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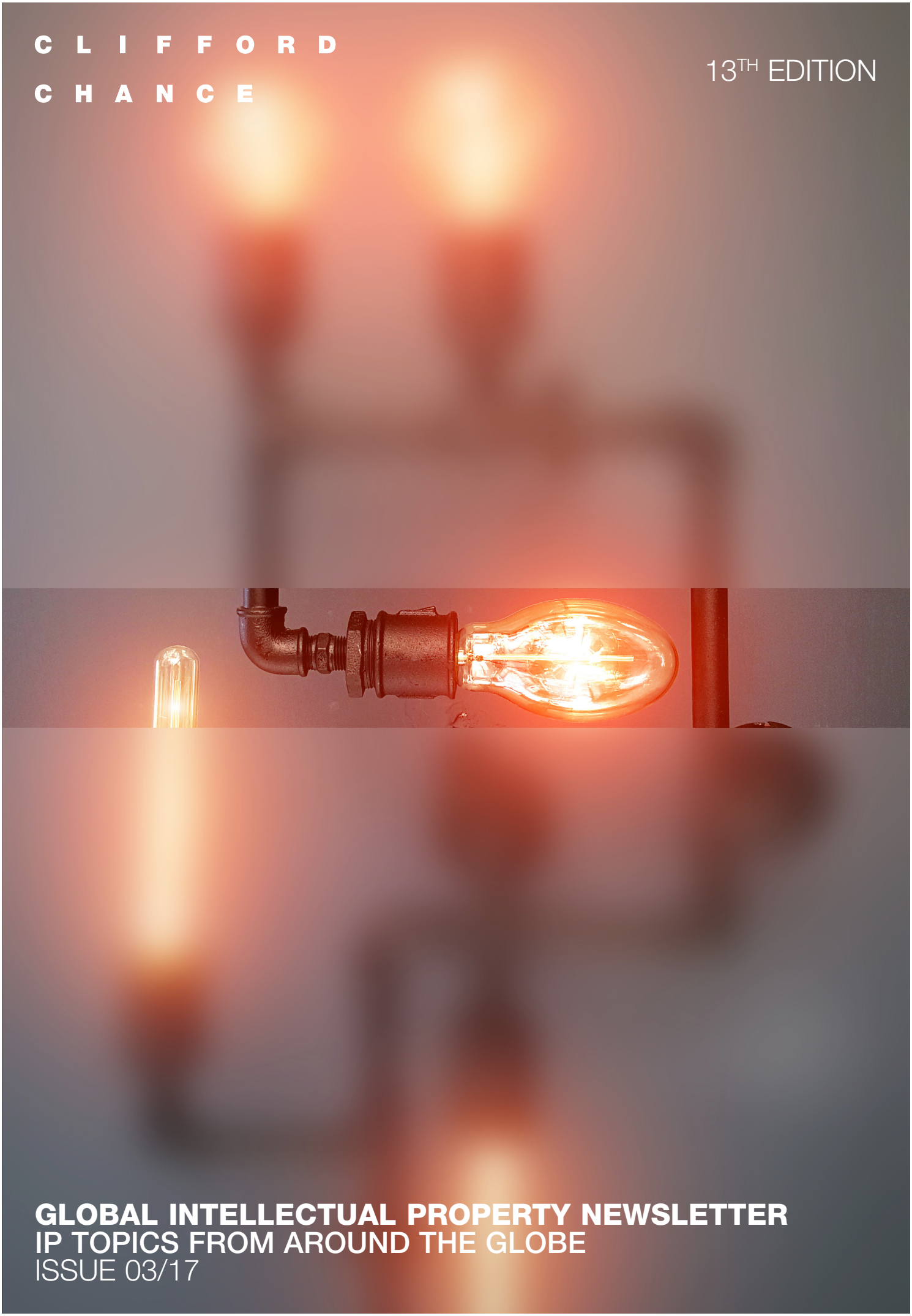
13TH EDITION



GLOBAL INTELLECTUAL PROPERTY NEWSLETTER

IP TOPICS FROM AROUND THE GLOBE

ISSUE 03/17

CONTENTS

13TH EDITION

Welcome to the 13th edition of the Clifford Chance Global IP Newsletter. In this first Newsletter of 2017, our global IP Team would like to provide you with some insight and guidance on the latest developments and recent trends in the world of IP. The Newsletter will cover a wide range of IP-related topics and industries.

Beginning with trade marks, this March issue will first discuss the recent registration of Donald Trump's trade mark "TRUMP" for goods and services in class 37 on the Chinese trade mark register. This comes after almost 10 years of application proceedings. We will then turn to the defence of our own IP rights and our successful opposition of a pirated Clifford Chance trade mark registration in China.

We will then review the CJEU's recent ruling on the conditions of Article 7(2) of Directive 2008/95/EC regarding the import and sale of drugs that have been repackaged, but placed on the market bearing their original trade marks. Another case considered is the Italian Court of Cassation decision on how the intrinsic weakness of a trade mark does not necessarily disappear if that trade mark acquires a secondary meaning.

Diving into the realm of patents and employee inventions, claims of ownership and adequate employee remuneration can be of utmost importance for employers in all sectors. Accordingly, the article on *Shanks v. Unilever PLC* shows the difficulties employee inventors face in the UK when obtaining additional remuneration for highly successful inventions. The article compares the UK approach to the German approach which is more favourable to employee inventors. Furthermore, an Italian court ruled that a scientific director of an Italian chemical-pharmaceutical company is entitled to ask for a special bonus (called "equopremio") when his research team achieves an inventive result.

The Newsletter will then analyze the case *Raltegravir* before the German Federal Patent Court and the issue of whether a market-leading HIV-drug can be subject to a compulsory licence, granted via preliminary injunction, if it is in the public interest in Germany. We will then take a look at so called *Arrow* declarations as permitted remedies pursuant to *Fujifilm Kyowa v AbbVie* and also discuss recent questions referred to the CJEU regarding Supplementary Protection Certificates.

Finally, we will highlight other important developments including the application of *GS Media* in Germany regarding copyright infringement via hyperlinks, the impact of the civil law reform on IP in France, Alibaba's successful lawsuit against counterfeiters in China, the EU Commission's recent study on ownership and access of data and a proposal for a EU Regulation addressing privacy and confidentiality issues involving electronic communications.

We hope that you enjoy this issue and look forward to receiving your feedback.
See you in the next edition!

Your global CC IP Team

HONG KONG
DONALD TRUMP SUCCESSFULLY HAS HIS NAME REGISTERED IN CHINA FOR CONSTRUCTION-RELATED SERVICES

It has recently been reported that on 14 February 2017, US President Donald Trump successfully had his name registered in China in respect of commercial, residential and restaurant property services (including construction-related services essential to the real estate business). The registration secured is for the name/mark "TRUMP" (under application no. 14831415) in respect of Class 37 services (the "**Registered Mark**"). Notably, this is a re-file of an earlier, failed application made by Donald Trump almost 10 years.

The Registered Mark was filed in 2014 and is one of a series of steps taken by Trump following the failure of a previous application to secure trade mark registration in construction-related services (filed under application no. 5771154 "TRUMP" in Class 37 on 7 December 2006) (the "**Previous Mark**"). The Previous Mark was partially rejected by the PRC Trade Mark Office ("**TMO**") in 2009 due to the existence of an earlier, identical third party mark (no. 5743720 "Trump") (the "**Conflicting Mark**"). The Conflicting Mark was allegedly a pirated mark filed by the individual Dong Wei in respect of goods and services in Class 37. The Conflicting Mark was filed in November 2006, just a couple of weeks before Donald Trump's filing of the Previous Mark. Despite Donald Trump appealing the TMO's rejection, this rejection was upheld by the PRC Trade Mark Review and Adjudication Board ("**TRAB**") in 2014. Donald Trump filed further appeals against the TRAB's decision but they were dismissed by the Beijing First Intermediate People's Court (i.e., the first instance court) and the Beijing High People's Court (i.e. the second instance court) in 2014 and 2015 respectively, based on a strict application of the "*first-to-file*" principle (i.e. Donald Trump's application cannot prevail because the Conflicting Mark has an earlier filing date). Due to the Conflicting Mark, Donald Trump had to remove core services of interest to this business from the Previous Mark (i.e. construction and construction information in commercial, residential and restaurant properties) as these services overlap with those covered by the Conflicting Mark. After deleting such core services, the Previous Mark then proceeded to registration on 6 October 2015 but only in respect of "indoor decoration and repair, heating equipment, air conditioners and elevators installation and repair in commercial, residential and restaurant properties" which are not core to Donald Trump's business.

In parallel, Donald Trump also contested the Conflicting Mark. In 2009, Trump filed an opposition and subsequently (following an unsuccessful opposition) an invalidation in 2015 against the Conflicting Mark. The invalidation decision was issued by the TRAB in September 2016 and led to most of the services of the Conflicting Mark being declared invalid, with only two services remaining: well drilling and mining. The

Key Issues

- The process of opposing and/or invalidating a conflicting mark or a pirated filing generally takes years to conclude. This in turn obstructs and delays parallel trade mark applications.
- A name right is established if the following three conditions are met:
  - the name in question has attained a certain level of fame in China;
  - a valid connection has been established between the name in question and a natural person; and
  - the relevant public use the name in question to refer to that individual.

invalidation of the Conflicting Mark in overlapping services subsequently allowed Donald Trump to secure the Registered Mark in relation to his core business.

As reported, it has taken more than ten years for Donald Trump to register his name for core construction-related services, and after going through numerous stages of legal proceedings and pursuing all kinds of offensive and defensive actions in China. However, this is not a special case; it merely highlights the rigidity of China's trade mark system. In particular, it shows how difficult it can be to remove a prior conflicting mark or a pirated filing. In the event that a trade mark application is blocked by a conflicting prior mark, the TMO, at its discretion, may suspend the trade mark application process if there are existing parallel opposition and/or invalidation proceedings in relation to the conflicting mark. However, the pending opposition and/or invalidation process may take several years to conclude and can consequently drag out the relevant trade mark application for years as well.

Pirated filings and name right protection in China

It was reported that lawyers for Donald Trump argued that Dong Wei had filed the Conflicting Mark in bad faith and had infringed upon his name right. Unfortunately, it is not uncommon for the names of many world-famous celebrities to be the subject of bad faith trade mark applications or registrations in China. Examples include NBA stars Allen Iverson and Michael Jordan, Yao Ming (a Chinese NBA star), Britney Spears and Andy Lau/刘德华 (a television and movie star).

A string of recent PRC Supreme Court interpretations, opinions and decisions have confirmed that PRC courts are more determined to give better protection to name rights in China. In the decision of the Supreme Court issued on 7 December 2016 concerning a pirated trade mark application for the "Michael Jordan" name/mark, the Supreme Court laid down the following conditions to determine whether or not a foreign celebrity can claim name rights over a Chinese translation of his or her foreign name:

i. has the name in question attained a certain level of fame in China;

ii. has a valid connection been established between the name in question and a natural person; and

iii. does the relevant public use the name in question to refer to that individual.

The above test was subsequently codified in the Supreme Court's Opinions issued on 10 January 2017.[1] It was set out in the Opinions that an act of registering the name of a public figure in the political, economic, cultural, religious, ethnic or other field as a trade mark may be deemed to be an "*unhealthy influence*". Causing an "*unhealthy influence*" to society is a ground for denying trade mark registration under the PRC Trade Mark Law. In any event, the clarity brought about by the Supreme Court's Opinions is very much welcomed and it is hoped that this will help brand owners better protect and enforce their rights against pirated names filed by trade mark squatters.

1 The Supreme Court issued "Opinions on Review of Administrative Cases Concerning Trade Mark Authorization and Determination" on 10 January 2017, which becomes effective on 1 March 2017.

CLIFFORD
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HONG KONG
CLIFFORD CHANCE SUCCESSFULLY OPPOSES REGISTRATION OF A PIRATED CLIFFORD CHANCE TRADE MARK IN CHINA

Clifford Chance has recently received a favourable final judgment from the PRC Beijing High Court, upholding Clifford Chance's opposition against an application for a pirated trade mark copying Clifford Chance's Chinese trade name and mark "高伟绅" in its entirety, namely application no. 9114564 "高伟绅 ANGEL KISS" in Class 45 (the "**Pirated Mark**").

Clifford Chance has continuously used "高伟绅" as its Chinese trade name and mark for legal services in China from as early as 1993. Since then it has enjoyed a good reputation in the legal sector in China. The applicant for the Pirated Mark, a trade mark filing agent named Guangxi Nanning Wanwang E-Commerce Service Limited ("**WW**"), lodged an application for the Pirated Mark with the PRC Trademark Office ("**TMO**") in 2011, covering services directly overlapping with that of Clifford Chance's business such as litigation and intellectual property consultation.

This was not an isolated incident for WW. In addition to the Pirated Mark, WW has filed around 300 applications for trade marks which are identical or similar to third parties' famous brands (for example, "西门子/Siemens", "新浪/Sina" and "华硕/ASUS"). This pattern of behaviour seems to demonstrate clear bad faith on the part of WW in riding on the coat-tails of others and making illegal gains.

Even though Clifford Chance does not have an earlier mark filed/registered in the same class as the Pirated Mark, Clifford Chance has prevailed in its opposition against the Pirated Mark at all levels from the TMO to the PRC Beijing Intellectual Property Court (the first instance court) to the PRC Beijing High Court (the second instance court). Despite appeals filed by WW, all courts have decided in Clifford Chance's favour and held that the Pirated Mark should not be registered in view of WW's obvious bad faith, which violated the spirit of Article 44(1) of the PRC Trademark Law[1].

More importantly, the Beijing High Court strongly condemned WW's mass-pirating behaviour in its judgment and upheld Clifford Chance's rights. This comes despite Clifford Chance not having earlier registered rights in the same class. The Court held that, even though China follows the "first-to-file" principle, the inherent value and function of a trade mark should act as a sign for distinguishing the source of the trade. When applying for a trade mark, the applicant should have the intention to use the trade mark in order to carry out the inherent function of the mark. The fact that WW applied for a large number of reputable trade marks belonging to others merely

Key Issues

- The PRC Beijing High Court decided in Clifford Chance's favour that a pirated trade mark should not be registered with the TMO in view of obvious bad faith.
- Under the current PRC Trademark Law, the TMO will not accept a trade mark application filed in the name of a trade mark agent with designated goods or services that have nothing to do with trade mark agency service.
- Although trade mark filing agents are prohibited from filing marks that are irrelevant to their own agency business, they have come up with alternative ways of pirating by setting up shell companies or inviting their own clients to hold pirated marks.
- It is hoped that the Beijing High Court's liberal approach and reasoning, which appears to have reconciled the prohibition against pirated filings with the long established "first-to-file" principle in China, will be adopted by the trade mark authorities in similar trade mark pirating cases.

1 Article 44(1) of the PRC Trademark Law prohibits registration of a trademark by deceptive or by other improper means.

with a view to assigning them to third parties (but not to use them itself) violates the inherent value and function of the mark. Such behaviour not only causes adverse effects to the normal trade mark registration system in China but is an act that hinders other good-faith business operators from carrying on their normal business operations.

Such reasoning provided by a high level court such as the Beijing High Court is to be particularly welcomed given that historically, Chinese trade mark authorities and first instance courts have had a tendency to adhere to the "first-to-file" principle very restrictively. This allowed many pirated trade mark filings to proceed to registration whenever the legitimate trade mark owner did not have an earlier trade mark application/registration in the same class/sub-class. The Beijing High Court has, in this case, clarified the intricate balance that should be upheld between the "first-to-file" principle and pirated bad faith filings.

PRC TMO's Efforts to crack down on pirated filings

Acts of pirate filings, such as those done by WW (which are systematic in nature, involving large numbers of brands), are not uncommon in China, particularly amongst PRC local filing agents who are familiar with the trade mark filing procedures (and sub-class systems) in China. These bad faith agents will very often lodge pirated filings "strategically" to avoid classes/sub-classes that are occupied by the legitimate owner's filings so as to increase the chance of obtaining registration.

To tackle this rampant issue, the TMO has, after the latest Trade Mark Law became effective in 2014 (with provisions regulating trade mark agents' activities and filing practices), tightened its examination by not accepting a trade mark application filed in the name of a trade mark agent if such an application is irrelevant to the trade mark

agency services[2] provided by the agent. Furthermore, the TMO says it will reject pending applications which have already been filed with the TMO by trade mark agents in their names that cover irrelevant goods or services.[3]

Analysis

As a result of the TMO's actions, it has become increasingly difficult for bad faith trade mark filing agents such as WW to arrange bad faith filings directly. Of course this does not mean that pirated filings orchestrated by filing agents will be completely eradicated in China. Trade mark squatters have found creative ways of doing pirated filings. For example by setting up multiple anonymous shell companies in China or Hong Kong or by inviting their own clients, mostly PRC companies, to file suggested pirated marks copying famous brands, in their own names as an "*investment*". These acts are all done to circumvent the legislative prohibitions specific for trade mark agents. We have seen an increasing number of large-scale pirated filings coordinated or orchestrated by trade mark agents under the new Trade Mark Law (for instance, with over 50 or so pirated marks filed by one Chinese company in one-go with the same filing agent).

It is hoped that the trade mark authorities in China will follow the Beijing High Court's reasoning and adopt a more liberal approach when applying the bad faith provisions under the Trade Mark Law. On the other hand, it remains important for companies (particularly international brands) to adopt a proactive and comprehensive strategy towards managing and protecting their trade mark portfolio in China, for example, by having as broad coverage as possible in their filing programmes so as to prevent pre-emptive filings.

Meet us:

- **25-26 April 2017**
  C5's 9th Forum on Pharma & Biotech Patent Litigation
  sponsored by: Clifford Chance (Düsseldorf, Barcelona, London office)
  speakers: **Claudia Milbradt, Miquel Montañá, Stephen Reese**
  event location: **Amsterdam, Netherlands**
- **20-24 May 2017**
  INTA Annual Meeting
  for more information please visit this website:
  http://www.inta.org/Join/Pages/Join.aspx
  event location: **Barcelona, Spain**
- **27/28 June 2017**
  Client Workshop Digitalization
  This workshop is especially recommended for IP Heads.
  Interested? Please contact us via e-mail:
  veranstaltungen@cliffordchance.com
  event location: **Clifford Chance Düsseldorf, Germany**

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

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

2 The trade mark agency service is currently classified as class 4506 under Nice Classification.

3 See Section IX of the new version of the Trademark Examination and Review Standard published by the TMO on 4 January 2017.

PARIS
RUBIK'S CUBE: THE LOSS OF A MONOPOLY CONFERRED BY A 3D TRADE MARK RIGHT

For companies, the trade mark is an essential element that allows them to stand out from competitors and helps consumers immediately identify a product.

Technically it is still possible, both under French and European law, to protect the shape of a product or its packaging design through the registration of a 3D (three-dimensional) trade mark.

These signs benefit from legal protection in French law under Article 711-1 of the Intellectual Property Code as well as under EU law under European Union Trade Mark Regulation (EC) No 207/2009 of 26 February 2009 (the "**EUTMR**").

However, the number of disputes relating to the validity of 3D marks continues to increase.

In a recent decision of 10 November 2016, the Court of Justice of the European Union (the "**CJEU"**) ruled on the case of *Rubik's Cube*, and the protection of its famous shape.

The *Rubik's Cube* case has affected the assessment of 3D marks. The CJEU has established the principle that a shape must be considered not just on its graphic representation, but rather as a whole. As in this case the Rubik's Cube's shape is exclusively necessary for a technical result, it cannot be protected by trade mark law.

The difficulty with 3D marks

As often reminded by the CJEU, the exclusive and permanent right conferred by a trade mark cannot be used to perpetuate rights the European legislator intended to be limited in time.

Thus, in its judgment of 10 November 2016 (C-30/15, *Simba Toys GmbH & Co. KG/ Seven Towns Ltd*) the CJEU annulled the protection of the Rubik's Cube as a 3D mark.

The European trade mark for the Rubik's Cube was first registered in 1999 for 3D puzzles at the European Union Intellectual Property Office.

In 2006, an application for annulment of that 3D mark was lodged by the German toy manufacturer Simba Toys on the grounds that the cube rotating capability should be protected by a patent, not a registered trade mark.

The General Court of the European Union rejected the appeal, holding that the shape of the cube had no technical function which would prevent its protection under trade mark law.

The Court based its decision on the graphic representation of the cube reproduced on the trade mark, which did not represent the system of rotation.

Key Issues

- The grounds for refusing to register a trade mark are laid down in Articles 7 and 8 of the European Union Trade Mark Regulation (EC) No 207/2009 of 26 February 2009.
- The registration of a 3D mark must not be a means of circumventing the law.
- If a product registered as a 3D mark has functional qualities, trade mark protection may be lost.

The General Court considered that the grounds for invalidity of a 3D mark had to rely exclusively on an analysis of the representation of the trade mark as it was filed and not of alleged or supposed characteristics.

An appeal was then lodged against this decision.

In a judgment, dated 10 November 2016, the CJEU annulled the protection of the Rubik's Cube under trade mark law.

The CJEU based its decision on Article 7 of the Community Trade Mark Regulation (EC) No 40-94 of 20 December 1993 (the "**CTMR**"). Due to the timeframe of the facts, the CTMR was applicable despite this being repealed and replaced by EUTMR in 2009. The CJEU therefore looked at the grounds for the refusal of the registration of a 3D mark in the CTMR.

Article 7(1)(e) CTMR sets out the "absolute grounds for refusal"*:*

1. *The following shall not be registered:*

   (e) *signs which consist exclusively of:*

      (i) *the shape which results from the nature of the goods themselves; or*

      (ii) *the shape of goods which is necessary to obtain a technical result; or*

      (iii) *the shape which gives substantial value to the goods*;"

This case was particularly concerned with Article 7(1)(e)(ii) given the crux of the matter was whether the sign in question consisted exclusively of a shape necessary to obtain a technical result or not.

In this case, according to Advocate General Szpunar, the essential characteristics of the contested sign were (i) the shape of a cube, and (ii) the grid structure dividing vertical and horizontal columns of symmetrical elements which constitute the moving parts of the puzzle. These characteristics were necessary for the technical function of the product.

The presence of a "technical result"

The presence of a technical result prevents protection by trade mark law. Consequently, the invention must instead be protected by a patent.

Trade marks give intellectual property owners an exclusive and perpetual right to their designs, logos and words as long as they use them and renew their rights. Alternatively, the exclusivity of patents is limited in time.

Conferring protection under trade mark law to technicality in effect confers an absolute monopoly on the right-holder, which affects free competition.

From now on, the CJEU wants to put an end to the numerous cases of abusive registration of 3D marks, in particular when a technical monopoly is at stake. (See CJEU C-299/99, 18 June 2002, *Koninklijke Philips Electronics NV/Remington*

Consumer Products Ltd, confirmed by CJEU C-48/09, 14 September 2010, *Lego Juris A/S /OHMI*). The Court believes that the existence of alternatives to a shape does not allow the latter to escape the exclusion of "*exclusively functional*" trade marks.

Thus, in the *Philips* judgment regarding a razor head, the Court held that the sign should be excluded "*even if the technical result at issue can be attained by other shapes*".

Moreover, the *Rubk's Cube* judgment confirms the view that the technical representation of a trade mark cannot on its own make it possible to understand the technical function of the product which it intends to cover.

For that reason it is necessary to take into account more than just the mere graphic representation of the sign, but also "additional elements relating to the function of the specific product in question".

While not lost completely, the protection of a shape as a 3D mark can be seen as greatly limited. This limitation is justified by the unlimited nature of trade mark protection.

Firms that have products which may no longer be protected through registered trade marks will have to consider other avenues when alleging infringement, including through passing off or unfair competition.

PRAGUE
THE CJEU ON THE INTERPRETATION OF THE PROPRIETOR'S RIGHT TO PROHIBIT THE USE OF ITS TRADE MARK UNDER DIRECTIVE NO. 2008/95/EC

Introduction

The Court of Justice of the European Union (the "**CJEU**") has for the first time ruled on how Article 7(2) of Directive 2008/95/EC (the "**Directive**") must be interpreted and has defined the conditions which allow the import and sale of drugs that have been repackaged, but placed on the market bearing their original trade marks.

Legal Background

The Directive is a key document aimed at approximating the trade mark laws of EU Member States. Article 5 of the Directive lists the rights that should be granted by a trade mark in each Member State. This particularly relates to the right of a proprietor to prevent third parties from using signs identical or confusingly similar to its registered trade mark without its consent. Under the laws of Member States, a proprietor should be able to prohibit (i) any "malicious sign" from being affixed to products or their packaging; (ii) products from being offered or put on a market (or even stocked) under such a sign; (iii) products from being imported or exported under such a sign; and (iv) such a sign from being used on any business products.

Nevertheless, the above rights are limited by the exceptions defined in Articles 6 and 7 of the Directive. Under Article 6 of the Directive, a trade mark proprietor may not prevent a product bearing its trade mark from including a specification of the product's characteristics, such as its kind, quality, quantity, intended purpose, value, geographical origin, or time of production. This is provided that such a specification is in accordance with honest practices in industrial or commercial matters. Article 7 of the Directive precludes the proprietor of a trade mark from prohibiting the use of products bearing its trade mark which have been put on the EU market by the proprietor or with the proprietor's consent. This consent should be granted for each type of product placed on the market (as held in CJEU judgement of 19 September 2013, *Martin Y Paz Diffusion v. David Depuydt, Fabriek van Maroquineire Gauquie*, C-661/11). *Ferring Lægemidler v. Orifarm* deals with an exception to the rule contained in Article 7 of the Directive by considering the conditions under which a proprietor may recall products from the EU market in spite of them having already been placed somewhere on the market by the proprietor or with the proprietor's duly expressed consent.

Ferring Lægemidler v. Orifarm

In *Ferring Lægemidler v. Orifarm*, the CJEU explained the principles of Article 7 of the Directive, which allows a proprietor to oppose the further commercialisation of a product bearing its trade mark in the event that the product's condition has been changed or has been impaired since placed on the market.

Key Issues

- Directive 2008/95/EC lists the rights of a proprietor to prevent third parties from using signs identical or confusingly similar to the proprietor's registered trade marks without its consent.
- The above rights are limited by the exceptions defined in Articles 6 and 7 of the Directive which have been clarified by the CJEU.
- Any repackaging of a medicinal product bearing a trade mark may be prohibited by the trade mark proprietor unless (i) the repackaging is necessary in order to enable the marketing of the products imported in parallel, and (ii) the legitimate interests of the proprietor are safeguarded.

The details of the case are as follows. Ferring markets a medicinal product under the "Klyx" trade mark in Denmark, Finland, Sweden and Norway. Ferring is the proprietor of this mark. Orifarm purchases Klyx in Norway and sells it, as a parallel importer, under the same trade mark on the Danish market after having repackaged it in new smaller packets (the packs of ten are repackaged into packs of one). According to Orifarm, this repackaging is necessary for it to gain access to the segment of Klyx's relevant product market in Denmark, which can only be accessed by packaging the product in smaller packs. Ferring opposed Orifarm's continued marketing of Klyx in smaller packaging on the grounds that the repackaging changed the condition of Klyx and its repackaging was not necessary as Orifarm was merely trying to secure a commercial advantage (rather than gain access to a market).

The specific purpose of a trade mark is to guarantee the origin of the product bearing that mark. Thus, the CJEU expounded that the repackaging of the product by a third party without the authorisation of the proprietor may imperil the "originality" of the product. On the other hand, it found that a product prohibition, as a result of a proprietor's opposition to the repackaging, may effectively lead to the partitioning of geographical markets where a product cannot be sold in some of the Member States in a particular kind of packaging.

The CJEU held that any repackaging of a medicinal product bearing a trade mark – creating by its very nature the risk of interference with the original condition of the product – may be prohibited by the trade mark proprietor unless (i) the repackaging is necessary to enable the marketing of the products imported in parallel; and (ii) the legitimate interests of the proprietor are safeguarded. Therefore, the trade-mark proprietor cannot oppose the repackaging of a product when the original packet size cannot be marketed in the importing State because of, in particular, (i) a rule authorising packaging only of a certain size or a national practice to the same effect; (ii) sickness insurance rules making the reimbursement of medical expenses dependent on the size of the packaging; or (iii) well-established medical prescription practices based, *inter alia*, on standard sizes recommended by professional groups and sickness insurance institutions.

In any case, it is for the parallel importer to prove the existence of conditions preventing the trade-mark proprietor from lawfully opposing further marketing of his medicinal products.

Conclusion

Although the conclusions held in *Ferring Lægemidler v. Orifarm* may appear rather restrictive, the import and sale of repackaged drugs under original trade marks is allowed provided that the importer successfully establishes there are competition law implications and that conditions exist which would prevent the trade mark proprietor from lawfully opposing this repackaging and further commercialisation. For example, where there are country specific barriers to a product being placed on a market in its original packaging. It is, nevertheless, for the parallel importer to make the argument and prove the existence of such obstacles on entering a particular market.

MILAN
ITALIAN COURT OF CASSATION: CLINIQUE TRADE MARK REMAINS WEAK EVEN IF ITS DISTINCTIVE CAPACITY IS STRENGTHENED BY A SECONDARY MEANING

With ruling no. 25168/2016, the Italian Court of Cassation held that the intrinsic weakness of a trade mark does not necessarily disappear if the trade mark acquires a secondary meaning. Thus, even if the trade mark has acquired renown on the market, it can remain weak. The Court found no counterfeiting of the well-known trade mark "CLINIQUE" and no anticompetitive conduct by a beauty centre called DERMACLINIQUE BEAUTY FARM, reasoning that, in case of weak trade marks, even minimal changes are sufficient to differentiate the new trade mark from the pre-existing trade mark.

The ruling of the Court of Cassation, found the second instance ruling of the Court of Appeal neither contradictory nor unlawful, and thus affirmed the view that a trade mark's renown, consolidated over time so as to give rise to a secondary meaning, does not alter the status of a weak trade mark which is devoid of any "intrinsic distinctive character."

The facts and the decision of the lower Court

Clinique Laboratories LLC is a United States company in the Estée Lauder group ("**Clinique**") which owns several "CLINIQUE" figurative and word trade marks, registered for goods and services in classes 3, 42 and 44. Clinique commenced proceedings against Beauty Full S.r.l., a company that manages a beauty centre, before the Court of Milan seeking a finding that the defendant's trade marks "DERMACLINIQUE" and "DERMACLINIQUE BEAUTY FARM" were null because they were counterfeiting the "CLINIQUE" trade mark and engaging in anti-competitive conduct.

Both the first instance and the second instance Court ruled unfavourably on Clinique's claims.

The Court of Appeal of Milan held that:

- The word "clinique" is descriptive because it corresponds to the Italian noun for clinic ("*clinica*") and to the Italian adjective for clinical ("*clinico*"), words used by many commercial operators to describe their activity in a wide range of sectors that are similar to the healthcare sector;

Key Issues

- The term "CLINIQUE" is a word that is now part of the common language frequently used in the medical sector and therefore void of any intrinsic distinctiveness.
- According to the Italian Court of Cassation, there is a difference between the strengthening of the distinctiveness achieved by prolonged use over time and the different classification of a trade mark as strong or weak. Even a renowned trade mark could remain a weak trade mark; prolonged used over time could allow an unoriginal trade mark to become a valid, albeit weak, trade mark.
- The Italian Court of Cassation does not seem to espouse the leading jurisprudence that now uses the "positive" view for distinctiveness (i.e., the *presence* in the trade mark of a distinctive element allowing it to be perceived as such) rather than the "negative" view (i.e., the *absence* of descriptiveness or the generality of the word itself).

- The trade mark “CLINIQUE” had nevertheless acquired a certain distinctive characteristics in terms of secondary meaning, because of the following:
  - use over a prolonged period of time;
  - renown acquired on the market; and
  - the intrinsic difference between the cosmetics sector and the pharmaceutical-medical sector.
- The trade mark “CLINIQUE” is classified as a weak trade mark. Although it is well-known within the European market, any difference to the mark, however slight, is sufficient to distinguish and render lawful a subsequent, third-party trade mark. Moreover, in the present case, the allegedly counterfeit trade mark had its own distinctive character.

The decision of the Italian Court of Cassation

Clinique filed an appeal with the Court of Cassation against the lower court’s ruling setting out various grounds for appeal. The Court of Cassation denied all claims and grounds and held as follows on matters of law:

- Trade marks that lack the required distinctiveness, meaning they are descriptive or generic, cannot be considered null because they are void of any distinctive element if such an element was acquired as a result of the “secondary meaning” acquired by the trade mark by virtue of use;

- There is no inconsistency, nor any breach of the law, in the Court of Appeal's ruling that the trade mark's renown, consolidated over time and thus giving rise to the secondary meaning, leaves intact the trade mark's characteristic as a weak mark because it is devoid of any intrinsic distinctiveness;
- A finding that a distinctive mark is weak does not mean it is not suitable to be registered; rather, it affects only the intensity of the protection afforded by such registration. It is sufficient to make a slight modification or addition to a subsequent third-party mark to prevent confusion with a weak trade mark.

Critical considerations

In another recent ruling, the Court of Cassation held inconsistently with the present decision, stating that an initially weak trade mark could become strong by virtue of its use over time if it had strengthened its distinctive characteristic through the so-called "secondary meaning phenomenon", which made the mark generally renowned and recognisable by the public (see, in re *Divani&Divani*, Court of Cassation, Civil Division, ruling no. 1861 of 2 February 2015).

Although the two decisions may appear inconsistent in some respects (in the present case the trade mark was classified as weak, while in the Divani&Divani the trade mark was upgraded), both decisions consistently hold that the requirement of distinctiveness must be viewed as the *absence* of a characteristic (i.e., the "negative" view). This results in trade marks that contain exclusively descriptive and generic names being excluded from registration.

More recently, Italian jurisprudence has also identified a scenario whereby distinctiveness can be defined not only negatively, as the *absence* of descriptiveness or generality, but also positively, as the *presence* in the trade mark of a distinctive element that allows the public to perceive the trade mark as distinct. This "positive" view would also be applicable when evaluating the required distinctiveness in relation to trade marks that do not involve words, such as trade marks of colour and shape.

Trade mark analysis changes if one uses the positive view as it no longer involves the issue of whether there is a change in a weak trade mark or in a strong trade mark. These notions are not based in legislation, rather they are the result of case law, and relate only to the evaluation of the intrinsic distinctive capacity.

The issue then relates to how the public perceives the "CLINIQUE" trade mark. If the answer is that the trade mark identifies one of the leaders of the cosmetics market, then it is doubtful that the trade mark has only acquired renown and not also strong distinctiveness (meaning the trade mark is not perceived as a descriptive or generic). It would be peculiar if a mostly unknown trade mark, albeit one which is very original, would receive less protection than a renowned mark.

IP department head **Monica Riva** of Clifford Chance LLP is lauded for the "commercial orientation of her strategies, her ability to communicate clearly and her efficiency." She is also praised for her cross-border capabilities and described as a "promising lawyer."

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LONDON/DÜSSELDORF
EMPLOYEE INVENTORS' REMUNERATION IN THE UK – "SHANKS V. UNILEVER PLC" – CONTRASTED WITH GERMAN LAW AND PRACTICE

The Court of Appeal of England and Wales decision handed down on 18 January 2017 in Shanks v. Unilever PLC and others[1] demonstrates again how difficult it is for UK employee inventors to obtain additional remuneration under Patents Act 1977, even for highly successful inventions. In Germany, however, it is significantly easier for employee inventors to claim remuneration from the employer

Facts of the case

The decision centred on patents for a testing device incorporating biosensors for diagnostic applications (the "**Shanks Patents**"). The primary inventor, Professor Shanks, was employed by Unilever in the 1980s, as a process engineer, to develop biosensors for use in process control and engineering. However, in 1982, he saw an opportunity to develop his product sensors to measure glucose or insulin levels in diabetics, using LCD liquid crystal plates in combination with electrodes and electrochemical methods, using capillary action. He developed an electrochemical capillary fill device (the "**ECFD technology**") and a fluorescent capillary fill device (the "**FCFD technology**"). Unilever applied for patents for each of these technologies. Unilever did not have a commercial interest in the blood glucose testing field and little was done to develop the ECFD technology.

The FCFD technology had application in other areas and was developed further by Unilever, before being sold in 1987 to a third party. The market for glucose testing devices then expanded significantly in the 1990s and the ECFD technology was incorporated into most personal glucose testing kits. Most companies in the blood glucose testing field took exclusive licences of the Shanks Patents between 1992 and 2001. Unilever received licensing revenues of £20.3 million. In 2001, the ECFD patents were sold as part of the divestment of a Unilever business

UKIPO's decision

Professor Shanks sought a share of Unilever's profits relating to the Shanks Patents. This was on the basis that the inventions covered by the Shanks Patents constituted an 'outstanding benefit', justifying the payment of compensation (under s.40 of the Patents Act 1977). The Hearing Officer at the UKIPO assessed the total benefit that

Key Issues

- The Court of Appeal of England and Wales decision in *Shanks v. Unilever PLC* again highlights the difficulty employees face when seeking additional remuneration for inventions they have created
- When considering whether an employee invention in the UK is of an outstanding benefit to an employer, the Courts must balance considerations of financial return against effort and cost. In doing so, the Courts are entitled to take into account the size and nature of the employer's undertaking.
- In Germany, employee inventions benefit from a detailed scheme regarding ownership and remuneration of employee inventions. Employees must implement an appropriate mechanism to claim inventions under the German Employee Invention Act in order to ensure chain of title.
- Under German law, it may be difficult to assess the adequacy of remuneration, in particular if an invention's economic success was not expected by the inventor at the time he received remuneration.

1 Ian Alexander Shanks v (1) Unilever PLC (2) Unilever NV and (3)Unilever UK Central Resources Limited [2017] EWCA Civ 2.

Unilever received as being £24.5 million. However, he considered that this did not constitute an 'outstanding benefit' to Unilever. This decision was then the subject of two appeals. The test in s. 41 Patents Act 1977 states that: "*an award of compensation … shall be such as will secure for the employee a fair share (having regard to all the circumstances) of the benefit which the employer has derived, or may reasonably be expected to derive, from the patent.*" This is read in conjunction with section 40(1), which requires the court to have regard "*amongst other things to the size and nature of the employer's undertaking*" when assessing if the employer has received an 'outstanding' benefit.

Court of Appeal

The Court of Appeal emphasised that its appellate function was limited to reviewing whether the initial decision made by the Hearing Officer was reached on the correct legal basis. It therefore could only set the decision aside if there was misdirection as to the correct statutory test or a misapprehension as to material facts. The Court also recognised that the Hearing Officer operates in a specialist tribunal. In practice the Court "*will show a real reluctance but perhaps not the very highest degree of reluctance to disturb the conclusions of the Hearing Officer on matters that are particularly within his expertise absent a clear and material error of principle.*"

The Court of Appeal contrasted the facts in the Shanks case with those of the *Kelly*[2] case, where the scientists developed an imaging agent, sales of which exceeded £1.3 billion. This invention was held to be an outstanding benefit, given the profits, but also because without the development of this product, the employing company would have been facing a serious financial crisis. The Kelly patents provided protection against generic competition and enabled the employer to complete a number of major corporate deals. This transformed the fortunes of the employer company and justified the award of a 3% share of the £50 million attributed to the value of the patents.

In *Shanks*, Unilever's central argument was that whilst £24.5 million was not an insubstantial sum, in the context of its turnover and profit as a whole, this sum was simply dwarfed by its other revenue streams. These revenue streams (deriving from the sales of a range of products from Viennetta ice-cream to deodorants) generate billions of pounds. Professor Shanks argued that the rate of return on the Shanks Patents was (i) produced at virtually no cost to Unilever, and (ii) yielded a windfall for Unilever for an invention it did not even want to put into production. There was also a large disparity between the benefit received by Unilever and the rewards which Professor Shanks received. He argued that the 'too big to pay' consideration (the relative size of the return from the Shanks Patents compared to Unilever group profits) was used to trump all other factors.

The Court of Appeal found that the Hearing Officer had compared the revenue from the Shanks Patents with overall Unilever profits for the same period, but had also looked whether this was 'outstanding' in light of all the facts. These facts included the

2 Kelly v GE Healthcare Ltd [2009] EWHC 181 (Pat).

Unilever group's activities in general, which make profits "*at an order of magnitude greater*" than the Shanks Patents, albeit by manufacture and at a much lower rate of return. He had also held that, unlike the *Kelly* case, the Shanks Patents were not crucial to Unilever's business success and the benefit fell short of being outstanding when taking into account the size and nature of Unilever's business.

The Court of Appeal held that the Hearing Officer had set himself a multi-factorial test which involved looking at the profits from the Shanks Patents in the context of Unilever group profits as a whole, as well as other relevant factors. The Hearing Officer recognised that raw figures by themselves may not give an answer and that it was necessary to take a more nuanced approach, balancing considerations of financial return against the effort and cost involved. Given the express statutory reference to considering the size and nature of the employer's entity, this "*mandates a determination of outstanding benefit by reference to that comparison*". The Court of Appeal emphasised that s.40(1) was designed to deal with exceptional cases so that there must be "*an outstanding benefit to the employer company and not just generally. Cases like Kelly illustrate the sort of circumstances where those conditions will be satisfied.*" Whilst the receipts from the Shanks Patents were considerable and far in excess of any other Unilever income of the same type, this was simply a factor to be considered. It did not remove the need to make a broader comparison with the financial position of the Unilever Group as a whole. The Court of Appeal found that the Hearing Officer had conducted an appropriate balancing exercise and did not decide that the only relevant (and determinative) factor was the size of the profits generated by the Shanks Patents in comparison to the overall profits of the Unilever group. As such, the Court of Appeal declined to overturn the Hearing Officer's findings.

The judges did acknowledge that they had reluctance in dismissing Professor Shanks' appeal and one (Briggs LJ) noted that '*there is no escaping the fact that Professor*

Shanks might well have succeeded had his employer had a much smaller undertaking than did Unilever'. However, this was a legitimate consequence of the express statutory requirement in s.40(1) and in some circumstances, this factor will prove to be decisive, as it was here on the facts in the *Shanks* case.

Employee inventors' remuneration in Germany

Cases like *Shanks* show that employee inventors in the UK face substantial difficulties when claiming additional remuneration for inventions made in the course of their employment. Germany, however, has taken a completely different approach. The German Employee Inventions Act ("GEIA") provides a detailed scheme in regard to the ownership and remuneration of employee inventions before any patent application is made. Unlike in the UK, the GEIA is generally based on the idea that any service invention is, in principle, owned by the employee (not by the employer).

Accordingly, to fall within the scope of the GEIA, the subject matter created must be an "invention" pursuant to the German Patent Act. Once the service invention is made, the employer may claim ownership, either by (i) expressly claiming the invention, or (ii) failing to release the invention within four months after the inventor's notice (Section 6 GEIA). Unlike in the first case where ownership is explicitly claimed, in the second case, the claim of the invention (i.e. the transfer of ownership to employer) is *presumed* by law. If the employee is employed by a research institute or university, the employee might be entitled to claim the invention instead of the employer.

Irrespective of whether the employer decides to disclose the invention via a patent application or keep it as trade secret, the employee can still obtain remuneration. The amount of remuneration – often a lump sum – is determined on the basis of various factors, such as the expected sales of the invention, the employee's position or the employer's contribution to the invention's creation (Section 9(2) GEIA).

However, as was the case in *Shanks*, significant deviations between the expected and actual profits made from the claimed invention may also become relevant under the GEIA. This is particularly with regard to any subsequent adjustment of already agreed remuneration pursuant to Section 12(6) GEIA. It is decided on a case-by-case basis whether the parties would have both agreed on the amount of remuneration if they had foreseen the significant change of circumstances at the time the contract was concluded. Due to the narrow application of that provision, it may be quite difficult for both inventors and employers to argue for any such later adjustments.

In contrast to UK law, the German approach favours employee inventors and gives rise to remuneration claims in addition to the employee's salary. The German approach incentivises conducting negotiations on adequate remuneration at quite an early stage after the invention's creation. However, determining how much remuneration is adequate may still be difficult in some cases and often requires technical advisors. In practice, the general lack of awareness of GEIA provisions, in particular the implementation of a proper reporting and claim scheme for employee inventions, is often a source for complex litigation.

MILAN
ITALIAN EMPLOYEE INVENTIONS: NO NEED FOR CO-INVENTORS TO BE JOINED IN AN ACTION BROUGHT BY A SCIENTIFIC DIRECTOR

An interesting judgment of the Italian Court of Cassation has recently confirmed the decision of the Court of Appeal of Rome. A scientific director of an Italian chemical-pharmaceutical company is entitled to ask for a special bonus called "equopremio" when his research team achieves an inventive result (in the present case: four industrial inventions aimed at the development of angiogenesis), even if the scientific director has already received payment for having performed his duties.

In addition, according to the Court of Cassation, there is no need for the other co-inventors to be joined in proceedings, as the right to ascertain the scientific director's entitlement to the "equopremio" is judicially separable from the rights of the other co-inventors.

This ruling offers cause for reflection on a matter which is not always consistent and often represents a source of problems for enterprises in Italy.

The Italian legal framework: general overview

The Italian legal framework that applies to inventions created in the course of employment by employees of private companies and public entities[1] is set out in Article 64 of the Italian Industrial Property Code ("**IIPC**").

There are three different scenarios:

1. Service Inventions (*invenzioni di servizio*): inventive activity is the core object of the employment relationship. As a result: (i) the attainment of an inventive result is a specific duty of the employee and (ii) a reasonable part of the employee consideration is specifically and unequivocally intended to remunerate the attainment of such an inventive result. Consequently, the employer owns the rights arising from the invention, whereas the employee only has the moral right to be recognised as the author. There is no additional compensation for the employee.
2. Company Inventions: (*invenzioni di azienda*): an invention is achieved in the course of employment, but there is no specific contractual obligation for the employee to achieve such a result and the contract does not provide for specific consideration for

Key Issues

- In Italian case law most inventions are deemed to be Company Inventions *(invenzioni di azienda)* which potentially result in the employee's right to the special bonus called *equopremio*.
- Even if the creation of an invention is provided for in the employment agreement as the sole or principal task of an employee, the right to the *equopremio* is always due when there is a failure to provide details on the specific compensation an employee would be entitled to for such a creation.
- A co-inventor employee does not require the participation of the other co-inventors when bringing an action to assess his entitlement to the *equopremio*. This simplifies the procedural dynamics in favour of the inventor employee.
- It is therefore necessary to pay careful attention to the preparation of employment agreements, seeking advice from experts well versed in drafting employment contracts with appropriate provisions.

1 An exception is made for rights to inventions by researchers employed by a University or a Public Administration Research Centre.

such an achievement. Again, the employer owns the rights arising from the invention. However, in addition to the moral right to be recognised as the author, an employee also has the right to receive additional compensation known as a "fair reward" (*equopremio)*[2].

3. Chance Inventions (*invenzioni occasionali*): the invention is achieved in the course of employment, but falls entirely outside the scope of the employee's contractual duties. In this case, the employer retains an option to use or purchase the invention against payment of a fee or price.

In Italian case law most inventions are deemed to be Company Inventions which potentially result in the right to an *equopremio*.

Often employment contracts do not clearly state whether attaining an inventive result is a specific duty, even if the employment directly involves duties performed by workers in the research and development sectors. Even more frequently, contracts do not detail what specific consideration is provided for an invention.

The discursive legislative report that accompanied the IIPC makes it clear that the rules governing employee inventions do not protect against the expropriation of the employee's inventive contribution. Rather, they protect the investments an enterprise has made in applied research, in particular for converting the inventive idea into a patentable invention. Indeed, the IIPC gives the Court's Specialised Intellectual Property Sections[3] the jurisdiction to rule on disputes regarding Article 64. In the past this was the jurisdiction of the labour courts.

The case of the scientific director

A case that recently came before the Italian Court of Cassation (First Division 07/10/2016, no 20239/2016, *Geymonat S.p.A. v. Mr. Ettore Conti*) relates to a dispute concerning Company Inventions following an action brought for the recognition of the right to an *equopremio*.

The uniqueness of the case derives from the fact that the four industrial inventions aimed at the development of angiogenesis had been achieved by a team of researchers and only the scientific director of the team (the "**Scientific Director**") brought an action against his employer, an Italian chemical-pharmaceutical company (the "**Employer**").

The Employer raised the following defences before the lower courts:

- the Scientific Director had not engaged in inventive activities. He was included on the patent certificates solely because he had managed the issuance process in his capacity as a representative of the Employer;

2 The right to obtain the equopremio shall be calculated on the basis of: (i) the importance of the protection afforded by the patent to the invention, (ii) the tasks carried out, (iii) the compensation already perceived by the inventor, and (iv) the contribution that the latter has received from the employer's organization. If no agreement is reached by the parties, the decision shall be rendered by a Board of Arbitration without prejudice, according to the prevailing opinion, to the right to recourse to the judicial authorities.

3 Now named Section for the Enterprises (Sezioni per l'Impresa).

- the Scientific Director had been already remunerated by the Employer for his activities;
- the Scientific Director had allegedly been "disinterested" in co-ordinating the research, giving the individual researchers autonomy;
- so-called "group" or "team" inventions are subject to rules on co-ownership and the action for an assessment of the Scientific Director's entitlement to *equopremio* concerned a patent which had a substantial relationship involving multiple persons. All members of the team were required to be parties to the legal action, which should result in the compulsory joinder of the parties (*litisconsorzio necessario*). Given the entire trial was held in the absence of the joint litigants (the co-inventors), it must be considered invalid.

The Italian Court of Cassation dismissed the appeal by the Employer and confirmed the decision by the Court of Appeal of Rome.

The Court of Cassation held that there were no flaws in the proceedings before the Court of Appeal of Rome which, in its indisputable opinion, held that the inventions at stake were Company Inventions. The Employer was also unable to prove that the Scientific Director had been disinterested in co-ordination activities. The Court of Cassation also held that it was not possible to dispute the Court's finding that the continual monitoring of and discussions during periodic meetings with researchers constitute inventive activities suitable for enabling the Scientific Director to obtain the *equopremio*.

The Court established that an action seeking an assessment of entitlement to *equopremio* owed to a co-inventor employee does not require the mandatory participation of the other co-inventors/team members in the proceedings. The claim does not concern the performance of an obligation "*inseparably connected to those relating to other co-inventors*" and the right to the *equopremio is not a "unitary right"* involving various inventors. In these proceedings, it was only necessary for the Court to verify that the existence of the Scientific Director's entitlement to an *equopremio* (*an debeatur*) and not to quantify that reward (*quantum debeatur)*.

Conclusions

The case decided by the Supreme Court demonstrates that even if the employee is a researcher, or the head of a research team, and therefore in all probability is paid to carry out inventive activities (in this case to co-ordinate other researchers), he or she may still be entitled to the *equopremio*. Even if the realisation of inventive research is set out in the employment agreement as the sole or the principal task of the employee, the right to the *equopremio* is always due where the contract fails to provide specific compensation for the achievement of an inventive result.

It appears that the solution adopted by the Italian Court of Cassation is open to criticism since carrying-out research activities in a chemical-pharmaceutical company is certainly not an end *in itself*. Rather, those activities must be intended to result in the attainment patentable solutions.

Therefore, at the very least it should be necessary to verify whether the consideration paid to an employee is wholly intended to remunerate the inventive research and any possible invention, which would render any additional compensation superfluous.

The fact that the other co-inventors were not considered as mandatory joint litigants simplifies the dynamics of proceedings in favour of the inventor employee, frustrating the previous defence by the employer that had a deterrent effect on the commencement of proceedings (in view of the need to verify the existence of the right of co-inventors to join proceedings).

It is therefore necessary for employers to pay special attention to the preparation of employment agreements and obtaining expert advice when employing persons accountable for research activities, in order to avoid having to pay additional and sometimes burdensome consideration.

DÜSSELDORF
COMPULSORY LICENCE FOR HIV-DRUG IN GERMANY

Introduction

Under German law, patents confer an absolute right on their owners in two ways: (i) a positive right to make use of the technology subject to the patent, and (ii) a negative right to exclude others from that use. In some cases, that right does not apply if public interest surpasses the owner's interest in the exclusive commercial exploitation of the patent, forcing the patent owner by law to grant a licence to a third party or even a competitor. Section 24 of the German Patent Act ("**GPA**") stipulates that a "compulsory licence" can be granted if certain pre-requisites set out in the statute are met. However, due to their highly exceptional nature, very few compulsory licences have been granted. Thus, the recent decision by the German Federal Patent Court (file number 3 LiQ 1/16) which resulted in the grant of a compulsory licence to the antiretroviral compound Raltegravir to the US-company Merck for the German market is noteworthy and prompts further discussion of the pre-requisites of Section 24 GPA.

Pre-requisites of Section 24 GPA

Section 24 GPA is one of the few exceptions to the fundamental right to property conferred by Article 14 of the German constitution. As such, until recently there was only one decision granting a compulsory licence (later overturned by the Federal Supreme Court, see BGH GRUR 1996, 190 – *Interferon-gamma/Polyferon*) in the 55-year history of the German Federal Patent Court. The statute's high standards set out that four pre-requisites must be met: (i) the licence must concern a patent or a utility model; (ii) the licence seeker must want to commercially use the invention; and (iii) the licence seeker must have already earnestly tried to enter a licence agreement with the patent owner based on reasonable market terms; and (iv) the grant of the compulsory licence must also be in the public interest, the burden of proof resting on the licence seeker.

Whereas the first three conditions usually do not constitute an obstacle, the factor "public interest" is typically the decisive factor as to whether a compulsory licence will be granted (with some statutory exceptions, such as regarding plant variety rights in Section 24 par. 3 GPA or semiconductor technology in Section 24 par. 4 GPA). There is no strict legal definition of the term "public interest", but rather it is construed in accordance with the facts of the individual case. Over the years, German and European courts have developed three main areas of application where a compulsory licence might be justified: (a) general economical aspects; (b) socio-political objectives; and (c) medical reasons regarding the treatment of serious diseases.

Background of Merck v. Shionogi

Shionogi is the owner of the European patent (EP 1422218) for the compound Raltegravir, an antiretroviral drug. Merck manufactures and markets the drug "Isentress", an approved medication used for the treatment of HIV-patients encompassing Raltegravir. As the parties' negotiations regarding the grant of a global

Key Issues

- In exceptional cases, Section 24 GPA grants a compulsory licence to a patent to a third party.
- A market-leading HIV-drug may be subject to a compulsory licence if it is in the public interest. The public interest can outweigh the patent owner's interest to exclusively exploit the patent if, e.g., alternative drugs are not as effective or entail serious side effects.
- In particularly urgent cases, the compulsory licence can be granted via preliminary injunction.
- The principles of anti-trust law developed with regard to FRAND-terms do not apply to Section 24 GPA.

licence were unsuccessful (Shionogi considered the USD 10,000,000 offer too low), Shionogi filed a suit for patent infringement before the Regional Court of Düsseldorf (file number: 4c O 48/15)

In defence, Merck initiated compulsory licence proceedings before the Federal Patent Court, requesting such a licence in the main issue (file number: 3 Li 1/16) as well as filing a preliminary injunction as Merck considered the use of Raltegravir/Isenstress indispensable for the successful treatment of HIV-patients in Germany.

The facts of the present case are quite similar to the situation in *Polyferon*. In that case, the defendant held a patent to the drug Interferon, a highly effective compound for the treatment of rheumatoid arthritis. The claimant, a competing business, sought to licence the original drug from the defendant without success and thus filed a suit in order to acquire a compulsory licence pursuant to Section 24 GPA. Although the claim was finally dismissed by the Federal Supreme Court, the legal principles developed by the Federal Patent Court in *Polyferon* to determine the public interest in a compulsory licence on medicaments were also applied in the present case (see below).

FRAND-terms of anti-trust laws not applicable

Pursuant to Section 24 GPA, the licence seeker must seriously declare its general willingness to enter a licence agreement on reasonable commercial terms. As Merck had made a reasonable offer to Shionogi, the Court considered that requirement to be fulfilled. It was also highlighted that the principles established for granting a compulsory licence under anti-trust laws with respect to **f**air, **r**easonable and **n**on-**d**iscriminatory (FRAND) licences, were not applicable under Section 24 GPA.

Application of the Polyferon case law

In *Polyferon*, the Federal Supreme Court ruled that in order for a medicament to fulfil the requirement of “public interest”, it (i) must treat a serious disease that (ii) cannot be

treated by a comparable product or (iii) only so with considerable side effects. As the Federal Patent Court relied on the *Polyferon* case law, Merck, carrying the burden of proof, had to establish the abovementioned pre-requisites.

Merck argued that since HIV-infections were considered to be both infectious and lethal, thus a "serious disease", public interest demanded that treat HIV-patients should be treated as effectively as possible. Accordingly, while there might have indeed been alternative compounds like Dolutegravir on the market, the court appointed experts confirmed that the replacement of Isentress with another drug was not acceptable given potential life-long side effects and disadvantageous drug interaction due to the exchange.

Further, the expert also stated that Raltegravir showed particular advantages in the post-exposure prophylaxis and in the treatment of certain patient groups (e.g. babies, infants, pregnant women and long-term patients). In consequence, as the other pre-requisites of Section 24 GPA were fulfilled, public interest outweighed Shionogi's interest in the exclusive exploitation of the patent at issue.

Compulsory licence by preliminary injunction

The present case is highly unusual not only because of the grant of a compulsory licence to the patented drug, but also and in particular because it happened in preliminary proceedings (Section 85 GPA). Under German law, a preliminary injunction is granted under urgent situations which pose serious risks for rights and/or the property of a claimant or – in case of Section 85 GPA – of the public (e.g. public health). Accordingly, as a quick decision is required, the court will perform only a summary review of the facts and the respective legal interests at issue until a final decision is reached in the main proceedings.

Therefore, given that compulsory licences are fundamentally rare exceptions to the constitutionally guaranteed right of ownership, the Federal Patent Court – without examining the entire matter in every detail – must have considered the public interest regarding HIV-treatment by Raltegravir as extremely strong, concluding that an immediate decision was necessary. However, the Court might decide otherwise in the main proceedings once considering all the facts at hand.

Conclusion

The Court's final judgment in the main proceedings is still awaited and it is unclear whether the decision will be confirmed here as well as on appeal before the Federal Supreme Court. In light of *Polyferon*, the Federal Supreme Court might apply a much stricter regime with regard to Section 24 GPA once again and reject the compulsory licence granted to Merck.

Time will tell whether the present case remains an isolated case or becomes settled case law with regard to patents in the medical field. Manufacturers in the medical field as well as their competitors however should be aware of this landmark decision with regard to market-leading drugs used for the treatment of particularly serious diseases.

LONDON
ARROW DECLARATIONS AS PERMITTED REMEDIES – "FUJIFILM KYOWA V ABBVIE"

The English Court of Appeal has held in *Fujifilm Kyowa Kirin Biologics Co., Ltd v AbbVie Biotechnology Limited and AbbVie Limited* that *Arrow* declarations can be granted as permitted remedies. This decision will in some cases provide generic manufacturers with more certainty when looking to enter the market, provided they are able to prove there is a real justification for such an *Arrow* declaration.

Key Issues

- The Court of Appeal has ruled that *Arrow* declarations can be granted as permitted remedies.
- A sufficient case must be made for an *Arrow* declaration for these to be appropriate remedies.
- This decision should give more certainty to generic manufacturers looking to enter the market.

Background

The dispute before the Court concerned AbbVie's monoclonal antibody Humira (adalimumab) specific for human tumour necrosis factor α. Humira is claimed to be the largest selling prescription drug in the world and is used to treat several inflammatory diseases such as rheumatoid arthritis, psoriasis, Crohn's disease and ulcerative colitis. The expiration of AbbVie's basic patent for adalimumab is extended through a supplementary protection certification, which expires on 15 October 2018. However, AbbVie filed over 50 patent applications seeking to protect dosage regimens, formulations and uses for Humira in order to extend protection past the basic patent's expiry date (including the SPC).

Fujifilm Kyowa Kirin Biologics Co., Ltd ("**FKB**"), a joint venture between Fujifilm Corporation and Kyowa Hakko Kirin Co., intends to market a generic biosimilar adalimumab product following the expiry of the basic Humira patent and its associated SPC. Due to the number of additional patents AbbVie held, FKB brought claims against AbbVie (claims FKB1 and FKB2) seeking revocation of two of AbbVie's granted patents relating to dosage regimes for rheumatoid arthritis and psoriasis.

Shortly after FKB brought proceedings against AbbVie with respect to these patents, AbbVie informed the EPO that it disapproved of the text of the two patents which resulted in them both being revoked for all designated states, including the UK. At the same time, both patents had divisional applications pending. FKB argued that by having divisional applications pending whilst revoking the underlying patents, AbbVie was avoiding having the courts assess patentability whilst also attempting to ensure that the subject matter would be maintained by the divisional applications, causing uncertainty for FKB's entry into the market.

Arrow Declarations and Appeal

As FKB believed it would take several years for the EPO to decide on the patentability of the divisional applications, FKB amended its pleadings. Specifically, FKB sought *Arrow* declarations[1] that the sale and disposal of its biosimilar adalimumab product

would have been obvious or anticipated the dosing regimens for psoriasis, Crohn's disease and ulcerative colitis claimed by AbbVie's divisional applications. FKB sought such an *Arrow* declaration as it would, in effect, provide FKB with a *Gillette* defence to any subsequent claims for patent infringement brought in respect of AbbVie's divisionals. The *Arrow* declarations would therefore provide FKB with commercial certainty against those applications when entering the market.

In the original High Court decisions for both FKB1 and FKB2, Henry Carr J and Arnold J each declined to strike out the claims by FKB for *Arrow* declarations. The appeal brought by AbbVie questioned whether the Court could grant a declaration stating whether a product was old or obvious in patent law at a particular date. AbbVie challenged the ability of the Court to grant this remedy, claiming that section 74 of the Patents Act 1977 (the "**Act**") indicates that validity can only be raised in relation to granted patents and that to allow *Arrow* declarations would open the floodgates so that, for example, a claimant in another jurisdiction could come to an English court for a declaration that a product is obvious simply because it would be useful for him in connection with his business there.

Judgment and Analysis

In assessing whether *Arrow* declarations could be granted, the Court found that in principle there is no issue in granting *Arrow* declarations in appropriate cases. Such a declaration would not necessarily offend against section 74 of the Act, although where a declaration is, in effect, a disguised attack on the validity of a granted patent it could offend. The Court found that the existence of pending divisional applications cannot, in and of themselves, be sufficient justification for granting an *Arrow* declaration. Furthermore, a claimant is not entitled to seek an *Arrow* declaration simply because they would like to know whether a patent application will result in a valid patent in the course of prosecution. Ultimately, the Court reasoned that whether an *Arrow* declaration is justified depends on whether a sufficient case can be made for the exercise of the Court's discretion in accordance with established principles. In this instance, the Court decided that the way AbbVie appeared to act "resulted in a case for the Court to intervene by way of declaration to provide FKB with a measure of useful commercial certainty."

The Court specifically noted how AbbVie was seen as deliberately trying to shield the claims of their patent applications from scrutiny in the EPO and in the national courts. As such, it held that a Court was entitled to intervene where it believed that the statutory remedy was being frustrated by shielding subject matter from examination in the national court. The decision to allow *Arrow* declarations highlights the overarching discretion a Court has in providing remedies. Going forward, it also indicates that generic manufacturers may be provided with greater certainty earlier on when attempting to enter the market.

1 These Arrow declarations originate from Arrow Generics Limited v Merck & Co. Inc.

BARCELONA
THE NEVER-ENDING STORY: THE CJEU FACES A NEW WAVE OF REFERRALS ON THE INTERPRETATION OF THE REGULATION CONCERNING SPCS FOR MEDICAL PRODUCTS

Council Regulation 1768/92/EC of 18 June 1992, concerning the supplementary protection certificates for medicinal products ("**SPC**"), codified as European Parliament and Council Regulation 469/2009/EC of 6 May 2009 (the "**SPC Regulation**"), was enacted almost 25 years ago with the intention of providing a clear and uniform framework for the homogeneous grant of SPCs across the European Economic Community. In spite of this good intention, the IP authorities and the Courts of the different Member States still apply the SPC Regulation in a heterogeneous fashion. It is therefore not surprising that the SPC Regulation continues to be today a regular source of referrals of questions from national Courts to the Court of Justice of the European Union ("**CJEU**").

Evidence of this endless stream of questions to the CJEU is exemplified by three recent cases that will be briefly reviewed below, where national Courts seek guidance on the interpretation of Articles 3(a), 3(d) and 13 of the SPC Regulation.

The Gilead case (Article 3(a) SPC Regulation)

Article 3 of the SPC Regulation sets the requirements for the grant of an SPC. In particular, Article 3(a) determines that the "Product" for which an SPC is being applied for must be *"protected by a basic patent in force"*. According to Article 1(b), "Product" is the active ingredient or combination of active ingredients of a medicinal product.

The meaning of "*protected by a basic patent in force*" within Article 3(a) has been the subject matter of several referrals to and decisions from the CJEU, particularly in cases where applicants had applied for SPCs for "Products" consisting of combinations of two or more active ingredients, relying on basic patents, the claims of which referred to one of said active ingredients only. In its controversial Judgment in the *Medeva* case (C-322/10), the CJEU took the view that Article 3(a) was not satisfied in cases where the combination of active ingredients was not "specified" in the wording of the claims of the basic patent. In *Actavis vs Sanofi* (C-443/12),

Key Issues

- The SPC Regulation has been a regular source of requests for preliminary rulings to the CJEU since it was enacted 25 years ago.
- The UK Courts are ready to once again ask the CJEU what the criteria are for deciding whether a combination of active ingredients is *"protected by a basic patent in force"* within the meaning of Article 3(a).
- The CJEU will have to decide if, for the purposes of Article 3(d), its findings in *Neurim* should be confined to new therapeutic uses of old active ingredients, or if they also apply to new formulations of old active ingredients.
- The Hungarian Courts want to know whether the national IP authorities are required to rectify, of their own motion, the expiry date of a granted SPC in order to ensure that said expiry date is determined in accordance with the interpretation of Article 13 set out in *Seattle Genetics* (C-471/14).

the CJEU drew a line between active ingredients which represent *"the core inventive advance that is the subject of the basic patent"* and *"other active ingredients, not protected as such by the basic patent but simply referred to in the wording of the claims of the patent in general terms"*. In *Actavis vs Boehringer* (C-577/13), the CJEU found that in order for a basic patent to protect "as such" an active ingredient within the meaning of Article 3(a), that active ingredient should constitute *"the subject-matter of the invention covered by the patent"*.

In the case under review, the basic patent, held by Gilead Sciences Inc. ("**Gilead**"), relates to compounds in accordance with two Markush formulae: (1) and (1a). The specification of the patent states that said compounds may be formulated alone or with *"other therapeutic ingredients*". Claims 1-25 of the patent refer to compounds of formulae (1a) and (1) and Claim 27 reads *"A pharmaceutical composition comprising a compound according to any of claims 1-25 […] and optionally other therapeutic ingredients"*. Gilead obtained a marketing authorisation ("**MA**") for the medicinal product Truvada®, a combination of two active ingredients, tenofovir disoproxil ("TD") and emtricitabine. While TD is one of the compounds of formulae (1a) and (1), emtricitabine is not mentioned at all in the patent. Gilead applied for and obtained an SPC for the combination of TD and emtricitabine, relying on said basic patent and the MA for Truvada®. The grant of this SPC was challenged by several generic manufacturers, on the grounds that it did not comply with Article 3(a). In essence, they argued that this combination of active ingredients was not "specified in the wording of the claims", nor did it constitute the "core inventive advance" or the "subject-matter of the invention covered by the basic patent". Gilead, in turn, contended that Article 3(a) was satisfied because this combination fell within the scope of protection of Claim 27 of the basic patent.

In light of these facts, on 13 January 2017 Mr Justice Arnold, feeling that the answers provided by the CJEU to the above-mentioned referrals were not clear enough, decided to ask the CJEU, once again, *"[w]hat are the criteria for deciding whether the product is protected by a basic patent in force in Article 3(a) of the SPC regulation"*.

The Abraxis case (Article 3(d) SPC Regulation)

This second case concerns the anti-cancer product paclitaxel. This product was first marketed as a medicinal product under the tradenames Paxene® and Taxol®. Abraxis Bioscience LLC ("**Abraxis**") developed a new formulation for paclitaxel, described as "paclitaxel formulated as albumin bound nanoparticles" or "nab-paclitaxel". It is marketed as Abraxane®. This new formulation is the subject-matter of a European patent. Abraxis applied for an SPC for "nab-paclitaxel" but the UKIPO rejected it on the grounds that it did not comply with Article 3(d). Article 3(d) requires that the MA on which an SPC application is based must be the *"first authorisation to place the Product on the market as a medicinal product"*.

In essence, the UKIPO regarded "nab-paclitaxel" and paclitaxel to be the same "Product", so the Abraxane® MA was not regarded as the first one to place the "Product" on the market. Likewise, the UKIPO found that, while Article 3(d) permitted

the grant of an SPC for a new and inventive *therapeutic use* of an old "Product", it did not allow the grant of an SPC for a new and inventive *formulation* of an old "Product".

With regard to the same or similar issues, the CJEU has handed down preliminary rulings finding that an SPC should not be granted for a product subject to an MA for human use where the same product had been the subject of an earlier MA for veterinary use (*Pharmacia* C-31/03); and that the grant of an MA for a different therapeutic use of a known active ingredient did not turn said active ingredient into a different "product" within the meaning of Article 1(b), hence not permitting the grant of an SPC for said product based on a new MA for said second indication (*Yissum* C-202/05). However, the CJEU found in *Neurim* (C-130/11) that the mere existence of an earlier MA obtained for a veterinary medicinal product did not preclude the grant of an SPC for a later, different application of the same product for which an MA had been granted, provided that said MA was the first one falling within the scope of the second use basic patent relied upon for the purposes of the application for the SPC.

Given this background, on 13 January 2017 Mr. Arnold, who expressed his doubts as to whether *Neurim* should be confined to cases of new therapeutic uses of old products or whether it could also be applied to cases of new formulations of old products, decided to refer a question to the CJEU the substance of which will be *"[i]s article 3(d) of the SPC Regulation to be interpreted as permitting the grant of an SPC where the marketing authorisation referred to in Article 3(b) is the first authorisation within the scope of the basic patent to place the product on the market as a medicinal product and where the product is a new formulation of an old active ingredient?"*.

The Incyte Corporation case (C-492/16) (Article 13 SPC Regulation)

Another pending case before the CJEU concerns a request for a preliminary ruling from the Hungarian Courts (Fővárosi Törvényszék) lodged on 14 September 2016.

The questions referred relate to the possibility of rectifying the expiry date of an SPC granted by means of a final administrative decision. Article 13 of the SPC Regulation states that the term of an SPC is equal to the period elapsed between the date on which the application for a basic patent was lodged and "*the date of the first authorisation to place the product on the market in the Community*" reduced by a period of five years. The CJEU clarified in *Seattle Genetics* (C-471/14) that, for the purposes of Article 13, the date of the first authorisation to place the product on the market in the Community is the date on which **notification** of the decision granting MA was given to the addressee of the decision. Before *Seattle Genetics*, the term of many SPCs had been determined with regard to the (generally earlier) date of the MA, rather than its notification date. The question that immediately followed was whether it was possible to rectify the term of an already-granted SPC which had not been determined according to *Seattle Genetics*.

Congratulations to our Spanish Team!

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This is a controversial issue not only in Hungary, but in many other countries including Spain, where the Spanish Patent Office has taken the view that neither the SPC Regulation nor the local administrative provisions allow for the rectification of final decisions, even if they conflict with the doctrine set out by the CJEU later on. This approach may need to be revisited if the CJEU gives a preliminary ruling indicating that the expiry date of an SPC should be amended in these cases.

It will be worth noting the answers given by the CJEU to this new wave of referrals. It remains to be seen if they will provide more certainty on the application of the SPC Regulation across the European Union.

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

DÜSSELDORF
COPYRIGHT INFRINGEMENT BY HYPERLINKING TO ILLEGAL CONTENT – APPLICATION OF "GS MEDIA V SANOMA" IN GERMANY

In the previous edition of our Newsletter, we discussed *GS Media v Sanoma* ("**GS Media**"), a landmark decision by the Court of Justice of the European Union ("**CJEU**") regarding the question of whether the act of posting a hyperlink to illegal copyright content hosted on a third-party website constitutes a copyright infringement. On 18 November 2016, the Regional Court of Hamburg (the "**Court**") recently applied the CJEU's principles in a preliminary proceeding, considering the hyperlink at issue as an act of communication to the public within the meaning of Article 3(1) of the InfoSoc Directive (the "**Directive**").[1]

Background and Facts of the Hamburg-case

In the course of *GS Media*[2], the CJEU concluded that hyperlinking to unlawful sources is an act of "communication to the public" under Article 3(1) of the Directive if (i) the person setting the link knows or ought to know that the content on that other website was published illegally, or (ii) the hyperlink was posted for profit (implying the (rebuttable) presumption of infringer's knowledge).

Closely following the CJEU's decision, the Court had to decide on a similar set of facts.[3] In the present case, the claimant was the author of a photograph of the historic courthouse of the German Federal Administrative Court in Leipzig, published on the website Wikimedia Commons and protected under a Creative Commons licence ("**licence**").[4]

The defendant's personal website contained a link to a website hosting a modified version of the claimant's photograph with several UFO-like objects added to the sky above the courthouse ("**UFO-version**"). The modification was published and linked by the defendant without complying with the licence. In consequence, the claimant filed suit at the Court for copyright infringement, asserting injunctive relief.

Key Issues

- Hyperlinking can be considered as "communication to the public" within the meaning of Article 3(1) of the InfoSoc Directive if two prerequisites are met: the objective condition of it being a *new* communication to the public and the subjective condition of the *fault* of the person providing the link.
- Whenever a hyperlink is "posted for profit" a stricter scale of fault applies, imposing broad legal obligations on the linking person to undertake all the relevant checks to secure in advance that the hyperlinked content on their website was not published without authorisation.
- A hyperlink is posted with the intention to realise profits if the website it is posted on has a commercial nature in and of itself.
- For now, owners of commercial websites should first check whether any linked pictures might infringe third-party copyright and, if in doubt, not post the link and/or preferably seek advice from an IP attorney.

1 Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society.

2 CJEU 8 September 2016, C-160/15 (GS Media BV v Sanoma Media Netherlands BV and others).

3 Regional Court of Hamburg 18 November 2016, 310 O 402/16.

4 See "commons.wikimedia.org/wiki/File:BVerwG_in_Leipzig.jpg".

The decision

By granting the injunction, the Court based its ruling on Section 19a of the German Copyright Act ("**GCA**") implementing Article 3(1) of the Directive into German law. Article 3(1) of the Directive defines the scope of an author's exclusive right to make a work protected by copyright publicly available by wire or wireless means. The Court held that the author's exclusive right to publish its work had been infringed, considering the UFO-version a "modification" of the original work pursuant to Section 23 GCA, that may be exploited only with the author's consent.

One possible act of exploitation may be the "communication to the public" of the modified work. However, whether hyperlinking constituted such a communication had to be determined on the basis of the principles set out in *GS Media*. Accordingly, the Court highlighted two prerequisites in the CJEU's decision:

- First, the hyperlink at issue must be a "new" communication to the public, requiring the existence of an audience having access the author had not thought of at the time of the first publication of the work.
- Second, the person presenting the hyperlink must have acted culpably in doing so, obliging infringers to make further inquiries with regard to the source of a work if the infringers posted the link "for profit".

Here, as the claimant had never consented to the publication of the UFO-version, the hyperlink was deemed a new communication. In addition, the terms of the Creative Commons licence were not met as the picture in dispute lacked any references.

However, the second prerequisite of "posted for profit" required the Court to take a deeper analysis.

Broad interpretation of "posted for profit"

Since the CJEU did not provide any guidance on the nature of "posted for profit", the Court had to decide which particular actions must be carried out based on such intent: (i) the setting of the hyperlink itself, (ii) the operation of the sub site containing the hyperlink, or (iii) the operation of the website as such?

The Court first clarified that "posted for profit" was not to be understood in a narrow sense, such as posting a link in the context of price-per-click models, where each click on that link generates a certain amount of income. Rather, the Court interpreted the requirement of "posted for profit" was a point of departure to determine whether the specific circumstances of the case required the alleged infringer to ensure in advance that the linked content was not infringing any third-party copyright.

In light of that broad interpretation, the Court found that the website in general had to be of a commercial nature, and not just the hyperlink itself. In case the linked content infringes copyright, the person posting the link is placed under the rebuttable presumption that the link was posted in full knowledge of the lack of the copyright holder's consent.

In this case, the defendant sold teaching materials over its website. Thus, due to the website's generally commercial nature, the defendant did not comply with its obligation to check for any potential copyright infringements when posting the link.

The German constitution and the EU Charta

In the proceedings, the defendant also raised the issue of whether the CJEU's decision in *GS Media* violated German constitutional law and the EU Charter of Fundamental Rights.

However, the Court followed the detailed analysis of *GS Media*. Accordingly, it made clear that the established principles of EU law aimed at creating an acceptable balance between an author's interest in the effective protection of their intellectual property and a person's interest in posting a link to communicate to the public, while also taking into account the circumstances of each individual case.

Reception of the decision and outlook

The broad definition of "posted for profit" stirred some criticism by the jurisprudence as well as the general public due to the tremendous ramifications for website owners given websites encompassing any commercial purpose whatsoever would be included. It should be noted that the judgment was issued in the first instance and was not appealed by the defendant, thus not giving an appellate court to reconsider the arguments. Further, the preliminary nature of the injunction did not allow a thorough analysis of all facts of the case by the Court. Thus, time will tell whether the present decision remains an isolated case or whether other German courts, in particular the German Federal Court of Justice, will follow the broad interpretation suggested by the Court.

For now, owners of commercial websites should first check whether any linked pictures might infringe third-party copyright and, if in doubt, not post the link and/or preferably seek advice from an IP attorney. Otherwise, the commercial website owner might be held liable for posting the link in full knowledge of the possible lack of the copyright holder's consent. Practically speaking, however, it will be difficult for the average person to properly assess whether a picture or any other file hosted on a third-party server infringes copyright, leading to a decrease in legal certainty in the online world. In any event, *GS Media* will continue to pre-occupy courts all over the EU in the coming months.

HONG KONG
ALIBABA SUES COUNTERFEITER IN IP FIRST FOR CHINA

Alibaba has lodged a case in the Shenzhen Longgang People's District Court against the defendants Liui Huajun and Wang Shenyi, seeking RMB1.4 million (US$203,000) for what it claims are contract and goodwill violations. The court has accepted the complaint made by Alibaba and the case is presently pending a court hearing.

Alibaba claims that the vendors (i) have violated the service contract between Taobao and the vendors, and (ii) have also infringed Taobao's goodwill and reputation. According to the terms of an unverified standard Taobao service agreement (uploaded by a third party online), any vendor using the site is obliged to ensure that any information it publishes on the site does not infringe any third party's IP rights, trade secrets or other proprietary rights.

The action comes amidst persistent complaints that fake goods are being sold widely on its websites. Just two weeks before the case was lodged, the US put Taobao back on its list of so-called *"notorious marketplaces"* known for the sale of counterfeit goods after four years of being in the clear. Alibaba executives reportedly claimed this was a political move in what was a US-election year.

Taobao reportedly conducted a data analysis which indicated that the store, which first registered on Taobao in November 2015, was likely selling counterfeit products. It used a combination of (i) *"mystery shopping"*, where purchasers working for the company make what appear to be normal purchases, and (ii) big data to identify the counterfeit products and locate the sellers. Alibaba then arranged for Swarovski to examine the quality, workmanship and packaging of the purchased samples to confirm the products were fake.

Swarovski said that it was committed to protecting its brand from counterfeits and praised Alibaba's efforts to protect the integrity of its brand and the platform as a whole. A statement released by Swarovski stated, *"Swarovski has cooperated with Alibaba on cases against sellers who are offering Swarovski counterfeits on Alibaba platforms and applauds any steps Alibaba takes to discourage counterfeiters from selling on Alibaba platforms."*

Last year, police in the Luohu district of Shenzhen (just across the border with Hong Kong), seized 125 fake Swarovski watches and two company official seals, with a total value of RMB 200 million (USD 29 million). Alibaba also collaborated with authorities in an anti-counterfeit crackdown in the Zhejiang Province called *"Cloud Sword"*. The operation which took place between April and July 2016, led to the closure of more than 400 production lines, the arrest of 332 suspects and the seizure of fake goods valued at RMB 1.43 billion (USD 208,000).

Key Issues

- Alibaba has taken legal proceedings against vendors who are alleged to have sold fake watches on its Taobao platform.
- This is thought to be the first instance of an e-commerce platform taking a counterfeiter to court in China.
- The proceedings have been accompanied by a concerted anti-counterfeiting drive involving 2,000 of the group's employees.

Alibaba says that its anti-counterfeiting drive is ongoing and that it has more than 2,000 full time employees and 5,000 "volunteers" who identify and root out fakes. Jessie Zheng, Alibaba Group's chief governance officer has said that more actions can be expected in the future. *"Selling counterfeits not only violates our service agreement, it also infringes on the intellectual property rights of the brand owner, puts inferior products in the hands of consumers and ruins the hard-earned trust and reputation Alibaba has with our customers."*

Alibaba has also issued proceedings against the intellectual property agency *Hangzhou Wangwei Technology Co* which is accused of having made malicious or false IPR complaints against Alibaba vendors. It has been reported that Hangzhou Wangwei has made thousands of complaints to Alibaba covering hundreds of brands related to clothing, shoes, cosmetics and household appliances. Alibaba is asking for RMB 1.1 million (USD 160,000) in compensation and an apology. The case has been accepted for hearing by the Beijing Dongcheng District People's Court.

Alibaba hopes that by defending its intellectual property and pursuing infringers more vigorously in court, the threat of prison sentences and large fines will remove the incentive for counterfeit sellers to continue to abuse the platform. Whether Alibaba's actions help convince the new Trump administration to remove Taobao from the *"notorious marketplaces"* list remains to be seen.

PARIS
LEGAL REFORM BRINGS CHANGES TO FRENCH CONTRACT LAW

Order n°2016-131 of 10 February 2016 (the "**Order**") reforming French contract law consecrates long established case law solutions. The Order, written with a "thousand and one hands", pursues the constitutional objectives of (i) comprehensibility of the law, and (ii) improving legal certainty. The reform contributes to the overall reputation and attractiveness of the French legal system.

Key Issues

- A recent order has brought changes to French contract law.
- The changes provide additional legal certainty and reflect many case law principles already established in France.
- Although the reform pertains to contract law more generally, there are numerous implications for IP related contracts.

Although this reform does not include specific provisions on IP contracts, it is still pertinent to the area. IP contracts traditionally cover matters such as licenses and [...] assignments of copyright, trademarks, patents and designs. Even if the French Intellectual Property Code is the main source of law for these types of contracts, the contracts will still be subject to ordinary contract law. The new Article 1105 provides that "*general rules apply subject to these specific rules*". The adage "*specialia generalibus derogant*" allows for the resolution of conflicts between the different areas of law by applying French civil code provisions to complete any gaps and correct inaccuracies between specific laws which concern intellectual property.

This major reform entered into force on 1 October 2016 and should be adhered to when drafting contracts. The new provisions establish more legal certainty when parties negotiate, finalise and enter into contracts.

The pre-contractual period

The obligation to provide pre-contractual information

The French Civil Code of 1804 treated consent to a contract, which had been provided, as invalid where certain information was withheld in the pre-contractual period. The reform takes a more preventative approach and imposes a new "duty to speak". The new Article 1112-1 of the French Civil Code enshrines an obligation on a party to a contract to provide certain information to the counterparty when such information, when known, would affect the counterparty's consent to the contract. The obligation only concerns the provision of certain information which the other party is not aware of, so it is not a requirement for complete transparency. The Article indicates that the burden of proof rests on the victim who must show what the effect hiding the information would have had.

Where contracts relating to IP rights are concerned, it is imperative that the parties to a contract identify crucial aspects of any commitments, such as exclusivity rights or the ability to commercialize a specific product. The obligation to provide certain pre-contractual information cannot be limited or excluded by the parties, who should meet these requirements regardless of the quality of the contracts. A mental element is not required in order for there to be a breach of these rules, so even if withholding information was not intended there may still be a breach. In the event of a breach, the rules of tortuous liability apply. Another sanction that may still apply is the potential

cancellation of a contract if there is proof consent should be invalidated. However, as stated in article 1112-1 of the French Civil Code, the mere violation of this pre-contractual obligation to provide information is not sufficient to obtain contract cancellation.

The requirement of good faith negotiations

While the pre-contractual phase was not regulated by the French Civil Code of 1804, the new reform introduced by the Order does cover this. The principle of good faith has a role in the formation of a contract and is not solely an element in the execution stage. Among the various principles contained in this reform, the principle of good faith is the only one that is of public order, which denotes its importance.

The parties will not be able to act in bad faith nor limit the scope of the duty to act in good faith. Thus, the new Article 1112, subparagraph 1, of French Civil Code provides that "*the initiative, the conduct and the breakdown of pre-contractual negotiations are free. The principle of good faith should be respected during these phases*".

Subparagraph 2 of Article 1112 enshrines the principle of contractual freedom and, through it, the Manoukian judgement. According to this judgment, it is not immediately wrong to refuse to conclude a contract even after negotiations have started. If the negotiations breakdown, it is up to the victim to provide proof of any damage actually suffered, including ratification costs and incurred losses.

The preservation of confidential information

According to J.M. Mousseron, know-how is "*technical knowledge transmissible but not immediately publicly accessible and non-patented*". The former legal framework regarding know-how was scattered and incomplete. The new Article 1112-2 of French Civil Code adds some more clarity by stating that confidential information obtained during negotiations establishes the liability of the person who uses it or discloses it without permission. As confidential know-how is a traditional component of intellectual property contracts, these contracts will be particularly affected by this new framework.

During the tender process, it is common for an applicant to a sub-contractor position to provide confidential know-how to the main contractor. Prior to the reform, if the communicated know-how was used by the main contractor during failed negotiations, there could be an act of unfair competition if such disclosure was unintended by the original know-how owner. However, it was often difficult to prove any fault. The owner of the know-how has now the unilateral power to impose a duty of confidentiality on information identified as sensitive and disclosed during the negotiation phase. This is even if no preliminary contract has been formalized. A breach of this obligation will incur the contractual liability of the guilty party.

However, the safeguarding of confidential information is not absolute as the new provisions do not specify the consequences of information being disclosed during the period following any failed negotiations. As such, entering into confidentiality agreements in the early stages of negotiations remains desirable if commercially possible. The drafting of any confidentiality agreement should include the names of the parties bound by it as well as the confidential information it covers.

The establishment of new mechanisms for the execution of contracts

While copyright contracts have rigorous formal requirements that need to be adhered to, industrial property right contracts are more concerned with what the parties have consented to. Trade mark and patent contracts require language on nullity and their effectiveness is conditional upon entry in the corresponding national register.

The mandatory renegotiation of the IP contracts

The concept of "unforeseeability" has been permitted in the French copyright system since the law of 11 March 1959 (even if it was not explicitly accepted by French civil law). The new Article 1195 of the Civil Code recognizes the concept of judicial cancellation due to "unforeseeability".

According to this new provision, "unforeseeability" occurs when there is a change of circumstance which could not have been predicted when the contract was originally concluded. This change of circumstance should make the carrying out of the contract unduly onerous for one of the parties. Professor Stoffel-Munck writes that "onerous" can be defined as "*the difference between the value of what is supplied and the value of what is received*". The same author believes that carrying out the contract will be considered onerous when it costs more than it brings in. In the case of unforeseeability, if the economic risk was not foreseen and is not accepted by one of the parties to an IP contract, then there will be an obligation on the parties to renegotiate. If renegotiation is declined, or occurs but fails, the parties can dissolve the contract or may, by agreement, ask the judge to amend the contract.
This provision is certainly a small revolution in the field of contract law but it applies only under certain strict conditions.

For copyright contracts, the success of a work may be considered a change of circumstance which could not have been predicted when the contract was made. An author could, therefore, ask for judicial review of his remuneration, which is no longer proportional to the value of the rights he originally gave up. In this context, general contract law is actually more favourable to the author than specialised IP law, which has narrower remuneration provisions.

Assignment of an IP contract

The new Article 1340 of the French Civil Code establishes the mechanism relating to the release of obligations or assignment of a contract. Release is defined as "*the global cession by which one party transfers its quality of contractor*".
This reform only reinforces the current habits and practices of IP contracts, where [...] one of the contracting parties is effectively substituted by a third party (through assignment or licence).

Since the reform was adopted, it is no longer mandatory to comply with all the formalities of Article 1690 of French Civil Code. However, in the case of an assignment of a contract, agreement of the contracting parties is required. The French Supreme Court traditionally requires the agreement of the original parties both (i) when the contract is formed, and (ii) at the moment the contract is assigned. Therefore, there must be agreement on the theoretical ability to assign as well the actual

assignment that is to occur. The nature of IP contracts and the exploitation of rights justify the need for an initial right holder to agree to any assignment or release of obligations in a contract.

As a proposal, the assignment clause inserted in an IP contract should provide that the owner of any IP rights gives the other party the right to assign the contract totally or in part to a third party. The assignment clause should also indicate that the release of the assignor will be subject to prior and discretionary approval of the IP right holder. If his consent is not given, the assignor should be held jointly liable with the assignee for any obligations arising under the contract. It should be clarified whether the assignee is taking on the total or partial implementation of the contract.

LONDON
EU COMMISSION PUBLISHES ITS LEGAL STUDY ON OWNERSHIP AND ACCESS TO DATA

One of the workstreams of the EU Digital Single Market initiative looks at the legal framework governing ownership of and access to data.

In December, 2016 the European Commission published a legal study on this topic, prepared for it by law firm Osborne Clarke LLP. The study[1] looks at the EU framework and national laws in England and Wales, France, Germany and Spain. It focuses on ownership of and access to data for commercial and business use. It excludes privacy of personal data, which is a separate workstream.

The study is intend to inform about current legal aspects, but also expresses the authors' views about whether the legal framework needs to be changed. It is lengthy and detailed. Key findings include:

- approaches to ownership of data vary materially between the Member States surveyed
- greater harmonisation will be achieved with the future implementation of the Trade Secrets Directive (Directive EU 2016/943, to be implemented by 9, June 2018), but protection of trade secrets may be of limited value for data once it is commercialised if that involves it losing its "secret" status
- outside trade secrets, most of the countries surveyed do not protect data, as such, as property, but there may be intellectual property rights in some data, including under the Database Directive (Directive 96/9) and sometimes in copyright
- contracting practice varies, ranging from assuming that data is owned property which can be assigned and licensed, to contracts which simply regulate ownership and rights of access via contractual rights and obligations. Relying on contractual protection rather than property right has limitations where data gets into the hands of third parties with whom there is no contractual relationship
- sector-specific models exist in regulated sectors, such as data to support marketing authorisations for pharmaceuticals, and MiFID and MiFIR requirements to make data for securities trades available on reasonable commercial terms.

The authors of the legal study note that the Court of Justice of the European Union ("**CJEU**") decision in *Ryanair v. PR Aviation* (Case C-30/14) rules that there are no restrictions on contractual terms which may be agreed, except (i) where the data is protected by copyright or under the Database Directive (and presumably in future the Trade Secrets Directive); or (ii) where the terms are anti-competitive (see e.g. *IMS Health* (Case C-418/01)). The report also discusses antitrust trends involving data in the mergers and acquisitions context.

Key Issues

- EU Member States currently have material differences in their approaches to ownership of data. However, the upcoming Trade Secrets Directive may provide for greater harmonisation.
- It is uncertain what EU legislative intervention on data ownership is appropriate. A more suitable approach may be the provision of guidance from an antitrust perspective or promoting model clauses for contracts.
- There are still a number of potential concerns surrounding the ownership of and access to data which has policy implications.

1 Study available at https://bookshop.europa.eu/en/legal-study-on-ownership-and-access-to-data-pbKK0416811.

The authors also correctly identify that data underpins a wide range of business models and that different models may tend to favour different outcomes in terms of ownership and access. The authors conclude that it may be too early to formulate what, if any, legislative intervention is appropriate. Their analyses of national laws demonstrate that there are differences of opinion about current and preferred future approach among legal and academic commentators. They say that it may be better to provide guidance from an antitrust perspective and to promote model clauses for contracts.

The EU Commission would do well to road test this recommendation to allow things to evolve with commercial and consumer market participants in various sectors. However finding a policy that fits most cases will be difficult. Potential concerns, from simply letting the market evolve through to litigation if necessary, include:

- **uncertainty** – it is currently often uncertain whether and to what extent intellectual property rights subsist in data under the Database Directive, or under copyright. Leaving that uncertainty in place and again "kicking the can down the road" (as was done when the Database Directive was reviewed in 2005 and left unchanged) will continue the uncertainty, at a time when there is ever-growing use of data from a plethora of sources around the world
- **leaving policy to accident** – policy considerations may differ between different types of use. Consequently, allowing the law applicable to all types of data to evolve through fact-specific litigation is a poor substitute for policy. Arguably, the sports events context of some of the leading cases involving the database right informed the way that right was (unexpectedly) interpreted by the CJEU, with significant implications for other sectors which generate data for entirely different purposes, such as through technical sensing and monitoring[2]
- **imbalance** – as the authors note, if ownership and rights of access are mainly left to contract, this will tend to favour those parties who create the contracts. The resultant imbalance may lead to the imposition of checks and balances through antitrust law, while leaving the underlying legal framework unclear
- **complexity** – lack of a clear underlying legal model may encourage complex webs of (potentially inconsistent) contractual rights and obligations in datasets that become very difficult to manage with certainty. This may hamper the evolution of a well-functioning Big Data society
- **data privacy considerations leading policy even where data is not about people** –data privacy principles need not drive the legal framework where the data is not about individuals, or where data about individuals is incidental or can easily be aggregated and/or made anonymous.

2 See e.g. Fixtures Marketing v. Oy Veikkus (reference C-46/02) and BHB v. William Hill (reference C-203/02).

BARCELONA
PROPOSAL FOR A REGULATION ON PRIVACY AND ELECTRONIC COMMUNICATIONS: ANOTHER BRICK IN THE CONSTRUCTION OF THE DIGITAL SINGLE MARKET

On 10 January 2017, the European Parliament and the Council approved a proposal for a Regulation addressing privacy and confidentiality issues involving electronic communications. This Proposal, which will supersede a Directive dated 2002, will impose stricter rules for electronic communications and will adapt the current legislative framework, which has become obsolete, to the new needs and challenges of the market.

Key Issues

- This Proposal has been approved in the context of the DSM strategy and has to be interpreted along with the GDPR.
- The Proposal will apply to natural and legal persons and to the providers of electronic communications services, such as WhatsApp, Facebook Messenger, Skype, Gmail and etcetera.
- The Proposal grants more protection to natural and legal persons that use electronic communications.

The context of this proposal for a Regulation

Almost one year ago, we referred to the Proposal for a Directive on contracts for online and other remote sales of goods. The European Union issued that proposal in order to develop the European Digital Single Market ("**DSM**") strategy, a top priority for the European Union.

Now, we return to the path of the DSM to explain one of the latest proposals made by the European Union within the DSM strategy: the Proposal for a Regulation on Privacy and Electronic Communications (the "**Proposal**" or "**Regulation**"), which was approved on 10 January 2017.

As we will see, the Proposal is aimed at reinforcing the protection of fundamental rights and freedoms, of both natural and legal persons, namely the respect for private life, confidentiality of communications and protection of personal data in the electronic communications sector.

Why this new proposal for a Regulation?

According to surveys and data handled by the institutions of the European Union, security and privacy risks inherent to digital services are one of the biggest concerns for users (natural and legal persons) when it comes to the use of electronic communications.

The regulation in place dates back to 2002, and is represented by the Directive 2002/58/EC, concerning the processing of personal data and the protection of privacy in the electronic communications sector (the "**ePrivacy Directive**"). Although the objectives and principles of the ePrivacy Directive are still valid, major technological developments have occurred since the last revision of the ePrivacy Directive in 2009, which has become obsolete.

Therefore, the time has come for a revision and update of the ePrivacy Directive, a revision that is necessary to adapt the current legislation to the market and to the new challenges of the future (e.g. Internet of things, Over-the-Top communications, and etcetera). The Proposal is born of an extensive process of revision and update and is destined to derogate the ePrivacy Directive.

It is important to take into account that the Proposal needs to be understood and interpreted within the broader context of the DSM strategy and, in particular, in conjunction with Regulation (EU) 2016/679 of the European Parliament and of the Council, on General Data Protection (the "**GDPR**"). As explained in the Explanatory Memorandum of the Proposal, the Regulation will be "*lex specialis to the GDPR and will particularise and complement it as regards electronic communications data that qualify as personal data*".

Summary of key issues

Some of the main issues covered by the Proposal are the following:

(i) Unlike the ePrivacy Directive, the Regulation will be applicable to the "non-traditional" providers of electronic communication services (i.e. WhatsApp, Facebook Messenger, Skype, Gmail, iMessage or Viber).

(ii) When the Regulation, which is directly applicable, supersedes the ePrivacy Directive, all citizens and legal persons within the European Union will benefit from the same level of protection in their electronic communications.

(iii) The Regulation contains strict provisions regarding the use of **metadata** (which will be private and shall be rendered anonymous or deleted unless users give their consent); **cookies** (the Proposal advocates for clarification and simplification of the consent rule for the use of cookies and other identifiers); and **spam** (the Regulation prohibits all types of unsolicited electronic communications unless users have agreed to it).

(iv) The supervisory authorities of the Member States will be empowered to impose penalties in the event of infringement of the Regulation. The fines may amount to 20 million Euro or 4% of the total worldwide annual turnover of the infringer, whichever is higher.

Next steps

The Proposal was issued on 10 January 2017 and now needs to be approved by the European Parliament and by the Council.

According to the current text of the Proposal, on 25 May 2018, the ePrivacy Directive will be derogated and the Regulation will become directly applicable to all Member States as of the same date.

This date coincides with the entry into force of the GDPR, which reinforces the fact that both the Proposal and the GDPR will complement each other and shall be considered two more pieces of the DSM puzzle.

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