the decision granting the interim injunctions.

The general principle is for the Court to rule on the application for interim injunctions in accordance with the principle of contradiction, which means that, after the interim injunctions' application has been filed, notice thereof should be served upon the defendant and the parties should be summoned to a hearing so that the Court can decide on the interim injunctions. However, in exceptional cases (i.e. if a delay in granting the interim injunctions would cause the plaintiff irreparable and irreversible damage) the Judge may allow the application for interim injunctions *ex parte*.

An appeal may be lodged against the decision granting or setting aside the interim injunctions, within five days as of the day after the date on which notice thereof is served.

(b) Implementation of Directive 2004/48/EC on the enforcement of intellectual property rights in Spanish Law

Directive 2004/48/EC of the European Parliament and of the Council, of 29 April, on the enforcement of Intellectual Property ("IP") Rights was implemented in Spain through Law 19/2006, of 5 June, on the extension of the means protecting Industrial and Intellectual Property Rights, which came into force on 7 June 2006 ("**Law 19/2006**").⁷ Law 19/2006, on the one hand, amended and extended the "*diligencias*" regime provided in the Spanish Law on Civil Procedure and, on the other hand, expanded the scope of the interim injunctions and the actions that can be brought by the holders of rights contained in the corresponding material laws, i.e. Intellectual Property Law (Copyright Act); Trademark Act; Patent Act and the Law on Industrial Design.

Firstly, the reform introduced in the Spanish Law on Civil Procedure through Law 19/2006, focused on the measures for collecting evidence of the alleged infringement, the so-called "*diligencias preliminares*", a preliminary procedure prior to the main proceedings in which the plaintiff simply requests that the defendant provide certain information ("*diligencias*"). Law 19/2006 introduced a new "*diligencia*" consisting of allowing access to financial, commercial, banking and customs-related documents, controlled by the alleged offender of the IP Rights on a commercial scale.

Secondly, the reform of the sectorial laws (Patent Act, Trademark Act, Copyright Act and the Law on Industrial Design) brought about by Law 19/2006 focused on:

- (i) extending the interlocutory injunctions available⁸;
- (ii) subjectively extending the interlocutory injunctions to the mediators brought by a third party

⁷ Law 19/2006 introduces amendments and new means of protection on two (2) levels: on the one hand, it amends and extends the "*diligencias*" regime provided for in the Law on Civil Procedure; and, on the other hand, it expands the scope of the interim injunctions and the actions that can be brought by the holders of rights contained in the corresponding material laws, i.e. Intellectual Property Law (Copyright Act); Trademark Act; Patent Act and the Law on Industrial Design.

⁸ Articles 63.1 and 134.1 of the Patent Act; Article 41.1 of the Trademark Act; Article 139 of the Copyright Act and Article 53.1 of the Law on Industrial Design.

due to the infringement of Intellectual Property Rights⁹; and

- (iii) substituting the three former alternative criteria for calculating compensation for damages by a new twofold alternative criterion¹⁰, consisting of: (a) combining loss of profit (i.e. the profits that the claimant would have made had the infringement not existed) and the gains obtained by the offender as a result of infringing the Intellectual Property Rights, and moral damages (Article 66 of the Patent Act); or (b) the royalties the offender ought to have paid the patent holder for a licence to exploit the invention lawfully.

In addition, Article 139.1 of the Patent Act, implementing Article 9.5 of the Directive, fixes a time limit of 20 working days for the claimant to file the complaint as of the date on which the interlocutory injunction is adopted, as opposed to the 2-month period previously granted.

1.2.2 *Public law*

(a) Spanish Product Safety Act

Directive 2001/95/EC on general product safety¹¹, was implemented in Spain through Royal Decree 1801/2003 on general product safety¹². The purpose of this Royal Decree is to ensure that products placed on the market are safe.

This Royal Decree applies to any product -including in the context of providing a service- which is intended for consumers or likely, under reasonably foreseeable conditions, to be used by consumers even if not intended for them, and is supplied or made available, whether for consideration or not, in the course of a commercial activity, and whether new, used or reconditioned.

Notwithstanding the foregoing, this Royal Decree shall not apply to second-hand products supplied as antiques or as products to be repaired or reconditioned prior to being used, provided that the supplier clearly informs the person to whom he supplies the product to that effect.

Where products are subject to specific safety requirements, this Royal Decree shall only apply as a supplementary regulation to those risks or categories of risks not governed by the specific regulation.

This Royal Decree shall apply notwithstanding the provisions related to liability for damages caused by defective products and other obligations which, according to civil and commercial Law, may arise for businesspeople in the event of a product's withdrawal and recall from consumers.

In that respect, according to this Royal Decree "safe product" means any product which under normal or reasonably foreseeable conditions of use, including duration and, where applicable, putting into service, installation and maintenance requirements, does not present any risk or only the minimum risks (i) compatible with the product's use and (ii) considered to be acceptable and consistent with a high level of protection for the safety and health of persons, taking into account: a) the charac-

⁹ Articles 63.3 and 135 of the Patent Act; Article 41.3 of the Trademark Act; Article 138 of the Copyright Act and Article 53.3 of the Law on Industrial Design.

¹⁰ Article 66.2 of the Patent Act; Article 43 of the Trademark Act; Article 140.2 of the Copyright Act and Article 55.2 of the Law on Industrial Design.

¹¹ Directive 2001/95/EC on general product safety (*Directiva 2001/95/CE del Parlamento Europeo y del Consejo, de 3 de diciembre de 2001, relativa a la seguridad general los productos*).

¹² Royal Decree 1801/2003 on general product safety (*Real Decreto 1801/2003, de 26 de diciembre, sobre seguridad general de los productos*).

teristics of the product, including *inter alia* its composition and packaging; b) the effect on other products, where it is reasonably foreseeable that it will be used with other products; c) the labelling, any warnings and instructions and any other indication or information regarding the product; d) product marketing and presentation; and e) the categories of consumers at risk when using the product, in particular children and the elderly.

According to this Royal Decree, any product to be marketed in Spain will be safe insofar as it complies with compulsory Spanish regulations establishing health and safety requirements or with the national technical standards transposing relevant European harmonised standards, which regulate some aspects of the aforementioned compulsory Spanish regulations. Therefore, the provisions contained in this Royal Decree are to be completed with other specific regulations. If no specific and compulsory product safety regulations exist or do not cover all risks or categories of risks, a product's compliance with the general safety requirements will be assessed by particularly taking into account the following elements, where appropriate: (i) national technical standards transposing relevant non-harmonised European standards; (ii) UNE standards; (iii) Commission recommendations establishing guidelines on product safety assessment; (iv) product safety codes of good practice, in force in the sector in question; or (v) the state of the art.

The product's compliance with any of these regulations or standards, including having passed the relevant compulsory administrative controls does not, however, constitute an obstacle for the Administrative Authorities to adopt any measures if the product is considered dangerous.

In order to adopt the corresponding administrative measures referred to in this regulation, a product is assumed to be dangerous when: (i) the product or the facilities where it is manufactured have not been granted the relevant authorisations or passed the preventive administrative controls to protect the health and safety of consumers and users. In particular, when the product does not bear the EC mark or any other compulsory safety mark when it ought to; (ii) the product does not contain the minimum information in order to identify its manufacturer; (iii) the product belongs to a batch of products of the same class or description in which a dangerous product has been detected.

In order to ensure product safety, this Royal Decree on product safety establishes several obligations for product manufacturers and importers. With regard to manufacturers, this Royal Decree establishes, *inter alia*, the following obligations: launch only safe products on the market; inform consumers of any potential risks inherent in a product's normal use and which cannot be detected immediately due to the nature thereof, and the conditions for the duration of the product and the market to which it is targeted; be informed of any potential risk inherent in the product and inform distributors thereof; adopt the necessary measures to avoid any risk when aware that a product placed on the market may pose such a risk; state its company name and other information on the product, etc. With regard to distributors, it establishes, *inter alia*, the obligation to distribute only safe products; the obligation to contribute to the compliance with safety regulations when storing, delivering and presenting a product; and the obligation to participate in the monitoring of the safety of the products placed on the market, etc.

Finally, the Royal Decree on product safety also contains the administrative measures, which the Administrative Authorities may apply when the provisions established in this regulation are breached.

Therefore, if a pirated product does not comply with the safety regulations established in this Royal Decree and is consequently considered dangerous, under the aforementioned regulation, the corresponding Administrative Authorities, on their own initiative or as a result of a consumer's complaint, may issue a warning to the manufacturers or distributors of such dangerous product to force them to comply with the safety obligations established in such regulation. If that warning is to no avail or even without having to issue such prior warning, the corresponding Administrative Authorities are entitled to adopt, *inter alia*, the following measures: (i) temporarily prohibit the delivery or proposed

delivery of the product, if there is circumstantial evidence that the product is dangerous; (ii) prohibit the product's launch on the market and other complementary measures, when the product is dangerous; and (iii) withdraw and destroy the product, if already launched on the market and is dangerous.

In order to adopt the above measures, an administrative procedure should be processed, during which it would be possible to adopt provisional measures such as freezing and recalling the product, suspension of activities, etc.

The measures established in this regulation can affect manufacturers; distributors, in particular, the party responsible for the initial distribution in Spain; service providers and any other person contributing to the risk or on whom the outcome of the risk and the fulfilment of the measures depend.

These measures are not punitive, and the adoption thereof is without prejudice to any possible criminal or administrative liability.

(b) Examples from the healthcare, electronics and automotive industries

Healthcare

With regard to healthcare safety regulations, Spanish Law 29/2006 on the Guarantees and Rational Use of Medicines and Medical Devices¹³ establishes, as a safety guarantee, that medicines, basic active ingredients and raw materials comprising the former, are subject to clinical and toxicological studies to ensure that they are safe in normal conditions of use and for the duration of the treatment.

In addition to these studies, this Law also establishes that any person applying for marketing authorisation must prove that it can adequately monitor the safety of the medicines subsequent to marketing, submit the necessary specific plans on pharmacovigilance and risk management, and undertake to implement and fulfil the same. Safety guarantees on medicines shall also include any risk inherent in the use thereof.

Under this Law, and without prejudice to personal liability, all authorities and healthcare professionals as well as pharmaceutical companies and wholesale traders are obliged to collaborate diligently on product safety knowledge. Furthermore, healthcare professionals, pharmaceutical companies and wholesale traders are under the obligation to notify healthcare authorities of any irregularities of which they are aware, pursuant to the provisions of this Law.

In addition, this Law also establishes the pharmacovigilance of medicinal products for human use, as a public health activity aimed at identifying, quantifying, assessing and preventing the risks associated with the use of these medicinal products, once marketed. The provisions of this Law on the pharmacovigilance of medicinal products are implemented by Royal Decree 1344/2007, regulating the pharmacovigilance of medicinal products for human use¹⁴. In accordance with this Royal Decree, and based on the assessment of pharmacovigilance data, the Spanish Drug and Health Product Agency may, *inter alia*, temporarily suspend or permanently revoke an au-

¹³ Spanish Law 29/2006 on the Guarantees and Rational Use of Medicines and Medical devices (*Ley 29/2006, de 26 de julio, de garantías y uso racional de los medicamentos y productos sanitarios*).

¹⁴ Royal Decree 1344/2007, regulating pharmacovigilance of medicinal products for human use (*Real Decreto 1344/2007, de 11 de octubre, por el que se regula la farmacovigilancia de medicamentos de uso humano*).

thorisation for a health product when, (*inter alia*) for any reason, it poses a foreseeable risk for the health or safety of individuals.

Lastly, any breach of a safety provision established in Law 29/2006 on the Guarantees and Rational Use of Medicines and Medical Devices, can be sanctioned. In that respect, this Law classifies breaches as minor, serious and very serious. Examples of what this Law construes as a very serious breach include, *inter alia*, counterfeiting a medicine, marketing a medicine without the corresponding authorisation, not filing safety reports or failing to notify the health authorities of the adverse results obtained in a clinical trial.

With regard to medical devices, Royal Decree 414/1996 regulating medical devices¹⁵ also contains provisions on the safety of such products. In that respect, this Royal Decree establishes several essential requirements, such as the obligation that medical devices be manufactured and designed in such a way so as not to affect patients' clinical status, health and safety when using such products in accordance with the conditions and for the purpose for which they are intended. Such medical devices must not pose a risk either to the people who use them or to third parties. According to this Royal Decree, medical devices can only be marketed when they contain the EC mark (although there are exceptions to this obligation for certain medical devices). The EC mark indicates that such medical devices comply with the essential requirements established in this Royal Decree and have passed the evaluation procedures.

With regard to healthcare protection measures, to ensure health and safety, this Royal Decree establishes that the competent healthcare authorities may adopt certain measures (such as seizing or freezing the products, suspending the activities, etc.) if a product (medicinal device) affects the health or safety of patients, users or third parties, according to the purpose for which it is intended. Finally, with regard to breaches, Royal Decree 414/1996 also contains a list of breaches classified as minor, serious and very serious. Examples of what this Royal Decree construes as very serious breaches include placing on the market medical devices which have not satisfied the evaluation procedures for such products, marketing medical devices which affect/undermine patients', users' or third parties' health or safety, and the inadequate installation or maintenance of medical devices in such a way that they could undermine patients', users' or third parties' health or safety.

Electronics

Electronics in Spain are protected as patents, pursuant to the provisions of the Patent Act. Particularly, with regard to telecommunication patents, the Spanish regulations follow the regulations and standardisation process approved by the European Telecommunication Standard Institute [ETSI] regarding the declaration of essentiality of patents for a particular technology standard.

¹⁵ Royal Decree 414/1996 regulating medical devices (*Real Decreto 414/1996, de 1 de marzo, por el que se regulan los productos sanitarios*). This Royal Decree does not apply to medical devices for in vitro diagnosis and active implantable medical devices, which are governed by specific Regulations, albeit strikingly similar.

Automotive industry

IP rights may be enforced, albeit indirectly, in accordance with Public Law regulations on product safety, by filing actions before the competent Administrative Authorities in relation to pirated products not complying with safety standards. Set out hereunder is a brief description of the applicable regulations establishing safety standards in the automotive industry.

Royal Decree 2028/1986, of 6 June ("**Royal Decree 2028/1986**"), implements Council Directive 70/156/EEC, of 6 February 1970, on the approximation of the laws of Member States relating to the type-approval of motor vehicles and their trailers. Its Annexes, listing the vehicles and their components and parts, have been successively updated by Ministerial Orders, the latest of which is dated 5 June 2008. Please note that this Ministerial Order updates the Annexes contained in Royal Decree 2028/1986 in view of Directive 2007/46/EEC, of 5 September, which substituted Directive 70/156/EEC.

Furthermore, the General Vehicle Regulation¹⁶ sets out the technical conditions that must be met by different types of vehicles to be registered or issued road clearance.

Finally, specific regulations exist for two or three-wheel motor vehicles: Directive 2002/24/EEC, of 18 March, on type-approval of these vehicles.

(c) Border measures; product piracy Regulation EC 1383/2003

The rules governing the procedure followed by the Spanish customs authorities are set out in European Community Council Regulation 1383/2003 and in European Community Commission Regulation 1891/2004¹⁷. Both Regulations provide a framework for the Spanish customs authorities to detain and seize pirated products.

The customs authorities' seizure of goods suspected of infringing intellectual property rights may be initiated: (a) *ex officio* by the customs authorities; or (b) as a result of admitting an "application for action" previously submitted by the patent holder or its legal representative before the Subdepartment of Customs Administration at the Department of Customs and Special Taxes ("*Subdirección General de Gestión Aduanera en el Departamento de Aduanas e Impuestos Especiales*").

If the customs authorities detain the goods *ex officio* as a result of any of the surveillance functions established in the relevant customs Regulations, such seizure will only last for a period of three (3) working days, during which time the patent holder must submit its "application for action" to the Subdepartment of Customs Administration. However, this type of *ex officio* seizure of goods suspected of infringing intellectual property rights is not normal or usual, especially if it is difficult for the customs authorities to identify pirated goods.

Should the requirements set out in the Regulations be fulfilled and the "application for action" be

¹⁶ Royal Decree 2822/1998, of 23 December, on General Vehicle Regulation (*Real Decreto 2822/1998, de 23 de diciembre, Reglamento General de Vehículos*), 1998.

¹⁷ European Community Council Regulation 1383/2003, of 22 July 2003, concerning customs actions against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights, and European Community Commission Regulation 1891/2004, of 21 July 2004, on the provisions for the implementation of Council Regulation 1383/2003.

granted, the Subdepartment of Customs Administration will order the seizure of the infringing products, and such order will be forwarded to the Spanish customs offices handling the import/export of the allegedly infringing goods.

Given that Article 4 of Regulation 1383/2003 does not require conclusive evidence of infringement, but only "sufficient grounds to suspect that goods infringe an intellectual property right", then the Spanish customs authorities may seize a particular pirated product, provided that there are "sufficient grounds to suspect" that this product falls within the scope of an intellectual property right. Therefore, this is a useful tool to combat product piracy.

If the Spanish customs office is satisfied that certain goods correspond to the description of the allegedly pirated products provided by the Subdepartment of Customs Administration, it will suspend the release of the goods or detain them.

The customs office will immediately inform the Subdepartment of Customs Administration thereof, which will, in turn, inform the patent holder and the party declaring at customs or the owner of the goods seized.

1.2.3 *Criminal Action*

(a) Public prosecution v. private prosecution

According to the Spanish Criminal Code, criminal offences against intellectual property rights are public crimes and, therefore, should be prosecuted *ex officio* by the Public Prosecutor even when no previous complaint has been filed by the offended party. The offended party is obviously also allowed to intervene in the criminal proceedings, since the Public Prosecutor does not have exclusive liability for these actions. In that respect, the prosecution of criminal offences against intellectual property rights is a duty for the Public Prosecutor, whereas it is a right for citizens.

From amongst the different Spanish criminal proceedings, criminal offences against intellectual property rights are judged in so-called "summary proceedings", in which prison sentences of less than 9 years may be imposed. During the summary proceedings, both the Public Prosecutor and the private prosecutor are active parties, gathering information to prepare the oral hearing and file the accusation against the accused (a sentence cannot be delivered if an accusation has not been filed).

(b) Search and seizure (including at trade fairs)

The exhibition of products infringing intellectual property rights at trade fairs frequently constitutes good grounds for the right-holder to file a complaint with the Spanish police. The damaged party provides information on the place where its products are displayed so that they can be seized. In many cases of the exhibition at trade fairs of products clearly infringing intellectual property rights, the Spanish Police acts *ex officio*.

No specific regulations on trade fairs are established in Spanish criminal law. Hence, the consideration of which acts regarding trade fairs should be considered as criminal offences

against intellectual property rights is made on a case-by-case basis.¹⁸

The penalty imposed for an intellectual property offence entails the loss of the goods seized and the destruction thereof. The Spanish Law on Criminal Procedure¹⁹ (Article 338) establishes the possibility of destroying the seized goods, but retaining sufficient samples, when they have been examined by experts, when necessary or appropriate due to the nature of the seized products or due to the real or potential danger of storing or holding them, after hearing the Public Prosecutor and the owner, if known, or the person in whose possession the products to be destroyed were found.

(c) Criminal liability and sanctions

The Spanish Criminal Code (Articles 270-277) classifies the conduct that could constitute a criminal offence against intellectual property. In criminal offences against copyright, profit making and damages caused to a third party must be proven in order to determine the existence of criminal liability.

With regard to patents, utility models, trademarks, plant variety names and geographical indications, two prerequisites must be met in order to determine criminal liability: (i) the rights must be registered; and (ii) the party found guilty must have knowledge of such registration.

Under the Spanish Criminal Code, the criminal sanctions for offences against intellectual property are prison sentences and monetary fines, which are cumulative. For these criminal offences, the penalty is six months to two years in prison and fines between twelve and twenty-four months (ranging from €2 to €400 per day).

The penalty is one to four years in prison and fines between twelve and twenty-four months when some of the following specific circumstances apply: (i) when the profit obtained is particularly relevant from a financial point of view; (ii) when the facts are particularly serious, taking into account the value of the objects unlawfully produced, or the special importance of the damages caused; (iii) when the guilty party belongs to an organisation or association, including of a transitory nature, the purpose of which is to perform activities that infringe intellectual property rights; and (iv) when minors are used to commit such offences. The Court can suspend the enforcement of prison sentences of less than two years.

The Court can also determine public liability derived from the offence, and sentence the accused to pay compensation for the loss and damage caused to the aggrieved party.

¹⁸ In a Judgment delivered by the Provincial Court of Barcelona, the Court acquitted the accused, who had exhibited protected products at trade fairs, on the grounds that it was not proven that the accused was aware of the unlawfulness of the exhibited products, because the accused was not professionally dedicated to the type of products displayed [WL JUR 2001\327724, Provincial Court of Barcelona, 25 September 2001].

In another case, the Court found that attending trade fairs in a certain commercial sector for years was evidence of being a trader and, therefore, proved the awareness of a certain well-known brand which had been infringed [WL JUR 2006\214542, Judgment n° 533/2005 delivered by the Provincial Court of Barcelona on 28 June 2005].

¹⁹ Royal Decree of 14 September 1882 on the Spanish Law on Criminal Procedure (*Real Decreto de 14 de septiembre de 1882, Ley de Enjuiciamiento Criminal*).

2. TRADEMARK PIRACY

2.1 *Legal requirements for trademark protection under the Spanish Trademark Act*

Pursuant to the provisions of § 2 and § 4 of the Trademark Act, trademarks in Spain are protected once they have been duly registered at the Spanish Patent and Trademark Office. Unregistered but well-known trademarks are also protected under § 6 of the Paris Convention for the Protection of Industrial Property. Trademark protection is only granted for signs that can be represented graphically, provided that such signs are capable of distinguishing one company's goods or services from those offered by another.

2.2 *Infringing behaviour*

Pursuant to the provisions of § 34 of the Trademark Act, infringing behaviour is defined as any use in trade, without the trademark holder's consent, of:

- (i) any sign identical to the trademark in relation to goods or services, which are identical to those for which the trademark is registered;
- (ii) any sign which, as a result of being similar to the trademark and the goods or services covered by the trademark and the sign being similar, gives rise to the likelihood of confusion on the part of the public, including the likelihood of association between the sign and the trademark; and
- (iii) any sign identical or similar to goods or services which are not similar to the goods or services covered by the trademark, when the trademark is well-known or famous in Spain and by using the sign, without just cause, a connection might be created between the goods or services and the trademark holder or, in general, when the use amounts to undue profit or the dilution of the distinctiveness of the trademark or of the well-known and famous nature thereof.

2.2.1 Deceit of origin

Deceit of origin, or likelihood of association, is a sub-category of likelihood of confusion, under § 34 of the Trademark Act. In accordance with the Supreme Court case law²⁰, the Spanish Courts usually apply a restrictive concept of deceit of origin, construed as the confusion that may be caused amongst consumers with regard to the origin of the goods or services, by misleading them into thinking that such goods or services are produced by the same company, or legally or commercially connected companies.

2.2.2 *Likelihood of confusion*

As a general criterion, in its case law the Spanish Supreme Court has laid down that the signs and trademarks in question must be examined and compared from a general or global perspective in order to ascertain the likelihood of confusion. Other criteria refer to taking into account the class of goods and services of the trademarks and signs to be compared, the first-impression analysis, and the predominance of word signs v. graphic signs, as the most relevant elements of comparison to be taken into account.

²⁰ GAL/GALMIX Supreme Court 22 October 1992.

2.2.3 *Transit as infringing behaviour (particularly focusing on the decision given by the European Court of Justice on 9 November 2006 "ECJ Diesel" (C-281/05))*

The Trademark Act does not specify whether customs transit may amount to infringing behaviour²¹. However, and contrary to the decision given by the European Court of Justice on 9 November 2006 in "ECJ Diesel" (C-281/05), one of the few Spanish Court decisions on the subject²² established that, albeit in a patent case, such custom transit and deposit in Spain of goods to be exported could in fact amount to infringing behaviour. In view of recent decisions given by the European Court of Justice, however, the Spanish Courts may review this doctrine.

2.2.4 *Accountability for on-line auctions*

The Information Society and Electronic Commerce Act²³ regulates the liability of Internet Service Providers in Spain with regard to the intermediary services they provide on the Internet. Particularly, § 16 of the Information Society and Electronic Commerce Act establishes that, unless the service provider has actual knowledge, or if it had actual knowledge and acted promptly to remove the illegal content, they will not be held liable for the information stored, at the request of a recipient of the service. However, neither legal doctrine nor case law is clear as to whether Internet Service Providers operating on-line auction services may be included in this category of liability exclusion or if they should be held liable directly with the direct infringer.

2.3 **Enforcement**

2.3.1 *Border measures*

Given that trademark piracy can be detected easily, the border measures provided for in European Community Council Regulation 1383/2003 and European Community Commission Regulation 1891/2004 are effective mechanisms to seize piracy products that infringe trademarks.

Therefore, the Sub-department of Customs Administration at the Department of Customs and Special Taxes (*Subdirección General de Gestión Aduanera en el Departamento de Aduanas e Impuestos Especiales*) has wide experience in detaining and seizing copies of trademarked products created without the trademark holders' consent.

2.3.2 *Measures on trade fairs*

There are no specific trade fair-related provisions regarding measures that right-holders can adopt during trade fairs to protect their IP rights. Therefore, the general mechanisms to be followed are those established in the Spanish Law on Civil Procedure and other relevant laws, such as the Trademark Act or the Patent Act, bearing in mind the relevant modifications introduced by Law 19/2006, of 5 June, implementing Directive 2004/48/EC on the enforcement of intellectual property rights ("**Law 19/2006**")²⁴. These regulations state that interventions may be requested and will be granted if certain conditions are met. Essentially, the right-holder has the following judicial mechanisms avail-

²¹ As opposed to the former Trademark Act i.e. Law 32/1988, of 10 December, on Trademarks [*Ley 32/1988, de 10 de diciembre de marcas*], which specifies that the mere transit amounted to infringing behaviour.

²² Provincial Court of Barcelona, 12 June 2001.

²³ Law 34/2002, of 11 July, on Information Society and Electronic Commerce (*Ley 34/2002, de 11 de julio, de servicios de la sociedad de la información y de comercio electrónico [LSSI]*), 2002.

²⁴ *Ley 19/2006, de 5 de junio, por la que se amplían los medios de tutela de los derechos de propiedad intelectual e industrial y se establecen normas procesales para facilitar la aplicación de diversos reglamentos comunitarios* [Law 19/2006], 2006.

able to protect IP rights during trade fairs:

1. Interim injunctions ("*medidas cautelares*"). Generally, the purpose of these interim injunctions is to obtain a Court order prohibiting the exhibition or offer for sale of specific products potentially infringing IP rights. In the case of trade fairs, the right-holder may ask the Court in advance to prohibit a specific product from being exhibited. If the interim injunctions are granted, the plaintiff must file a complaint within 20 days. Failing that, the injunctions will be rendered null and void, the plaintiff will bear the Court costs and the Court will hold it liable for the damages caused to the defendant.

2. Preliminary proceedings ("*diligencias preliminares*"). These proceedings offer the plaintiff the possibility of asking the defendant to provide certain information prior to the main proceedings. Law 19/2006 introduces the possibility of requesting access to financial, commercial, banking and customs-related documents, provided that the right-holder files at Court circumstantial evidence of the infringement of its IP rights -obviously, such circumstantial evidence shall be assessed on a case-by-case basis.

Preliminary proceedings could be useful to the right-holder if it wishes to obtain certain information on the products that a defendant is to exhibit at a trade fair. However, if the Court accepts the preliminary proceedings, the plaintiff must file a complaint within one month as of the date on which the defendant provides the information. Failure to do so without just cause will result in the right-holder losing the bond, which it had previously deposited at Court and which is required by law for the Court to process these proceedings.

3. Proceedings to verify facts ("*diligencias para la comprobación de hechos*"). These proceedings are established in the Patent Act, but also apply to trademark rights. The prerequisites for applying to these proceedings are stricter than for preliminary proceedings, because: (i) they require a higher levels of evidence of the alleged infringement; and (ii) they can only be applied for when the right-holder has no other means of ascertaining the infringement and obtaining evidence thereof.

Proceedings to verify facts consist of a Judge physically visiting previously-identified premises (in this case, the trade fair) to determine whether the samples, products, etc. inspected could, in fact, infringe the IP rights. As of the date on which the Judge provides the applicant with the information and documentation gathered during the inspection (this will only happen when the Judge finds that the said information and documentation prove the infringement), the right-holder has two months in which to file the complaint. Failing that, the outcome of the inspection cannot be used in subsequent proceedings.

Apart from these judicial mechanisms, right-holders may also request the presence of a Notary Public at a trade fair, so that the said Notary Public can certify, for example, that a specific product is exhibited at the fair. This Certificate may be used later as evidence in legal action.

In any case, right-holders do not frequently have recourse to this type of action for trade fairs, mainly due to timing. For example, in the case of the application for interim injunctions, a right-holder would need two or three weeks at the very least to obtain a decision from the Court to prohibit an exhibitor from promoting an allegedly infringing product at a trade fair in Spain. Therefore, it would need to know at least three weeks in advance that a potentially infringing product will be exhibited at a certain trade fair; however, in practice this does not always occur.

That did in fact occur in a case where HONDA MOTOR CO. LTD. (right-holder) applied for interim injunctions against a defendant which, most presumably, was going to exhibit a scooter that infringed a design right (also applicable to a trademark) held by the applicant during a trade fair in Barcelona in May 2006. In one of the very few cases in which the Courts have been able to hear this

kind of application for interim injunctions, in a Ruling given on 11 May 2006²⁵ Mercantile Court number 1 of Barcelona ordered the defendant to refrain from exhibiting the said scooter at the said trade fair.

2.4 *Legal consequences*

2.4.1 *Discontinuance*

Pursuant to the provisions of § 34 and § 41 of the Trademark Act, the trademark holder may ask the Court to give a decision (Interim Injunction or Judgment) ordering the discontinuance of the use of the infringing sign on the market. It may also ask the Court to adopt any specific measures to put an end to the infringing acts, such as the use on the market of any products, labels, packaging, advertising material or any other media displaying the infringing sign.

2.4.2 *Information*

As a result of the implementation of Directive 2004/48/EC of the European Parliament and of the Council, of 29 April 2004, on the enforcement of intellectual property rights, § 256 of the Law on Civil Procedure²⁶ was amended to introduce the possibility for an intellectual property right-holder to ask the Court, prior to filing an action for infringement, to grant preliminary proceedings to gather information on the names and addresses of the producers, distributors and suppliers of the potentially infringing goods, and their wholesalers and retailers, as well as any information on the number of goods produced or distributed and the amount of money paid for such products.

2.4.3 *Damages*

The trademark holder may seek compensation for damages, under § 43 of the Trademark Act, by opting for either of following two compensation criterions:

- (i) the negative economic consequences sustained, including, *inter alia*, loss of profit and the unfair profit made by the infringer. Moral damages may also be sought, even if no negative economic consequences are proven; or
- (ii) the amount of royalties that would have been due, had the infringer requested authorisation to exploit the trademark.

In any case, the trademark holder, without furnishing any proof, may request as damages a sum representing 1% of the infringer's total revenue derived from exploiting the trademark without authorisation. A higher amount may even be sought, if the holder proves that the damages exceeded the said 1%.

2.4.4 *Destruction*

Pursuant to the provisions of § 41 of the Trademark Act, the trademark holder may also request that the Court order the destruction of the infringing products or give them to charity, if appropriate. The Court may not, at its discretion, order the destruction of the infringing products if the infringing sign can be removed from the products or if the destruction of the products may cause disproportionate damage to the infringer.

²⁵ Ruling given by Mercantile Court n° 1 of Barcelona on 11 May 2006 in Proceedings 302/2006.

²⁶ Law 1/2000, of 7 January, on Civil Procedure (*Ley 1/2000, de 7 de enero, de Enjuiciamiento Civil*) [LEC], 2000.

2.4.5 *Recall*

Pursuant to the provisions of § 34 and § 41 of the Trademark Act, the trademark holder may ask the Court to issue a decision (Interim Injunction or Judgment) ordering the recall of the infringing products.

2.4.6 *Criminal sanctions*

Article 274 of the Spanish Criminal Code protects the distinctive signs of a company and its products and services, which means that trademarks and commercial names are protected in Spain, provided that: (i) they are previously recorded at the corresponding Registry (due to the fact that the rights over a trademark arise as of the date of registration); and (ii) the holder of the distinctive sign has not granted its consent for the exploitation thereof.

This Article 274 imposes a prison sentence of six months to two years, as well as a fine between twelve and twenty-four months (ranging from €2 to €400 per day), upon anyone who, for industrial or commercial purposes, without the consent of the holder of an intellectual property right registered in accordance with the Spanish law on trademarks, and aware of such registration, reproduces, imitates, modifies or in any other way exploits a distinctive sign which is identical to or may easily be confused with the intellectual property right, to distinguish the same or similar products, services, activities or establishments for which the intellectual property right is registered.

Likewise, the same penalties will be imposed on those who intentionally import such products without the said consent, whether they are of lawful or unlawful origin in their country of origin; nevertheless, importing the said products from an EU Member State will not be sanctioned when such products have been acquired directly from the holder of the rights in the said State, or with its consent.

Finally, the same penalties referred to above will be imposed upon anyone who knowingly possesses for marketing purposes, or puts on the market, products or services bearing distinctive signs which, as previously stated, infringe the holder's exclusive rights, even if these products are imported from abroad.

3. **PATENT PIRACY**

3.1 *Prerequisites for patent protection*

Reproducing the wording of Article 52 of the European Patent Convention, the Spanish Patent Act²⁷ establishes that inventions, including biological material, may be patentable, provided that they are novel, involve inventive step and are capable of industrial application. Discoveries, scientific theories, mathematical methods, literary, scientific and any other aesthetic creations, rules and methods for performing intellectual activities, playing games or doing business, computer programmes or the manner in which information is presented are not patentable. Inventions whose publication or use would be contrary to public order or good practice cannot be patented either.

It is not possible to obtain a patent for an invention if it is a new animal or plant variety, a method for treating the human or animal body by surgery or therapy, or a method of diagnosis.

²⁷ Spanish Patent Act 11/1986, of 20 March.

Some of the following processes cannot be patented: processes for cloning human beings or for modifying the germ line genetic identity of human beings and uses of human embryos for industrial or commercial purposes, amongst others.

3.1.1 *Service inventions*

Under the Spanish Patent Act, service inventions are those inventions arising as a result of research, which explicitly or implicitly constitute the subject-matter of a contract between an employer and an employee.

In those cases, the employer will be the owner of the invention discovered by the employee. The employee, who will be regarded as the inventor, will not be entitled to earn additional remuneration for his/her achievement, except where his/her personal contribution to the invention and its importance to the company exceed the explicit or implicit terms of the employee's contract, work or service.

All other inventions will belong to the inventor employee, provided that: (i) the invention is not related to his/her professional activity; (ii) knowledge gained within the company has not had a decisive influence on the invention; and (iii) the employee has not used means provided by the company in the invention. If so, the employer will be entitled to claim ownership of the invention or reserve the right to use it, and the employee will receive equitable financial remuneration.

Similar provisions, albeit containing special features, apply to: (i) civil servants, and State employees and workers; and (ii) University professors. The latter, who shall be considered as the authors of the inventions, will be entitled to a share in the profits obtained by the University as a result of the achievement.

3.1.2 *Securing rights in the context of cooperation with third parties*

If various parties discover an invention, Article 10 of the Spanish Patent Act establishes that such parties shall jointly be entitled to obtain patent protection. However, if different parties discover the same invention separately, the party who first files the invention with the Spanish Trademark and Patent Office shall be entitled to patent the invention.

In order to secure rights where the patent applicant is not the sole inventor, Article 23 of the Spanish Patent Act requires that a declaration stating how the applicant acquired the right to the patent must accompany the patent application.

3.1.3 *Licence agreements*

The Spanish Patent Act contains several provisions regulating the contents and effects of licence agreements, including licences of right and compulsory licences.

Depending on the nature of the licence agreement, in Spain, such agreement has adopted the form of a services agreement (as opposed to the supply of goods) pursuant to the provisions of the Civil Code.

Another relevant point to be considered in this area, is the subject-matter of the agreement itself, which can either be a patent or a patent application and, in the latter case, the difficulties that might arise must be expressly foreseen by the parties.

The general rule is that, unless otherwise agreed by the parties: (i) licensees are not free to assign or sub-license the invention to third parties; and (ii) the licence will be non-exclusive, leaving the licensor free to license the same invention to other parties.

The parties' obligations are also stipulated in the Law, especially those regarding the licensor, including the licensor's: (i) liability for eviction (or its responsibility for the lack of the necessary ownership over the patent or patent application, which is the subject-matter of the licence); (ii) liability for any defects inherent in the patented invention, distinguishing the conditions and scope thereof; and (iii) its controversial obligation to communicate the necessary teachings and knowledge for the adequate exploitation of the invention²⁸.

Furthermore, the licensee's obligations mainly focus on: (i) the payment of the royalties or price established; (ii) the obligation to exploit the invention; (iii) a series of obligations relating to how to exploit the invention; and (iv) other obligations, such as the obligation to comply with certain rules on quality or on acquiring certain products or services from certain suppliers.

Furthermore, one of the most relevant subjects to be covered in licence agreements, which is also regulated in the Spanish Patent Act, is the delimitation of the territorial area of the licence, which is also regulated in Article 85.3 of the EU Treaty on technology transfer agreements.

In addition, within the context of intellectual property rights, depending on the registration at the relevant Registry, licences for patents and patent applications shall not take effect *vis-à-vis bona fide* third parties, unless filed at the Spanish Patent and Trademark Office.

3.1.4 *Technology transfer agreements*

When analysing this type of agreement, three different aspects should be taken into account: (a) contractual; (b) intellectual property rights-related issues; and (c) competition law-related matters.

Firstly, from a contractual point of view, this type of agreement is defined as an agreement whereby a company transfers or licenses the use of technical know-how and/or intellectual property rights to another company. In Spain no specific law regulates this type of agreement, other than competition law-related matters. And, in general, these agreements also include an assignment or licence for use, either exclusive or non-exclusive, over: (i) patents; and/or (ii) know-how; and/or (iii) copyright over software. It is also common for the subject-matter of the agreement to include complementary services such as staff training and technical assistance after the assignment has been executed, as well as the assignment of technical equipment.

Secondly, the characteristic mutual obligations incumbent on the licensor of technology, know-how and/or intellectual property rights and on the licensee, albeit not expressly established by law, are generally imported from the specific regulation governing patent licence agreements (Chapter II of the Spanish Patent Act), as stated in the previous sub-section, save the provisions on non-exclusivity and the prohibition to sub-license, unless expressly established by the parties, and other specific patent-related provisions.

From the point of view of intellectual property rights, we must also refer here to the previous sub-section. In cases where the technology transfer agreement involves the licence of patent(s) and/or patent application(s), the specific provisions laid down in Chapter II of the Patent Law apply.

²⁸ Article 76 of the Spanish Patent Act.

Finally, technology transfer agreements are also governed by certain EU competition rules²⁹ and by Spanish Law 15/2007, of 3 July, on the Defence of Competition, which is equivalent to Article 81 of the EU Treaty (exemptions per category).

3.1.5 *R&D agreements*

The most common R&D Agreements in Spain are those entered into between Universities and companies, whereby the latter commission the former (one or several of its lecturers or teachers) to carry out research on a certain subject. This type of agreement is not specifically regulated in Spanish law.

Depending on the nature of the agreement, most scholars agree that it is an agreement involving an obligation of means and not of results, according to the classification established in the Spanish Civil Code. That means that the professors in charge of carrying out the research are under the obligation to observe certain standards of diligence when engaging in their activities, but will not be liable for the outcome of such research, and will be under no obligation to obtain specific results from their work.

Furthermore, with regard to termination of contract, both parties are usually free to terminate the contract by mutual agreement and, also, the company may unilaterally terminate it at any time during the term of the agreement, without having to justify the same. In addition, a company unilaterally terminating an R&D Agreement will be under no obligation to compensate the University for early termination of contract, unless such termination were inconvenient, e.g. if the University had refused to enter into another R&D Agreement with one of its competitors.

R&D Agreements do not necessarily always contain IP-related clauses, assigning the ownership of the IP rights inherent in the research. In such cases, where no express IP-related clause exists, the ownership thereof would depend on the parties' intentions, derived from the other clauses in the agreement. For instance, if the outcome of the research requested by companies were patentable, the company would have preference to file the corresponding patent applications, and the University researchers would appear as the inventors.

The most common clauses in R&D Agreements are those regarding: (i) the execution of the work (submission of periodical reports and a final report, all of which are confidential); (ii) financial contribution and payment conditions; (iii) mutual liability; (iv) knowledge and IP Rights, prior and subsequent; (v) confidentiality, publicity and information on the result, exploitation and marketing; (vi) entry into force and term of the agreement; (vii) termination; and (viii) governing law (in the case of international agreements) and competent Courts in the event of a dispute.

3.2 *Infringing behaviour*

3.2.1 *Direct and indirect patent infringement*

A patent confers upon its holder the right to prevent any third party, without its consent, from:

- (i) manufacturing, offering, putting on the market or using a product, which is the subject-matter of the patent, and from importing or possessing the same for any of the aforementioned purposes;

²⁹ Article 81 of the EU Treaty; Regulation 772/2004 on the Transfer of Technology; Regulation 2790/1999 on Vertical Agreements; Regulation 2658/2000 on Specialization Agreements; Regulation 2659/2000 on R&D Agreements and Regulation 1/2003 on the application of Articles 81 and 82 of the EU Treaty.

- (ii) using a process, which is the subject-matter of the patent, or offering the said use when the third party knows, or it is obvious from the circumstances, that the use of the process is prohibited without the patent holder's consent; and/or
- (iii) offering, putting on the market or using the product directly obtained following the process, which is the subject-matter of the patent, or from importing or possessing the said product for any of the aforementioned purposes.

The patent also confers upon its holder the right to prevent any third party, without its consent, from supplying or offering to supply to a person not entitled to work the invention, any means, relating to an essential element of the invention, for putting the invention into effect, where such third party knows, or it is obvious from the circumstances, that such means are suitable and intended for putting the invention into effect.

The following prerequisites must be met for indirect patent infringement to exist:

- (i) the third party must know, or it must be obvious from the circumstances, that the elements are capable of putting the invention into effect and are intended for that purpose; and
- (ii) the said elements must not be products commonly found on the market.

3.2.2 *Doctrine of Equivalence*

Spanish Courts have clarified that a patent's scope of protection is not limited to the literal wording of its claims, supported by the description and the drawings. On the contrary, it includes secondary, unessential and unsubstantial elements, and alternative processes for its invention, which would have been foreseen by a person skilled in the art, and accept the so-called "Doctrine of Equivalence", the purpose of which is to avoid circumventing the patent's scope of protection merely by varying unessential secondary elements of the patented invention.

The Doctrine of Equivalence was first applied by the Supreme Court in the late '60's³⁰. Thereafter, the criterion of "unsubstantiability" of differences has applied, consisting of assessing the infringement with regard to the existence or non-existence of "essential differences" between the patented invention and the alleged infringement. The difference between them will be essential when the variation affects an essential element of the patent and not a secondary or complementary element.

Since 2000, Section 15 of the Provincial Court of Barcelona, which specialises in patent cases, has defined the scope of the Doctrine of Equivalence in different judgments.

With regard to mechanical patents, in a Judgment delivered on 18 September 2006, Section 15 of the Provincial Court of Barcelona abandoned the "unsubstantial differences" criterion due to the practical difficulties inherent therein, to apply the "substantial triple identity test", concluding that a characteristic falls within the scope of protection of an earlier patent if it substantially performs the same function, substantially in the same way and substantially produces the same result as the invention claimed in the earlier patent.

With regard to pharmaceutical process patents, in its recent Judgment delivered on 17 January 2008, Section 15 of the Provincial Court of Barcelona confirmed that the "3-questions test", traditionally applied by the English Courts (the so-called "Catnic" questions), apply to ascertain whether or not a process is "equivalent" to a patented process:

³⁰ Judgment delivered by Section 3 of the Spanish Supreme Court on 10 July 1968.

- 1) “Does the variant alter the functioning of the invention?” If the answer is affirmative, equivalence does not exist. However, if the answer is negative, and the functioning is not altered, it is necessary to answer the next question.
- 2) “Would the variant have been obvious to a person skilled in the art who read the patent on the date on which it was published?” If the variant were not obvious, then equivalence would not exist. However, if the answer is affirmative, the next question needs to be asked.
- 3) “Would the person skilled in the art who read the patent have understood, given the terms used in the claim, that the patent holder intended, as an essential prerequisite of the invention, that it be subject to the strict wording thereof?” If so, equivalence would not exist. However, if following the literal wording were not essential, the variant could be equivalent.

3.2.3 *Transit as infringing behaviour*

The Spanish Patent Act does not expressly state whether a patent confers upon its holder the right to prevent third parties from putting a product “in transit” on Spanish territory.

In its Judgment delivered on 12 June 2001, Section 15 of the Provincial Court of Barcelona declared that the transit of patented goods constitutes patent infringement.

In order to draw this conclusion, the Provincial Court made a contextual interpretation of the Patent Act in view of the former Trademark Act, which entitled the trademark holder to prohibit, in particular, the “import and export of the products, or subjecting them to any customs regime such as, for example, transit or deposit”, invoking “identity reasons in the protection of intellectual property” to construe Article 50 of the Spanish Patent Act as the patent holder’s right to prohibit the transit of a patented product.

3.3 *Legal consequences*

3.3.1 *Discontinuance*

If an act of infringement were deemed to have been committed in Spain, the company that performed the same would be ordered to cease and desist from engaging in the infringing activity whilst the patent is in force.

3.3.2 *Information*

The patent holder is entitled to request: (i) the publication of the Judgment finding the infringer guilty of patent infringement in different media, at the infringer's expense (i.e. specialised journals and press, or even in the mass media); and (ii) that notice of the Judgment finding the infringer guilty of patent infringement be served upon any interested persons or authorities, also at the infringer's expense.

3.3.3 *Damages*

The patent holder is entitled to obtain compensation for any damages sustained as a result of the infringement of its patent, including: (i) the loss and damage sustained by the patent holder as a result of the infringement (i.e. damage to its good name and its relationship with clients, and damage to the good reputation of the patented invention, for example, as a result of defects in the infringer's product or inadequate marketing); and (ii) income not earned because of the infringement.

Under the Patent Act, the patent holder is entitled to opt for one of the following criteria to evaluate the unearned income:

- (i) the income the patent holder could foreseeably have earned from manufacturing and selling the patented invention had no competition existed from the company infringing its rights; and the profits made by the infringing party from manufacturing and selling the patented invention; or
- (ii) the amount the infringing party ought to have paid the patent holder for a licence in order to exploit the patent lawfully, i.e. a royalty.

In fixing this amount, special consideration will be had to certain factors, for example, the economic importance of the patented invention and the remaining term of the patent when the infringement commenced.

The patent holder's right to compensation, and the amount to be paid by the party engaging in the acts of infringement prior to the patent's expiry date, will, of course, depend on the specific acts performed by the infringer.

The party manufacturing or importing pirated products or using patented processes without the patent holder's consent, will be held liable for the damages caused.

In addition, persons who, whilst not manufacturing or importing the product, otherwise work with the subject-matter protected by the patent, will only be held liable for compensation for the loss and damage caused if the patent holder has notified them in advance, of the existence of the patent in question and their infringement thereof, and has asked them to cease such infringement, or if their actions were wilful or negligent.

The prescription time limit for bringing a civil action for patent infringement is five years as of the date on which that right could have been exercised. The patent holder can only claim for loss and damage for acts performed during the five years immediately prior to the date on which the action is brought³¹.

3.3.4 *Destruction*

If possible, the infringing product can be seized, at the patent holder's request, in which case the value of the product would be deducted from the amount of damages awarded. If the value exceeds the amount of damages awarded, the patent holder will pay the excess amount to the infringer.

The infringing products may also be destroyed, when that is essential to prevent the patent infringement.

In the context of border seizures, once it has been confirmed that the products seized by the customs authorities infringe third parties' patent rights, the customs authorities will be entitled to destroy the said goods or dispose of them outside commercial channels in order to preclude injury to the right-holder. In such cases, the infringer will not be entitled to compensation. The exchequer will not meet

³¹ Article 64 of the Spanish Patent Act.

the cost of the destruction of the goods³². When a Judgment orders the destruction of goods found to be pirated products, the infringer must destroy the goods during the enforcement of Judgment. Failing that, the executor (i.e. the patent holder) will be entitled to: (i) request that a third party destroy the goods on its behalf; or (ii) seek compensation for damages. In that case, the infringer will meet the cost of destroying the infringing goods³³.

3.3.5 *Recall*

Spanish Courts find that an order to cease and desist from engaging in infringing activity implicitly includes the order to withdraw the infringing product from the market within a reasonable period of time. Otherwise, it would be easy to circumvent a cease and desist order by putting the infringing product on the market before a Judgment is enforced. Furthermore, the Spanish Law on Civil Procedure establishes that the offender should undo what it has unlawfully done.

3.3.6 *Criminal sanctions*

The rights over inventions and technological innovations and, in particular, the rights arising from patents, utility models, industrial or artistic models, drawings and topographies of semiconductor products are protected under Article 273 of the Spanish Criminal Code. Secret patents have separate criminal protection under Article 277 of the same Code.

For patent and utility model rights to be protected under Article 273 of the Spanish Criminal Code, the invention or innovation must be recorded at the corresponding Registry (since patents and utility models generate exclusive rights only as of the date of registration), and the holder of the patent or utility model must not have granted its consent to the exploitation thereof.

Article 273 of the Spanish Criminal Code, referring to patents and utility models protecting an object, establishes that anyone who manufactures, imports, possesses, uses or offers the protected object or puts it on the market, for industrial or commercial purposes, without the right-holder's consent and in the knowledge of the registration thereof, is committing a criminal offence against patent rights or utility model rights and is, therefore, liable to be sentenced to six months' to two years' in prison and a daily fine between twelve and twenty-four months.

The same penalties will be imposed upon anyone who, also for those purposes, uses or offers the use of a process, which is the subject-matter of a patent, or possesses, offers, puts on the market or exploits the product directly obtained using the patented process. Under the Spanish Patent Act, the holder of an intellectual property right may prohibit third parties from engaging in these punishable acts.

Secret patents are separately protected under Article 277, which establishes prison sentences of six months to two years and a fine between six and twenty-four months (ranging from €2 to €400 per day) imposed upon anyone who intentionally discloses the invention, which is the subject-matter of a secret patent application, in breach of the provisions of patent law, provided that that is to the detriment of national defence.

³² Article 17 of the European Community Council Regulation 1383/2003, of 22 July 2003, concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights.

³³ Article 706 of the Spanish Law on Civil Procedure 1/2001, of 7 January.

4. KNOW-HOW PIRACY

4.1 *Know-how as a trade secret*

Know-how comprises any knowledge or information which is not common knowledge, and which is required: (i) to manufacture or market a product; (ii) render a service; or (iii) organise a business unit or office, since know-how provides its holder with an advantage over its competitors³⁴. Know-how is, therefore, information that can be used to solve certain technical and business problems.

The term "*trade secret*" is not legally defined. However, Spanish case law establishes the following prerequisites to be able to consider know-how as a "*trade secret*"³⁵:

a) Information must be secret

Information is secret when a third party is interested in, but has no knowledge of, the information, either in whole or in part. The fact that few people know this information, when such people are: (i) related to the company (thus explaining how they know the secret); and (ii) subject to a general undertaking to keep the information confidential or to a contractual obligation of secrecy, does not undermine the secrecy of the information.

Information comprising an individual's ability, capacity and professional experience, or knowledge and relations with clients is not considered secret³⁶, even when such ability, capacity and experience have been acquired as a result of performing certain duties.

b) Information must entail a competitive edge

Competitive edge is the advantage that the owner of the information has when using such information *vis-à-vis* companies which do not know the same³⁷. The status of information as a trade secret does not depend on the high or low economic value of the trade secret *per se*, but on the competitor's knowledge and the possibility of it obtaining a profit by exploiting such information.

c) The holder of the information must take steps to keep the information secret

Whether the information is obtained as a result of a contractual relationship or unlawfully, the use of the same will not be considered as unfair competition, unless the owner of the business information has taken the appropriate steps to keep it secret: (i) both externally (preventing third parties from accessing the information); and (ii) internally (whereby only employees may access the information they need to know to perform their duties).

³⁴ WL RJ 2005\8274, Judgment n° 754/2005 delivered by the Supreme Court, Civil Chamber, on 21 October 2005 and WL RJ 1979\3459 Judgment delivered by the Supreme Court, Civil Chamber, on 24 October 1979.

³⁵ WL AC 2006/365, Judgment n° 443/2005 delivered by the Provincial Court of Barcelona, Civil Chamber, on 26 October 2005; WL AC 2004/2199, Judgment n° 506/2004 delivered by the Provincial Court of Barcelona, Civil Chamber, on 26 November 2004 and WL AC 2003/1868 Judgment delivered by the Provincial Court of Barcelona, Civil Chamber, on 21 December 2001, *inter alia*.

³⁶ WL RJ 2007/6805, Judgment n° 1032/2007 delivered by the Supreme Court, Civil Chamber, on 8 October 2007, and WL AC 2006/365, Judgment n° 443/2005 delivered by the Provincial Court of Barcelona, Civil Chamber, on 26 October 2005.

³⁷ WL AC 2004/202 Judgment delivered by the Provincial Court of Barcelona, Civil Chamber, on 14 January 2003 and WL AC 1998/1455, Judgment n° 133/1998 delivered by the Provincial Court of Navarra, Civil Chamber, on 10 June 1998.

4.2 *Measures to protect know-how*

Under Spanish law, the owners of know-how may protect it by implementing various measures, which can be classified as either: (i) contractual; or (ii) practical, designed to control the access to and the use of such know-how.

A. *Contractual measures*

1. Confidentiality clause

Although some individuals have a legal duty of secrecy³⁸ inherent in their duties, an effective measure for protecting know-how is to include a confidentiality clause in contracts entered into with employees, collaborators, suppliers and any other individuals who may have access to the know-how. The contents of such clause are not legally defined. Hence, the clause must be freely agreed by the parties. In any case, it is clear that such clause should guarantee that the individual who will have access to the know-how keeps the information secret and does not misuse it for his/her own profit, during the term of the contract and upon termination thereof³⁹.

2. Confidentiality agreement

It is usual for parties to sign a confidentiality agreement when negotiating the acquisition of a company, or in the framework of the joint development of new software, technology, etc. The contents of such agreement are not legally defined. Hence, it must be freely agreed by the parties⁴⁰. However, due to the complexity of such transactions, confidentiality agreements usually contain rather specific obligations, such as: (i) using the information provided exclusively for the purposes intended; (ii) returning all documentation and media containing confidential information after the transaction has been closed; (iii) refraining from confirming or refuting information from third parties, which is consistent with or contrary to the information exchanged; (iv) taking the necessary steps to ensure that the parties' representatives and employees fulfil any obligation imposed upon them, etc.

In addition, confidentiality agreements are advantageous, from a litigation point of view, with regard to taking unfair competition action. The statute of limitations for bringing civil actions for the breach of a confidentiality agreement expires after 15 years, compared to 1 or 3 years for unfair competition actions⁴¹. Furthermore, it is only necessary to prove a breach of contract and not the subjective element of the unfair competition acts (i.e. to obtain a profit personally or for a third party, or to cause damage to the owner of the confidential information).

³⁸ This is the case for employees (Workers' Statute [*Real Decreto Legislativo 1/1995, de 24 de marzo, por el que se aprueba el texto refundido de la Ley del Estatuto de los Trabajadores*], 1995, § 5, ¶ a), top executives and company directors (Spanish Companies' Act [*Real Decreto Legislativo 1564/1989, de 22 de diciembre, por el que se aprueba el texto refundido de la Ley de Sociedades Anónimas*], 1989, § 127, ¶ quater, and Limited Liability Companies' Act [*Ley 2/1995, de 23 de marzo, de Sociedades de Responsabilidad Limitada*], 1995, § 61, ¶ 2).

³⁹ WL AC 1998/1455, Judgment n° 133/1998 delivered by the Provincial Court of Navarra, Civil Chamber, on 10 June 1998.

⁴⁰ According to the general principles and rules of the Spanish Civil Code ("*Real Decreto de 24 julio 1889 por el que se aprueba el Código Civil*") and the Spanish Commercial Code ("*Real Decreto de 22 de agosto de 1885 por el que se publica el Código de Comercio*").

⁴¹ Spanish Civil Code ("*Real Decreto de 24 de julio de 1889 por el que se aprueba el Código Civil*"), 1889, § 1,964 and Spanish Unfair Competition Act ("*Ley 3/1991, de 10 de enero, de Competencia Desleal*"), 1991, § 21.

B. *Practical measures*

In order to keep its know-how secret, the owner can implement the appropriate practical measures not only: (i) to prevent third parties from gaining access thereto; but also (ii) to ensure that only employees and collaborators who need to gain access and use such know-how to perform their duties, do so.

Some of the many practical measures that an owner may adopt to protect its know-how include: (i) security access controls for certain premises; (ii) use of passwords required to access certain confidential information; (iii) conservation of relevant materials in restricted-access areas; (iv) appropriate warnings placed on documents or materials; (v) advisories stating that certain information or documents are confidential and must be returned if the user is not the intended recipient; (vi) preventing copies of information from being made using USB or similar devices, etc.

4.3 *Know-how piracy as unfair competition*

The Spanish Unfair Competition Act⁴² establishes that the disclosure or exploitation, without the owner's consent, of trade secrets, access to which has been gained lawfully but under a duty of secrecy, is considered as unfair. The acquisition of trade secrets using espionage or similar methods is also considered as unfair. In addition, trade secrets must have been breached in order to obtain a profit personally or for a third party, or to cause damage to the owner of the secret.

a) Disclosure or exploitation of trade secrets, without the owner's consent

"*Disclosure*" includes the communication of the information through any media, which allows for such information to be re-used at a later date. The party obtaining the trade secret will perhaps disclose such information to: (1) the general public; or (2) a specific individual who is not authorised to know the business information. "*Disclosure*" exists even if the recipient of the secret does not earn a profit from exploiting it. "*Exploitation*" is the use of the secret information to obtain an advantage for any purpose or in any manner.

b) Lawful access to trade secrets but under a duty of secrecy

Access to information is considered lawful when such access is permitted and agreed by the parties. Duty of secrecy should be construed as the obligation incumbent on the parties to keep the information confidential, without permitting third parties to gain access thereto.

c) Acquisition of trade secrets using espionage or similar methods

Industrial espionage or similar methods include all acts of misappropriation of trade secrets, both the media containing the confidential information and the information itself, obtained using the appropriate technical means (photograph, photocopy, scanner, etc.) or not, by individuals not authorised by the owner of the trade secrets.

d) Trade secrets must have been breached in order to obtain a profit personally or for a third party, or to cause damage to the owner of the secret

The Spanish Unfair Competition Act requires a subjective element to consider conduct as unfair, i.e. that trade secrets must have been breached in order to obtain a profit personally or for a third party, or to cause damage to the owner of the secret. Therefore, the acquisition, disclosure or exploitation

⁴² Spanish Unfair Competition Act ("*Ley 3/1991, de 10 de enero, de Competencia Desleal*"), 1991, § 13.

of trade secrets does not *per se* constitute an act of unfair competition, unless that is the underlying purpose thereof.

An individual's acts, which cumulatively meet such legal requirements, may be considered as acts of unfair competition as a result of a breach of trade secrets⁴³. In that case, the Spanish Unfair Competition Act makes various legal actions available for the owner of the trade secret: (i) declaratory action, stating the unfairness of the act; (ii) actions for the cessation of the unfair act or for the prohibition thereof, if not yet implemented; (iii) actions to remove the effects produced by the act; (iv) actions seeking compensation for the loss and damage caused; and (vi) actions for unfair enrichment.

4.4 *Criminal sanctions*

The Spanish Criminal Code protects trade secrets under Articles 278 and 279, which establish the sanctions for criminal offences against such trade secrets.

Indeed, Article 278 of the Spanish Criminal Code, referring to the obtaining of data or objects to discover a trade secret, establishes a prison sentence of two to four years and a fine payable over twelve to twenty-four months (ranging from €2 to €400 per day) for anyone who obtains, for that purpose and through any means, data, written or electronic documents, computer programmes or other objects relating thereto. This conviction will be higher -in particular, a prison sentence of three to five years and a daily fine payable over twelve to twenty-four months- when the person found guilty spreads, discloses or passes on the discovered secrets to third parties. In addition, these penalties will apply, without prejudice to any other sanctions that may be imposed for obtaining or destroying the computer programmes.

For its part, Article 279 of the Spanish Criminal Code, on the spreading, disclosure or passing on of trade secrets, establishes that anyone legally or contractually bound to maintain the confidentiality of a trade secret who is found guilty of spreading, disclosing or passing on the trade secret, will be sentenced to two to four years in prison and a daily fine payable over twelve to twenty-four months. In that respect, it should be noted that the sanctions would be applied at a rate of 50% when the guilty person uses the secret for personal profit.

5. MUSIC, FILM AND SOFTWARE PIRACY

5.1 *Substantive requirements for protection*

Article 10.1 of Legislative Royal Decree ("*Real Decreto Legislativo*") (RLD) No. 1/1996 establishes that copyright protection covers all original literary, artistic or scientific creations, expressed through any means or in any medium, tangible or intangible, known at present or invented in the future⁴⁴. This Article stipulates the two substantives requirements for a work to enjoy copyright protection: (i) a form of expression; and (ii) the originality of that form of expression.

⁴³ However, in some cases in which not all of these prerequisites are met, some Judgments have considered the acts as unfair on the grounds that they breach the general principle of good faith (Spanish Unfair Competition Act [*"Ley 3/1991, de 10 de enero, de Competencia Desleal"*], 1991, § 5). In that respect, WL RJ 2007/6805, Judgment n° 1032/2007 delivered by the Supreme Court, Civil Chamber, on 8 October 2007 and WL RJ 2007/262, Judgment n° 1169/2006 delivered by the Supreme Court, Civil Chamber, on 24 November 2006.

⁴⁴ Article 10.1 of RLD No. 1/1996 contains a non-limitative (illustrative and non-exhaustive) list of such works ("*musical works, with or without words*", "*motion pictures and any audiovisual works*" and "*computer programs*" are types of works specifically mentioned).

There are no formal requirements for the protection of copyright works. Therefore, the recording of a work at the Intellectual Property Registry is always declarative (voluntary) and does not constitute a requirement for protection (Article 145 of RLD No. 1/1996)⁴⁵.

As well as copyright, reference must also be made to rights related to copyright ("*Droits Voisins*" or Neighbouring Rights). This term is used to refer, *inter alia*, to the Rights of Artists (Interpreters or Performers), Producers of Sound Recordings, Producers of Audiovisual Recordings and Broadcasters. Each one gives rise to a production warranting protection, without having to meet the prerequisite of originality or registration.

5.2 *Infringing behaviour*

A copyright-holder's rights are infringed when, without the holder's consent, a third party performs an act requiring such consent. Thus, the use of a work protected by copyright falling within the scope of the rights granted under Article 17 RLD No. 1/1996⁴⁶ shall constitute an act of copyright infringement. With regard to rights related to copyright, any third party performing an act of reproduction, distribution or communication to the public of the subject-matter of a Related Right, without the holder's consent, shall also commit an act of infringement⁴⁷.

Finally, specific provisions are established in the Organic Law on the Criminal Code ("CC") with regard to piracy. In particular, Article 270 CC states that: "*1. Any person shall be punished with a prison term of six months to two years or a fine of six to 24 monthly units [ranging from €2 to €400 per day] who, with gainful intent and to the detriment of third parties, reproduces, plagiarizes, distributes or communicates to the public all or part of a literary, artistic or scientific work or transformation or artistic performance thereof fixed in any kind of material or communicated by any medium, acting without the authorisation of the holders of the corresponding intellectual property rights or their licensees*".

5.2.1 *Copy for private use*

Pursuant to the provisions of Article 31.2 RLD No. 1/1996, the reproduction in any medium of a disclosed work (excluding computer programmes and databases) shall not require the author's consent, if performed by a natural person for his/her private use, and provided that the copy is not used for either collective or gainful purposes, without prejudice to the fair compensation provided for in Article 25 RLD No. 1/1996.

⁴⁵ Nevertheless, works created prior to 7 December 1987 must be recorded at the Intellectual Property Registry.

⁴⁶ According to Article 17 RLD No. 1/1996 "*The author is invested with the exclusive exercise of the rights pertaining to the exploitation of his work in whatever form and especially the rights of reproduction, distribution, communication to the public and transformation, which may not be exercised without his authorization, except where this Law so provides*".

⁴⁷ See Articles 107 to 109 of RLD No. 1/1996 with regard to the rights of artists; Articles 115 to 117 of RLD No. 1/1996 with regard to the rights of the producers of sound recordings; Articles 121 to 124 of RLD No. 1/1996 with regard to the rights of the producers of audiovisual recordings; and Article 126 of RLD No. 1/1996 with regard to the rights of broadcasters.

5.3 ***Enforcement***

5.3.1 *Search and seizure – private persons*

Without prejudice to criminal sanctions (see 6.4.6), the holder whose copyright or rights related to copyright have been infringed may file civil proceedings or apply for interim injunctions to restrain the unlawful activity committed by the infringing party, either a natural or private person. In particular, the holder may seek the adoption of the necessary measures to prevent the continued infringement of its rights, including the search for and seizure of the copies produced or used infringing its rights, as well as any means (equipment, devices and materials) used for such production. The holder can also seek the destruction of the objects or means seized, in order to prevent such infringement (see 6.4.4).

5.3.2 *Duty of disclosure of on-line providers*

According to the Judgment delivered by the European Court of Justice (ECJ) on 29 January 2008 (C-275/06; *Promusicae v. Telefónica*) European law "does not require member states to lay down an obligation to disclose personal data in the context of civil proceedings". In that case, that was referring to the duty of disclosure of the Internet Service Provider *Telefónica*. Under Spanish Law, *Promusicae* had asked that company to disclose the names and addresses of the users who allegedly infringed copyright songs via the p2p software "KaZaA". Mercantile Court No. 5 of Madrid asked the European Court of Justice for the interpretation of Directive 2000/31/EC of the European Parliament and of the Council, of 8 June 2000, on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, on this matter. In its Judgment, the ECJ found that although "community rights do not oblige Member States to disclose personal data in order to ensure the effective protection of copyright, in the context of civil proceedings", when adapting their national legislation to EU law, countries must "base their adaptations on an interpretation of these laws that guarantees the fair balance between the fundamental rights protected", which includes respecting the right of privacy and copyright.

5.3.3 *Border measures*

The border measures established in European Community Council Regulation 1383/2003 and European Community Commission Regulation 1891/2004, which constitute the framework for the Spanish customs authorities to detain and seize pirated products, are a useful tool to combat music, film and software piracy.

The Sub-department of Customs Administration at the Department of Customs and Special Taxes (*Subdirección General de Gestión Aduanera en el Departamento de Aduanas e Impuestos Especiales*) is fully aware of the turnover generated by the music, film or computer games industries devoted to leisure activities and the harm that piracy products cause to copyright and related right-holders.

5.4 ***Legal consequences***

5.4.1 *Discontinuance*

Pursuant to the provisions of Articles 138 and 139.1 RLD No. 1/1996, the holder whose copyright or rights related to copyright have been infringed may, without prejudice to any other action, apply for an injunction restraining the unlawful activity.

In particular, the Court may issue a restraining order to suspend the infringing exploitation, prohibit the infringer from resuming it and withdraw from the market and destroy the copies and means used for the infringement.

Specific restraining orders are established in Article 139.1 e) to h) RLD No. 1/1996 with regard to the means used for the unlawful activities of public communication of works (including the suspension of the activity of internet service providers) and for the circumvention of technological measures designed to protect software or prevent or restrict unlawful acts.

5.4.2 *Information*

Under Law No. 19/2006, of 5 June 2006, implementing in Spanish Law Directive 2004/48/EEC of 29 April 2004, on the enforcement of intellectual property rights, the holder of copyright or rights related to copyright may require, prior to the commencement of the main proceedings on the merits of the case, that the financial or commercial documentation belonging to the person responsible be submitted in order to prove the alleged infringement on a commercial scale, as well as information on: (i) the names and addresses of the producers, manufacturers, distributors, suppliers and other previous holders of the goods or services, as well as the intended wholesalers and retailers; (ii) the origin and distribution networks of the goods or services infringing copyright or rights related to copyright; and (iii) the quantities produced, manufactured, delivered, received or ordered, as well as the price obtained for the goods or services in question.

5.4.3 *Damages*

The holder of copyright or rights related to copyright may seek compensation for the damages it sustains as a result of the infringement thereof.

Article 140.2 RLD No. 1/1996 establishes that compensation for damages can be calculated in accordance with one of the following criteria, at the damaged party's choice: (a) the negative economic consequences for the holder, including the profits the holder could foreseeably have made and the profits earned by the infringing party from exploiting the copyright or rights related to copyright; and (b) the amount the infringing party ought to have paid the holder for a license which would have enabled it to exploit the rights lawfully.

Lastly, the holder can also claim for moral damages (on his reputation), in addition to loss of profit.

5.4.4 *Destruction*

Pursuant to the provisions of Article 139.1 RLD No. 1/1996, the holder of copyright or rights related to copyright may seek the destruction of the copies produced or used infringing its rights –including copies circumventing technological measures designed to prevent or restrict acts– and any means (equipment, devices and materials) used for producing such copies or for circumventing technological measures designed to prevent or restrict acts. The cost of destruction will be borne by the infringing party.

5.4.5 *Recall*

Pursuant to the provisions of Article 139.1 RLD No. 1/1996, the holder whose copyright or rights related to copyright have been infringed may seek the withdrawal of the copies and means used for the infringement.

5.4.6 *Criminal sanctions*

Article 270 of the Spanish Criminal Code sanctions with a prison sentence of six months to two years and a daily fine payable over twelve to twenty four months (ranging from €2 to €400 per day) the reproduction, plagiarism, distribution or public communication, in whole or in part, of any literary, artistic or scientific work, or its transformation, interpretation or artistic execution recorded in any format or communicated through any means, for profit-making purposes and to the detriment of

a third party, without the consent of the holders of the corresponding intellectual property rights or their assignees.

The same penalties apply with regard to: (i) exporting or storing copies of the works, productions or executions without consent; and (ii) intentionally importing these products without consent, whether they are of lawful or unlawful origin in their country of origin. Nevertheless, importing the products from an EU Member State will not be penalised when they have been acquired directly from the holder of the rights in the said State or with its consent. Copies of the works that have been exported, imported or stored could be produced either legally or illegally, as in both cases the acts that may be sanctioned affect the distribution right.

The protection established in this Article would cover music, film and software because, according to the Copyright Act, the subject-matter of intellectual property is all original literary, artistic or scientific creations expressed in any manner or medium, whether tangible or intangible, that is known at present or may be invented in the future, including musical compositions with or without words, cinematographic works and any other audiovisual works and computer programmes.

It is not necessary to register the work in order to obtain criminal protection because, according to the Copyright Act, the intellectual property in a literary, artistic or scientific work belongs to the author thereof merely by virtue of the creation thereof.

In order to consider certain conduct as punishable under this Article, wilful misconduct must be proven. In that respect, anyone performing the said acts (reproduction, plagiarism, distribution or public communication) must have known that the work belongs to a third party and that such acts are committed without the right-holder's consent.

Reproduction and distribution

Marketing pirated copies of DVDs and renting CDs or DVDs without authorisation are clear acts of distribution, which are criminally punishable. Legal doctrine and case law are divided regarding whether or not effective damage to a third party is an essential prerequisite, in order to determine the existence of a criminal offence. One sector considers that if the damage to a third party is not proven, the infringement would not fall under the category of a criminal offence⁴⁸. However, case law is inclined to consider that the mere offer and distribution of CDs and DVDs is sufficient to find that the offence has been committed, as the aim to make a profit is clearly proven.⁴⁹

Plagiarism

Plagiarism is construed as a copy or an appropriation of the essential contents of the work belonging to a third party. Although it is easy to detect plagiarism in clear copies, this is more difficult in the case of imitations. It is especially difficult to detect plagiarism in computer programmes where, in order to determine what is essential or not, that can only be resolved by taking expert reports into account.

The Criminal Chamber of the Supreme Court has considered as plagiarism tape recordings of songs performed by a third party imitating the original performer's manner of singing, as this was sufficient

⁴⁸ WL ARP 2001\24, Judgment 25/2001, delivered by the Provincial Court of Las Palmas, Criminal Chamber, on 7 February 2001, states that the holders of the rights over video tapes do not sustain any damage due to the sale on street markets of certain video tapes bearing characteristics that prove that they are crude copies of the original.

⁴⁹ WL JUR 2005\164656, Judgment n° 282/2005 delivered by the Provincial Court of Alicante on 20 April 2005, and WL RJ 1994\3946, Judgment 1015/1994 delivered by the Supreme Court, Criminal Chamber, on 23 May 1994.

evidence that a real attempt existed to replace the original performance.⁵⁰ However, legal doctrine has interpreted that "cover versions", in which it is clearly shown that the signer is imitating a famous signer, would not be considered as plagiarism punishable under criminal law⁵¹.

Means for neutralising copyright protection

The protection of software is specifically regulated in Article 270.3, which establishes the same punishment for anyone who manufactures, imports, puts on the market or possesses any means specifically aimed at facilitating the unauthorised suppression or neutralisation of any technical device used to protect computer programmes or any other works, interpretations or executions. This regulation protects computer programme security systems, and sanctions the preparatory work carried out for those acts, which constitute the effective infringement of intellectual property rights.

Considering that the possession of any means for neutralising copyright protection must be for profit-making purposes, part of legal doctrine states that the possession of any means for neutralising a technical device to make a private copy (for example, of a CD), cannot be considered as a criminal offence.

Civil liability derived from criminal offences is governed by the provisions of the Spanish Property Law relating to ceasing to engage in the unlawful activity and compensating the loss and damage. The Spanish Criminal Code also states that, in the event of a Judgment allowing the plaintiff's claims, the Court or Tribunal may order the publication of the Judgment in an official newspaper, at the infringing party's expense.

6. PARALLEL IMPORTS

Parallel imports are non-counterfeit products imported from another country without the consent of the holder of the Intellectual Property Right protecting such products. The debate that revolves around parallel imports focuses on the boundary between the principle of free movement of goods, on the one hand, and Intellectual Property Rights, on the other hand and, in particular, the extent to which the holder of the Intellectual Property Right (albeit a trademark, patent or copyright) is entitled to exercise its rights to restrict the importation by a third party of products, which are subject to the Intellectual Property Right, after the products in question have been placed on the market somewhere else by its holder or with its consent.

6.1 *Exhaustion of Intellectual Property Rights and parallel imports*

Intellectual Property Rights grant their holders an exclusive right to use their subject-matter on the market, conferring upon them the right to prohibit unauthorised third parties from using the Intellectual Property Right at hand without their consent. However, Intellectual Property Rights do not confer an absolute right upon their holders, as they can be exhausted. In fact, according to the Spanish law regulating trademarks⁵², patents⁵³ and copyright⁵⁴, the so-called principle of exhaustion applies

⁵⁰ WL RJ 1990\5251, Supreme Court, Criminal Chamber, 9 June 1990.

⁵¹ WL JUR 2002\204360, Judgment 87/2002, delivered by the Provincial Court of the Balearic Islands, on 30 May 2002.

⁵² Trademark Act (*Ley 17/2001 de Marcas*), 2001, § 36 ¶1: "The rights conferred by a registered trademark shall not entitle its proprietor to prohibit third parties from exploiting it for products bearing such a trademark marketed in the European Economic Area by the proprietor or with its consent."

to each of these Intellectual Property Rights.

According to the said principle of exhaustion, the right conferred by the Intellectual Property Right does not entitle its holder to prohibit third parties from exploiting its subject-matter regarding products marketed in the European Economic Area by the holder or with its consent.

The conditions for the exhaustion of Intellectual Property Rights to apply can be resumed as follows: (i) it shall refer to the original products, and not to counterfeits; (ii) the products have been placed on the market in the European Economic Area by their holder or with its consent; and (iii) the goods have been placed on the market under a transfer of ownership agreement. If any of these three (3) conditions is not fulfilled, the exhaustion of rights shall not apply and, consequently, the Intellectual Property Right holder will be entitled to defend its Intellectual Property Right against the parallel import.

6.2 *Evolution of Spanish case law applying to the principle of exhaustion of Intellectual Property Rights*

When analysing Spanish case law on the principle of the exhaustion of Intellectual Property Rights, it is worth mentioning the unfortunate line that was followed by the first set of Judgments delivered by Spanish Courts on the principle of exhaustion, which were incompatible with the European Court of Justice's case law, as they initially defended its international scope. This international principle of exhaustion of Intellectual Property Rights was first established by the Supreme Court in its Judgment delivered in the Scotsman case⁵⁵ and followed by its Judgment in the Bacardi case⁵⁶.

Notwithstanding the foregoing, this tendency has finally been overridden by several Judgments delivered by the Spanish Courts, which have applied the principle of exhaustion of rights in view of the European Court of Justice's case law, therefore, limiting its scope to the European Economic Area.

With regard to the recent line of argument adopted by Spanish case law, we refer to Judgments on trademarks and, in particular, the Judgment handed down by the Spanish Supreme Court⁵⁷ in the Reebok case, in which the Supreme Court found that the claimant's right was not exhausted by the first marketing of the goods bearing its trademarks, since it occurred outside the European Economic Area. As a result, it concluded that the claimant was entitled to control the first marketing in the said area by means of exercising *ius prohibendi* with regard to the importation carried out by the defendant.⁵⁸ This train of thought was confirmed by the recent Judgment delivered by the Spanish Su-

⁵³ Patent Act (*Ley 11/1986 de Patentes*), 1986, §52 ¶2: "The rights conferred by the patent shall not cover the acts regarding a product protected under the said patent after it has been put on the market in the territory of a European Union Member State by the patent holder or with its consent."

⁵⁴ Legislative Royal Decree 1/1996 on Intellectual Property (*Real Decreto Legislativo 1/1996 de Propiedad Intelectual*), 1996, §19 ¶2: "When the distribution is implemented through the sale or through any other property transfer title, within the European Union, by the right-holder or with its consent, these rights will be exhausted with the former, but only regarding the subsequent sales and property transfers that take place within this territory."

⁵⁵ WL RJ 1985\2393, Judgment bearing no docket number, delivered by the Supreme Court, Civil Chamber, on 15 May 1985.

⁵⁶ WL RJ 2001\8718, Judgment n° 852/2001 delivered by the Supreme Court, Civil Chamber, on 28 September 2001.

⁵⁷ WL RJ 2006\288, Judgment n° 999/2005 delivered by the Supreme Court, Civil Chamber, on 20 December 2006.

⁵⁸ Third Point of Law of the Reebok Judgment, WL RJ 2006\288, Judgment n° 999/2005, delivered by the Supreme Court, Civil Chamber, on 20 December 2006.

preme Court in the Philip Morris case⁵⁹ and by lower Spanish Courts.⁶⁰

This case law established and followed by the Spanish Courts regarding the Community's exhaustion of trademarks *vis-à-vis* products which were parallel imported bearing the said trademark, has also been followed when the Intellectual Property Right affected is copyright. In that respect, we refer to the Supreme Court Judgment in the Dienc case.⁶¹

With regard to parallel imported products falling under the scope of protection of a patent, there is no Spanish case law implementing the principal of exhaustion regarding patent rights. However, taking into account the wording of Article 52.2 of the Spanish Patent Act, the case law developed by Spanish Courts regarding trademarks and copyright and the European Court of Justice's case law regarding patent rights⁶², it is likely that the Spanish Courts will also apply the Community exhaustion principle as described above.

6.3 *Legal action against parallel imports when Intellectual Property Rights are not exhausted*

If parallel imports are made without the consent of the Intellectual Property Right holder and the principle of exhaustion does not apply (because the products were placed on the market by the holder or with its consent outside the European Economic Area), the holder would be entitled to file against it the corresponding civil action for Intellectual Property Right infringement before the corresponding Mercantile Court in the city where the defendant has its registered address or where the infringement has taken effect.

In the case of trademarks and copyright, the holder may also take criminal action against the parallel importer. Under the Spanish Criminal Code⁶³, the importation of products bearing a registered trademark wilfully carried out without the holder's consent is a criminal offence against trademark rights, provided that the importation of these products from a Member State of the European Union had not been directly acquired from the holder of the rights in that State or with its consent. No similar provision is established in the Spanish Criminal Code for patents because, when implementing the criminal offence against patent rights, it does not expressly classify parallel imports as a means of committing such an offence.

⁵⁹ WL RJ 2007\2317, Judgment n° 311/2007 delivered by the Supreme Court, Civil Chamber, on 23 March 2007.

⁶⁰ We refer, *inter alia*, to the following Judgments: WL AC 2007\2063, Judgment n° 252/2007 delivered by the Provincial Court of Valencia (Section 9), Civil Chamber, on 5 October 2007; WL AC 2004\506, Judgment bearing no docket number, delivered by the Provincial Court of Barcelona (Section 15), Civil Chamber, on 30 January 2004; WL AC 2005\880, Judgment n° 90/2005, delivered by the Provincial Court of Madrid (Section 20), Civil Chamber, on 2 February 2005; WL JUR 2004\250554, Judgment n° 86/2004 delivered by the Provincial Court of Madrid (Section 14), Civil Chamber, on 10 February 2004; WL AC 2003\1574, Judgment n° 247/2003 delivered by the Provincial Court of Asturias (Section 6), Civil Chamber, on 26 May 2003; and WL JUR 2004\235551, Judgment n° 765/2004 delivered by the Provincial Court of Madrid (Section 10), Civil Chamber, on 21 June 2004.

⁶¹ WL RJ 2007\372, Judgment n° 1190/2006 delivered by the Supreme Court, Civil Chamber, on 29 November 2006.

⁶² Centrafarm v Sterling, Case 15/74, European Court of Justice, 31 October 1974, [1974] ECR 1147; Pharmon v Hoechst, Case 19/84, European Court of Justice, 9 July 1985, [1985] ECR 2281; Merck v Sephar, Case 187/80, European Court of Justice, 14 July 1981, [1981] ECR 2062.

⁶³ Spanish Criminal Code (*Código Penal*), 10/1995, 23 November 1995, as modified by Organic Law 15/2003, § 270 regarding the criminal offence against copyright and § 274 regarding the criminal offence against trademarks.

* Authors from Clifford Chance Barcelona (Spain)

General responsibility: Montserrat López-Bellosta- Partner

IP-Team: Mireia Aguila, Rais Amils, Marta Baylina, Ana Benetó, Xisca Borrás, Isabel Carulla,
Juan Cuerva, Pablo Ferrandiz, Julia Hernández, Josep Montefusco, Carlos Rivadulla
and Sonia Sebe